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2025 Annual Tax Update Newsletter

Dear Valued Client,

We hope this newsletter finds you well as we approach the end of another tax year. On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (OBBA), bringing significant changes to the tax code that will affect your 2025 tax return and beyond.

We've prepared this summary of the most important changes that may impact you and your family.

NO PAPER REFUND CHECKS

To combat fraud, lost checks, delayed payments and the high cost associated with issuing paper checks, the IRS will cease issuing paper checks for disbursements including benefits and tax refunds. Effective 9/30/25 all federal departments and agencies must transition to electronic funds transfer methods such as direct deposit, digital wallets, and real-time transfers. When you drop off your tax documents, make sure that you **include a copy of a voided check for the account in which you want your refunds deposited into**. This information will be printed on your return, so failure to provide this information will result in a delay in preparing your return.

STANDARD DEDUCTION INCREASES FOR 2025

Good news! The standard deduction has increased for the 2025 tax year:

- **Single filers:** \$15,750
- **Married filing jointly:** \$31,500
- **Head of household:** \$23,625

These amounts will continue to adjust annually for inflation. Most taxpayers will benefit from these higher deductions when filing their 2025 returns in early 2026.

NEW SENIOR DEDUCTION (2025-2028)

If you're aged 65 or older, you may qualify for an **additional \$6,000 deduction** per eligible person. This is a substantial benefit on top of the standard deduction you already receive.

Income limits apply:

- The deduction begins phasing out at \$75,000 of modified AGI for single filers
- Phases out at \$150,000 of modified AGI for joint filers
- Fully phased out at \$175,000 (single) or \$250,000 (joint)

This deduction is available whether you itemize or take the standard deduction, and you don't need to receive Social Security benefits to qualify.

Tax Planning Opportunity: If you and your spouse are both age 65 or older and will be getting the extra \$6K standard deduction, consider doing a ROTH conversion before the end of the year.

TAX BRACKETS AND RATES MADE PERMANENT

The seven tax brackets established in 2017 (10%, 12%, 22%, 24%, 32%, 35%, and 37%) are now permanent and will continue to adjust for inflation annually.

This provides long-term certainty for tax planning purposes. If your income was down in 2025, you might want to consider doing a ROTH conversion or selling off some investments with unrealized gains so that you can take advantage of these lower rates. Check with our office first to see if this would be a good fit for you.

DEDUCTIONS FOR TIPS AND OVERTIME (2025-2028)

Two new temporary deductions have been created:

Tip Income Deduction:

- Deduct up to \$25,000 in tip income per person
- Available for occupations where tipping is customary
- Phases out beginning at \$150,000 AGI (single) or \$300,000 AGI (joint)
- The tips must be broken out on your Form W-2 or 1099 to qualify

Overtime Pay Deduction:

- Deduct up to \$12,500 (single) or \$25,000 (joint) in overtime earnings above your regular rate
- Overtime must qualify under the Fair Labor Standards Act
- Same phaseout thresholds as tip deduction
- The overtime pay must be broken out on your W-2 or 1099

Both deductions are "above-the-line," meaning you can claim them regardless of whether you itemize.

SALT DEDUCTION CAP INCREASED (2025-2029)

The State and Local Tax (SALT) deduction cap has been raised from \$10,000 to **\$40,000** for taxpayers with income under \$500,000 (or \$250,000 for married filing separately). Over the past few years few of our clients have been able to itemize their deductions. With the increase in this SALT limitation, you will want to bring in your itemized deductions again for us to check to see if this may be a year you can itemize once again.

Key details:

- If your modified AGI exceeds \$500,000, the cap gradually reduces back toward \$10,000
- The cap increases by 1% annually through 2029
- In 2030, the cap reverts to \$10,000

This change is particularly beneficial if you pay significant state income taxes or property taxes and choose to itemize your deductions.

CHARITABLE CONTRIBUTION CHANGES (Starting 2026)

Non-itemizers: Beginning in 2026, you can deduct charitable donations up to \$1,000 (single) or \$2,000 (joint) even if you take the standard deduction.

