

Premium Quickfinder[®] Handbook (2025 Tax Year)

Post-publication Updates

Replacement Pages for Two-Sided (Duplex) Printing

Instructions: This packet contains “marked up” changes to the pages in the *Premium Quickfinder[®] Handbook* that were affected by developments after the *Handbook* was published.

This is a specially designed update packet for owners of the 3-ring binder version of the *Handbook* who have access to a printer that prints two-sided (duplex). Simply print the entire PDF file (make sure to select two-sided or duplex printing), three-hole punch the pages, and then replace the pages in your *Handbook*. It's that easy.

GENERAL

Tab 2 is for reference purposes and is not intended to include all necessary information to prepare a state income tax return. Its purpose is to provide tax preparers with general information. More detailed information is available in the *All States Quickfinder® Handbook*. You can also use the phone numbers or website addresses provided here to obtain forms and instructions for a particular state.

Many states allow or require electronic filing of returns and/or extensions as well as electronic payment of taxes. Some states have a different due date for electronically filed returns, which is usually later than a paper filed return.

Return due date. The return due dates for filing returns shown in this tab are the statutory due dates. When the statutory due date falls on a weekend or holiday, many states extend the due date until the next working day.

Caution: Tax preparers should check the respective state's instructions to determine the return's exact due date when the statutory due date falls on a weekend or holiday. For federal tax, the 2025 Form 1040 is due on April 15, 2026.

The Quick Tax Method. Use the Quick Tax Method to calculate tax due. In the appropriate state section, find the taxpayer's taxable income bracket and multiply the taxpayer's state taxable income by the given tax rate. Next, subtract the "minus" amount to arrive at the tax due.

Example: Assume MFJ Alabama taxpayers with taxable income of \$57,500.
 $\$57,500 \times 5.0\% - \$80 = \$2,795$ Tax

ALABAMA

Website: <https://revenue.alabama.gov>

Tax assistance: 334-242-1170



2025 Quick Tax Method—For Taxable Income of:

Single, MFS, Head of Family	\$ 0 – 500	× 2%	minus	\$ 0.00	= Tax
	501 – 3,000	× 4	minus	10.00	= Tax
	3,001 and over	× 5	minus	40.00	= Tax
MFJ	\$ 0 – 1,000	× 2%	minus	\$ 0.00	= Tax
	1,001 – 6,000	× 4	minus	20.00	= Tax
	6,001 and over	× 5	minus	80.00	= Tax

Filing requirements. Residents must file if:

Filing status:	Gross income of at least:
Single.....	\$ 4,500
Head of Family	8,200
MFJ.....	11,500
MFS.....	5,750

Part-year residents must file if:

Filing status:	Gross income of at least:
Single.....	\$ 4,500 (while an Alabama resident)
Head of Family	8,200 (while an Alabama resident)
MFJ.....	11,500 (while an Alabama resident)
MFS.....	5,750 (while an Alabama resident)

Nonresidents must file if gross income is over the allowable pro-rated exemption. To calculate, multiply the full exemption amount of \$3,000 for MFJ and Head of Family, or \$1,500 for Single and MFS, by the Alabama percentage of adjusted total income.

Alabama form to file:

- Resident and part-year resident: Form 40 (Alabama Individual Income Tax Return). **Note:** Part-year residents who receive Alabama-source income while a nonresident may also be required to file Form 40NR.
- Nonresident: Form 40NR (Alabama Individual Income Tax Return).

Return due date: April 15

Allowable extension. Alabama allows an automatic six-month extension without written request. If additional tax is due, file Form 40V (Individual Income Tax Payment Voucher) by the original return due date.

ALASKA

Website: <https://tax.alaska.gov>

Tax assistance: 907-269-6620

Filing requirements. The state of Alaska does not have an individual income tax.



ARIZONA

Website: <https://azdor.gov>

Tax assistance: 602-255-3381, 800-352-4090



2025 Tax Rate

Income tax rate.....	2.50%
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Filing requirements. Residents, part-year, and nonresidents must file if:

Filing status is:	and gross income is at least:
Single, MFS	\$ 15,750
MFJ	31,500
HOH	23,625

Arizona form to file:

- Resident: Form 140 (Resident Personal Income Tax Return).
- Part-year resident: Form 140PY (Part-Year Resident Personal Income Tax Return).
- Nonresident: Form 140NR (Nonresident Personal Income Tax Return).

Return due date: April 15

Extension form. Form 204 (Application for Filing Extension).

Allowable extension. Arizona allows up to a six-month extension if:

- Taxpayer files federal Form 4868 with the IRS *or*
- Taxpayer files Form 204.

Also use Form 204 to make a payment, if necessary.

ARKANSAS

Website: www.dfa.arkansas.gov

Tax assistance: 501-682-1100



2025 Quick Tax Method—For Taxable Income of:

All Filing Statuses	—	–	5,499	×	0.0%	minus	0.00	=	Tax
	5,500	–	10,899	×	2.0%	minus	109.98	=	Tax
	10,900	–	15,599	×	3.0%	minus	218.97	=	Tax
	15,600	–	25,699	×	3.4%	minus	281.37	=	Tax
	25,700	–	92,300	×	3.9%	minus	409.86	=	Tax
For taxpayers with income greater than \$92,300									
	—	–	4,600	×	2.0%	minus	0.00	=	Tax
	4,601	and above		×	3.9%	minus	87.40	=	Tax

Filing requirements. Residents must file if:

Marital status is:	Filing Status is:	Gross income of at least:
Single	Single	\$ 14,644
	HOH with ≤ 1 dependent	20,821
	HOH with ≥ 2 dependents	24,819
Married	MFJ with ≤ 1 dependent	\$ 24,696
	MFJ with ≥ 2 dependents	28,723
	MFS	9,470
Widowed in 2023 or 2024 and not remarried in 2025	QSS with ≤ 1 dependent	\$ 20,821
	QSS with ≥ 2 dependents	24,819

Part-year residents must file if:

Filing status is:	Taxable income is at least:
All Filing Statuses	\$1 (while an Arkansas resident)

Nonresidents must file if:

Filing status is:	Taxable income is at least:
All Filing Statuses	\$1 of Arkansas-source income

Arkansas form to file:

- Resident: Form AR1000F (Arkansas Individual Income Tax Return).
- Part-year and nonresident: Form AR1000NR (Arkansas Individual Income Tax Return).

Return due date: April 15

Extension form. Form AR1055-IT (Request for Extension of Time for Filing Income Tax Returns).

Allowable extension:

- Arkansas allows an automatic seven-month extension if federal Form 4868 is filed *or*
- File Form AR1055-IT to request an extension (to November 15).

