

Individual Tax Update

Presented By:
Kristy Ferraro | Senior Manager, Tax Services



ADVISORS for
WHAT'S NEXT



Welcome and Meet Your Presenter



Kristy Ferraro, CPA, MT *Senior Manager, Tax Services*

Kristy is a Senior Manager in RKL's Tax Services Group. She specializes in estates, trusts, gift, and high net worth individuals. Kristy uses her expertise to assist her clients in navigating the complexities of tax compliance and planning. Kristy joined the firm in 2023, bringing with her over a decade of public accounting experience. What Kristy values most is the opportunity to build personal relationships with her clients. By understanding their individual situations and aspirations, Kristy can deliver customized advice that resonates with their goals and values. Kristy's approach is not just about providing tax services; it's about being a trusted advisor in her clients' long-term success.

Kristy lives in York County with her husband and their 5-year-old daughter. Outside of staying on top of the latest in tax and estate planning, Kristy enjoys baking, reading, and spending as much time as possible outdoors with her family.

| What We Will Introduce

01. 2025 General Updates
02. One Big Beautiful Bill - Individuals
03. One Big Beautiful Bill – Trust & Estates



2025 Individual Tax Rates

| Rate | Single | Married Filing Joint |
|------|------------------------|------------------------|
| 10% | \$0 to \$11,925 | \$0 to \$23,850 |
| 12% | \$11,925 to \$48,475 | \$23,850 to \$96,950 |
| 22% | \$48,475 to \$103,350 | \$96,950 to \$206,700 |
| 24% | \$103,350 to \$197,300 | \$206,700 to \$394,600 |
| 32% | \$197,300 to \$250,525 | \$394,600 to \$501,050 |
| 35% | \$250,525 to \$626,350 | \$501,050 to \$751,600 |
| 37% | \$626,350+ | \$751,600+ |

2025 Estate/Nongrantor Trust Tax Rates

| Rate | |
|------|----------------------|
| 10% | \$0 to \$3,150 |
| 24% | \$3,150 to \$11,450 |
| 35% | \$11,450 to \$15,650 |
| 37% | \$15,650+ |

2025 Standard Deduction

| Filing Status | 2025 | 2024 |
|---------------------------|----------|----------|
| Married Filing Jointly | \$31,500 | \$29,200 |
| Single | \$15,750 | \$14,600 |
| Head of Household | \$23,625 | \$21,900 |
| Married Filing Separately | \$15,750 | \$14,600 |

2025 Estate & Gift Tax

| | 2025 | 2024 |
|------------------------|----------|----------|
| Lifetime Exemption | \$13.99M | \$13.61M |
| Annual Exclusion | \$19,000 | \$18,000 |
| GST Lifetime Exemption | \$13.99M | \$13.61M |

The OBBBA permanently increases the estate and gift tax exemption to \$15M, indexed annually for inflation. Effective 1/1/2026.

One Big Beautiful Bill Act (OBBBA)

At a Glance

- Official name is H.R. 1
- Most of the 2017 TCJA individual provisions were made permanent
- New provisions provide a deduction for reported tips and overtime income
- Temporary increase in the cap on state and local taxes (SALT)
- A social security number is specifically required for many credits & deductions (including AOTC and child tax credits)
- Many provisions are effective for tax year 2025

Extended Individual Provisions

TCJA: Common Individual Extenders

Extenders made permanent

- Individual tax rates applicable since 2018
- Estate & gift tax exemptions - \$15M (\$30M for married couples) as of 2026 (adjusted for inflation annually)
- Standard deduction increase – subject to inflation starting in 2026

Lower limits made permanent

- Home mortgage interest deduction
- Personal theft & casualty loss deduction

Repeals made permanent

- Personal exemptions
- Home equity debt deduction
- Moving expense deduction, except members of the Armed Forces & the Intelligence Community
- Pease limitation

Allowances made permanent

- Mortgage insurance premium
- Rollovers from qualified tuition programs to ABLE accounts

Child Tax Credit

Base credit, refundable portion & other dependent credit made permanent

- Base credit is \$2,200 for 2025, indexed for inflation
- Refundable portion of the credit is \$1,700 for 2025, indexed for inflation
- Other dependent credit is \$500 for 2025

Other Changes

Phase-out made permanent: MAGI of \$200,000 for single filers/\$400,000 for married filing jointly

Other Family Related Credits

Child & Dependent Care Credit

- Deductible qualified expense percentage increases from 35% to 50% starting in 2026
- Stepped phase-down, no phase down below 20%

Employer Dependent Care Assistance

- Maximum increased from \$5,000 to \$7,500

Adoption Credit

- Up to \$5,000 is refundable starting in 2025
- Refundable portion may not be carried forward

Alternative Minimum Tax (AMT)

