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December 2025

2025–26 INCOME TAX BULLETIN

This publication is provided as a service to our clients. It focuses on the following topics:

- Federal Tax Issues
- Oregon Tax Law Changes
- Transportation and Travel Expenses
- Retirement and Health Care Plans
- Administration and Reporting Issues
- Supplemental Charts

OUTLINE

2025 FEDERAL TAX ACT

Sources: Tax Speaker; OSCPA; AICPA

On July 4, 2025 the 2025 Tax Bill was signed into law as part of the One Big Beautiful Bill Act (OBBBA), aka HR1. This article provides you with a summary of the changes relevant to many of our clients. It is an expansion of the newsletter we sent you in August 2025.

INDIVIDUALS - Provisions Effective in 2025

Tax Rates and Brackets

Tax rates did not increase or decrease from 2024. They are the same in 2025 as they were in 2024, including capital gain rates. Tax brackets increased slightly for inflation, meaning that taxpayers can make a bit more money in 2025 at a lower tax rate.

Standard and Itemized Deductions

There are two types of deductions: the standard deduction (which had an inflation increase for all taxpayers); and itemized deductions. All taxpayers are allowed the standard deduction, which for 2025 is $15,750 if single, $23,625 if head of household, and $31,500 if married. Taxpayers who can come up with more than that from a short list of itemized deductions, are allowed to deduct more than the standard deduction. There are five main categories of allowable itemized deductions:

1. Medical expenses, which did not change from 2024 and need to be larger than 7.5% of adjusted gross income.
2. State and Local taxes (SALT), which increased to a maximum deduction of $40,000 in 2025 vs. $10,000 in 2024. This category includes property tax and income tax; the increase in the SALT limit will push many Oregonians back to itemizing. However, it has income phase-outs now and will revert back to $10,000 for everyone in 2030. The income phase-outs impact tax planning between years.
3. Interest paid on a home mortgage, which is unchanged from 2024.
4. Charitable contributions, which are unchanged from 2024.
5. Miscellaneous itemized deductions, which are also unchanged from 2024, the only significant ones are gambling losses and casualty losses from federally declared disasters.

Senior Deduction

There is a new deduction for seniors which allows an additional deduction of up to $6,000 for each filer who has reached age 65 by December 31, 2025 (up to $12,000 if both 65), in addition to the normal small addition to the standard deduction for seniors. It is available to itemizers and those using the standard deduction. The bad news is that Social Security is still taxable if the deduction is not enough to offset it, and the deduction starts phasing out for seniors making more than $75,000 for a single filer or $150,000 for a joint filer. The senior deduction ends after 2028.

Car Loan Interest Deduction (2025-2028)

There is also a new deduction this year for car loan interest on a new (not used) vehicle purchased in 2025-2028 if final assembly was in the US. This deduction phases out starting at $100,000 of income if single, and $200,000 if filing jointly. This amount is deductible in addition to the standard deduction. It requires a form 1098 from the lender identifying the interest as qualifying.

Tip Deduction (2025-2028)

Taxpayers whose W-2 reflects tip income, or who self-report tip income, can deduct the lesser of the tip income from their W-2's or $25,000. The deduction phases out starting at $150,000 of income if single, and $300,000 if filing jointly. This amount is deductible in addition to the standard deduction. The tips must be earned in a qualifying industry and must be voluntary (not a required service charge). For tax year 2025, employees must obtain the qualified industry code called "Treasury Tipped Occupation Code (TTOC)" from the internet or ask the employer for qualifications. Beginning with tax year 2026, qualifications will be reported on the taxpayer's W-2 form from the employer.

Overtime Deduction (2025-2028)
Taxpayers whose W-2 reflects overtime pay income can deduct the lesser of the overtime portion of their wages from their individual W-2's or $12,500 each. The deduction phases out starting at $150,000 of income if single, and $300,000 if filing jointly. This amount is deductible in addition to the standard deduction. Qualifying overtime is paid only in industries that are not subject to the Fair Labor Standards Act. Employees must determine that qualification and calculate the portion of the overtime available for the credit. For 2025 employees must request it from the employer or their final pay stub of the year. For tax year 2026 the data should be on the taxpayer's W-2 form.

Child Tax Credit
The credit for children under age 17 reported as dependents increases from $2,000 to $2,200.

Energy Tax Credits
The credit for purchase of an electric car ended on September 30, 2025, and the credits for purchases of insulation, storm windows, doors, furnaces, water heaters, solar power, geothermal energy and wind energy systems end on December 31, 2025.

Adoption Credit
The act makes a portion (up to $5,000) of the adoption credit refundable for tax years 2025-2029. That amount will be adjusted for inflation.

INDIVIDUALS - Provisions Effective in 2026

Qualified Business Income Deduction
The act makes the Sec. 199A qualified business income (QBI) deduction permanent and keeps the deduction rate at 20%. It expands the deduction limit phase-in range for Specified Service Trades or Businesses (SSTBs) and other entities subject to the wage and investment limitation by increasing the $50,000 amount for non-joint returns to $75,000 and the $100,000 amount for joint returns to $150,000. The act also introduces an inflation-adjusted minimum deduction of $400 for taxpayers who have at least $1,000 of QBI from one or more active trades or businesses in which they materially participate.

Estate and Gift Tax Exemption Amounts
The act increases the estate tax exemption and lifetime gift tax exemption amounts to $15 million for single filers ($30 million for married filing jointly) in 2026 and indexes the exemption amount for inflation after that. (However, the Oregon exemption remains at only $1 million.)

Alternative Minimum Tax Exemption
The act extends the current individual alternative minimum tax (AMT) exemption amounts that were increased in 2018 and reverts the exemption phaseout thresholds to their 2018 levels of $500,000 ($1 million in the case of a joint return), indexed for inflation. The act also increases the phaseout of the exemption amount from 25% to 50% of the amount by which the taxpayer's alternative minimum taxable income exceeds the threshold amount. These provisions reduce the volume of middle income taxpayers subject to AMT.