Itemizers: Starting in 2026, you must donate at least 0.5% of your adjusted gross income before charitable contributions count toward a tax deduction.

New scholarship donation credit: A tax credit worth up to \$1,700 will be available for donations to approved scholarship-granting organizations.

CAR LOAN INTEREST DEDUCTION (2025-2028)

You may deduct up to \$10,000 in interest paid on qualifying car loans if:

- The vehicle was purchased new (not used or leased) after December 31, 2024
- The vehicle was assembled in the United States
- It's for personal use, not business
- The vehicle must weigh less than 14,000 pounds
- Your modified AGI is under \$100,000 (single) or \$200,000 (joint)

This deduction phases out as income approaches these limits.

EXPIRING ENERGY CREDITS

Many energy efficient tax credits are expiring at the end of 2025, so be sure to take advantage of some of these before they're gone!

-30% Energy Efficient Home Improvement Credit on heat pumps, biomass stoves, boilers, furnaces & A/Cs, insulation, windows & doors expires on 12/31/25—there are limits to what credit you get based on what the purchase was for.

-30% Residential Clean Energy Credit for solar panels, solar water heaters, geothermal heat pumps, and battery storage systems expires on 12/31/25

WHAT STAYS THE SAME

Several provisions remain unchanged or were made permanent:

- Personal exemptions remain eliminated (except for the new senior deduction)
- The annual gift tax exclusion remains at \$19,000 per year
- The 20% pass-through business income deduction (QBI) is now permanent
- Capital gains rates remain at 0%, 15%, and 20% (plus the 3.8% net investment income tax)

NEBRASKA TAX LAW NEWS

Nebraska Child Care Tax Credit for 2025

Nebraska families with children age 5 or younger may qualify for a refundable tax credit of \$1,000 to \$2,000 per child to help cover child care costs.

Eligibility:

- Household income of \$150,000 or less
- Child enrolled in licensed childcare or approved provider

Credit amounts based on income:

- Under \$75,000: \$2,000 per child
- \$75,000-\$150,000: \$1,000 per child

How to Apply: Applications must be submitted through the Nebraska Department of Revenue's eDASH portal before claiming the credit on your state income tax return. The application period for 2025 tax credits will open in late January 2026.

Important Note: The credit has a \$15 million annual cap and applications are processed first-come, first-served. In 2024, the full allocation was reserved within seven weeks, so early application is recommended.

Applications open in late January 2026 and are processed first-come, first-served. **We're here to help!** Contact us to determine your eligibility and assist with your application.

SMALL BUSINESS TAX CHANGES UNDER THE OBBB

- Minimum wage in Nebraska increased to \$13.50 per hour as of 1/1/25.
- If you have employees, remember that Nebraska enacted new Sick Pay Leave legislation that went into effect October 1, 2025. Please contact our office for more information.
- 100% bonus depreciation was reinstated with the passage of the OBBB in July.
- The 20% Qualified Business Income deduction was made permanent with the passage of the OBBB.
- If you pay tips or overtime to employees, remember that this information must be reflected on their W-2/1099 for them to deduct on their personal tax returns.

WHAT THIS MEANS FOR YOU

Many of these changes take effect immediately for your 2025 tax year, while others begin in 2026. Some provisions are temporary (ending in 2028 or 2029), so it's important to plan accordingly.

We recommend:

1. **Review your withholding** if you qualify for any new deductions
2. **Consider the SALT deduction** if you previously couldn't itemize due to the \$10,000 cap
3. **Plan charitable giving** with the new 2026 rules in mind
4. **Take advantage of temporary provisions** while they're available (2025-2028)
5. **Schedule a tax planning meeting** to discuss how these changes affect your specific situation

NEXT STEPS

As always, tax law changes can be complex and may affect each taxpayer differently. We're here to help you navigate these changes and optimize your tax situation.

Contact us today to schedule your year-end tax planning appointment.

Thank you for your continued trust in our services.

Sincerely,

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