Table of Contents

TAB 1: Form 1040- Filing Issues, Filing Status, and Dependents 1

Form 1040 – Overview 1

Brief History of the Income Tax in the United States 1

One Big Beautiful Bill Act (OBBBA) Makes Huge Changes To the Tax Code 2

Individual Tax Provisions of the OBBBA 2

Form 1040 – Filing Issues, Filing Status and Dependents 4

2025 & 2026 Reference Table – Inflation Adjustments 4

2025 Rates, Brackets, etc. (Rev. Proc. 2024-40) 5

2025 Tax Brackets by Filing Status 5

2025 Estate and Trust Tax Brackets 5

2025 Capital Gain Tax Brackets 5

2025 Standard Deduction (OBBBA Adjusted) 5

2025 Form 1040 (Draft Form 1040) 6

IRS makes multiple changes to the 2025 version of Form 1040 6

Form 1040, information section 6

Specific changes to the information section 6

Form 1040, dependents 7

Form 1040 – Income items 8

Form 1040 – Personal exemptions 8

2025 Filing Requirements 10

2025 Filing Thresholds 10

Dependents 11

Two dependent definitions and related tax attributes 11

Qualifying child defined 12

Qualifying relative defined 12

Dependents and Divorce 13

Release of exemption to noncustodial spouse 13

Form 8332 14

Tie breaker rule (§152(c)(4); PR 1.152-2(g)). 15

No child tax credit for Florida non-custodial parent 15

TAB 2: Gross Income, Adjustments to Income and Other Deductions 17

Gross Income 17

2025 Form 1040, Schedule 1 17

Gross Income Rules 18

Qualified Tuition Programs 18

Background 18

Overview 18

Law changes enhance §529 plans 18

Contribution limits 19

OBBBA further modifies §529 plan rules 19

Recognized postsecondary credential 20

Credential examples 20

ABLE account contributions §529 transfers 20

Moving Expenses 20

Pre-OBBBA rules 20

TCJA ends moving expense deduction for most. 20

IRS and Tax Related Contact Phone Numbers 20

Intelligence community defined 21

Foreign Earned Income and Housing Exclusions 21

Cancelation of Debt Income 22

Cancelation of Debt Income (CODI) Defined 22

Exclusions available to reduce or eliminate recognition of CODI 22

Certain student loans 22

Additional student loan CODI exclusion 2021 – 2025 23

Loan for postsecondary educational expenses 23

OBBBA changes student loan debt forgiveness rules 23

Social Security number required 23

Gambling Income and Losses in General 23

Gross gambling income exclusions 24

Professional gamblers 24

Recreational gamblers 24

Courts support the concept of session accounting 25

IRS concedes session accounting is appropriate for slots 25

Electronically tracked slot play 25

Required reporting 26

Record keeping is critical 26

Gambling loss documentation rules spelled out 26

Limitations 27

Other Gross Income Developments 27

Embezzlement or Loan – That is the Question 27

Sheriff didn’t embezzle money – she borrowed it 27

Moving money to personal account not a good idea 27

IRS says taking money from food account was embezzlement 28

Court says not so fast 28

Major Change to Social Benefits Provide Advisory Opportunity 28

Government Pension Offset 28

Lump sum election available for prior year benefits 29

Adjustments to Income 30

Educator Expense Deduction 31

Qualifying educators 31

Qualified expenses 31

Health Savings Accounts 31

High-deductible health insurance plan required 31

Permanent changes to HSA qualified health plans 31

HSAs combine the best features of an IRA and a Roth IRA 32

HSA contributions 33

Eligibility is determined on the first day of the month 33

Medicare Lookback Issue For HSA Contributions 33

Overview 33

HSA contributions at age 65 and over 33

Medicare lookback creates a problem 33

HSA Planning 34

Example – HSA planning for higher income taxpayers 34

HSAs at death of account owner 35

TAB 3: IRAs and Retirement Savings 37

Retirement in the U.S. in 2025 37

Figure 1. 37

2025 IRA Comparison Table 38

Traditional Deductible Individual Retirement Accounts 39

Traditional Non-Deductible IRA 39

What if Form 8606 is not included with the return? 39

Pro rata rules must be used for distributions 40

All IRAs must be aggregated when calculating the pro rata rules 40

Rollover Chart 41

