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Tax Newsletter

New Tax Glitter in Golden Years
Special tax deduction for seniors

The massive new tax law passed in 2025—the One Big Beautiful Bill Act (OBBBA)—shows respect for our elders. Under the OBBBA, senior citizens may claim a special new tax deduction in addition to tax breaks already on the books. The new senior citizen deduction is available on 2025 federal income tax returns that must filed by April 15, 2026.

But do not think that the new law eliminates tax on Social Security retirement benefits. Despite some confusion, benefits remain taxable for 2025 and thereafter.

Background: When you file your personal tax return, you must choose between the standard deduction or itemizing deductions. Generally, you simply use the method that will provide the biggest tax benefit, but you get zero tax benefit from the other. For instance, if you claim the standard deduction, you cannot take any deductions for state and local tax (SALT) payments for that year.

Due to numerous tax changes for individuals included in the Tax Cuts and Jobs Act (TCJA), generally effective for 2018 through 2025, more taxpayers have been opting for the standard deduction in recent years. Prior to the OBBBA, the standard deduction for 2025 returns was scheduled to increase to $15,000 for single filers and $30,000 for joint filers.

In addition, individuals who are age 65 or older can claim an “extra” standard deduction in 2025 of $2,000 for single filers and $1,600 for each qualified spouse filing a joint return. (These amounts are indexed for inflation.) Therefore, if both spouses filing a joint return are age 65 or older, they can claim a $3,200 deduction plus the regular standard deduction.

Under the OBBBA, the standard deduction amounts are bumped up to $15,750 and $31,500, respectively, for 2025 returns. Even better: The OBBBA creates a brand-new “bonus” deduction for senior citizens. This deduction is $6,000 for each qualified individual whether you claim the standard deduction or itemize. Accordingly, if both you are your spouse are 65 or over, you can add a $12,000 deduction to the two existing standard deductions for a grand total of $46,700 ($31,500 + $3,200 + $12,000). A couple with $40,000 in itemized deductions may be entitled to $52,000 ($40,000 + $12,000) in deductions.

To qualify, you must have turned age 65 before January 1, 2026. Thus, the new bonus deduction is available to those born before 1961.

Caution: On the downside, the senior citizen deduction is phased out based on modified adjusted gross income (MAGI). The phase-out begins at $75,000 of MAGI for single filers and $150,000 for joint filers. Then the deduction is reduced by six cents for every dollar above the threshold. The phase-out is complete at $175,000 of MAGI for single filers and $250,000 for joint filers.

Finally, be aware that the senior citizen deduction is scheduled to expire after 2028. So, this new tax break may be short-lived.

Practical advice: If you have questions relating to your personal situation, contact your professional advisor before your 2025 return is filed.

Can You Start an ABLE Account?
New law enhances tax breaks

In the not-so-distant past, Congress authorized the use of tax-free savings accounts for disabled individuals under the Achieving a Better Life Experience Act (ABLE) Act. Now the new One Big Beautiful Bill Act (OBBBA) creates additional tax benefits for families.

Background: ABLE accounts resemble Section 529 accounts used for higher education. As with 529 plans, contributions to the plan are made to an account designated for a qualified individual. And, like a 529 plan, the earnings inside the account and distributions for "qualified expenses" are completely tax-free. Qualified expenses must be related to the beneficiary's needs, including housing; education; transportation; employment training and support; technology used for assistance; personal support services; health care expenses; and financial management and administrative services.

But the rules for eligibility are strict. To be able to use an ABLE account, an individual must be either blind or have experienced another severe disability before a specified age. Previously, the age limit was only 26, thereby eliminating this option for individuals in their late twenties or older, including veterans with disabilities. But recent legislation added two decades to the threshold, to age 46, beginning in 2026.

Who can contribute to an ABLE account? It is available to anyone including parents, grandparents and non-relatives. The annual limit on contributions is the same as the limit for the gift tax exclusion. Accordingly, you may contribute up to $19,000 to an ABLE account for a designated beneficiary in 2026. In addition, ABLE account contributions are subject to the state-imposed limit on Section 529 plans, but these limits are generally quite generous.

Finally, prior law allowed rollovers from Section 529 accounts to ABLE accounts for a qualified disabled individual without any tax implications. This tax break was initially scheduled to expire after 2025.

New law update: The OBBBA contains the following provisions that may be favorable to families with ABLE accounts.

- Qualified individuals with disabilities may contribute more than the annual gift tax exclusion (up to the federal poverty level or their earnings for the year) if they do not participate in an employer retirement plan, such as a 401(k) plan.

- Certain low-to-moderate income individuals may qualify for the retirement saver's credit for contributing to ABLE accounts. This credit is subject to future increases, beginning in 2027.

- The ability to roll over funds from a Section 529 plan to an ABLE account is preserved past the initial 2026 expiration date.

Key question: Does an ABLE account make sense for a family with a disabled individual under the updated laws of the land? Rely on your professional advisors to help assess the situation.

Outline of the New FAFSA Form
Law changes streamline process

If your child expects to attend college during the 2026-2027 school year, they must submit the "Free Application for Federal Student Aid" (FAFSA) form to obtain various types of federal financial aid. The deadline is June 30, 2027, but the form is currently available and should be filed as soon as possible. This applies to all students—not just incoming freshmen.

Thanks to recent legislative changes, including revisions under the one Big Beautiful Bill Act (OBBBA), the FAFSA has been streamlined and been made more favorable to certain applicants.

Background: The FAFSA can be completed and filed online, which is generally preferred, or it can be submitted on paper. Both students and parents may be required to provide information.

