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Dear Client:

Happy New Year **2026**.

I am providing **brief highlights and details** in the "What's Important for 2025 & 2026" section which follows on the next pages. I have **posted on my website under the Client's Corner additional important tax forms, tax code updates, tax strategies, and pertinent regulatory information. The website will be helpful for more details of the tax legislation passed for 2025 and 2026.**

REMINDER: The building where I had my dropbox has been sold and **my dropbox is no longer welcomed**. If you are used to dropping your tax information, we will have to work on other arrangements for securing your information. Tax documentation can be mailed to my post office box address.

Below, are also some of the **important tax strategies and compliance issues** which are of concern to you. Please take a few minutes to read this information. It will help expedite the preparation of your 2025 income tax return.

I have enclosed your **personalized organizer/questionnaire** for your use as a guide in gathering information for preparation of your income tax return. Many **questionnaires** are not being returned or returned unanswered. I need these questions answered to accurately prepare and file your returns**. If your questionnaire is not completed, I will need to return it to you prior to my starting work on your return(s).** This organizer is used to provide detailed information of your income and expenses/deductions for the year as well as other pertinent data as it relates to your individual situation. I have found the organizer to be a valuable tool for focusing attention on your unique needs.

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Please provide me with copies of the following information (When possible, I have included some of the 2024 information for your reference)**:**

- ✓ Form(s) W-2
- ✓ Schedule(s) K-1 showing income or loss from partnerships, S corporations, estates, or trusts
- ✓ Copies of compensation or pension documentation (Form 1099-NEC or 1099-R for example)
- ✓ Form(s) 1099 or statements reporting dividends and interest income
- ✓ Brokerage statements showing transactions for stocks, bonds, etc.
- ✓ Form(s) 1098 reporting interest paid
- ✓ Copies of closing statements regarding the sale, refinancing, or purchase of real property

What's Important for 2025 and 2026:

- **NEW TAX BILL PASSED in JULY 2025:** Many of the provisions from the 2017 Tax Act were made permanent. Other provisions have a sunset of two or three years. There are many provisions and I will highlight many here which I have **posted a more detailed article to my Client's Corner**.

- **Permanent**: A top individual tax rate of 37 percent (lowered from 39.5%);
- **New SALT deduction limit**: For years 2025 through 2030, a provision allowing taxpayers to aggregate (1) local property and vehicle taxes, and (2) state and local income taxes (or sales taxes in lieu of income taxes) toward a **maximum itemized deduction cap of $40,000 for state and local taxes (**prior cap was $10,000**)**; The deduction amount is gradually phased out starting at adjusted gross income of $500,000 and reverts to original $10,000 cap at $600,000.
- **New qualified TIPS deduction**: For years 2025 through 2028, a provision allowing eligible taxpayers up to $25,000 annually deduction for qualified tips. Qualified tips must meet specific criteria including being received in a qualifying occupation and reported properly. Taxpayer does not need to itemize deductions to receive this deduction. Once again, there is an income phase out for this deduction.
- **Repeal of the personal exemption deduction** and an **increase in the standard deduction amounts** to **$31,500**($32,200 for 2026) for **joint filers** and surviving spouses, $23,625 for heads of household, and **$15,750** ($16,100 for 2026) for **unmarried taxpayers (single**) and married filing separately (additional amounts for the elderly (65 and older) and the blind;
- **New Senior "Bonus Deduction**: for years 2025 through 2028, individuals 65 or older may claim an **additional $6,000 deduction**. This is available even to those who itemize deductions, but there is a phase out for single filers with adjusted gross income over $75,000 and joint filers over $150,000.
- **Permanent repeal of miscellaneous itemized deductions** subject to the 2 percent of adjusted gross income floor;
- I**ncrease in the alternative minimum tax (AMT) exemption** amounts and the adjusted gross income thresholds at which the exemption amount begins to phase out;
- A lowered $750,000 limit on the loan amount for which a mortgage interest deduction can be claimed by individuals, with existing loans grandfathered;
- Repeal of the deduction for alimony paid and a corresponding inclusion in income by the recipient, effective for divorces beginning in 2019. Alimony paid under agreement entered prior to 2019 is grandfathered as a tax deduction.