Roth IRAs 42

2025 Roth IRA AGI Limits 42

Roth Conversions 42

Backdoor Roth planning 42

IRS and Tax Related Contact Phone Numbers 43

Mega-Roth Accounts 44

Mega-Roth – the New Frontier 44

To qualify 44

After tax contributions 44

Enter the Mega-Roth account 45

Limited §529 Plan Conversion to Roth IRA Allowed 46

Overview 46

What if there’s extra 529 plan money and nowhere to use it? 46

Roth IRA rollover to the rescue – maybe 46

Trump Accounts Are Coming 48

Overview 48

Contributions 48

Employer contributions 48

One-time government grants available 48

Distributions 48

Eligible investments 48

Other Trump account notables 48

Is a Trump account a good idea? 49

IRA and Pension Plan Distributions 51

Account Holder Retirement Withdrawals 51

Required Minimum Distributions 51

RMDs in general 51

“Required beginning date” defined 51

RMD exception for those still working 52

Qualified Charitable Distributions from IRAs to Charity 52

New 1099-R rules for 2025 – finally!!! 52

QCDs and inherited IRAs 53

IRAs only – not allowed for qualified plans 53

Contributing to IRA may result in reduction of deductible QCD amount 53

Some charities do not qualify for QCDs 54

Charitable documentation is still required 54

Required Minimum Distributions 54

RMDs – the Calculation 54

Uniform Life Table Updated for 2022 and Years After 54

Inherited IRAs Distributions 55

Beneficiaries versus Designated Beneficiaries 55

Non-designated beneficiaries – the 5-year rule 55

IRS Issued Final RMD Regulations 55

Beneficiaries Chart 56

Clarification of 10-year withdrawal for inherited accounts provided 56

IRS waived excess accumulation penalties 57

“Eligible Designated Beneficiary” (EDBs) definition clarified 57

Surviving spouse is the beneficiary 58

Designated beneficiaries 59

Distribution options for designated beneficiaries 59

Undesignated beneficiaries 59

See-through trusts may qualify as a designated beneficiary 59

Recent PLR provides insight when Trust is named beneficiary 60

Form 5329 – Additional Taxes On Retirement and Other Tax-Favored Accounts 60

Early Distributions – 60-day Rollover Rule Does not Apply So Now What? 61

Exceptions to 10% Additional Tax 61

Excess Accumulation Penalty 63

50% penalty reduced to 25%/10% 63

Waiving the penalty for failure to take an RMD 63

Rollover from Qualified Plan to IRA – Does it Make Sense? 64

TAB 4: Itemized Deductions 65

Schedule A 65

Standard Deduction 66

OBBBA made Standard Deduction changes permanent 66

Medical Expense Deduction 66

Overview 66

Medical care defined 66

IRS adds condoms to list of allowable medical expenses 67

Beware of Misleading Advertising for Medical Reimbursement Products 67

Medical insurance deductions 67

“Direct primary care arrangement” defined 68

OBBBA says DPCAs are medical expenses, but not medical insurance 68

“Health care sharing ministry” defined 68

Treat payments to Health Care Sharing Ministries as health insurance 68

HRA or HSA reimbursements 69

Medical (and other) Mileage 69

Qualified Long-Term Care Premiums 69

Taxes 70

Overview 70

TCJA severely limited SALT tax deductions 70

OBBBA makes major change to SALT tax deduction but only temporarily 70

SALT tax deduction phaseout 70

What about PTE tax? 71

Reminder - Capitalization of tax and interest allowed 71

Home Mortgage and Other Interest Deductions 72

Where to Deduct Interest Expense 72

Mortgage interest overview 72

Home mortgage interest deduction 72

OBBBA changes 73

Exceptions to the $750,000 limit 73

Exception to the acquisition debt rules 74

Charitable Contributions 75

Overview 75

OBBBA changes charitable contribution deductions 75

Charitable contributions and the 0.5% floor 75

Charitable contribution deduction substantiation requirements 76

Contribution Documentation Summary 77

Volunteer Expenses as Charitable Contributions 78

Volunteers' Questions and Answers 78

Casualty and Theft Losses 79

Overview 79

OBBBA makes most TCJA permanent 79

Personal theft or casualty loss 79

Defining Casualty Losses Under Federal Law 79

“Qualified disaster losses” provide additional tax benefits 80

