GattoMcFerson
Certified Public Accountants

October 31, 2025

Dear Friends, Colleagues, and Dodger Fans,

On July 4th, the One Big Beautiful Bill Act, (OBBBA), was signed into law. While many existing provisions were extended and will remain unchanged, there were several major adjustments and additions that should be addressed prior to the end of the year.

The tax bill affects both individuals and businesses, and there are many moving parts that could significantly impact your 2025 taxes and your related year-end planning.

Tax Deadlines

For Los Angeles County residents or those with tax preparers located in Los Angeles County, most payment and filing deadlines were extended to October 15, 2025. The deadlines going forward have reverted back to their normal schedule:

Form 1040 Due Date: April 15, 2026. Extended Due Date: October 15, 2026

Form 1120S (S Corporation) Due Date: March 16, 2026. Extended Due Date: September 15, 2026

Form 1065 (Partnership/LLC) Due Date: March 16, 2026. Extended Due Date: September 15, 2026

Form 1041 (Estates and Trusts) Due Date: April 15, 2026. Extended Due Date: September 30, 2026

Form 1120 (C Corp) Due Date: April 15, 2026. Extended Due Date: October 15, 2026

2025 Individual Quarterly Estimated Tax Due Dates:
Fourth Quarter – January 15, 2026

2026 Individual Quarterly Estimated Tax Due Dates:
First Quarter – April 15, 2026
Second Quarter – June 15, 2026
Third Quarter – September 15, 2026
Fourth Quarter – January 15, 2027

Pass-Through Entity Tax Balance – No later than December 31, 2025

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No Changes to Income Tax Rates

For 2025, tax rates have remained the same for single and married individuals. The taxable income thresholds, however, have been adjusted for inflation.

2025
Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$11,925	10%
$11,926	$48,475	12%
$48,476	$103,350	22%
$103,351	$197,300	24%
$197,301	$250,525	32%
$250,526	$626,350	35%
$626,351		37%

2025
Married filing jointly

Taxable income over	But not over	Is taxed at
$0	$23,850	10%
$23,851	$96,950	12%
$96,951	$206,700	22%
$206,701	$394,600	24%
$394,601	$501,050	32%
$501,051	$751,600	35%
$751,601		37%

Always remember, the taxable income rates and thresholds aren't all or nothing. You only pay tax at the higher rate on the income that exceeds the corresponding threshold.

It is likely that there will be no further major changes to the tax law for the foreseeable future. Given the likelihood that tax rates will remain stable in 2026, consider pushing income into 2026 and/or accelerating expenses into 2025.

The same theory applies to long-term capital gains. If you believe that long-term capital gain rates will remain stable in 2026, consider pushing gains into 2026 and/or accelerating losses into 2025.

Increase in State and Local Tax (SALT) Deduction

For years, the SALT deduction had been capped at $10,000, which, for taxpayers in states like California and New York, was devastating. The deduction has now been increased to $40,000 ($20,000 for married filing separately) for 2025. The deduction will increase 1% a year through 2029, at which point it will revert back to the $10,000 limit in 2030.

This increase, however, will begin to phase out for taxpayers with Adjusted Gross Income (AGI) of over $500,000. The deduction will be reduced back to its original $10,000 for taxpayers with AGI over $600,000.

Getting a sense for what your AGI is going to end up at for 2025 is critical. If it's going to fall below the phase out levels mentioned above, then you have the opportunity to take advantage of this increased deduction.

Total up your likely state income taxes and property taxes for 2025 and see how close to the $40,000 deduction you are. If you're over, then the $40,000 will be the maximum you can deduct this year. If you're under, explore pre-paying your property taxes or state income taxes to get you closer to this $40,000 mark.

Change in Charitable Deductions

For those who use the standard deduction, a new limited charitable gift deduction will be available in 2026 - up to $1,000 for single filers and $2,000 for joint filers. This is in addition to your standard deduction. This deduction is limited to cash donations only.

For those who itemize, starting in 2026**,** only the total of your charitable contributions that exceed 0.5% your AGI will be deductible. For example, if your AGI is $300,000 and you have $4,000 in charitable contributions, the first $1,500 ($300,000 x 0.5%) will not be deductible and your charitable deduction will be $2,500.

If you use the standard deduction, consider pushing off any donations into 2026. Donations made in 2025 won't give you any tax benefit, but donations made in 2026 will allow you to take advantage of this new $1,000/$2,000 deduction.

If you itemize, keep in mind the cost of charitable donations in 2026 versus 2025. Using the above example, donations made of $4,000 in 2025 and $4,000 in 2026 will give you a total tax deduction of $6,500 ($300,000 AGI x 0.50% haircut = $1,500) over two years. Making the entire $8,000 deduction in 2025 and $0 in 2026 will give you a total tax deduction of $8,000 over two years.

