

CLIENT UPDATE

PRACTICAL TAX & FINANCIAL ADVICE

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CLIENT UPDATE

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The real price of school:

What back-to-school lists don't tell you

You've bought the pencils, notebooks, and glue sticks. You survived the school supply aisle and think you're done. The truth is the upcoming school year's costs are just getting started! Here's a look at how to stay ahead financially this upcoming school year.

\$ Field trips, activity fees & the suggested donation. Some schools frame field trip fees as suggested contributions. Translation: *We really need this money but legally can't require it.* Other times it's an after-school art program with a sliding-scale fee.

What it costs: \$10–\$100 per trip or activity

How to plan: Request a calendar of planned field trips and other activities early in the year if it's not automatically shared. Spread your budget across upcoming months to plan for the expense. And if you have problems making ends meet, ask the school if they have funds to assist in paying for these activities.

\$ School lunches: Where costs stack up fast. Packing lunch every day takes time, energy, and negotiation (Yes, you have to eat something green). But school lunches aren't always the cheaper alternative, especially if your child buys them regularly and grabs extras like snacks or drinks.

What it costs: \$2 to \$5 per day, per child = Up to \$100 per month, per child

How to plan: Compare monthly costs of school lunches versus packing from home. If your child qualifies for free or reduced lunches, apply early. And if you're packing meals, create a rotating plan of simple, budget-friendly lunches.

\$ The sports and activities funds. Sports used to mean a ball and a team t-shirt. Now it's custom gear, team jackets, tournament fees, and optional team bonding events. Even non-athletic activities like band, theater, or robotics, can create various costs and fees.

What it costs: Anywhere from \$100 to \$1,000+ a season

How to plan: Before your child signs up, ask for a full-season cost breakdown. Factor in travel, gear, meals, renting band equipment and team contributions, in addition to the initial sign-up fee. And for younger kids, leverage slightly used equipment. This comes in handy as kids often outgrow spikes, skates and shoes before they wear them out!

\$ Smile! You're spending again. Picture Day can cost you \$50 for an 8x10 and some wallet-sized prints you don't need. But you must also plan for things like the costs of a yearbook and holiday performance DVDs.

What it costs: \$30–\$80+ per event per child depending on the package

How to plan: Decide what you actually want to keep and skip the rest guilt-free. You can always take your own photo then buy the digital download later (if it's even slightly more affordable).

Be prepared, not overwhelmed

The truth is that school is expensive even when it is free. But it is possible to manage if you plan for the entirety of expenses, not just the ones printed on the supply list. Create a separate school year fund in your budget, track spending per child, and have monthly check-ins to adjust.

And most of all, remember: You don't have to do it all, you just have to do what works for your family. Enjoy the new school year! ♦

Commonly asked tax questions

Here are several of the most common tax questions and their answers. But like most things, there can be exceptions, so if in doubt always ask for help.

■ **What happens to a loan if it's forgiven?** The IRS generally considers the canceled amount as taxable income, unless an exception applies. This means you may have to report the forgiven debt on your tax return and pay income taxes on it. Lenders typically issue a Form 1099-C for canceled debts, which you must include on your tax return.

■ **Does my child need to report cash earned from a lemonade stand?** Yes, the cash your child earns at their lemonade stand is taxable. The IRS doesn't care if it came from mowing lawns, babysitting, or lemonade stands, earned income is earned income. Your child may not end up owing any income taxes, though, thanks to the single taxpayer standard deduction of \$15,750 in 2025. But they still technically owe for Social Security and Medicare taxes if their net profit is more than \$400.

■ **Are my rewards earned on a credit card taxable?** Taxation of any extras you earn with a credit card – including miles, discounts, even cash back – are not taxable if you had to pay to get them, as they are considered a rebate or a discount. Other rewards that you receive, for example a reward for signing up for a card or for referring a new cardholder, are considered taxable income per the IRS.

■ **Does my employer contribution count towards the 401(k) limit?**

Your employer's matching contributions don't count toward your 2025 contribution limit of \$23,500. You can save an extra \$7,500 if you're age 50 or older.

■ **What happens to loans from my retirement account if I change jobs?** You must pay back any loans borrowed from your employer-sponsored retirement account within a short time after switching jobs. Loan balances that aren't paid back are subject to income taxes and an early withdrawal penalty.

■ **Do I really need to report gifts given to people?** You must file a gift tax return if you give more than \$19,000 (\$38,000 if married) in 2025 to any one person. That's because the IRS keeps track of gifts you're allowed to make over the course of your lifetime, which in 2025 is \$13,990,000 (\$27,980,000 if married). Only after reaching this lifetime dollar amount will you need to make an actual tax payment.