Mortgage Interest Deduction
The act permanently extends the current provision limiting the Sec. 163 qualified residence interest deduction to the first $750,000 in home mortgage acquisition debt. It also makes permanent the exclusion of interest on home-equity

indebtedness from the definition of qualified residence interest. The act also treats certain mortgage insurance premiums on acquisition indebtedness as qualified residence interest.

Moving Expense Deduction
The act permanently eliminates the deduction for moving expenses, except for members of the armed forces and certain members of the intelligence community.

Student Loan Debt Discharge
The act makes permanent and makes some adjustments to the provision excluding from gross income student loans that are discharged on account of death or disability. The act also requires the inclusion of the taxpayer's Social Security number (SSN) on the relevant income tax return when a student loan is discharged.

Dependent Care Assistance Programs
The act increases the maximum annual amount excludable from income under a Sec. 129 dependent care assistance program from $5,000 to $7,500. This exclusion is claimed through payroll deduction.

Child and Dependent Care Credit
The act increases the amount of the child and dependent care tax credit from 35% to 50% of qualifying expenses. The credit rate phases down for taxpayers with adjusted gross income (AGI) over $15,000. It will be reduced by 1 percentage point (but not below 35%) for each $2,000 that the taxpayer's AGI exceeds $15,000. It will then be further reduced (but not below 20%) by 1 percentage point for each $2,000 ($4,000 for joint returns) that AGI exceeds $75,000 ($150,000 joint).

Tax-Free Savings Accounts for Minors
Termed "Trump accounts", these are a form of individual retirement account (IRA). Under the act, they are deemed to be IRAs (but not Roth IRAs) for the exclusive benefit of individuals under 18. Contributions can only be made in calendar years before the beneficiary turns 18 and distributions can only be made starting in the calendar year the beneficiary turns 18. Trump accounts will have to be designated as such when they are set up, and the act does not allow contributions until July 4, 2026. Under the act, the Treasury can set up Trump accounts for individuals that it identifies as eligible and for which no account has already been created. Eligible investments would generally be mutual funds and indexed ETFs. Contributions (other than qualified rollover contributions) will be capped at $5,000 per year (adjusted for inflation after 2027). State, local, and tribal governments and charitable organizations could make "general funding contributions," which would be contributions made to a specified qualified class of Trump account beneficiaries. Qualified classes include beneficiaries under the age of 18, and the general funding contribution can specify geographical areas or specific birth years of beneficiaries whose accounts will receive the contributions. The act allows for employer contributions to Trump accounts. These contributions will not be included in the employee's income. A pilot program provides a $1,000 tax credit for opening a Trump account for a child born between Jan. 1, 2025, and Dec. 31, 2028. The act appropriates $410 million, to remain available through Sept. 30, 2034, to fund Trump accounts.

Credit for Contributions to Scholarship-Granting Organizations
The act creates a new credit of $1,700 for charitable contributions to scholarship-granting organizations. Treasury regulations are forthcoming. The provision also excludes from income scholarships for the qualified secondary or elementary education expenses of eligible students.

Sec. 529 Education Savings Plans
The act allows tax-exempt distributions from Sec. 529 savings plans to be used for additional educational expenses in connection with enrollment or attendance at an elementary or secondary school. The act also allows tax-exempt distributions from 529 savings plans to be used for additional qualified higher education expenses, including "qualified postsecondary credentialing expenses". These changes expand the use of such plans.

Charitable Contribution Deduction for Non-Itemizers
The act creates a charitable contribution deduction for taxpayers who do not elect to itemize, allowing nonitemizers to claim a deduction of up to $1,000 for single filers or $2,000 for married taxpayers filing jointly for certain charitable contributions. For itemizers, the act imposes a 0.5% floor on the charitable contribution deduction, resulting in an individual's charitable contributions for a tax year being reduced by a "haircut" of 0.5% of the taxpayer's contribution base for the tax year. For corporations, the floor will be 1% of the corporation's taxable income, and the charitable contribution deduction cannot exceed the current 10%-of-taxable-income limit.

Health Savings Accounts
"Bronze" level and catastrophic health insurance plans will qualify for health savings accounts.

BUSINESS – Provisions Effective in 2025

Bonus Depreciation
The act permanently extends the Sec. 168 additional first-year (bonus) depreciation deduction. The allowance is rolled back to the 2018 rate of 100% for property acquired and placed in service on or after Jan. 19, 2025, as well as for specified plants planted or grafted on or after Jan. 19, 2025.

Sec. 179 Expensing
The act increases the maximum amount a taxpayer may expense under Sec. 179 to $2.5 million, reduced by the amount by which the cost of qualifying property exceeds $4 million.

Research-and-Development Expenses
The act allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred in tax years beginning after Dec. 31, 2024. However, research or experimental expenditures attributable to research that is conducted outside the United States will continue to be required to be capitalized and amortized over 15 years under Sec. 174. Small business taxpayers with average annual gross receipts of $31 million or less will generally be permitted to apply this change retroactively to tax years beginning after Dec. 31, 2021. All taxpayers that made domestic research or experimental expenditures after Dec. 31, 2021, and before Jan. 1, 2025, will be permitted to elect to accelerate the remaining deductions for those expenditures over a one- or two-year period.

Limitation on Business Interest
The act reinstates the limitation under Sec. 163(j) for tax years beginning after Dec. 31, 2024. Therefore, for purposes of the Sec. 163(j) interest deduction limitation for these years, adjusted taxable income would be computed without regard to the deduction for depreciation, amortization, or depletion. The act would also modify the definition of "motor vehicle" to allow interest on floor plan financing for certain trailers and campers to be deductible.