The amount and timing of these donations, plus any fluctuations in your income, will need to be considered in this strategy.

Residential Energy Credits Repealed

The new bill effectively terminates energy-efficient home improvements after the 2025 tax year. This includes the Energy Efficiency Home Improvement Credit and the Residential Clean Energy Credit.

This credit, as it stood, allowed you to claim 30% of your qualified solar installation costs as a credit, a dollar-for-dollar reduction of the federal income tax you owe.

To qualify for this credit before its expiration, the improvements need to be completed and placed in service by December 31, 2025.

Clean Vehicle Credits Repealed

Effective September 30, 2025, the new bill terminated the following clean vehicle credits for vehicles acquired after September 30, 2025:

- New Clean Vehicle Credit
- Used Clean Vehicle Credit
- Qualified Commercial Clean Vehicle Credit (for businesses)

Retirement Plans for 2025 and 2026

There were some changes made to the contribution limits for retirement plans, specifically the catch-up provisions for those over 50 years old:

401(k) and 403(b) employee contribution limits have been increased to $24,500 for 2026 (up from $23,500 in 2025). The catch-up contribution limit for taxpayers above age 50 will be $8,000 in 2026. The catch-up contribution limit for taxpayers between the age of 60 and 63 will be $12,000.

SIMPLE IRA contribution limits have been increased to $17,000 in 2026 (up from $16,500 in 2025) and the catch-up contribution limit for taxpayers above age 50 will be $4,000.

SEP contribution limits have been increased to $72,000 for 2026 (up from $70,000 in 2025).

IRA contributions have been increased to $7,500 for 2026 (up from $7,000 for 2025). The IRA catch-up contribution limit for those over 50 years old will be $1,100.

Starting in 2026, one key change to the catch-up components: If the taxpayer's Social Security Wages exceed $150,000 with the same employer, the catch-up must be made as Roth Contributions.

So, as an example, if you are 53 years old, have a W-2 of $200,000, and want to maximize your 401k, your contributions would look like:

401K Contribution: $24,500

Roth Catch-Up Contribution: $8,000

Pass-Through Entity Tax Payments

For most states, the Pass-Through Entity Payment (PTE) will remain in place, despite the SALT increase.

To take advantage of the PTE Credit for 2025, California required a "down-payment" on this credit.

This amount was calculated one-of-two ways:

1. If you did not take advantage of the PTE credit for the 2024 tax year, then you were required to pay $1,000 to California before June 16, 2025, with the remaining balance of the 2025 credit payable by December 31, 2025;
2. If you did take advantage of the PTE credit for the 2024 tax year, then you were required to pay at least 50% of the 2024 credit before June 16, 2025, with the remaining balance of the 2025 credit payable by December 31, 2025.

To be eligible for the 2025 PTE credit, you had to pay the greater of these two amounts. There are no exceptions to this requirement.

No Tax on Overtime

The new bill allows some workers to claim an above-the-line deduction for certain types of overtime pay. Income eligible for the deduction is capped at $12,500 (Single) / $25,000 (Married Filing Jointly).

This deduction begins to phase out when a taxpayer's Adjusted Gross Income (AGI) exceeds $150,000 for single taxpayers or $300,000 for married filing jointly.

The deduction is not available for people using the Married Filing Separately status. It also requires that the employer designate overtime wages on the taxpayer's Form W-2.

This overtime deduction becomes available in the 2025 tax year but expires after 2028.

No Tax on Tips

The new bill also allows workers to claim an above-the-line deduction for tip income. Income eligible for the deduction is capped at $12,500 (Single) / $25,000 (Married Filing Jointly).

This new deduction only applies to tips received by workers in industries where tipping is customary (restaurants, for instance). It does not apply to tips earned in a specific service trade or business (a law firm, for instance).

This deduction begins to phase out when a taxpayer's AGI exceeds $150,000 for single taxpayers or $300,000 for married filing jointly.

The deduction is not available for people using the Married Filing Separately status. This tip deduction becomes available in the 2025 tax year but expires after 2028.

Car Loan Interest Deduction

The new bill allows a deduction of up to $10,000 on qualified interest expense paid on a car loan. This deduction begins to phase out when a taxpayer's AGI exceeds $100,000 for single taxpayers or $200,000 for married filing jointly.

To qualify, the automobile must have "final" assembly in the United States.

Should you have any questions about the above information, or any other tax planning issues, please feel free to reach out by phone or email.

Sincerely,

Tom A. McFerson, CPA, ABV
Gatto McFerson, CPAs