How to report without itemizing 80

Comparison of Federal Disaster Types 81

State declared disasters 82

Casualty and Theft Loss Summary 82

Theft Losses and Related Deductions (§165) 82

Theft losses in the post-OBBBA world 82

Theft loss – any hope for deduction? 82

Theft loss limitations 82

“Entered into for profit” defined 83

Profit motive is the key 83

There is a profit motive - how do I claim the theft loss? 85

Miscellaneous Itemized Deductions 87

Overview 87

OBBBA permanently repeals deduction for 2% itemized deductions 87

Employee business expenses strategies 87

Accountable plan reimbursement programs 87

Gambling Losses 89

Overview 89

New loss limits make gamblers pay tax on phantom income 89

Educator Miscellaneous Itemized Deductions 91

Overview 91

Special treatment for qualifying educators 91

OBBBA moves ed related business expenses to other misc deductions 91

Coordination of above and below the line deductions 91

Overall Itemized Deduction Limitation 92

Overview 92

OBBBA reinstates itemized deduction limits for high-income taxpayers 92

TAB 5: Other Deductions 95

Other Deductions Schedule 1-A 95

Other Deduction Overview 95

New form Schedule 1-A 95

Sch. 1-A, Modified Adjusted Gross Income (MAGI) 98

AGI common definition 98

Sch. 1-A, Part II, Qualified Tip Deduction 98

Overview 98

OBBBA creates first tip deduction 98

MAGI phaseout 98

Qualifying tips 99

IRS issues Proposed Regulations to clarify details for tip deduction 100

Self-Employed Persons and the Tip Deduction 104

Sch. 1-A, Part III, Qualified Overtime Pay Deduction 105

Overview 105

OBBBA creates overtime pay deduction 105

High income phaseout 105

Calculating the overtime deduction 105

“Overtime pay” is defined by Federal, not state, law 106

FLSA Overtime Standards 107

FLSA in general 107

Workweek used to determine overtime, not days 107

Covered employees 107

FLSA exemptions 107

Married filing joint and SSNs required 108

Overtime deduction and tip deduction coordination 108

Employer reporting 108

Sch. 1-A, Part V, Senior Deduction 110

Overview and history 110

OBBBA eliminates personal exemptions but creates the senior deduction 110

Senior deduction 110

MAGI phaseout applies 110

Taxspeaker phase out calculator 111

Standard deduction and related add-ons big break for seniors 112

Planning Examples 112

Revised 2025 Standard Deduction 112

Senior Bracket Tops Assuming 65 and Older 112

Sch. 1-A, Part IV, Auto Loan Interest Deduction 114

Overview 114

OBBBA reinstates deduction for auto loan interest 114

Loan and interest details 114

Refinancing debt 114

Reporting required 114

Qualifying vehicle 114

Deduction phased out for some 115

Auto Interest Phase Out Calculation 115

Charitable Contributions for Non-Itemizers 116

Overview 116

OBBBA creates permanent charity deduction for non-itemizers 116

Qualifying contributions 116

NOTE – There is no AGI limit and this provision is permanent 116

Itemize or not? 116

Charity planning idea #1 – utilize donor-advised funds 117

Charity planning idea #2 - donate appreciated stock 118

Qualified Business Income Deduction 118

TAB 6: Other Taxes, Credits, and Tax Payments 119

Schedule 2 119

Schedule 3 121

Alternative Minimum Tax 122

Overview 122

AMT calculation 122

Most common adjustments and preferences 122

Exclusions and deferrals 123

TCJA greatly reduced AMT 123

OBBBA makes TCJA changes permanent 123

Exemption Amounts and Phaseout Thresholds 123

AMT and minor children 124

Net Investment Income Tax 125

Surtax Guide SELECTED Business Items 125

Credits 126

Refundable credits include 126

Nonrefundable credits include 126

Scholarship Granting Organizations Contribution Tax Credit 127

SGOC tax credits – the details 127

Qualifying factors include 127

Adoption Tax Credit 128

Adoption credit overview 128

Employer tax-free adoption reimbursements 128

Qualified adoption expenses – broad definition 128

When and how much? 128

Foreign adoption 128

OBBBA makes adoption credit partially refundable 129
Special needs determination 129