Paid Family and Medical Leave Credit
Under the act, Sec. 45S is amended to make the employer credit for paid family and medical leave permanent. This employer funded leave is different from the one in Oregon financed by payroll taxes on employers & employees.

Special Depreciation Allowance for Qualified Production Property
The act allows an additional first-year depreciation deduction equal to 100% of the adjusted basis of "qualified production property," which is generally nonresidential real property used in manufacturing.

Qualified Small Business Stock
The act increases the Sec. 1202 exclusion for gain from qualified small business stock. For qualified small business stock acquired after the date of enactment of the act and held for at least four years, the percentage of gain excluded from gross income will rise from 50% to 75%. If it is held for five years or more, the exclusion percentage will go up to 100%. The entity must be a C Corporation and the stock acquired directly from the entity. The Corporation's bylaws must allow for the issuance of Sec 1202 stock, and not all industries qualify.

Excess Business Losses
The act makes the limitation on excess business losses of noncorporate taxpayers permanent. It was scheduled to expire after 2028.

BUSINESS – Provisions Effective in 2026 and later

Advanced Manufacturing Investment Credit
Under the act, the advanced manufacturing investment credit rate increases from 25% to 35%, effective for property placed in service after Dec. 31, 2025.

Employer-Provided Childcare Credit
The act increases the amount of qualified childcare expenses taken into account for purposes of the Sec. 45F employer-provided childcare credit from 25% to 40%. The maximum amount of the credit increases from $150,000 to $500,000 ($600,000 for eligible small businesses) and will be adjusted for inflation.

Opportunity Zones
The act makes opportunity zones permanent but with several changes, including narrowing the definition of "low-income community." The changes would generally take effect Jan. 1, 2027.

Charitable Contributions of C Corporations
These entities are already subject to a deduction ceiling of 10% of taxable income before the contribution deduction. The new law adds a "floor" of 1% of taxable income, effectively creating a "haircut" on all contributions and incentivizing the bunching of such into one tax year.

Pass-through Entity Tax
A House proposal to eliminate the ability of partnerships and S corporations to pay state income tax on behalf of their members as a business deduction did not pass the Senate. Therefore, pass-through entities should continue this practice in states that allow it, (including Oregon through 2025). Although the SALT cap in itemized deductions was increased to $40,000 as noted on page 1 of this newsletter, a business deduction is more valuable and allows the itemized deduction to consist of property taxes and income tax on sources other than the pass-through entity.

INTERNATIONAL PROVISIONS

BEAT
The act increases the base-erosion and anti-abuse tax (BEAT) rate from 10% to 10.5%.

Business Interest Limitation
The act provides that the Sec. 163(j) business interest limitation will be calculated prior to the application of any interest capitalization provision.

ADMINISTRATIVE PROVISIONS

Third-Party Network Transaction Reporting Threshold for Form 1099-K
The act reverts to the prior rule for Form 1099-K reporting, under which a third-party settlement organization is not required to report, unless the aggregate value of third-party network transactions with respect to a participating payee for the year exceeds $20,000 and the aggregate number of such transactions with respect to a participating payee exceeds 200. The threshold had been phasing down and was previously scheduled to be $600 starting in 2026.

Form 1099-NEC Reporting Threshold
The act increases the information-reporting threshold for certain payments to persons engaged in a trade or business and payments for services from $600 in 2025 to $2,000 in 2026; with the threshold amount to be indexed annually for inflation,

Farmland Sales
The act creates a new provision that allows the income tax resulting from the sale of farmland to a qualified farmer to be paid in four annual installments.

Employee Retention Credit Enforcement
The act requires employee retention credit (ERC) promoters to comply with due diligence requirements with respect to a taxpayer's eligibility for (or the amount of) an ERC. The act applies a $1,000 penalty for each failure to comply. It extends the penalty for excessive refund claims to employment tax refund claims. It also prevents the IRS from issuing any additional unpaid claims, unless a claim for a credit or refund was filed on or before January 31, 2024.

IRC SECTION 168(k) BONUS DEPRECIATION
Source: Thomson Reuters and Tax Speaker

The first-year bonus depreciation deduction under IRC Sec. 168(k) was extended permanently under OBBBA. The previous rate of 100% was restored for property acquired and placed in service on or after January 19, 2025, as well as specified plants grafted on or after that date. Unlike the section 179 expense deduction discussed next, the bonus depreciation deduction is not limited to smaller companies or capped at a certain dollar level. Qualified property is virtually any equipment, building or leasehold improvement with a cost recovery period by statute of no more than 20 years. The requirement that the property be "new" was eliminated for acquisitions after September 28, 2017. First-year bonus depreciation applicable to vehicles is limited to $8,000. As an exception that continues under prior law, Sport Utility Vehicles (SUVs) and pickup trucks with a gross vehicle weight rating in excess of 6,000 pounds are exempt from the luxury car depreciation caps discussed later. These qualify for a separate cap in Sec.179 or 168(k) expense. See the next article for discussion.

IRC SECTION 179 EXPENSE ELECTION
Source: Thomson Reuters and Tax Speaker

Under Code Sec. 179, businesses can elect to recover all or part of the cost of qualifying property, up to a limit, by deducting it in the year it is placed in service. Under OBBBA the Code Sec. 179 dollar limitation was increased to $2,500,000 with a $4,000,000 investment ceiling for 2025. The inflation adjusted amounts for 2026 are $2,560,000 and $4,090,000. Qualified property must be tangible personal property, which is actively used in the business, and for which a depreciation deduction would be allowed. Qualified property must be newly purchased new or used property, rather than property that was previously owned and recently converted to business use. Orchards and vineyards (including capitalized planting costs) qualify, but not until the year in which the fruit is first harvested. Sport utility vehicles qualify up to $31,300 of cost. Also qualifying are off-the-shelf computer software, single purpose agricultural structures, qualified improvements to real estate, HVAC, and roofs on commercial property. If qualified purchases for the year exceed the expensing dollar limit, the business can decide to split the expensing election among the new assets. As long as newly purchased business equipment is placed in service before the end of the tax year, the entire expensing deduction is allowed for that year. The deductibility depends on the date the qualified property is placed in service; not when it is purchased or paid.