Exemption Amounts

- Increased AMT exemption amounts for individuals; are permanent for tax years beginning after 2025
- Phaseout threshold: \$500,000 for single filers & \$1M for married filing jointly, increased for inflation

Exemption Phaseout Threshold

- Reverts to the 2018 threshold amount
- Exemption phaseout rate for individual taxpayers increased to 50% (from 25%), starting in 2026
 - Appears to be a technical error in the phase-out language of the legislation
- More rapid phase-out partially offsets higher exemption amount

State & Local Tax (SALT) Cap

SALT Cap

- Temporarily increased 2025-2029 before returning to TCJA levels
- 2025 deduction is \$40,000, with 1% annual inflation adjustments through 2029
- Cap reverts to \$10,000 in 2030

SALT Deduction Threshold

- Deduction is reduced once it exceeds the threshold
- 2025 threshold is \$500,000 MAGI
- Threshold reduction is 30% in 2025, with 1% annual inflation adjustments through 2029
- Pass-through entity workaround preserved

New Individual Provisions

Qualified Tip Deduction

- Individuals can claim an income tax deduction for qualified voluntary tips received in tax years 2025 through 2028
- Qualified tip: any cash tip received in an occupation that customarily and regularly receives tips on or before December 31, 2024
- Above the line deduction, \$25,000 maximum per year
- Phase-out starts at MAGI of \$150,000 for single filers (\$300,000 for married filing jointly) at a rate of \$100 for each \$1,000 over
- Applies to customary tip businesses
- Tips are still subject to FICA taxes; only exempt from Federal income taxes

Qualified Overtime Pay Deduction

- Individuals can claim an income tax deduction for qualified overtime pay received in years 2025 through 2028
- Qualified overtime compensation: Overtime paid to an individual required under the Fair Labor Standards Act of 1938 (FLSA) that is in excess of the regular rate under the FLSA at which the individual is employed
- Above the line deduction, \$12,500 maximum
- Phase-out starts at MAGI of \$150,000 for single filers (\$300,000 for married filing jointly) at a rate of \$100 for each \$1,000 over the threshold
- Overtime pay is still subject to FICA taxes; only exempt from Federal income taxes

The “Senior” Deduction

For qualified individuals 65 and older, a temporary deduction of \$6,000 is added for tax years 2025 through 2028

Above the line deduction

Phase-out begins at MAGI of \$75,000 for single filers (\$150,000 for married filing jointly), at a rate of 6%

Deduction is fully phased out at MAGI of \$175,000 for single filers (\$250,000 for married filing jointly)

Car Loan Interest Deduction

- For tax years 2025 through 2028, noncorporate taxpayers may claim a deduction of up to \$10,000 for interest paid or accrued on a post-2024 loan to purchase a qualified passenger vehicle for personal use
- Qualified passenger vehicle: Generally, includes a car, minivan, van, SUV, pickup truck, or motorcycle that is new, and that meets other requirements
- Above the line deduction
- Phase-out at MAGI of \$100,000 for single filers (\$200,000 for married filing jointly) at a rate of \$200 for each \$1,000 over the threshold
- US assembly is required to qualify for the deduction
- Available to both itemizers and non-itemizers

Charitable Contributions & Trump Accounts

Charitable Contribution Deductions

- Starting in 2026 individuals who do not itemize deductions can deduct charitable contributions made in cash during the tax year
- Below the line deduction for 2025 through 2028 will maximum of \$1,000 for single filers (\$2,000 for married filing jointly) who are US citizens at birth with \$1,000
- Annual deduction of 0.5% for individual charitable contributions, from birth to age 18
- Withdrawals commencing at age 18
- Employer can contribute up to \$2,500 (adjusted for inflation after 2027) of employee's income to be excluded from the employee's gross income
- Can rollover to ABLE Accounts

OBBBA Impact on Trusts & Estates

Increased Estate Tax Exemption

- With the increased lifetime exemption of \$15M, very few individuals will be subject to federal estate tax.
- Estate planning remains important for non-tax reasons
- Permanent doesn't really mean permanent

Avoiding probate, ensuring assets are distributed according to desires, asset protection

But don't forget about Pennsylvania Inheritance Tax!

Popular Wealth Transfer Tools Remain

- Spousal lifetime access trusts (SLATs)
- Dynasty trusts
- Annual exclusion gifts + other excluded gifts
- Re-evaluate buy-sell agreements
- Electing portability
- Use estate freeze strategies

Potential Increase in Non-Grantor Trusts



Increased SALT limitation

Charitable contributions

Shift income to beneficiaries in lower tax brackets

Re-evaluate Credit Shelter Trust Provisions

Historically, many revocable trusts and wills funnel max amount to credit shelter trusts

But also forfeits step-up in basis

Avoids estate tax at death of surviving spouse

May be more beneficial to leave assets outright to spouse or use QTIP