CALIFORNIA

Website: www.ftb.ca.gov

Tax assistance: 800-852-5711



2025 Quick Tax Method—For Taxable Income of:

Single, Married/RDP ¹ filing sep.	\$ —	–	11,079	×	1%	minus	\$ —	=	Tax
	11,080	–	26,264	×	2%	minus	110.79	=	Tax
	26,265	–	41,452	×	4%	minus	636.07	=	Tax
	41,453	–	57,542	×	6%	minus	1,465.11	=	Tax
	57,543	–	72,724	×	8%	minus	2,615.95	=	Tax
	72,725	–	371,479	×	9.3%	minus	3,561.36	=	Tax
	371,480	–	445,771	×	10.3%	minus	7,276.15	=	Tax
	445,772	–	742,953	×	11.3%	minus	11,733.86	=	Tax
	742,954	and over		×	12.3%	minus	19,163.39	=	Tax
	Married/RDP ¹ filing jointly and QW	\$ —	–	22,158	×	1%	minus	\$ —	=
22,159		–	52,528	×	2%	minus	221.58	=	Tax
52,529		–	82,904	×	4%	minus	1,272.14	=	Tax
82,905		–	115,084	×	6%	minus	2,930.22	=	Tax
115,085		–	145,448	×	8%	minus	5,231.90	=	Tax
145,449		–	742,958	×	9.3%	minus	7,122.72	=	Tax
742,959		–	891,542	×	10.3%	minus	14,552.30	=	Tax
891,543		–	1,485,906	×	11.3%	minus	23,467.72	=	Tax
1,485,907		and over		×	12.3%	minus	38,326.78	=	Tax
HOH		\$ —	–	22,173	×	1%	minus	\$ —	=
	22,174	–	52,530	×	2%	minus	221.73	=	Tax
	52,531	–	67,716	×	4%	minus	1,272.33	=	Tax
	67,717	–	83,805	×	6%	minus	2,626.65	=	Tax
	83,806	–	98,990	×	8%	minus	4,302.75	=	Tax
	98,991	–	505,208	×	9.3%	minus	5,589.62	=	Tax
	505,209	–	606,251	×	10.3%	minus	10,641.70	=	Tax
	606,252	–	1,010,417	×	11.3%	minus	16,704.21	=	Tax
	1,010,418	and over		×	12.3%	minus	26,808.38	=	Tax

¹ Registered domestic partner.

Filing requirements. Residents, part-year, and nonresidents must file if:

Dependents:	0	1	2 or more
California gross income exceeds:			
Single or HOH under age 65	\$22,941	\$38,774	\$50,649
Single or HOH age 65 or over	30,591	42,466	51,966
Married/RDP (joint or separate) both under 65	45,887	61,720	73,595
Married/RDP (joint or separate) one taxpayer age 65 or over	53,537	65,412	74,912
Married/RDP (joint or separate) both 65 or over	61,187	73,062	82,562
QSS under age 65	N/A	38,774	50,649
QSS 65 or older	N/A	42,466	51,966
or California AGI exceeds:			
Single or HOH under age 65	\$18,353	\$34,186	\$46,061
Single or HOH age 65 or over	26,003	37,878	47,378
Married/RDP (joint or separate) both under 65	36,711	52,544	64,419
Married/RDP (joint or separate) one taxpayer age 65 or over	44,361	56,236	65,736
Married/RDP (joint or separate) both 65 or over	52,011	63,886	73,386
QSS under 65	N/A	34,186	46,061
QSS 65 or older	N/A	37,878	47,378

Dependent, any filing status, any age: Income exceeds standard deduction.

Taxpayers must also file if they owe any of the following:

- Tax on a lump-sum distribution.
- Tax on a qualified retirement plan, IRA or medical savings account.
- Tax for children under age 19 or full-time students under age 24 who have investment income greater than \$2,700.
- Alternative minimum tax.

- Recapture taxes.
- Deferred tax on certain installment obligations.
- Tax on an accumulation distribution of a trust.

California form to file:

- Resident: Form 540 (California Resident Income Tax Return).
- Nonresident and part-year resident: Form 540NR (California Nonresident or Part-Year Resident Income Tax Return).

Return due date: April 15

Allowable extension. California allows an automatic six-month extension without written request. Tax due is required to be paid with Form FTB 3519 (Payment for Automatic Extension for Individuals) or online at www.ftb.ca.gov/pay/index.html?WT.mc_id=akPayChoices by the original return due date to avoid penalties and interest.

COLORADO

Website: <https://tax.colorado.gov>

Tax assistance: 303-238-7378

2025 Tax Rate

Income tax rate.....	4.40%
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Filing requirements. Colorado income tax return must be filed if the taxpayer is a:

- Full-year resident of Colorado, part-year resident of Colorado with taxable income while a resident or nonresident of Colorado with Colorado-source income *and*
- Is required to file a federal income tax return or has a current-year Colorado income tax liability.

Colorado form to file:

- Resident, part-year, and nonresident: Form 104 (Colorado Individual Income Tax).
- Part-year and nonresident: Form 104PN (Part-Year Resident/Nonresident Tax Calculation Schedule)—attachment to Form 104.

Return due date: April 15

Allowable extension. Colorado allows an automatic six-month extension without written request. To make a payment, use Form DR 0158-I (Extension Payment Voucher for Colorado Individual Income Tax) or pay online at www.colorado.gov/revenueonline.

CONNECTICUT

Website: <https://portal.ct.gov/drs>

Tax assistance: 860-297-5962, CT 800-382-9463

2025 Quick Tax Method—For Taxable Income of:

Single, MFS	\$ 0 – 10,000	x 2.0% ¹	minus	\$ 0.00 = Tax
	10,001 – 50,000	x 4.5%	minus	250.00 = Tax
	50,001 – 100,000	x 5.5%	minus	750.00 = Tax
	100,001 – 200,000 ²	x 6.0%	minus	1,250.00 = Tax
	200,001 – 250,000	x 6.5%	minus	2,250.00 = Tax
MFJ, or QSS	\$ 0 – 20,000	x 2.0% ¹	minus	\$ 0.00 = Tax
	20,001 – 100,000	x 4.5%	minus	500.00 = Tax
	100,001 – 200,000	x 5.5%	minus	1,500.00 = Tax
	200,001 – 400,000 ²	x 6.0%	minus	2,500.00 = Tax
	400,001 – 500,000	x 6.5%	minus	4,500.00 = Tax
HOH	\$ 0 – 16,000	x 2.0% ¹	minus	\$ 0.00 = Tax
	16,001 – 80,000	x 4.5%	minus	400.00 = Tax
	80,001 – 160,000	x 5.5%	minus	1,200.00 = Tax
	160,001 – 320,000 ²	x 6.0%	minus	2,000.00 = Tax
	320,001 – 400,000	x 6.5%	minus	3,600.00 = Tax

¹ The 2% rate is phased out and amount is taxed at 4.5% for taxpayers with CT AGI > \$56,500 Single, \$50,250 MFS, \$78,500 HOH and \$100,500 MFJ/QSS.

² Additional tax of up to \$3,400 Single/MFS, \$5,320 HOH and \$6,800 MFJ/QSS for taxpayers with CT AGI in excess of \$105,000 Single/MFS, \$168,000 HOH and \$210,000 MFJ/QSS.

Filing requirements. Residents must file if they:

- Have Connecticut income taxes withheld,
- Made estimated or extension tax payment to Connecticut,
- Meet the gross income test (see below),
- Have a federal alternative minimum tax liability or
- Claim the Connecticut earned income tax credit.

Filing status:	Gross income exceeds:
Single.....	\$ 15,000
Filing Separately.....	12,000
HOH.....	19,000
Filing Jointly or QSS.....	24,000

Part-year residents and nonresidents must file if they meet the gross income test and have any Connecticut-source income, have Connecticut withholding or estimated payments or had a federal AMT liability.