The TCJA extended qualifying assets to include roofs on commercial property; personal property in residential rental; HVAC units; security, fire, and alarm systems. The qualified retail, restaurant, and leasehold improvement rules were replaced by a new qualified improvement property group defined as "interior modifications to commercial property". The CARES Act included technical corrections that qualify it for Sec 179, bonus depreciation under Sec 168(k) or a 15-year depreciable recovery period. The differences between bonus depreciation and Code Sec. 179 expensing include advantages and disadvantages for each. For example, Code Sec. 179 property is subject to recapture if business use of the property during a tax year falls to 50 percent or less; but Code Sec. 179 allows a taxpayer to select for expensing particular qualifying assets within any asset class, whereas Code Sec. 168(k) requires an election for all assets within a class.

OREGON REDUCED TAX RATES ON PASS-THROUGH ENTITY INCOME

Oregon did not adopt the Qualified Small Business Income deduction in the federal TCJA, so this deduction is not allowed on the Oregon individual return. However, Oregon previously enacted a provision in 2014 that allowed an annual election to claim a 2% reduction in the tax rate on qualifying net income from pass-through entities that employ at least one Oregon employee for 1,200 or more hours during the tax year. Qualifying income does not include wages or guaranteed payments to owners, or any income taxed on the federal return with long term capital gain tax rates. In 2018 sole proprietorships and single member limited liability companies were added to the definition of qualifying "pass-through entities". Unlike the federal deduction, net income from real estate rental activities does not qualify for the Oregon reduced tax rate. The election must be made by the due date of the Oregon return including extensions and cannot be claimed by an amendment filed after that date.

The law was modified as follows beginning in tax year 2022:

- Qualifying income is defined as "non-passive pass-through" income
- Removes sole proprietorships and single member LLCs from the definition of "pass-through entities".
- Limits qualifying businesses to those with ordinary business income not in excess of $5 million; the tax rate reduction is graduated, with the full 2% reduction under existing law limited to $250,000 of income
- Requires the business entity to meet either:
    - An employee to employer ratio using 1,200 hours for a qualifying employee, OR
    - A 3-year average limit on distributions of income as a percentage of ordinary business income
- Specifications exist for coordination with the PTE-E tax discussed next.

OREGON PASS-THROUGH ENTITY ELECTIVE TAX (OR PTE-E)

SB 727 passed in 2021 created an elective income tax on pass-through entities for tax years 2022 and 2023. In 2023 the legislature extended this law **through tax year 2025. As of this writing, it has NOT been extended beyond 2025.** If paid, the business owners are allowed an offsetting income tax credit on their Oregon personal income tax returns based on their pro rata share of the entity tax. This election allows the state income tax on the pass-through income (including guaranteed payments in a partnership or LLC) to be effectively transferred from an itemized deduction on the individual returns of the members to a business deduction of the entity. It avoids the existing $10,000-$40,000 limit on itemized deductions for state and local taxes (SALT) effectively saving federal tax at the taxpayer's marginal rate.

Many of our pass-through entity clients registered for and paid 2024 and 2025 Oregon tax estimates for their members under this program after registration opened in June through Revenue Online. A fourth quarter 2025 payment can be made by January 15, 2026. Most members lowered their personal Oregon estimates or withholding from their salaries, unless they had other income requiring more tax payments.

The Oregon form OR-21 series is used to administer this program, including an OR-21-K1 issued to each member showing the payments to be reported on that member's individual Oregon return as additional estimated tax payments.

OREGON COLLEGE SAVINGS PLAN

The Oregon College Savings Plan, (OCSP) is an IRC Sec 529 plan that enables families to accumulate tax-free investment earnings to fund qualified higher education expenses. Contributions made to accounts in the Plan are also deductible for Oregon tax purposes only up to annual limits. Distributions are entirely tax-free as long as the proceeds are used for qualified expenses. Nonqualified distributions are taxable on the Oregon return to the extent of earnings and prior contribution deductions. Oregon did not adopt the federal changes in the TCJA to include payments for certain K-12 education in qualified expenses.

Mechanics of the Oregon Credit
The credit is calculated as a percentage of the contribution, with a decreasing percentage as the taxpayer's income increases as follows:

Adjusted Gross Income	Tax Credit % of OCSP Contribution
<$30,000	100%
$30,000 - $70,000	50%
$70,000 - $100,000	25%
$100,000 - $250,000	10%
>$250,000	5%

The total credit for 2025 is limited to $360 on a "married filing joint" return and $180 for all others (after inflation adjustment). Contributions must be funded by December 31 of the tax year for which the credit is claimed.

SURPLUS REFUND "KICKER" CREDIT

The 2025 "kicker" is a refundable personal income tax credit equal to the kicker percentage (9.863%) x 2024 tax liability before all credits except the credit for taxes paid to another state. It is claimed on the 2025 income tax return in the section for tax payments. The taxpayer (including decedents) must have incurred a 2024 income tax liability to create a kicker credit but need not have a 2025 tax liability to use the credit, since it is refundable. However, a 2025 tax return must be filed to claim and receive the credit. A change in marital status requires a calculation to allow for the status change.