In the past, the FAFSA form included 108 questions, but the maximum number has been whittled down to no more than 46 questions, Nevertheless, completing it can be a daunting task involving several key aspects.

Notably, the "expected family contribution" (EFC) affecting financial aid eligibility has been replaced by the Student Aid Index (SAI). Although the SAI is comparable to the EFC—including factors based on family income and expenses— there are some significant differences. The SAI accounts for the following income items received by parents:

- Wages, salaries, commissions and tips;
- Self-employment income;
- Taxable interest;
- Dividends and capital gain;
- IRA and 401(k) distributions;
- Pensions and annuities;
- Rental income; and
- Alimony income.

Note: For these purposes, it is the "base year"—the year before the child enters school—that counts. Most income items may be transferred directly from the parents' federal tax return.

The rules were recently amended to exclude certain income items on the FAFSA such as gifts from grandparents and other relatives and other sources like housing and living allowances paid to military service members. Also, security measures have been improved and a FAFSA may be used to send information to up to 20 schools instead of just ten. But there is no longer any benefit from having multiple children in school at the same time.

Under the OBBBA, families may also benefit from three new exclusions from the SAI computation.

1. If a family owned a small business with 100 or fewer full-time (or full-time equivalent) employees, you no longer have to report the assets of the business.

2. If your family operates a farm where it resides, you no longer have to report the net worth of the farm.

3. If your family owns and operates a commercial fishing business, you no longer have to report the assets of the business.

Remember that the three new exclusions only apply to the value of assets. The family still must report annual income from these business activities.

Final words: Substantial financial aid dollars may be at stake. Do not hesitate to seek professional assistance when needed.

Collecting Tax Deductions for Tips
New law creates tax break

Do you or someone in your family work at a job where "tips" represent a sizeable portion of the annual compensation? The new One Big Beautiful Bill Act (OBBBA) carves out a new deduction for tipped workers, beginning in 2025 and lasting though 2028. Thus, you may be able to deduct tips received last year on your 2025 tax return.

Background: As opposed to regular wages, tips are usually discretionary or optional payments determined by a customer or client. Generally, tips received by employees or independent contractors are fully taxable on both the federal and state income tax levels. This includes the following:

- Cash tips received directly from customers.
- Tips from customers who leave a tip through electronic settlement or payment through a credit card, debit card, gift card or any other electronic payment method.
- The value of any noncash tips like tickets to an event or other items of value.
- Tip amounts received from other employees paid out through tip pools, tip splitting, or other formal or informal tip-sharing arrangements.

Of course, tips are also subject to federal payroll taxes. Both employees and employers must meet substantial reporting requirements relating to the payment and receipt of tips. And the IRS may dispute claims if it suspects that tips are being underreported or not reported at all.

New law update: Comparable to new rules for overtime (OT) pay, the OBBBA creates a new deduction of up to $25,000 for qualified tips received, whether you claim the standard deduction or itemize on your return. Plus, like the OT pay deduction, this tax break is phased out for tips received by single filers with a modified adjusted gross income (MAGI) above $150,000 or $300,000 for joint filers. The tips deduction is reduced by $100 for each $1,000 above the threshold.

However, the deduction is only available for tips received in industries where the practice is commonplace. Thus, it may be available for tips paid to waiters and waitresses, hair stylists and delivery people, but not those in a specified service trade or business (SSTB) like the health and law fields. The IRS recently published a list of approved occupations that can be found at https://home.treasury.gov/system/files/136/Tipped-Occupations-Detailed-8-27-2025.pdf.

As mentioned above, the new deduction may be claimed by self-employed individuals who are tipped in the normal course of their business activities, like many workers in the "gig economy." Caveat: The deduction for these workers is limited to the extent that their business income (including tips) exceeds their otherwise allowable deductions.

Note that the OBBBA also expands a special employer credit for federal payroll taxes paid on tips. Currently, the credit applies only to tips received by workers in the food and beverage industries, but the new law extends it to tips paid to workers providing services like hair and nail care and spa treatments. Expect the IRS to provide more guidance on this aspect soon.

Reminder: Absent further legislation by Congress, the tip deduction will expire after 2028. If you are eligible, pocket this new tax break while you still can.

Beware the Ides of March!

An important tax deadline is looming. A calendar-year corporation has until 2½ months after the close of the prior tax year to elect **S corporation status** for the current year. Normally, this due date falls on March 15—the "ides of March" in Julius Caesar's time—but it is postponed until March 16 this year because the 15th is a Sunday,

Frequently, electing to operate as an S corporation makes sense from a tax perspective if the business owner will significantly benefit from partnership-type taxation. But this decision is not automatic. It requires careful analysis taking numerous factors into account.

Practical advice: Do not turn your back. Enlist the services of a trusted tax professional for your protection.

Facts and Figures
Timely points of particular interest

Open and Shut—Now that the longest government shutdown in American history has ended, IRS staffers are back to the business of preparing for the 2026 tax return season. But remember that the IRS is still operating on a reduced budget and must make additional accommodations for the One Big Beautiful Bill Act (OBBBA) provisions. What's more, another government shutdown may occur on January 31. We will keep you posted on any key developments relating to tax filings.

Standard Mileage Rates—The IRS has just announced that the standard mileage rate for business driving in 2026 is 72.5 cents per business mile, up 2.5 cents from 2025. This rate is often used in lieu of deducting actual expenses requiring more detailed records. Similarly, the IRS has announced the rate for medical purposes and moving expenses of active-duty military personnel drops a half penny to 20.5 cents per mile, while charitable driving remains at 14 cents per mile. Related tolls and parking fees may be added on.