Child Tax Credit 129

Overview 129

OBBBA makes increased CTC permanent and more 129

Dependent Care Credit 130

Overview 130

OBBBA increases dependent care benefits 130

Child and Dependent Care Credit Rates 130

Dependent care qualifying expenses 130

Education Credits 131
OBBBA adds reporting requirements to education credits 131

Energy Related Credits 132

Background 132

OBBBA ends energy related credits 132

FAQs 132

Points worth noting 133

Premium Assistance Credit 134

Summary of old law 134

Applicable Percentage Table for Pre-2021 and Post-2025 134

Applicable Percentage Table for 2021 and 2025 134

2025 Federal Poverty Levels 135

OBBBA makes multiple changes to Premium Tax Credits 135

Premium Assistance Credit (PAC) – Planning Note 135

Allocation allowed in any fashion taxpayers agree to 136

Author note - Pushback on this example 136

Household income defined 136

Household income 136

Savers Match Credit 137

Credit for IRA and pension contributions often overlooked 137

2025 Saver's Credit 137

TAB 7: Landlords, Investors and Capital Gains 139

Investors, Landlords, and K-1s – Sch. D and Sch. E 139

Sales and Capital Gains 139

Capital assets defined 139

Schedule D Review 140

2025 Capital Gain Tax Brackets 140

Where to Report Various Types of Sales 141

Basis & Holding Periods 141

§83(b) Election Reporting Changes 142

Overview 142

Choosing to include in income for year of transfer 142

Beware – no going back 142

Rules change for making §83(b) election 143

Form 15620 144

Qualified Farmland Sales 145

OBBBA provides payment flexibility for farmland sales 145

Qualified farmland property defined 145

Qualified farmer 145

Digital Asset Reporting 146

Digital asset defined 146

Final digital asset regs address basis calculations 146

Specific identification, FIFO, averaging – which method is used? 146

IRS provides safe harbor to determine digital asset cost basis 147

New reporting required for 2025 – Form 1099-DA is here 148

Landlords and Schedule E 150

Purpose of Schedule E 151

Rental activity defined 151

Real estate rental – Sch C or Sch E? 152

Real Estate Professionals 153

Overview 153

Qualifying to be a real estate professional 153

IRS targets time tests as vulnerable when auditing real estate workers 154

Post event ballpark guesstimates not sufficient 154

Implausible testimony not enough 155

Taxpayer is a real estate professional – so what? 155

Real estate professionals get to test – that’s it. 155

Spousal participation counts 156

Grouping Activities 157

Overview 157

Grouping in general 157

Grouping is important for several reasons 157

Appropriate economic unit 157

Grouping factors to consider include 157

Certain activities may not be grouped 158

Regrouping 158

Grouping election 158

Grouping Election Example 159

Aggregation Election (§1.469-4) for Real Estate Professionals 160

Late aggregation election allowed 160

Late election eligibility 160

Aggregation procedures 160

Election procedure 161

Aggregation Election for Real Estate Professional 161

Qualified Opportunity Zones 162

Overview 162

Designation of qualified opportunity zones 162

OBBBA creates new designation periods 162

Contiguous census tracts are out 162

Qualified rural opportunity funds 162

Rural area defined 163

Tax Benefits Related to Investing in Opportunity Zones in Detail 163

Three tax breaks for opportunity fund investors 163

Gains retain their character when they are ultimately realized 164

Qualified Opportunity Zone Business Property 165

A Step by Step Approach 166

Eligible taxpayers 166

Qualified gains 166

180-day time limit 167

Significant changes to QOF and QOZ reporting requirements 167

Delaware Statutory Trusts 168

Overview 168

DST ownership structure 168

DST requirements 168

DSTs are complex 168

DST structural advantages 168

Other DST facts and figures 169

DST real estate ownership 169

Role of DSTs in Like-Kind Exchanges 169

Conversion of DST ownership to REIT ownership 170

Conversion to REIT mechanics 171

DSTs - Advantages and Disadvantages 172

Other Operating and Tax Issues 176

Example grantor trust cover letter 177

FinCEN 114 – Report of Foreign Bank & Financial Account (FBAR) 178

Filing Requirements 178

FBAR penalty amounts 178

FBAR Penalty Update 178

8th Amendment rules preventing excessive fines and penalties 178

Massive penalties assessed 178

Other Foreign Investor Reporting 179

Who must file 179

Non-filing penalties 179