TRANSPORTATION and TRAVEL EXPENSES; FRINGE BENEFITS

AUTO EXPENSES – STANDARD MILEAGE RATES AND DEPRECIATION LIMITS

2025 and 2026 standard mileage rates in lieu of actual auto expenses:

RATES PER MILE:	2025	2026
Business Use	70¢	72.5¢
Charitable Use	14¢	14¢
Medical and Moving Expense	21¢	20.5¢

The personal use of an employer-provided vehicle must be treated as income to the employee. One of the optional valuation methods allows each personal mile to be valued at the business standard mileage rate, but only if the fair market value of the vehicle when first provided to the employee does not exceed a specified value. For vehicles placed in service in 2025 the value is $61,200, including passenger cars, trucks, vans, and SUVs.

For passenger cars, SUVs, trucks, and vans weighing less than 6,000 lb. placed in service in 2025, the maximum depreciation allowances are as follows:

Classification	First Year	Second Year	Third Year	Subsequent Years
Vehicles for which no bonus depreciation is claimed under Code Sec. 168(k)	$12,200	$19,600	$11,800	$7,060
Bonus Depreciation under 168(k)	$ 8,000	-0-	-0-	-0-

If depreciation exceeds the annual cap, the excess is deducted beginning in the year after the vehicle's regular depreciation period ends at the maximum rate of $7,060 per year for cars, SUVs, trucks and vans.

TRAVEL EXPENSE PER DIEM RATES

The 2025 and 2026 simplified "high-low" per diem rates for travel in the continental U.S. (excluding Alaska and Hawaii) that employers can use to reimburse employees who are away from home overnight on business are shown in the chart below for high-cost areas and low-cost areas. They are the same as the 2025 rates. The per day rate breaks down to lodging and meals/ incidentals. The same rates are deductible on the tax returns of employees who are not reimbursed. Self-employed persons can use the per diems to substantiate meals only. They must separately substantiate lodging. Taxpayers using per diem rates may also deduct or be reimbursed for transportation and mailing expenses. The per diem rate for the incidental expenses only deduction is $5 per day for 2025 and 2026 travel.

	2025		2026	
	High Cost	Low Cost	High Cost	Low Cost
Meals & Incidentals	$ 86	$ 74	$ 86	$ 74
Lodging	233	151	233	151
Total	$ 319	$ 225	$ 319	$ 225

RETIREMENT AND HEALTH CARE PLANS

SECURE ACT 2.0

Source: Tax Speaker

As part of the Consolidated Appropriations Act of 2023 signed into law by the President on December 29, 2022, Congress approved the retirement law changes embodied in the "Secure Act 2.0". Here is a list of the changes effective in 2023-2026.

Provisions Effective Immediately After Enactment

- Increases Required Mandatory Distribution Age to 73 beginning January 1, 2023, and to age 75 in year 2033.
- One-time Qualified Charitable Distribution (QCD) up to $50,000 allowed to either a charitable remainder trust or gift annuity
- Reduces Rate of Penalty Tax for Failure to Take Minimum Distributions from 50% to 25% (or 10% if corrected in a timely manner)
- Adds Two More Exemptions from the 10% Excise Tax on Early Distributions: Domestic Abuse and Terminal Illness
- Modifies Small Employer Pension Startup Credit
- Eliminates the Requirement for Changes in the Contribution Rate of Participants in a 457(b) Plan to be requested by the first day of the month; changes can be made at any time
- Creates a Tax Credit for Small Employers of Military Spouses who allow immediate eligibility for the spouse's participation in a defined contribution plan
- Public Safety Officers (PSOs):
  - Repeals the direct payment requirement for health insurance premiums to qualify for the $3,000 exclusion.

    - Modifies the exception from the 10% early distribution tax for distributions made to a qualified PSO following separation from service after age 50 to also apply if the employee separates after at least 25 years of service under the plan.
    - Modifies the definition of qualified PSO to also include any employee of a State or political subdivision who provides services as a corrections officer or as a forensic security employee providing for the care, custody, and control of forensic patients.
- Automatic disaster relief for retirement plan distributions and loans
    - Applies upon the issuance of a federal disaster declaration.
    - Only available for distributions of up to $22,000.
    - Applicable to disasters the incident period for which begins on or after January 26, 2021.

Provisions effective January 1, 2024:

- Roth 401(k)'s and 403(b)'s no longer require an annual RMD for original account holders.
- Allows SIMPLE IRAs and SEPs to accept Roth contributions
- Inflation indexing will apply to the present limits of:
    - $1,000 on catch-up contributions to traditional and Roth IRAs
    - $100,000 on Qualified Charitable Distributions (QCDs).
- Allows Sec 529 Plan rollovers to Roth IRAs with a lifetime aggregate limit of $35,000 and minimum of 15-year history in the 529 Plan. There is also an annual rollover limit equal to the Roth IRA allowable contribution amount plus catch-up provision.
- Authorizes Employer Matching Contributions to Retirement Plans based on employees' student loan payments.
- Addressing the Need for Emergency Savings
    - Permits employers to offer workplace emergency savings accounts linked to defined contribution plans but funded with after-tax dollars.
    - Provides an exception from the 10% excise tax for retirement plan distributions up to $1,000 per year used for emergency expenses, which are unforeseeable or immediate financial needs relating to personal or family emergency expenses.

Provisions Effective January 1, 2025

- Mandatory Automatic Enrollment/Escalation requires employers that establish new 401(k) and 403(b) defined contribution plans to automatically enroll newly hired employees, when eligible, in the plan at a pretax contribution level of 3 percent of the employee's pay. This provision would not apply for small businesses with 10 or fewer employees, those in business for less than three years, church plans and governmental plans.
- Allows larger Catch-Up Contributions for participants ages 60 through 63.
- Expedite Part-Time Workers' Participation in their employers' 401(k) plan by shortening from three years to two years the consecutive years of service for eligibility.

