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THE STRAUSS REPORT

Fall 2025

October is here – and most of us are feeling confused...and overwhelmed....

While the tax season this year went relatively smoothly, the current state of both the IRS and the old/new tax laws for 2025 (which have changed from Biden's Social Security Fairness Act signed in January 2025 as well as Trump's One Big Beautiful Tax Bill (OBBBA) signed July 4 makes our tax planning this fall much more difficult and confusing than ever, The Tax Alert sent out in July detailed the changes but they are indeed overwhelming to you – as well as to me. WE recommend you read this and prior newsletters, put them away and then read them again!!

In this issue of **The Strauss Report**, we will work to help you understand the tax changes impacting 2025 returns and suggest some important end-of-year tax strategies to consider. We will also work to answer questions on the implications of required minimum distributions from IRAs and inherited IRAs for 2025 and beyond, charitable contributions (QCDs) and how both paying and responding to IRS and IL notices have changed. We will also review the fall medical insurance season ahead, including increases in Social Security for 2026 as well as for Medicare Part B and D and Medicare Advantage plans. And finally, we will discuss important questions we are getting now: on sales of your home, gifts to family members as well as the many problems we are seeing with incomplete trusts/wills and beneficiary issues.

SOME VERY IMPORTANT CHANGES TO KNOW NOW!!

- The **tax rates** that were put into place from the Tax Cuts and Jobs Act of 2017 are still in place for this year and are now permanent. That includes lower rates for long-term capital gains for mutual funds and qualified dividends from stocks.
- **The larger standard deduction** which started in 2017 increased for 2025. For Married/Joint the new amount is \$31,500 and for Singles it is \$15,750. There is also a modest increase for those over 65.
- **A new senior deduction of \$6000/per person** gets added to the standard deduction beginning in 2025. However, **there is a phase out** - starting at \$75,000 for Singles and \$150,000 for married joint filers.
- **The deduction for State and Local taxes (including state income taxes and real estate taxes)** will increase to \$40,000 (currently \$10,000) for tax year 2025 and will be adjusted for inflation until this law sunsets in 2030. This is limited for taxpayers with incomes over \$500,000!
- **Most Energy Credits are gone** – the big home improvement credit will end after December 31, 2025 (which means **DO IT NOW!**). For 2025 the credit amount has risen to 30% (previously 10%) of the amount paid for qualified energy improvements, with an annual limit of \$1200. For windows, skylights \$600 annual total credit. For doors, the credit is \$250 for one, \$500 for more than one and \$2000 (for installations after December 31, 2022) for heat pumps, water heaters and biomass stoves and boilers. This bill also expanded the credit to homes other than a principal residence - that means a second home will qualify!! These are big credits and although the improvements must meet Energy Star requirements (energystar.gov), the credit might just offset the additional cost for a higher end furnace or other home improvement. The credit for clean energy vehicles expired (September 30, 2025).
- **The new laws did not change the current provision for taxable Social Security Benefits (50% or 85%).**
- **The Social Security Fairness Act increased SSA benefits for teachers, government employees, police officers and firefighters (and spouses of deceased taxpayers).** Many of our clients are in these categories: they got a lower SSA benefit from January - March 2025, a large windfall catchup benefit in March 2025 and starting in April 2025 a much larger SSA benefit. Since our Social Security is directly deposited, most of us did not even realize this extra income, but it must be included in your 2025 taxes and since usually 85% of it is taxed, it could change or offset any of the reductions discussed above. Please look at your bank deposits from the beginning of 2025 to find the shift and the

large amount in March (a recent client is getting almost double what she got in 2024 when I checked her bank transactions online!)

SO WHAT SHOULD YOU PAY ATTENTION TO THIS FALL?