- **The SECURE ACT 2.0**: Highlights of the **NEW** provisions that affect IRA and retirement plans include: (full detailed discussion **on my website under the Client's Corner)**:
  - Increase in Age for Mandatory Required Minimum Distributions (**RMD**) depending on your birthdate (pushed to 73 and starting in 2033 pushed to 75)
  - **Requires high-earning participates** (wages greater than $150,000) to make **after-tax ROTH catch-up contributions for those aged 50 or over** starting in 2026
  - **Higher Catch-up Limits to Apply at Age 62, 63, and 64 starting 2026**
  - **529 Rollovers:** unused 529 funds can be rolled into ROTH IRAs with limits
  - Expanded Automatic Enrollment in Retirement Plans
  - Saver's Match
  - Expanded Credit for Small Employer Pension Plan Startup Costs

- **ENERGY EFFICIENT HOME IMPROVEMENT CREDIT EXPIRES AFTER 2025:** The energy efficient home improvement credit had increased with an annual credit of generally up to $1,200. BUT Beginning January 1, 2026, the credit will expire and no credit will be available for your energy efficiency improvements. Credit is still available for those improvements made in 2025.

- **VEHICLE-RELATED CREDIT EXPIRED AFTER SEPTEMBER 30, 2025:** The vehicle-related credits (the qualified plug-in electric drive motor vehicle credit and the alternative fuel refueling property credit) were significantly expanded by the Inflation Reduction Act, generally beginning after December 31, 2023. BUT these credits are now expired.

- **INDIVIDUAL HEALTH INSURANCE:** Most taxpayers will still receive either Form 1095-B and/or Form 1095-C. Those covered **by the health exchange will still receive Form 1095-A**. But please continue to p**rovide one of these forms 1095-A, 1095-B, or 1095-C,** since I still use the Form 1095s for another purpose such as to document that children are dependents for the child credit. Therefore, I would still NEED a copy for my records.

- **PREMIUM ASSISTANCE CREDIT (PTC):** This credit is only available to those individuals who purchased their health insurance from the **Exchange**. The credit can be used to subsidize monthly premiums or to receive as a tax credit when filing your tax return. The change allows more individuals to be eligible for the PTC. Credit is based on a sliding scale of taxpayer's household income. Exchanges will issue **Form 1095-A** to report taxpayer coverage and advance credit payments used to pay health insurance premiums. **I MUST receive this form**.

- **IRA CHANGES for 2025and 2026:** The maximum allowable IRA contribution will be **$7,000** (**$8,000** for taxpayers 50 or older) for 2025; change for 2026 (**$7,500** (**$8,600** for taxpayers 50 or older)). This IRA contribution is applicable for Roth IRAs, traditional IRAs, and nondeductible IRAs. Those wishing to contribute to a ROTH IRA are subject to income limitations. You have until April 15, 2026 to make a 2025 contribution.

- **PENSION CONTRIBUTIONS FOR 2025**: The **employee elective deferral for 401(K) plans** was **$23,500 (24,500 in 2026)**; employees age 50/older an additional $7,500 deferral/total of $31,000; for 2026 the additional deferral increases to $8,000 for a total of $**32,500**. A new wrinkle is that taxpayers between the **ages of 60-63 may add a catch-up of $11,250**. Regardless, taxpayers should make sure that they contribute at least up to the employer match. The ceiling on **SIMPLE PLANS** is **$16,500** (employees age 50/older can put in an additional $3,500/total of $20,000). SIMPLE deferrals will increase for 2026 to $**17,000** and age 50/older can put in an additional $4,000/total of $21,000.
- **UPDATED BUSINESS MILEAGE RATES for 2025/2026**: For 2025, the standard mileage rate for business driving is **70.0¢**. The rate for **2026 will increase to 72.5¢**.. The medical mileage rate is 21¢ for 2025. The medical mileage rate will decrease to 20.5¢. for 2026 remains the same. The rate for charitable driving will stay at 14¢ because the amount is determined by Congress, not by the IRS.