Provision effective January 1, 2026

- Requirement that Age-Based Catch-Up Contributions Must be Roth (Not Pretax) for Participants Earning Over $150,000 (indexed)

- Saver's Match Program
    - The Saver's Match replaces the current nonrefundable Saver's Credit for certain IRA and retirement plan contributions with a federal matching contribution that is deposited into an IRA or retirement plan.

- The Match program would incentivize retirement savings by providing a 50% matching contribution on up to $2,000 in retirement savings annually for low- and middle-income taxpayers, without regard to whether an individual has a tax liability.
- The match phases out between $41,000 and $71,000 of Adjusted Gross Income in the case of taxpayers filing a joint return and lower limits for other filing statuses.

SOCIAL SECURITY AND MEDICARE

Payroll Tax Rates for Employees	**2025**	**2026**
Social Security (FICA)	6.20%	6.20%
Medicare	1.45%	1.45%
Combined	7.65%	7.65%
Taxable Wage Bases		
Social Security (FICA)	$176,100	$184,500
Medicare	No Limit	
Earnings Needed to Accrue Benefits		
Wages Needed to Earn one "Credit" (to determine benefits)	$1,810	$1,890
Earned Income Limits for Retirees Under Full Retirement Age		
Before normal retirement age	$23,400	$24,360
Year of normal retirement age	$62,160	$65,160
Maximum Monthly Benefit at Full Retirement Age	$4,018	$4,152
These amounts increase by 8% for each year of benefit commencement deferral up to age 70.		
Medicare Part B Premiums per month	$185.00	$202.90

Medicare Premium Surcharges

Couples with AGIs over $212,000 and singles with more than $106,000 of AGI for 2023 or $218,000 and $109,000 for 2024 owe an additional premium for 2025 and 2026 respectively. The 2026 surcharges range from $81 to $487 per month.

ESTATE AND GIFT TAX EXEMPTION LEVELS AND PLANNING

	2025	2026
Federal estate tax exemption	$13,990,000	$15,000,000
Annual gift tax exclusion	$19,000	$19,000
Oregon estate tax exemption	$1,000,000	$1,000.000
Washington estate tax exemption - $2,193,000 through 6-30-25	$3,000,000	$3,000,000

Amounts over the annual gift tax exclusion shown in the table above are taxable gifts that are subtracted from an individual's lifetime estate- and gift-tax exemption, which is the same as the estate tax exemptions in the chart above. In an alternative strategy, givers can "bunch" five years of annual excludable gifts to a 529 education-savings plan, typically for children or grandchildren by filing Form 709 and making the appropriate election.

Filing of a gift tax return (Form 709) is required for gifts to individuals exceeding the $19,000 annual exclusion per done. Though some gifts to trusts qualify for annual exclusion treatment and do not require disclosure by filing a gift tax return, many trusts do not qualify for such treatment. Additionally, gift tax returns are required to "gift split" – where one spouse makes a gift in excess of the annual exclusion amount and the couple wishes to treat the gift as being made by both spouses in order to utilize the annual exclusion treatment for both spouses. To do this, both spouses need to "consent" to the treatment on the gift tax returns each will file.

The basic exemption amount for estates is $13,990,000 for 2025 and $15,000,000 for 2026. This increase in the exemption is part of the July 2025 Federal tax act discussed on pages 3-8. There are also unlimited deductions for qualifying transfers during life and at death to charities and spouses. In November 2018, the Treasury Department and the IRS issued proposed regulations that would allow individuals who make large gifts after 2017 to retain the tax benefit of the higher exemption, even if it reverts to pre-2018 levels.

It is important to note that if a decedent's gross estate (the fair market value of the decedent's assets on the date of death plus prior taxable gifts) does not exceed the new increased lifetime exemption amounts noted above, an estate tax return is not required to be filed. However, in such circumstance, if an estate tax return is filed, the decedent's unused lifetime estate and gift tax exemption may be transferred to the decedent's surviving spouse for use during the spouse's lifetime or at death. This concept is known as portability, and to take advantage of this beneficial election, an estate tax return must be filed.

CONTRIBUTION AND BENEFIT LIMITS FOR RETIREMENT PLANS AND HEALTH SAVINGS ACCOUNTS

The dollar limits on contributions and benefits under qualified plans are as follows.

	2025	2026
401(K) Elective Deferrals Annual Dollar Limit	$23,500	$24,500
401(K) Age 50+ Catch-up Contribution	$7,500	$8,000
SIMPLE Plan Elective Deferrals Annual Dollar Limit	$16,500	$17,000
SIMPLE Plan Age 50+ Catch-up Contribution	$3,500	$4,000
Annual Includible Compensation Limit (SEP and qualified plans)	$350,000	$360,000
Key Employee's Compensation Limit (SEP and qualified plans)	$230,000	$235,000
Highly Compensated Employee's Compensation Limit	$160,000	$160,000
Defined Contribution and SEP Annual Addition Limit	$70,000	$72,000
Defined Benefit Pension Plan Annual Benefit Limit	$280,000	$290,000
SEP Minimum Compensation Amount	$750	$800
457 Plan Elective Deferral Limit	$23,500	$24,500
Traditional IRA Contribution	$7,000	$7,500
Roth IRA Contribution	$7,000	$7,500
IRA Age 50+ Catch-up Contribution	$1,000	$1,100
HSA Contribution Limits: Family	$8,550	$8,750
Single	$4,300	$4.400
Age 55+ Extra	$1,000	$1,000
HSA Caps on Out-of-Pocket Reimbursements: Family	$16,600	$17,000
Single	$8,300	$8,500
HSA Minimum Deductible on HDHP: Family	$3,300	$3,400
Single	$1,650	$1,700
FSA Out-of-Pocket Maximum	$3,300	$3,400

ADMINISTRATION AND REPORTING ISSUES

IRS INTEREST RATES ON TAX DEFICIENCIES AND OVERPAYMENTS/ABATEMENT
Source: Internal Revenue Service

	January 1 – March 31, 2025	April 1 – June 30, 2025	July 1 – December 31, 2025
Federal	7.0%	7.0%	7.0%
Oregon	8.0%	9.0%	10.0%

1099 AND W-2 INFORMATION REPORTING AND RELATED PENALTIES
Source: CCH Federal Tax Weekly/Internal Revenue Service

The electronic filing threshold for Forms W-2, 1099 and certain other information returns is an aggregate of 10 or more returns. Go to IRS.gov/InfoReturn for e-file options.