 Farhy, admitted tax cheat, argues Form 5471 penalties not enforceable 179

Farhy challenges IRS’s authority to assess penalties 179

Court of Appeals Sides with IRS – Let’s Penalties Stand 179

TAB 8: Estate and Trust Developments 181

2025 – Estates by the Numbers 181

OBBBA changes to estate tax base amounts 181

Estate Tax Rates 181

Table A-Unified Rate Schedule 181

Estate Form 706 Update 182

2025 version of Form 706 includes significant changes 182

Estate closing letters fee reduction 182

Gifting Update 183

Gift-splitting 183

Generally, each spouse must file Form 709 to split gifts 183

Form 709 reporting 184

Portability Election Changes 185

OBBBA requires another look at portability election 185

Portability Overview 185

DSUE calculation 185

What about estates not required to file Form 706? 185

Form 706 not required but portability election needed 185

Late portability election allowed 185

Other Estate and Gift Tax Developments 187

Value of Life Insurance Included in C Corp Value for Estate 187

What is the value of the business? 187

Life insurance – in or out of valuation 187

Supreme Court analyzes chicken and egg dilemma 187

Valuation based on pre-redemption value 187

Final Regulations Issued for Basis Reporting Rules 188

Form 8971 188

Schedule A 189

Disclosure Required for Recipients of Large Gifts from Foreign Persons 189

Transcript Delivery 190

TDS Now Available for Estate Tax Accounts 190

Decedent Filing Issues 191

Claiming refunds for deceased taxpayers 191

Allocation of Decedent’s Income 192

Wages 193

Joint ownership 193

Dividends 193

Form 1099 matching problems 193

RECONCILIATION OF INTEREST AND DIVIDEND INCOME 194

Other items of income 196

Table B. 199

Allocation of Decedent’s Deductions 200

Medical expenses 200

Post death medical expenses 200

Medical expenses of decedents and HSAs 200

Taxpayer friendly HSA third option exists 201

Qualified medical expenses defined for this purpose 201

Sample Election 202

Deductions in respect of a decedent 202

Deduction for losses 202

Unrecovered investment in pension or annuity. 203

Mortgage loan costs 203

TAB 9: IRS Changes and Updates 205

IRS Data Book Fast Facts 205

Do you think it’s okay to cheat on your tax returns? 205

What is an Acceptable Amount To Cheat on Income Taxes? 205

Filing Stats 205

Audit Update 206

Number of Returns Examined Chart 206

2024 and 2023 IRS Audits of Individual Tax Returns 206

Fast fact 206

IRS workforce woes 207

Where does the Federal government revenue come from? 207

Post Appeals Mediation Pilot Program Initiated 208

Paper Banking with IRS On the Way Out 208

Transition to e-banking expected to provide benefits 208

Individual taxpayer impacts 209

IRS notes that most refunds are already delivered electronically 209

IRS payments coming next 209

IRS Payment Addresses Change 209

Form 1040 & Form 1040-SR addresses for taxpayers living within the 50 states 210

Form 1040-ES addresses for taxpayers living within the 50 states 210

Form 1040-ES address for taxpayers who are non-residents 210

Direct File Program A 2024 Success – but Future is Uncertain 211

Direct File program’s future 211

Death of the 150-Hour Education Requirement for CPAs 212

States making changes 212

IRS Sets PTIN Fee at $18.75 for 2025 – Releases Final PTIN Regs 212

Who needs a PTIN? 212

IRS updates PTIN application process 213

Existing ID.me users 213

New ID.me users 213

IRS Warns of Social Media Marketed Scams 213

False claims are promoted on social media 213

IRS says scams can be spotted 213

Highlights of IRS Protect Your Client; Protect Yourself Series 214

Written Information Security Plan (WISP) requirement 214

Stay informed - multiple resources to assist with data protection 214

“Security Six.” 215

IRS Security Bookmarks 215

Document Upload Tool Catching On 217

IRS Withholding Estimator Available on Website 217

Avoiding Taxpayer and Preparer Penalties 217

Overview 217

Preparers also subject to penalties 217

Using disclosure to avoid taxpayer and preparer penalties 218

What is adequate disclosure? 218

Final Note – Line by line instructions available 219

IRS Continues to Encourage Use of IP PINs to Cut Down Identity Theft 219

IP PIN is available to all taxpayers, not just those subject to ID theft 219

Can’t pass online identity proofing? 220

Preparer Penalties under the Law: Reference is to Internal Rev Code Sec 221

IRS and Tax Related Contact Phone Numbers 223