1. The **interest rates** for CDs and bank accounts are still higher than in prior years, hitting over 5% for many of us before dropping a little after the interest rate cut by the Federal Reserve. This can mean more tax for both the IRS and IL in 2025. We have worked to “guesstimate” interest income for clients with Estimated Taxes. Please review your bank statements and/or your brokerage accounts to see where you stand as compared to 2024 where many of us owed additional tax on this extra income.
2. In addition, the **stock market** has done very well in 2025, with the Dow up 9.2% after 12.88% in 2024, the S & P up 15.31% after almost 25% in 2024 and the high tech NASDAQ up 18.22% to date in 2025 after 24% in 2024. Given the potential uncertainty and volatility given the political situation, many brokers might be considering and suggesting to you to sell stocks or mutual funds during or at the end of 2025. Look at your monthly statement for year-to-date gains and check with your broker about capital gains distributions at year end. You may want to discuss your portfolio with your broker now or before year-end. Again, taxes are lower on these realized gains - but they are still taxed both by the IRS and IL.
3. **Required IRA Withdrawals for retirees are still with us.** The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed on December 20, 2019. A major part of this legislation increased the age required for minimum distributions from 70 ½ to 72. This is only for individuals who became 70 ½ after 12/31/2019. **Now the Secure 2.0 Act delayed this RMD age to 73 - starting in 2023! So if you have been taking out your RMD (Required Minimum Distribution), you must continue – but those of us who turn 73 in 2025 must begin to take it in 2025. Confusing - Oh yes!!**

Perhaps you need this withdrawal (which is bigger in 2024 than in the prior year since the stock market did well and yes, we are one year older!) for your living and/or medical expenses. Perhaps you want to take part of it out and donate it to charity as a QCD - Qualified Charitable Distribution (and many of our clients are doing this!), or perhaps you want to give it to a child or grandchild - please do so! As most of us know by now, if you donate directly to charity from your IRA, it is subtracted from your taxable income. This could reduce your taxable Social Security; the Adjusted Gross Income used for the medical deduction floor and save you taxes as well. We have been working with clients to properly complete the QCD forms with their investment advisors - call us if you want our assistance.

In addition, many of us have several IRAs - you can take your total RMD from one or take an amount from each account. The penalties for “forgetting to withdraw” were huge- 50% of the required withdrawal, but now the Secure 2.0 Act has reduced them: to 25% or even 10% if the error is corrected within two years. While clients have occasionally slipped up, we have never had a penalty assessed....

4. After many years of waiting, the IRS has finally issued a final ruling on **IRAs inherited by a NON spouse**. While a spouse can stretch the IRA withdrawals over his/her lifetime, now the non-spouse beneficiaries must take annual distributions starting in 2025. The change applies to “non-eligible designated beneficiaries” who inherit an IRA, 401(k) or other type of retirement account from someone who died after they were required to start distributions. While we waited, many beneficiaries did not take out any distributions; the entire account must be liquidated within ten years of the death of the original account holder so many of us will have big distributions in 2025. You might consider taking a distribution still in 2024 while the tax rates might be lower to reduce the amounts in future years.
5. **If you are still working/earning income, the age cap for contributing to an IRA is gone.**

SOCIAL SECURITY, MEDICARE AND YOU...

- Social Security recipients should see a small (quite small!) increase for 2026 – estimated to be

about 2.7% or an increase of \$54 for the average recipient, about the same as for 2025 but way less than the big increase of 8.7-8.8% rise in their benefits in 2023. However, Medicare premiums are expected to increase to about \$206.50 in 2026 from \$185 in 2025 (11%!) and \$174.70 in 2024 and from \$164.90 in 2023 further eroding any income bump or our financial concerns over high prices for housing, healthcare, and certain grocery items.

- **Upper income seniors also pay more for Medicare Part B and Part D coverage in 2026,** depending on adjusted gross income (AGI) plus any tax-exempt income - over \$206,000 for joint filers or \$103,000 for Singles. You get a **letter in November of each year** when the IRS and SSA share tax information from your 2024 tax return. If your premiums are going up – then they are deducted from your Social Security deposited in your bank account. This is a year-by-year computation - so if your income increased for just one year, your premiums should go back down the next.

WHAT IS GOING ON WITH THE IRS...AND IL...

The IRS workforce has been reduced from approximately 103,000 employees in January 2025 to 77,428 in May of this year with some of the biggest job cuts among tax examiners and revenue agents. This also included 25,386 forced resignations or retirements. As of October 8, The IRS began furloughing nearly half of its remaining staff because of the ongoing government shutdown. More than 34,000 of its 74,300 employees are gone or possibly working without pay currently.