Our office is available to prepare the 1099 information returns that are required to be issued for payments made by cash, check or money order. It does not include payments by credit or debit card, and other third-party network transactions subject to 1099-K reporting by the processing agency. We can provide you with a worksheet for compiling the necessary information to enable us to prepare these forms. Form 1098 Mortgage Interest Statements can also be prepared from this worksheet if you change "Recipients of 1099 Income" to "Payers of Mortgage Interest."

Form 1099-NEC - Nonemployee Compensation. FILE ON OR BEFORE JANUARY 31, 2026
File this form for each person or unincorporated business entity in the course of your business to whom you have paid at least $600 for services performed by someone who is not your employee, or payments to an attorney. This type of income can be subject to self-employment Social Security tax. The filing threshold increases to $2,000 for tax year 2026.

Form 1099-MISC – Miscellaneous Information. FILE ON OR BEFORE FEBRUARY 28, 2026 IF YOU FILE ON PAPER, OR MARCH 31, 2026 IF YOU FILE ELECTRONICALLY
File this form for each person or unincorporated business entity in the course of your business to whom you have paid at least $600 in rents, prizes and awards, other income payments (such as fiduciary fees), fishing boat proceeds, medical and health care payments and crop insurance proceeds. Use this form to report direct sales totaling $5,000 or more. Use this form to report $10 or more in royalties.

Form 1099-INT – Interest Income FILE ON OR BEFORE FEBRUARY 28, 2026 IF YOU FILE ON PAPER, OR MARCH 31, 2026 IF YOU FILE ELECTRONICALLY
File this form for each person or unincorporated business entity in the course of your business to whom you have paid at least $600 in interest.

Form 1099-DA – Digital Asset Proceeds From Broker Transactions NEW FOR 2025 TAX YEAR - FILING WILL START IN 2026 BY DIGITAL ASSET BROKERS
For each digital asset sale that a broker has effected for a customer in 2025 and later years, the broker must complete this form. A broker includes any person who, in the ordinary course of a trade or business, stands ready to effect sales of digital assets to be made by others.

The Oregon Department of Revenue (ODR) requires that copies of all 1099s to Oregon recipients be filed electronically with ODR using its iWire system. Filing the federal copies with the IRS is not sufficient to meet the Oregon requirements.

Form 1099-K – Payment Card and Third Party Network Transactions
The form could be sent to anyone who is using payment apps or online marketplaces to accept 2025 payments for selling goods or providing services in excess of $20,000 and has over 200 transactions. This includes people with small businesses, crafters and other sole proprietors. However, it could also include casual sellers who sold personal property. Taxpayers who receive a Form 1099-K should review the forms, determine if the amount is correct, and determine any deductible expenses associated with the payments that may be claimed when they file their tax returns. The payment on a Form 1099-K may be reported in different places on the recipient's tax return, depending on what kind of payment it is.

In an audit of business returns, the IRS may assess penalties for failure to file correct 1099's, W-2's and similar information returns. The penalty cap for failure to file correct information returns and failure to furnish correct payee statements increased to $3.7 million in 2021. The amount for each individual failure increased from as low as $60 to as high as $310. Lower penalty caps that apply when the penalty is corrected within 30 days or before August 1, have also doubled and tripled to $630,500 and $1.8 million, respectively. Lower limitations for persons with gross receipts of $5 million or less have also been raised. The penalty amounts are indexed for inflation. The penalties apply for erroneous returns, as well as missing returns. However, there is a safe harbor. If an error is $100 or less ($25 in the case of errors involving tax withholding) the issuer is not required to file a corrected return, and no penalty will be imposed. The recipient, however, can elect to have a corrected return issued.

FAILURE TO FILE PENALTIES

Source: Tax Speaker

The Taxpayers First Act included an increase in the minimum penalty for failure to file an income tax return to the lesser of $525 (indexed for inflation), or 100% of the amount required to be shown on the return.