Connecticut form to file:

- Resident: Form CT-1040 (Connecticut Resident Income Tax Return).
- Part-year and nonresident: Form CT-1040NR/PY (Connecticut Nonresident and Part-Year Resident Income Tax Return).

Return due date: April 15

Allowable extension. Connecticut allows an automatic six-month extension to file if (1) no additional tax due and a federal extension request filed with IRS or (2) the taxpayer pays his expected Connecticut income tax due using a credit card on or before the due date. If additional tax is due and paid with the extension request (or no federal extension was filed), file Form CT-1040 EXT (Application for Extension of Time to File Connecticut Income Tax Return for Individuals).

DELAWARE

Website: <https://revenue.delaware.gov>

Tax assistance: 302-577-8200

2025 Quick Tax Method—For Taxable Income of:

All Filing Statuses	\$ 0 – 2,000	x 0.00%	minus	\$ 0.00 = Tax
	2,001 – 5,000	x 2.20	minus	44.00 = Tax
	5,001 – 10,000	x 3.90	minus	129.00 = Tax
	10,001 – 20,000	x 4.80	minus	219.00 = Tax
	20,001 – 25,000	x 5.20	minus	299.00 = Tax
	25,001 – 60,000	x 5.55	minus	387.50 = Tax
	60,001 and over	x 6.60	minus	1,017.51 = Tax

Filing requirements. Residents must file if:

Filing status:	Age:	Delaware AGI exceeds:
Single, MFS, HOH, CU ¹ filing separate	Under 60.....	\$ 9,400
	60 to 64.....	12,200
	65 and over or blind.....	14,700
	65 and over and blind.....	17,200
MFJ, CU ¹ filing joint	Under 60.....	\$ 15,450
	60 to 64.....	17,950
	65 and over or blind.....	20,450
	65 and over and blind.....	22,950
Dependent on another person's return	Under 60.....	\$ 5,250
	60 to 64.....	5,250
	65 and over or blind.....	7,750
	65 and over and blind.....	10,250

¹ Civil Union.

Note: 2025 amounts not available at time of publication. Amounts shown are for 2024.

Part-year residents must file if they:

- Receive income from any source while a Delaware resident or
- Receive Delaware-source income while a Delaware nonresident.

Nonresidents must file if they receive Delaware-source income.

Delaware form to file:

- Resident: Form PIT-RES (Delaware Individual Resident Income Tax Return). Part-year residents may elect to file either a resident or a nonresident return.
- Part-year resident (unless filing as resident) and nonresident: Form PIT-NON (Delaware Individual Non-Resident Income Tax Return).

Return due date: April 30

Extension form. Form PIT-EXT (Application for Automatic Extension of Time to File Delaware Individual Income Tax Return).

Allowable extension. Delaware allows an extension to October 15 by filing Form PIT-EXT.

DISTRICT OF COLUMBIA

Website: <https://otr.cfo.dc.gov>

Tax assistance: 202-727-4829



2025 Quick Tax Method—For Taxable Income of:			
All Filing Statuses	\$ 0 – 10,000	× 4.0%	minus \$ 0.00 = Tax
	10,001 – 40,000	× 6.0	minus 200.00 = Tax
	40,001 – 60,000	× 6.5	minus 400.00 = Tax
	60,001 – 250,000	× 8.5	minus 1,600.00 = Tax
	250,001 – 500,000	× 9.25	minus 3,475.00 = Tax
	500,000 – 1,000,000	× 9.75	minus 5,975.00 = Tax
	1,000,001 and over	× 10.75	minus 15,975.00 = Tax

Filing requirements. Individuals must file if:

- Resident of the District of Columbia and required to file a federal income tax return,
- Permanent residence is the District of Columbia for either part of or the full year,
- Lived in the District of Columbia for 183 days or more (even if permanent residence is elsewhere),
- Member of armed forces and home of record is the District of Columbia.

District of Columbia form to file:

- Resident and part-year resident: Form D-40 (Individual Income Tax Return).
- Nonresident: Form D-40B (Nonresident Request for Refund).

Return due date: April 15

Extension form. Form FR-127 (Extension of Time to File Income Tax Returns).

Allowable extension. Six-month extension allowed with timely filed Form FR-127 and estimated payment.

FLORIDA

Website: <https://floridarevenue.com/taxes>

Tax assistance: 850-488-6800



Filing requirements. There is no personal income tax in Florida.

GEORGIA

Website: <https://dor.georgia.gov>

Tax assistance: 877-423-6711



2025 Tax Rate	
Income tax rate.....	5.19%

Filing requirements. Residents must file if:

- They are required to file a federal income tax return,
- They have federally exempt income subject to Georgia income tax *or*
- Income exceeds standard deduction indicated below.

Filing Status	Income exceeds:
Single, MFS, HOH, QSS	\$ 12,000
MFJ	\$ 24,000

Part-year residents must file if required to file federal return.

Nonresidents must file if they have Georgia-source income and are required to file a federal return.

Exception: Legal residents of another state are not required to file if their only activity in Georgia is working for an employer where Georgia-source income does not exceed lesser of 5% of total income or \$5,000.

Georgia form to file:

- Resident, part-year, and nonresident: Form 500 (Individual Income Tax Return).
- Part-year and nonresident: Schedule 3 (Computation of Georgia Taxable Income for Only Part-Year Residents and Nonresidents)—attachment to Form 500.

Return due date: April 15

Extension form. Form IT-303 (Application for Extension of Time for Filing State Income Tax Returns).

Allowable extension. Up to six months if taxpayer either:

- Attaches a copy of the federal extension to Georgia return *or*
- Files Form IT-303.

Pay tax due electronically via the Georgia Tax Center (<https://gtc.dor.ga.gov>) or with Form IT-560 (Individual and Fiduciary Payment Voucher).

HAWAII

Website: <https://tax.hawaii.gov>

Tax assistance: 800-222-3229, 808-587-4242



2025 Quick Tax Method—For Taxable Income of:

Single, MFS	\$ 0 – 9,600	× 1.40%	minus	\$ 0.00 = Tax
	9,601 – 14,400	× 3.20	minus	172.80 = Tax
	14,401 – 19,200	× 5.50	minus	504.00 = Tax
	19,201 – 24,000	× 6.40	minus	676.80 = Tax
	24,001 – 36,000	× 6.80	minus	772.80 = Tax
	36,001 – 48,000	× 7.20	minus	916.80 = Tax
	48,001 – 125,000	× 7.60	minus	1,108.80 = Tax
	125,001 – 175,000	× 7.90	minus	1,483.80 = Tax
	175,001 – 225,000	× 8.25	minus	2,096.30 = Tax
	225,001 – 275,000	× 9.00	minus	3,783.80 = Tax
MFJ, QSS	\$ 0 – 19,200	× 1.40%	minus	\$ 0.00 = Tax
	19,201 – 28,800	× 3.20	minus	345.60 = Tax
	28,801 – 38,400	× 5.50	minus	1,008.00 = Tax
	38,401 – 48,000	× 6.40	minus	1,353.60 = Tax
	48,001 – 72,000	× 6.80	minus	1,545.60 = Tax
	72,001 – 96,000	× 7.20	minus	1,833.60 = Tax
	96,001 – 250,000	× 7.60	minus	2,217.60 = Tax
	250,001 – 350,000	× 7.90	minus	2,967.60 = Tax
	350,001 – 450,000	× 8.25	minus	4,192.60 = Tax
	450,001 – 550,000	× 9.00	minus	7,567.60 = Tax
HOH	\$ 0 – 14,400	× 1.40%	minus	\$ 0.00 = Tax
	14,401 – 21,600	× 3.20	minus	259.20 = Tax
	21,601 – 28,800	× 5.50	minus	756.00 = Tax
	28,801 – 36,000	× 6.40	minus	1,015.20 = Tax
	36,001 – 54,000	× 6.80	minus	1,159.20 = Tax
	54,001 – 72,000	× 7.20	minus	1,375.20 = Tax
	72,001 – 187,500	× 7.60	minus	1,663.20 = Tax
	187,501 – 262,500	× 7.90	minus	2,225.70 = Tax
	262,501 – 337,500	× 8.25	minus	3,144.45 = Tax
	337,501 – 412,500	× 9.00	minus	5,675.70 = Tax
412,501 – 487,500	× 10.00	minus	9,800.70 = Tax	
487,501 and over	× 11.00	minus	14,675.70 = Tax	