- **EDUCATION CREDITS OR TUITION DEDUCTION REQUIREMENT**: Taxpayers will need **Form 1098-T** from their student's educational institution before claiming the education credit or tuition deduction on their return. This is a **DOCUMENTATION REQUIREMENT** to claim either the American Opportunity Tax credit or Lifetime Learning Credit.

- **ESTATE and GIFT TAX CHANGES**: **INCREASE for 2025 Federal estate and gift tax exemption to $13.99 million dollars ($15M** for 2026). Also, the **"portability"** of exemptions between spouses has also been retained. However, to use the portability of the estate tax exemption, the IRS requires the executor of the deceased spouse to file a Federal Estate Tax Return (FORM 706).

- The **annual gift tax exclusion for 2025 is $19,000** per donee; **no change for 2026. Connecticut's lifetime estate and gift tax exemption now matches the federal exemption.**

- **The SECURE ACT 1.0**: Some of the provision's highlights that affect IRA and retirement plans include:

  - **Repeals the prohibition on contributions** to a traditional Individual Retirement Account (IRA) by an individual **who has reached age 70-1/2.** But **c**ontributions can be made only if the taxpayer has **earned income**.
  - **Updated Uniform Life Table** will be used which should decrease your RMD distributions.
  - **Modifies required minimum distribution (RMD) rules** with respect to defined contribution plans and IRA balances upon the death of the account holder. **All**

distributions must be made by the end of the 10th year after death for distributions made to **non-spouse designated beneficiaries; rules dependent on whether account holder had started RMD.**

    - **QUALIFIED RETIREMENT PLANS**: Employers may adopt a new retirement plan after the tax-year end but before the due date of that tax return.

    - The ability to use a "stretch IRA" was eliminated by repeal of the life expectancy for most beneficiaries. Life expectancy has been replaced with a ten-year distribution period. Only **eligible designated beneficiaries** including surviving spouse, minor child of participant/owner, disabled/chronically ill beneficiaries, and beneficiaries less than ten years younger than the deceased IRA account holder may use the life expectancy tables.

- "**KIDDIE TAX": Net unearned taxable income for children** (above $2,700; same for 2026) will now be taxed according to the brackets applicable **to parent's rate. The first $1,350 of unearned income will not be taxable.** But parents should consider **Section 529 plans for college savings**. Taxpayers may deduct up to $10,000 annually on their Connecticut personal returns for contributions **ONLY to the Connecticut Section 529 Plan (CHET).** This deduction is <u>only available for investments in CHET 529 Plans</u>. Any excess contribution can be carried over to the next year. Earnings from all Section 529 plans are not subject to Federal or State income tax when withdrawals are used for college tuition.

- **INDENTITY VERIFICATION:** The tax-related identity theft problem has abated to a minor problem now. New York State individual returns still require **drivers' licenses** information to file the return. If your driver's license expired in 2025 or early 2026, would you please update your information.

- **CT Pass-Thru Entity Tax (PET)**: The Pass-Thru Entities (PTE) include S-corporations, partnerships, limited partnerships, and limited liability companies (LLCs). The CT PET is intended to shift the tax on PTE income from the owner to the PTE; therefore, circumventing the limitation on state taxes on the owner's personal return. The PTE tax imposes a 6.99% entity-level income tax. Owners of PTEs are entitled to a credit against their Connecticut personal income tax equal to 87.5% of the PTE owner's pro rata share of the PTE-level tax paid. PTEs subject to the Connecticut PTE-level tax are **required to make quarterly estimated tax payments** by their PTE.

  Effective January 1, 2024, the CT PET was made elective rather than mandatory. Making the election to be subject to the CT PET may still be advantageous for Connecticut taxpayers; an analysis of the tax benefits needs to done.

- **BUSINESS OWNERS**: It is important to **file Form 1099-NEC** for all your **independent contractors** so that you will not be penalized. The IRS is trying to eliminate non-reporting of income. All business returns now ask if your business made any payments that required them to file Form 1099 (Yes or No?). If "Yes", did or will the business file all required Form 1099s (Yes, or No?). For 2025, filing Form 1099 is due January 31, 2026. **Form 1099-NEC replaces Form 1099-MISC**.

I wish you the best in 2026.

Jeffrey A Bernstein CPA

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