■ **Do I have to report a loss?** You may think the IRS isn't interested in losses you incur, such as when you sell a stock at a loss or if your business loses money. The reality is that you should always report losses on your tax return because you can use them to offset income under certain conditions. In addition, most losses can be carried forward to future years to offset income. ♦

BACK TO SCHOOL MONEY TIPS



Shop Sales & Tax-Free Weekends

Plan purchases around local tax holidays and store promotions to save big.

Plan for Extracurricular Costs Early

Budget for sports, music or clubs to prevent surprise expenses.



Teach Kids to Compare Prices

Involve them in finding deals online and in stores to build money skills.

Check Thrift Stores & Online Marketplaces

Score gently used clothes at a fraction of retail prices.



IRS warns taxpayers about continuing scams

The IRS is alerting taxpayers to be on the lookout for warning signs that someone is trying to steal your money or identity. Some of the common signs include:

- **A big payday.** If it sounds too good to be true, it probably is. Bad tax advice on social media may convince you to lie on tax forms or mislead you about credits you can claim.
- **Demands or threats.** Impersonators want you to pay *now or else*. They threaten arrest or deportation. They don't let you question or appeal the amount of tax you owe.
- **Website links.** Odd or misspelled web links can take you to harmful sites instead of *IRS.gov*.

The IRS typically contacts you the first time through regular U.S. mail delivered by the U.S. Postal Service. To verify the IRS sent the letter or notice, you can visit *IRS.gov* and search for *Understanding your IRS notice or letter*. If the letter looks suspicious, you can call 800-829-1040 to report it.

The IRS won't contact you by leaving a pre-recorded voicemail (i.e. robocalls) or threaten to call law enforcement or immigration officials.

Interest rates unchanged for third quarter of 2025

Interest rates for the third quarter in 2025 are unchanged compared to last quarter. These rates include: 7% for overpayments (6% for corporations); 4.5% for the portion of a corporate overpayment over \$10,000; 7% for underpayments and 9% for large corporation underpayments.

TAX CALENDAR

October 15th

- Filing deadline for 2024 individual tax returns on extension

4th Quarter

- Estimate your 2025 income tax liability and review options for minimizing your 2025 taxes. Call to schedule a tax planning review.



Tip and overtime tax breaks require your attention

Two new major tax changes, No Tax on Tips & No Tax on Overtime, are introduced in the One Big Beautiful Bill Act (OBBBA) passed on July 4, 2025. Here's what you need to know about these two tax breaks, along with questions that still need answers before filing your 2025 tax return.

How much you can deduct

- **No Tax on Tips.** You can deduct up to \$25,000 in qualified tips from your federal taxable income. The deduction phases out above \$150,000 (\$300,000 for joint filers).
- **No Tax on Overtime.** Up to \$12,500 in qualified overtime pay can be deducted from your taxable income (\$25,000 for those filing jointly). The deduction also phases out over \$150,000 (\$300,000 for joint filers).

Reporting is key

Employers are required to separately report qualified tips and qualified overtime on an employee's Form W-2 or a contractor's Form 1099. The problem is that 1099s do not currently have a spot to report tips (the W-2 currently has a box for allocated tips), while both W-2s and 1099s don't have a spot to report overtime.

There's also withholding questions. While there's a tax break for tips and overtime up to a certain dollar amount, this only applies to federal income taxes. Tips and overtime are still subject to other taxes, including Social Security, Medicare, and state income taxes. Employers will have to distinguish between income that's fully taxable, and income that's only subject to Social Security, Medicare, and other taxes.

How will it be reported?

The IRS recently confirmed that W-2 & 1099 forms are NOT changing for 2025. Further, the OBBBA refers to 2025 as a transitional reporting year. This also puts employers in a jam, as they are required to report these overtime and tip hours. The IRS is required to publish guidelines on how to report overtime and tip income by this fall.

More details to come

As stated, the IRS is mandated within the OBBBA to come up with what it will



accept as proof of your 2025 earnings.

The IRS says it will publish more guidance by mid- to late October. So stay tuned as these and other questions will hopefully be answered long before you must file your 2025 tax return.