Filing requirements. Residents, part-year, and nonresidents must file if:

- They are doing business in Hawaii (regardless of income) or
- Their gross income subject to Hawaii tax exceeds the amounts in the following table.

Filing status:	Age:	Hawaii gross income exceeds:
Single, MFS	Under 65.....	\$ 5,544
	65 or older.....	6,688
MFJ	Both under 65.....	\$ 11,088
	One 65 or older.....	12,232
	Both 65 or older.....	13,376
HOH	Under 65.....	\$ 7,568
	65 or older.....	8,712
QSS	Under 65.....	\$ 9,944
	65 or older.....	11,088
Dependent on another return	Amount of dependent's standard deduction	
Nonresident alien	Under 65.....	\$ 1,144
	65 or older.....	2,288

Note: 2025 amounts not available at time of publication. Amounts shown are for 2024.

Nonresidents must prorate the thresholds above by a ratio of Hawaii AGI to total AGI.

Individuals must also file if they owe any of the following taxes:

- Distribution from an individual housing account (Form N-2).
- Tax from the sale of a home (Form N-103).
- Tax on lump-sum distributions (Form N-152).
- Recapture of capital goods excise tax credit (Form N-312).
- Recapture of tax credit for flood victims (Form N-338).
- Recapture of important agricultural land qualified agricultural cost tax credit (Form N-344).
- Recapture of Capital Infrastructure Tax Credit (Form N-348).
- Tax on accumulation distribution of trusts (Form N-405).
- Recapture of low-income housing tax credit (Form N-586).
- Tax from parent's election to report child's interest and dividends (Form N-814).

Hawaii form to file:

- Resident: Form N-11 (Individual Income Tax Return—Resident).
- Part-year and nonresident: Form N-15 (Individual Income Tax Return—Nonresident and Part-Year Resident).

Return due date: April 20

Allowable extension. Hawaii allows an automatic six-month extension without written request if all tax paid by original return due date. Use Form N-200V (Individual Income Tax Payment Voucher) to make a payment.

IDAHO

Website: <https://tax.idaho.gov>

Tax assistance: 800-972-7660, 208-334-7660 (Boise)



2025 Tax Rate

Income tax rate.....	5.30%
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Filing requirements. Residents must file if:

- They are required to file a federal income tax return (unless a federal return is only being filed to pay self-employment tax) or
- Taxable income subject to Idaho tax exceeds the following amounts:

Filing status: ¹	Taxable income exceeds:
Single or MFS \$4,811
All other filing statuses \$9,622

¹ Check the Idaho instructions if taxpayer was claimed as a dependent on someone else's return.

Idaho form to file:

- Resident: Form 40 (Idaho Individual Income Tax Return).
- Part-year resident and nonresident: Form 43 (Idaho Part-Year Resident and Nonresident Income Tax Return).

Return due date: April 15

Allowable extension. An automatic six-month extension is allowed without written request. To avoid paying penalty, the taxpayer's tax withholding and other payments must be at least 80% of the current year tax liability or 100% of the prior year tax liability. Use Form 51 (Estimated Payment of Idaho Individual Income Tax) to make a payment.

ILLINOIS

Website: <https://tax.illinois.gov>

Tax assistance: 800-732-8866, 217-782-3336

2025 Tax Rate

Income tax rate.....4.95%

Filing requirements. Residents must file if:

- They are required to file a federal income tax return *or*
- Illinois base income is greater than Illinois exemption allowance.

Illinois exemption allowances:

- a) \$2,850 for each exemption claimed on federal return,
- b) Additional \$1,000 per individual for taxpayer (and/or spouse) if 65 or older *and*
- c) Additional \$1,000 per individual for taxpayer (and/or spouse) if blind.

Part-year residents must file if:

- They earned income from any source while a resident,
- They earned income from Illinois sources while a nonresident *or*
- They are entitled to receive a refund of Illinois income tax.

Nonresidents must file if:

- They earned enough income from Illinois sources to have a tax liability *or*
- They want a refund of any Illinois income tax withheld in error.

Illinois form to file:

- Resident, part-year, and nonresident: Form IL-1040 (Individual Income Tax Return).
- Part-year and nonresident: Schedule NR (Nonresident and Part-Year Resident Computation of Illinois Tax)—attachment to Form IL-1040.

Return due date: April 15

Allowable extension. Automatic six-months without written request. To avoid any late payment penalty and interest, use Form IL-505-I (Automatic Extension Payment for Individuals) to pay any tentative tax due by the original due date of the return.

Reciprocity agreements: Iowa, Kentucky, Michigan, and Wisconsin residents are only required to file Form IL-1040 if Illinois income from sources other than compensation is received or to request a refund of Illinois withholding. Illinois residents working in Iowa, Kentucky, Michigan, and Wisconsin must include income from employers in these states in Illinois income. These states do not tax compensation of Illinois residents.

INDIANA

Website: <https://in.gov/dor>

Tax assistance: 317-232-2240

2025 Tax Rate

Income tax rate.....3.00%

Filing requirements. Residents must file if gross income is greater than exemptions (Indiana allows \$1,000 for each exemption on federal return plus an additional \$1,500 for certain dependent children. Taxpayers who are elderly and or blind receive additional exemptions.)

Part-year residents who receive income while an Indiana resident must file.

Nonresidents must file if they receive income from Indiana sources.

Indiana form to file:

- Resident: Form IT-40 (Indiana Full-Year Resident Individual Income Tax Return).
- Nonresident and part-year resident: Form IT-40PNR (Indiana Part-Year or Full-Year Nonresident Individual Income Tax Return).

Return due date: April 15

Extension form. Form IT-9 (Application for Extension of Time to File).

Allowable extension:

- Indiana allows a seven-month extension if the taxpayer files Form IT-9 and pays at least 90% of tax due by return due date.
- Indiana accepts the federal extension plus allows an additional 30 days beyond the federal extension period. Taxpayers must pay at least 90% of tax due by original return due date.

Reciprocity agreements: Kentucky, Michigan, Ohio, Pennsylvania, and Wisconsin. Full-year residents of these states with only Indiana wage income file Form IT-40RNR (Reciprocal Nonresident Indiana Individual Income Tax Return).