2025 PENSION COMPARISON TABLE

Source: Bob Jennings/Tax Speaker

	Traditional IRA	**Roth IRA**	**Non-Deductible IRA**	**Roth 401-K**	**Simple IRA**	**SEP**	**Solo 401-K**	**401-K**
Highlights	Excellent savings plan for those not covered by other plans but who have earned income	Great long-term plan that offers tax-free accumulations and withdrawals	Worst of the 3 IRAs but better than nothing	Fantastic way to save big bucks with no future taxation, but must be employer sponsored	Excellent choice for side businesses, small businesses, and those with <$50k annual income. 97% employee funded	Excellent contribution limits, no 5500 make this a winner, but 100% employer funded. Voluntary contributions	The best plan for family businesses, those with only part-time employees as long as they want to fund more than a SIMPLE. Better than a SEP in many cases.	Excellent plan, partly employee funded, but watch the dreaded top-heavy rules which can make this a bad choice for some businesses.
Max. Employee Contribution	$7,000	$7,000	$7,000	$23,500	$16,500	-0-	$23,500	$23,500
Max. Employer Contribution	N/A	N/A	N/A	$46,500	$16,500	Lesser of 25% of W-2 or $70,000	Lesser of 25% of W-2 or $70,000	Lesser of 25% of W-2 or $70,000
Max. Contribution All Sources	$7,000	$7,000	$7,000	$70,000	$16,500 + 3% of W-2 Before Deferral	$70,000	$70,000	$70,000
Over Age 49 Additional Catch-Up	$1,000	$1,000	$1,000	$7,500	$3,500	N/A	$7,500	$7,500
Tax Deduction	Yes	No	No	No	Yes	Yes	Yes	Yes
Withdrawals	Taxed	Nontaxable	Earnings Taxed	Nontaxable	Taxed	Taxed	Taxed	Taxed
Earnings	Tax Deferred	Nontaxable	Tax Deferred	Nontaxable	Deferred	Deferred	Deferred	Deferred
Penalty Exceptions	Death, disability, education, 1st home, more	Death, disability, education, 1st time home, more	Death, disability, education, 1st time home, more	Death, disability, education, 1st time home, more	Most IRA exceptions	Most IRA exceptions	Most IRA exceptions	Most IRA exceptions
Form By (2025)	4/15/26	4/15/26	4/15/26	Tax Return Due date + Extension	10/1/25	Tax Return Due date + Extension	Tax Return Due date + Extension	Tax Return Due date + Extension
Contribute By	4/15/26	4/15/26	4/15/26	Tax Return Due date + Extension	Tax Return Due date + Extension	Tax Return Due date + Extension	Tax Return Due date + Extension	Tax Return Due date + Extension
Penalty Issues	10% before 59 ½	10% before 59 ½ on earnings only	10% before 59 ½	10% before 59 ½	25% 1st 2 years	10% before 59 ½	10% before 59 ½	10% before 59 ½
Tests	1-Earned Income 2-Not covered by other plan 3-If covered, must be below income limits	1-Earned income 2-Max Income under $150k single, $236k MFJ	1-Earned Income	Employer sponsored	No other active plan	No other active plan	Family Only, Employer sponsored, other plans ok	Employer sponsored; other plans ok
Distributions	Start by 4/1 of year after turning 72	No requirement	Start by 4/1 of year after turning 72	Plan based Usually 72	Plan based Usually 72	Plan based Usually 72	Later of 72 or retirement	Later of 72 or retirement
Bankruptcy Protection	$1,000,000 Infl. adj.	$1,000,000 Infl. adj.	$1,000,000 Infl. adj.	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
5500 Required?	No	No	No	Yes	No	No	Yes	Yes
More Information	Pub 590	Pub 590	Pub 590	Publications 560	Publications 560	Publications 560	Publications 560	Publications 560

For more information, visit the following websites:
http://www.irs.gov/publications/p560or590/index.html

DOCUMENTATION GUIDE FOR CHARITABLE CONTRIBUTIONS

Source: Thomson Reuters/PPC

PURPOSE: This table describes the types of documentation required to substantiate various types of charitable contributions made by individual taxpayers. Failing to maintain the proper documentation generally results in the donation being nondeductible.

TYPE OF DONATION	AMOUNT GIVEN IN A SINGLE DONATION			
	Less than $250	**$250 to $500**	**Over $500, up to $5,000**	**Over $5,000**
Cash	• Bank record or written receipt from charity showing donee name, date, and amount of contribution unless donation is to a charitable remainder trust	• Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment	• Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment	• Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment
Noncash:				
1. Publicly traded stock	• Receipt or reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment • Reliable written records
2. Nonpublicly traded stock	• Receipt or reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment • Reliable written records • Qualified appraisal • Declaration of appraiser and done acknowledgment (Form 8283, Section B)
3. Artwork	• Receipt or reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment • Reliable written records • Qualified appraisal • Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
4. Vehicles, boats, and airplanes	• Receipt or reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment	• Acknowledgment Qualified appraisal if deduction is FMV
5. All other noncash donations	• Receipt or reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment • Reliable written records	• Acknowledgment • Reliable written records • Qualified appraisal • Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
6. Payroll deduction	• Paystub, Form W-2, or other record from employer • Pledge card from donee showing donee's name	• Paystub, Form W-2, or other reliable written record from employer • Documentation from charity	• Paystub, Form W-2, or other reliable written record from employer Documentation from charity	• Paystub, Form W-2, or other reliable written record from employer • Documentation from charity
7. Out-of-pocket expenses while serving as a volunteer	Receipt, cancelled check, or other reliable written records	Receipt, cancelled check, or other reliable written records • Acknowledgment	Receipt, cancelled check, or other reliable written records • Acknowledgment	• Receipt, cancelled check, or other reliable written records • Acknowledgment

MEALS and ENTERTAINMENT DEDUCTIONS

Business Related Meals	100%	50%	Non Deductible
Quiet Business Meals		X	
Occasional All Employees Fringe Benefit Meals (Cocktail parties, picnics, Holidays)	X		
Meals for Public as Costs of Goods Sold	X		
Business Meeting Meals for Employees, Stockholders & Directors		X	
Meals for Public as Advertising	X		
Meals overnight for Business		X	
Meals as part of Equipment Installation (Capitalize)	X		
Meals with Business Groups		X	
Meals before and after entertainment		X	
Meals on Premises – For employer convenience	Crew Members on fishing vessels & oil/gas platforms, remote camps X	If purchased from outside vendor X	In-house cafeteria X
Business Related Entertainment			
Sporting, Hunting, Fishing			X
Plays, Theatres, Shows, Concerts			X
Games of any Sport			X
Tickets to clients for any of above			X
Dues: Country clubs, social clubs, athletic clubs, or organizations			X
Skybox, Sporting or Entertainment facility fees or leases			X
Business Meals Separately Stated as part of above entertainment		X	
Entertainment directly related to taxpayers' line of business (sporting goods salesperson going to ballgame)	X		