Tips to be prepared

- **Get your payroll records** and add up your overtime and tip pay from the beginning of the year. You'll need this to ensure you are getting credit for all your overtime and tip pay.
- **Review your pay stubs** to see if tip and overtime income is tracked separately from your normal earnings. If so, you may have what you need. If not, contact your employer immediately and ask what they are planning to do to provide proper documentation.
- **Retain any documentation** that can prove the amount you are going to claim. For overtime pay, be sure it's properly paid and recorded by your employer given the additional tax benefit.
- **Pay attention to your state.** Every state will need to determine whether it follows the new federal rules. Some will, some won't, so stay alert for any state updates.



New tax law changes key rules for small businesses

The One Big Beautiful Bill Act of 2025 expands several business tax benefits while easing certain compliance obligations. Here's a summary of the key provisions affecting small businesses.

✓ **Form 1099.** The \$600 reporting threshold for Form 1099-NEC and other 1099s is increased to \$2,000 beginning in 2026.

Planning Tip: Update your accounting software to track vendor payments against the \$2,000 threshold. This avoids unnecessary 1099 preparation and aligns with the new requirement.

✓ **Form 1099-K.** The \$600 reporting threshold scheduled to go into effect in 2026 is rolled back to the old threshold of \$20,000, along with the dual requirement of 200 or more transactions.

Planning Tip: Don't rely solely on receiving a 1099-K to report income. Many businesses won't meet the new reporting threshold but are still legally required to report every dollar earned.

✓ **Depreciation Tax Breaks.** Businesses can use the Section 179 deduction to write off up to \$2.5 million of qualifying property in 2025. If you'd rather use bonus depreciation, the ability to write off 100% of qualified property has been reinstated as of January 19, 2025 through the end of 2029.

Planning Tips: In many cases, businesses can use both deductions in the same year. Generally, Section 179 is applied first, followed by bonus depreciation for any remaining balance. ♦



What the new tax bill means for parents:



DEDUCTIONS CREDITS & MORE

The One Big Beautiful Bill Act of 2025 (OBBBA) contains a number of tax changes for parents. Here's a summary of what's in the bill for families, including planning tips to make the most of the changes.

- ▶ **The child tax credit increase is permanent.** The child tax credit increases to \$2,200 (up from \$2,000) and is now permanent. The refundable portion stays at \$1,700, with future adjustments tied to inflation.

What you can do: If your adjusted gross income will approach \$200,000 (single) or \$400,000 (married), look for ways to reduce your income to avoid phasing out the credit. Strategies like contributing more to retirement accounts, health savings accounts, or flexible spending accounts can help keep you below the limit and maintain your eligibility for the full credit.

- ▶ **Student loan cancellation is tax-free.** Forgiveness of student loans due to death or permanent disability is now permanently excluded from taxable income.

What you can do: Review disability paperwork for accuracy and ensure it is completed and submitted through the appropriate loan service office or the Department of Education's Total and Permanent Disability discharge process. If you're a parent borrower (such as with a PLUS loan), consider including this tax benefit in your estate or disability planning discussions.

- ▶ **Adoption tax credit is now partially refundable.** \$5,000 of the \$17,280 adoption tax credit in 2025 is now refundable, even for families with little or no income tax liability.

What you can do: To take full advantage of the non-refundable portion of the credit (up to \$12,280), you'll need to have a tax

liability. Consider delaying certain deductions or, if possible, shifting taxable income into the year you claim the credit so you can take advantage of the non-refundable portion of the credit. But remember that the credit starts to phase out at \$259,190 of income.

- ▶ **Trump accounts.** Each child born between January 1, 2025, and December 31, 2028, will receive a \$1,000 tax-advantaged investment account at birth. Parents, grandparents, and qualified organizations can contribute up to \$5,000 per year, until the year before the child turns 18. Funds can be withdrawn starting the year the child turns 18.

What you can do: There are still many unanswered questions about this new account and its related tax break. There are also other, and potentially better, options to save for your child, including Coverdell Savings Accounts & 529 plans. So while we wait for more clarification, consider using alternative tax-free or tax-advantaged accounts for your child.

- ▶ **529 Education Plans.** The annual limit for K-12 tuition withdrawals doubles to \$20,000 per student. These funds can now also cover books, tutoring, online materials, home school costs, and educational therapies for children with disabilities. 529s can also be used for post-secondary teaching certifications and trade programs.

What you can do: While contributions to a 529 plan aren't deductible on your federal tax return, you can front-load up to five years' worth of the annual gift tax exclusion into a single year. The 2025 exclusion is \$19,000, so you can contribute up to \$95,000 (5 x \$19,000) to a 529 plan per beneficiary (up to \$190,000 if married). ♦