IOWA

Website: <https://revenue.iowa.gov/taxes>

Tax assistance: 515-281-3114, 800-367-3388

2025 Tax Rate

Income tax rate.....3.80%

Filing requirements. Residents must file if:

Filing status:	Net income is:
Single.....	More than \$ 9,000
Single (65 or older).....	More than 24,000
Other than single.....	More than 13,500
Other than single (one or both spouses 65 or older).....	More than 32,000
Dependent on another person's return.....	\$5,000 or more

Note: Net income includes income from both spouses and any pension/retirement income exclusion and any social security phase-out amount must be added back.

Residents must also file if they are:

- In the military service with Iowa legal residence *or*
- Subject to Iowa lump-sum tax.

Nonresidents and part-year residents must file if they have Iowa-source net income of at least \$1,000 (unless their all-source net income is below the income thresholds above) or are subject to Iowa lump-sum tax or Iowa alternative minimum tax.

Iowa form to file:

- Resident, part-year, and nonresident: Form IA 1040 (Iowa Individual Income Tax Form).
- Part-year and nonresident: Form IA 126 (Iowa Nonresident and Part-Year Resident Credit Schedule)—attachment to IA 1040.

Return due date: April 30

Allowable extension. Automatic six-month extension without written request if at least 90% of tax liability is paid. Use IA 1040V (Individual Income Tax Payment Voucher) to make a tax payment.

Reciprocity agreements: Illinois. Iowa residents with Illinois wage income are only taxed in Iowa. Illinois residents with Iowa wage income are only taxed in Illinois.

Filing requirements. Residents and part-year residents must file if:

Filing status:	Age:	Maryland gross income of at least:
Single	Under 65.....	\$ 15,750
	65 or over.....	17,750
MFJ	Both under 65.....	\$ 31,500
	One spouse 65 or over.....	33,100
	Both spouses 65 or over.....	34,700
MFS	Any age.....	\$ 15,750
HOH	Under 65.....	\$ 23,625
	65 or over.....	25,625
QSS	Under 65.....	\$ 31,500
	65 or over.....	33,100

Nonresidents must file if they have Maryland-sourced income and must file a federal return because their gross income is at least equal to the threshold amounts in the table above.

Maryland form to file:

- Resident and part-year resident: Form 502 (Maryland Resident Income Tax Return).
- Nonresident: Form 505 (Maryland Nonresident Income Tax Return).
- All filers: Form PV (Personal Tax Payment Voucher for Form 502/505, Estimated Tax and Extensions).

Return due date: April 15

Allowable extension. Maryland allows a six-month extension if a federal extension is filed and no tax is due. Form PV must be filed only to make a payment. If a federal extension was not filed, an extension may be filed online at www.marylandtaxes.gov or by phone at 410-260-7829.

Reciprocity agreements. District of Columbia, Pennsylvania (certain jurisdictions), Virginia, and West Virginia residents are not required to file a Maryland return, if only source of Maryland income is wages.

MASSACHUSETTS

Website: <https://mass.gov/orgs/massachusetts-department-of-revenue>

Tax assistance: 617-887-6367, MA 800-392-6089



2025 Tax Rate

Income tax rate.....	5.00% ¹
Optional tax rate.....	5.85%
Rate on certain investment income.....	12.00% ²

¹ Taxpayers with taxable income over \$1,083,150 have an additional 4% surtax on the income in excess of \$1,083,150.

² Short-term capital gains are taxed at 8.5%.

Filing requirements. Residents and part-year residents are required to file if gross income (from all sources) is more than \$8,000.

Nonresidents are required to file if they receive Massachusetts-source income that exceeds the lesser of \$8,000 or the personal exemption multiplied by the ratio of Massachusetts income to total income. Personal exemptions are: \$4,400 Single or MFS, \$6,800 HOH and \$8,800 MFJ.

Massachusetts form to file:

- Resident: Form 1 (Massachusetts Resident Income Tax Return).
- Part-year and nonresident: Form 1-NR/PY (Massachusetts Nonresident/Part-Year Tax Return).

Return due date: April 15

Allowable extension. Automatic six-month extension granted if no tax due. If tax due, file Form M-4868 (Massachusetts Extension

Payment Voucher) to remit tax due (payments of \$5,000 or more must be made electronically).

MICHIGAN

Website: <https://michigan.gov/taxes>

Tax assistance: 517-636-4486



2025 Tax Rate

Income tax rate.....	4.25%
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Filing requirements. Residents, part-year, and nonresidents must file if they owe Michigan tax or their Michigan AGI exceeds their exemption allowance. Michigan taxpayers should file a Michigan return if a federal tax return was filed even if Michigan tax is not owed. This will eliminate unnecessary correspondence from the Michigan Department of Treasury. Michigan allows \$5,800 for each exemption claimed on the federal return. Additional exemptions are allowed for individuals with certain disabilities.

Dependents who are claimed on another person's return must file if AGI is over \$1,500 (single or MFS) or \$3,000 (MFJ).

Michigan form to file:

- Resident, part-year, and nonresident: Form MI-1040 (Michigan Individual Income Tax Return).
- Part-year and nonresident: Schedule NR (Nonresident and Part-Year Resident Schedule)—attachment to Form MI-1040.

Return due date: April 15

Extension form. Form 4 (Application for Extension of Time to File Michigan Tax Returns).

Allowable extension. Michigan allows a six-month extension if a federal extension was requested. If federal return was not extended, Michigan will grant a 180-day extension. File Form 4 only if submitting a payment of Michigan tax due.

Reciprocity agreements. Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin residents are only required to file MI-1040 if Michigan income from sources other than wages is received or to request a refund of Michigan withholding.

MINNESOTA

Website: <https://revenue.state.mn.us>

Tax assistance: 651-296-3781, MN 800-652-9094



2025 Quick Tax Method—For Taxable Income of:

Single	\$ 0 – 32,750	x 5.35%	minus \$ 0.00	= Tax
	32,751 – 106,990	x 6.80%	minus 474.88	= Tax
	106,991 – 198,630	x 7.85%	minus 1,598.27	= Tax
	198,631 and over	x 9.85%	minus 5,570.87	= Tax
MFJ or QSS	\$ 0 – 47,620	x 5.35%	minus \$ 0.00	= Tax
	47,621 – 189,180	x 6.80%	minus 690.49	= Tax
	189,181 – 330,410	x 7.85%	minus 2,676.88	= Tax
	330,411 and over	x 9.85%	minus 9,285.08	= Tax
HOH	\$ 0 – 40,100	x 5.35%	minus \$ 0.00	= Tax
	40,101 – 161,130	x 6.80%	minus 581.45	= Tax
	161,131 – 264,050	x 7.85%	minus 2,273.32	= Tax
	264,051 and over	x 9.85%	minus 7,554.32	= Tax
MFS	\$ 0 – 23,810	x 5.35%	minus \$ 0.00	= Tax
	23,811 – 94,590	x 6.80%	minus 345.25	= Tax
	94,591 – 165,205	x 7.85%	minus 1,338.44	= Tax
	165,206 and over	x 9.85%	minus 4,642.54	= Tax

Filing requirements. Residents must file if their income exceeds the following amounts: Single—\$14,950; MFS—\$14,950; MFJ/QSS—\$29,900; HOH—\$22,500. Add \$2,000 if age 65 or older or blind (\$1,600 if MFJ/MFS/QSS).

Part-year and nonresidents must file if Minnesota gross income is \$14,950 or more.