In addition, there have been seven IRS Commissioners since January 20, the latest being Billy Long who was removed less than two months after his confirmation. The IRS Commissioner under Biden, Danny Werfel, was working on several key initiatives with the \$79 billion the agency received from the Inflation Reduction Act including updating and modernizing IRS business systems, improving taxpayer services and hiring 87,000 new IRS agents to increase compliance, especially for larger corporations and wealthy taxpayers. Under the current administration, over \$20 Billion has been clawed back to date. And it appears that the new IRS Direct File (free) program would not be available for the next filing season.

What does this mean for me - and you? A lot! It is almost impossible for me to reach the IRS by phone now since the message says to “call back later.” When I do get a person and try to fax a power of attorney form or try to solve the problem or respond to a notice, their computers are not working properly, or they have no good answer for me or you. We have been telling clients to just “take the refund” if they show up, wait as I respond to notices (which could take many months to resolve now). This is on my TAXPRO phone line and on my TAX PRO account online. We have a list of clients with notices/issues and will follow up as we can, but we are not expecting much closure now. We are also concerned about how the agency will develop the new forms for 2025 tax season with so many experienced employees gone, especially in the IT arena – and the forms from our software must be approved by the IRS (and then our software company) before we can begin to prepare and efile returns in 2026.

However, there is some good news: each of you can go online and set up a personal account at IRS.GOV. You can check your estimated payments and pay them as well (which we have been encouraging since the IRS will not take paper checks anymore!). This is important since we do give you a worksheet to confirm your ES payments, but many do not complete it fully so there could easily be errors in both the amounts paid and the dates paid (sometimes late) to the IRS. For IL we can go online and check ES payments and carryover, but we cannot do this for the IRS.

MORE THINGS TO CONSIDER NOW....

1. **The floor for medical expenses is still 7.5%.** Most people do not itemize unless they have substantial medical (which often comes from medically required caregiving or nursing home expenses) or charitable deductions or a very large mortgage,
2. **Please review your health insurance now** to see what it covers and what it does not. Also, if you are furloughed or laid off, please check the cost of COBRA. You might be eligible on your spouse's plan or through the Health Insurance Exchange due to special circumstances. Please be careful of less expensive high-deductible plans – they sound good but can be very costly if you require hospitalization or major medical treatment.
3. **Many clients are considering selling their houses or property or second homes.** The exclusion of profit for your main home is \$250,000 (Single) and \$500,000 (Married/Joint). The profit from land /or second

homes is taxed both by the IRS and at the state level, either in the state where it is or in IL if there is no state income tax. Call us for our home sale worksheet.

4. **Read your Trust or Will - or have one done now!** Many of us have not looked at our will or trust in five years - or often 10 or more years. And at least one third of us do not have even a will! Your will or trust defines who will manage your affairs and money if you become incapacitated or pass away. Your will or trust defines who will get your assets and by what percentage. NOW is a good time to review who your executor or trustee is and what you have - before it is too late. This is also true for the beneficiaries on your IRAs and other retirement accounts.
- 5.. **While computers are great, this tax season has been ever more difficult-** with scanned, text photos and emailed documents and many missing documents, or documents showing up in bits and pieces. When you came to the office, you made sure you had all your tax forms. Given that many things now come online and not in paper or you are busy/forgetful, my work has become much more difficult as I check each document from prior years and often spend time calling brokers, setting up accounts and much more. Your bills now include a section called OTHER WORK billed at my hourly rate. And given the time /effort of just “doing” your taxes, the extra time and work involved is an issue for us. So start now to make sure your tax documents are complete before you call or get them to us next year. Tkx.

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JUDI STRAUSS in Print, on Media.

In January 2026, we are doing Zoom workshops at the Lisle (January 13), Woodridge (January 22) and Downers Grove Public Libraries (January 28) - at 6:30 PM. Please sign up at the library or online. All our newsletters and tax alerts are on our website- www.strausstax.com and we are still on Facebook at Strauss Tax- with all breaking news. Both Beth and I are here – as always – to answer your questions by text, email or even phone - and work to give you good financial and tax advice.

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