Minnesota form to file:

- Resident, part-year, and nonresident: Form M1 (Minnesota Individual Income Tax).
- Part-year and nonresident: Schedule M1NR (Nonresidents/Part-Year Residents)—attachment to Form M1.

Return due date: April 15

Allowable extension. If no tax is due, an automatic six-month extension is granted. If tax is due, it must be paid using the e-Services Payment System at <https://www.mndor.state.mn.us/tp/onlineservices/> or by credit/debit card or check/money order (using a payment voucher created on e-Services).

Reciprocity agreements. Michigan and North Dakota. Full-year residents of these states who returned to their home state at least once a month and whose only Minnesota income was from performing personal services are not subject to Minnesota tax.

MISSISSIPPI

Website: <https://dor.ms.gov>

Tax assistance: 601-923-7700



2025 Quick Tax Method—For Taxable Income of:			
All Filing Statuses	\$ 0 – 10,000	× 0%	minus \$ 0 = Tax
	10,001 and over	× 4.4%	minus 440 = Tax

Note: Married individuals filing a combined return apply the tax rate schedule separately and combine the separate tax amounts to calculate total income tax.

Filing requirements. Residents must file if:

Filing status:	Gross income exceeds:
Single.....	\$8,300 plus \$1,500 for each dependent.
Married	\$16,600 (both spouses) plus \$1,500 per dependent.

Part-year and nonresidents must file if they receive income taxed by Mississippi. Part-year residents are taxed on income earned while a resident of Mississippi. Nonresidents are taxed on income earned from Mississippi sources (other than gambling income).

Mississippi form to file:

- Resident: Form 80-105 (Mississippi Resident Individual Income Tax Return).
- Part-year and nonresident: Form 80-205 (Mississippi Non-Resident/Part-Year Resident Individual Income Tax Return).

Return due date: April 15

Allowable extension. Mississippi allows an automatic six-month extension if a federal extension is filed. If tax is due, it must be paid by the original return due date using Form 80-106 (Individual/Fiduciary Income Tax Payment Voucher).

MISSOURI

Website: <https://dor.mo.gov>

Tax assistance: 573-751-3505



2025 Quick Tax Method—For Taxable Income of:			
All filing statuses	\$ 0 – 1,313	× 0.00%	minus \$ 0.00 = Tax
	1,314 – 2,626	× 2.00%	minus 26.26 = Tax
	2,627 – 3,939	× 2.50%	minus 39.39 = Tax
	3,940 – 5,252	× 3.00%	minus 59.09 = Tax
	5,253 – 6,565	× 3.50%	minus 85.35 = Tax
	6,566 – 7,878	× 4.00%	minus 118.17 = Tax
	7,879 – 9,191	× 4.50%	minus 157.56 = Tax
9,192 and over	× 4.70%	minus 175.94 = Tax	

Note: If filing a combined return and both persons have income, apply the tax rate schedule separately and combine the separate tax amounts to calculate total income tax.

Filing requirements. Taxpayers must file a Missouri return if required to file a federal income tax return unless the taxpayer:

- Is a resident with less than \$1,200 of Missouri AGI,
- Is a nonresident with less than \$600 of Missouri income or
- Has Missouri AGI that is less than his standard deduction.

Missouri form to file:

- Resident, part-year, and nonresident: Form MO-1040 (Individual Income Tax Return).
- Part-year and nonresident: Form MO-NRI (Missouri Income Percentage)—attachment to Form MO-1040. Alternatively, part-year residents can file Form MO-CR (Credit for Income Taxes Paid to Other States).

Return due date: April 15

Extension form. Form MO-60 (Application for Extension of Time to File).

Allowable extension. Missouri allows an automatic six-month extension if a federal extension is filed. File Form MO-60 to remit any tax due.

MONTANA

Website: <https://mtrevenue.gov>

Tax assistance: 406-444-6900



2025 Quick Tax Method—For Taxable Income of:			
Single, MFS	\$ 0 – 21,100	× 4.7%	minus \$ 0 = Tax
	21,101 – —	× 5.9%	minus 253 = Tax
MFJ, QSS	\$ 0 – 42,200	× 4.7%	minus \$ 0 = Tax
	42,201 – —	× 5.9%	minus 506 = Tax
HOH	\$ 0 – 31,700	× 4.7%	minus \$ 0 = Tax
	31,701 – —	× 5.9%	minus 380 = Tax

Note: These tax brackets apply to ordinary income only. Montana taxes long-term capital gains at different rates, ranging from 3.0%–4.1%, based on a taxpayer's ordinary income.

Filing requirements. Residents, part-year, and nonresidents must file if they have Montana-source income and:

Filing status:	and gross income is at least:
Single, MFS	\$ 15,750
HOH.....	\$ 23,625
MFJ, QSS	\$ 31,500

- Not required to file a federal return, but:

Federal filing status would have been:	Federal AGI plus New York additions exceeds:
Single and can be claimed as dependent on another person's return	\$ 3,100
All others.....	4,000

- To claim a refund of state or city income taxes withheld from taxpayer's pay.
 - To claim any of the refundable or carryover credits available.
- Part-year and nonresidents are required to file if:

Federal filing status:	Received New York-source income and New York AGI exceeds:
Single and can be claimed as dependent on another person's return	\$ 3,100
Single and cannot be claimed as dependent on another person's return	8,000
MFJ.....	16,050
MFS.....	8,000
HOH.....	11,200
QSS.....	16,050

Part-year and nonresidents are also required to file if any of the following apply:

- They are subject to separate tax on lump-sum distributions derived from or connected to New York sources (part-year residents).
- They incurred a New York NOL without incurring a similar federal NOL.
- To claim a refund of state or city income taxes withheld from taxpayer's pay.
- To claim any of the refundable or carryover credits available.

New York form to file:

- Resident: Form IT-201 (Resident Income Tax Return).
- Part-year and nonresident: Form IT-203 (Nonresident and Part-Year Resident Income Tax Return).

Return due date: April 15

Extension form. Form IT-370 (Application for Automatic Six-Month Extension of Time to File for Individuals).

Allowable extension. To request an automatic six-month extension, file Form IT-370 and remit any tax due. A copy of the federal extension is not accepted.

NORTH CAROLINA

Website: <https://ncdor.gov>
Tax assistance: 877-252-3052



2025 Tax Rate	
Income tax rate.....	4.25%

Filing requirements. Every resident whose income for the year exceeds the amount for his filing status as shown in the following chart must file a return:

Filing status	A return is required if federal gross income exceeds
Single.....	\$ 12,750
MFJ.....	25,500
MFS if spouse does not claim itemized deductions.....	12,750
MFS if spouse claims itemized deductions.....	0
HOH.....	19,125
QSS.....	25,500
Nonresident alien.....	0

Note: 2025 amounts not available at time of publication. Amounts shown are for 2024.

An individual not required to file a federal income tax return but who has gross income from all sources—both inside and outside of North Carolina—that equals or exceeds the amount for his filing status shown in the chart above is required to file a North Carolina return. He must complete a federal return and attach it to his North Carolina income tax return to show how his adjusted gross income and deductions were determined.

A part-year resident must file if his total income for the tax year exceeds the amount for his filing status shown in the chart above and he:

- Received income while a resident of North Carolina or
- Received income while a nonresident that is:
 - Attributable to ownership of any interest in real or tangible personal property in North Carolina;
 - Derived from a business, trade, profession or occupation carried on within North Carolina or
 - Derived from gambling activities in North Carolina.

A nonresident must file if his total income from all sources—both inside and outside of North Carolina—exceeds the amount for his filing status as shown in the chart above and he received income for the tax year from North Carolina sources that was:

- Attributable to ownership of any interest in real or tangible personal property in North Carolina;
- Derived from a business, trade, profession, or occupation carried on in North Carolina or
- Derived from gambling activities in North Carolina.

North Carolina form to file:

- Resident, part-year, and nonresident: Form D-400 (Individual Income Tax Return).
- Part-year and nonresidents: D-400 Schedule PN (Part-Year Resident and Nonresident Schedule).

Return due date: April 15

Extension form. Form D-410 (Application for Extension for Filing Individual Income Tax Return).

Allowable extension. North Carolina allows an automatic six-month extension if granted a federal extension. Only file Form D-410 to make a payment or if Form 4868 was not filed.

NORTH DAKOTA

Website: <https://tax.nd.gov/>
Tax assistance: 701-328-7088; 877-328-7088



2025 Quick Tax Method—For Taxable Income of:	
Single	\$ 0 – 48,475 × 0.00% minus \$ 0.00 = Tax
	48,476 – 244,825 × 1.95% minus 945.26 = Tax
	244,826 and over × 2.50% minus 2,291.80 = Tax
MFJ, QSS	\$ 0 – 80,975 × 0.00% minus \$ 0.00 = Tax
	80,976 – 298,075 × 1.95% minus 1,579.01 = Tax
	298,076 and over × 2.50% minus 3,218.43 = Tax
MFS	\$ 0 – 40,475 × 0.00% minus \$ 0.00 = Tax
	40,476 – 149,025 × 1.95% minus 789.26 = Tax
	149,026 and over × 2.50% minus 1,608.90 = Tax
HOH	\$ 0 – 64,950 × 0.00% minus \$ 0.00 = Tax
	64,951 – 271,450 × 1.95% minus 1,266.53 = Tax
	271,451 and over × 2.50% minus 2,759.50 = Tax

Filing requirements. Residents must file if they are required to file a federal income tax return.

Nonresidents must file if they are required to file a federal return and received gross income from North Dakota sources. Part-year residents must file if they are required to file a federal return and received income from any source while a resident *or* received North Dakota-source income while a nonresident.

North Dakota form to file:

- Resident, part-year, and nonresident: Form ND-1 (Individual Income Tax Return).
- Part-year and nonresident: Schedule ND-1NR (Tax Calculation for Nonresidents and Part-Year Residents)—attachment to Form ND-1.

Return due date: April 15

Extension form. Form 101 (Application for Extension of Time to File a North Dakota Tax Return).

Allowable extension: An extension of time to file a taxpayer’s federal return is recognized for North Dakota purposes. If there is no federal extension, file Form 101 to request an extension of time to file (Form 101 is not an automatic extension). Use Form ND-1EXT (Individual Extension Payment Voucher) to make a payment.

Reciprocity agreements. Minnesota and Montana. Minnesota residents are not required to file a North Dakota return if only North Dakota source of income is compensation and the taxpayer maintains a home in Minnesota and returns to the home at least once each month. Montana residents are not required to file a North Dakota return if only North Dakota source of income is wages.

OHIO

Website: <https://tax.ohio.gov>

Tax assistance: 800-282-1780



2025 Quick Tax Method—For Taxable Income of:			
All	\$ 0 – 26,050	× 0.000% minus	\$ 0.00 = Tax
	26,051 – 100,000	× 2.750% minus	355.69 = Tax
	100,001 and over	× 3.125% minus	730.68 = Tax

Filing requirements. Residents and part-year residents are required to file unless one of the following exceptions applies:

- Ohio AGI is less than or equal to \$0.
- The total of the taxpayer’s senior citizen credit, lump-sum distribution credit and joint filing credit is equal to or exceeds his income tax liability and he is not liable for school district income tax.
- The taxpayer’s exemption amount is the same as or more than his Ohio AGI.

Nonresidents are required to file if they have Ohio-sourced income.

Ohio form to file:

- Resident, part-year, and nonresident: Form IT 1040 (Individual Income Tax Return).
- Part-year and nonresidents: Schedule D (Nonresident/Part-Year Resident Credit) (Form IT 1040, page 4).

Return due date: April 15

Extension form. Ohio does not have a separate extension form.

Allowable extension. Ohio allows an extension based on the federal extension. Use Form IT 40P (Income Tax Payment Voucher) to make any payments by the original return due date.

Reciprocity agreements. Residents of a border state (Indiana, Kentucky, West Virginia, Michigan, and Pennsylvania) are not

required to file Ohio return if only Ohio income is wages and salaries from an unrelated employer.

OKLAHOMA

Website: <https://oklahoma.gov/tax>

Tax assistance: 405-521-3160



2025 Quick Tax Method—For Taxable Income of:			
Single, MFS	\$ 0.00 – 1,000.00	× 0.25% minus	\$ 0.00 = Tax
	1,001.00 – 2,500.00	× 0.75% minus	5.00 = Tax
	2,501.00 – 3,750.00	× 1.75% minus	30.00 = Tax
	3,751.00 – 4,900.00	× 2.75% minus	67.50 = Tax
	4,901.00 – 7,200.00	× 3.75% minus	116.50 = Tax
	7,201.00 and over	× 4.75% minus	188.50 = Tax
MFJ, QSS, HOH	\$ 0.00 – 2,000.00	× 0.25% minus	\$ 0.00 = Tax
	2,001.00 – 5,000.00	× 0.75% minus	10.00 = Tax
	5,001.00 – 7,500.00	× 1.75% minus	60.00 = Tax
	7,501.00 – 9,800.00	× 2.75% minus	135.00 = Tax
	9,801.00 – 14,400.00	× 3.75% minus	233.00 = Tax
	14,401.00 and over	× 4.75% minus	377.00 = Tax

Filing requirements. Residents must file a return if:

Filing status:	Gross income exceeds:
Single.....	\$ 7,350
MFJ.....	14,700
MFS.....	7,350
HOH.....	10,350
QSS with a Dependent Child.....	13,700

Dependents must file if:

Marital status:	Gross income exceeds:
Single dependents.....	\$ 6,350
Married dependents.....	6,350

Part-year residents are required to file if they meet resident filing requirements while a resident *or* receive \$1,000 or more Oklahoma-source gross income while a nonresident.

Nonresidents are required to file if they received \$1,000 or more Oklahoma-source gross income.

Oklahoma form to file:

- Resident: Form 511 (Oklahoma Resident Income Tax Return).
- Part-year and nonresident: Form 511-NR (Oklahoma Nonresident/Part-Year Income Tax Return).

Return due date: April 15 or April 20 if return is filed electronically.

Extension form. Form 504-I (Application for Extension of Time to File an Oklahoma Income Tax Return For Individuals).

Allowable extension. Oklahoma allows a six-month extension if the taxpayer attaches a copy of a valid federal extension. If the federal return is not extended or the taxpayer owes Oklahoma tax, Form 504-I must be filed. Use Form 504-I to remit any tax due.

Vermont form to file:

- Resident, part-year, and nonresident: Form IN-111 (Vermont Income Tax Return).
- Part-year and nonresident: Schedule IN-113 (Income Adjustment Calculations)—attachment to Form IN-111.

Return due date: April 15

Extension form. Form IN-151 (Application for Extension of Time to File Form IN-111 Vermont Individual Income Tax Return).

Allowable extension. Vermont allows an automatic six-month extension if Form IN-151 is filed by the due date of the return or taxpayer uses myVTax to file the extension.

VIRGINIA

Website: <https://tax.virginia.gov>

Tax assistance: 804-367-8031



2025 Quick Tax Method—For Taxable Income of:			
All	\$ 0 – 3,000	× 2.00%	minus \$ 0.00 = Tax
Filing	3,001 – 5,000	× 3.00	minus 30.00 = Tax
Statuses	5,001 – 17,000	× 5.00	minus 130.00 = Tax
	17,001 and over	× 5.75	minus 257.50 = Tax

Filing requirements. Residents and part-year residents are required to file if:

Filing status:	Virginia AGI is at least:
Single or MFS.....	\$ 11,950
MFJ	23,900

Nonresidents are required to file if they receive any income from Virginia sources other than interest from personal savings accounts, interest or dividends from an individual stock market investment, or pension payments from a Virginia payor.

Virginia form to file:

- Resident: Form 760 (Virginia Resident Individual Income Tax Return).
- Part-year resident: Form 760PY (Virginia Part-Year Resident Income Tax Return).
- Nonresident: Form 763 (Virginia Nonresident Income Tax Return).

Return due date: May 1

Allowable extension. Virginia allows an automatic six-month extension of time to file. Ninety percent of the tax liability must be paid by the original due date for filing the return to avoid penalty. No application for extension is required. To make a payment of tentative tax by the original due date, use voucher Form 760IP.

Reciprocity agreements. The District of Columbia, Kentucky, Maryland, Pennsylvania, and West Virginia residents may be exempt from filing if their only source of Virginia income is wages subject to income tax by the resident state (or district). For residents of the District of Columbia and Kentucky, the exemption applies if the individual had no actual place of abode in Virginia during the year. The exemption applies to Maryland, Pennsylvania, and

West Virginia residents if they are present in Virginia for 183 days or less during the year.

WASHINGTON

Website: <https://dor.wa.gov>

Tax assistance: 360-705-6705



Filing requirements. Washington does not have a personal income tax, but imposes a 7% excise tax on individuals with sales or exchanges of long-term capital assets. Only taxpayers owing capital gains tax are required to file a capital gains tax return. See the *All States Quickfinder® Handbook* for more information.

WEST VIRGINIA

Website: <https://tax.wv.gov>

Tax assistance: 800-982-8297, 304-558-3333



2025 Quick Tax Method—For Taxable Income of:			
MFJ, Single, HOH, QSS	\$ 0 – 9,999	× 2.22%	minus \$ 0.00 = Tax
	10,000 – 24,999	× 2.96	minus 73.99 = Tax
	25,000 – 39,999	× 3.33	minus 166.49 = Tax
	40,000 – 59,999	× 4.44	minus 610.48 = Tax
	60,000 and over	× 4.82	minus 838.47 = Tax
MFS	\$ 0 – 4,999	× 2.22%	minus \$ 0.00 = Tax
	5,000 – 12,499	× 2.96	minus 36.99 = Tax
	12,500 – 19,999	× 3.33	minus 83.24 = Tax
	20,000 – 29,999	× 4.44	minus 305.23 = Tax
	30,000 and over	× 4.82	minus 419.22 = Tax

Filing requirements. Residents and part-year residents are required to file if their West Virginia AGI is greater than the exemption allowance (\$2,000 per exemption or \$500 if zero exemptions were claimed) or to claim a senior citizen's tax credit.

Exception: Taxpayers age 65 or older if income is less than exemption allowance plus senior citizen modification of up to \$8,000 do not have to file.

Nonresidents are required to file if their federal AGI includes any West Virginia-source income.

West Virginia form to file:

- Resident, part-year, and nonresident: Form IT-140 (West Virginia Personal Income Tax Return).
- Part-year and nonresident: Schedule A (Nonresidents/Part-Year Residents Schedule of Income)—attachment to Form IT-140.


Return due date: April 15

Extension form. Form WV 4868 (Application for Extension of Time to File) (Application for Extension of Time to File).

Allowable extension. West Virginia allows up to a six-month extension if tax liability is paid and the taxpayer either:

- Attaches a copy of federal Form 4868 or
- Files Form WV 4868 (Application for Extension of Time to File) if tax owed or federal Form 4868 not filed.

Reciprocity agreements. Kentucky, Maryland, Ohio, Pennsylvania, and Virginia residents may file Form IT-140NRS (Special Nonresident Income Tax Return) to claim a refund if the only West Virginia income is from wages and salaries.

 **Note:** Pennsylvania and Virginia residents qualify only if they did not spend more than 183 days within West Virginia in 2025.

WISCONSIN

Website: <https://www.revenue.wi.gov/>

Tax assistance: 608-266-2486



2025 Quick Tax Method—For Taxable Income of:	
Single, HOH	\$ 0 – 14,680 × 3.50% minus \$ 0.00 = Tax
	14,681 – 50,480 × 4.40% minus 132.12 = Tax
	50,481 – 323,290 × 5.30% minus 586.44 = Tax
	323,291 and over × 7.65% minus 8,183.76 = Tax
MFJ	\$ 0 – 19,580 × 3.50% minus \$ 0.00 = Tax
	19,581 – 67,300 × 4.40% minus 176.22 = Tax
	67,301 – 431,060 × 5.30% minus 781.92 = Tax
	431,061 and over × 7.65% minus 10,911.83 = Tax
MFS	\$ 0 – 9,790 × 3.50% minus \$ 0.00 = Tax
	9,791 – 33,650 × 4.40% minus 88.11 = Tax
	33,651 – 215,530 × 5.30% minus 390.96 = Tax
	215,531 and over × 7.65% minus 5,455.92 = Tax

Filing requirements. Residents must file if:

Filing status:	Age:	Gross income is at least:
Single	Under 65.....	\$ 14,260
	65 or older.....	14,510
MFJ	Under 65 (both spouses).....	\$ 26,510
	65 or older (one spouse).....	26,760
	65 or older (both spouses).....	27,010
MFS	Under 65.....	\$ 12,630
	65 or older.....	12,880
HOH	Under 65.....	\$ 18,220
	65 or older.....	18,470

Note: 2025 amounts not available at time of publication. Amounts shown are for 2024.

Residents must also file if they owe a Wisconsin penalty on an IRA, retirement plan, ABLE account, medical or health savings account or Coverdell education savings account (excess contribution).

Part-year and nonresidents must file if gross income is at least \$2,000.

Wisconsin form to file:

- Resident: Form 1, Wisconsin Income Tax.
- Part-year and nonresident: Form 1NPR (Nonresident and Part-Year Resident Wisconsin Income Tax).

Return due date: April 15

Allowable extension. Wisconsin allows an extension based on the federal extension. Use Form 1-ES to make any payments. If federal Form 4868 not filed, attach a statement to the Wisconsin tax return indicating which federal extension provision (for example, federal automatic six-month provision) the taxpayer is applying for.

Reciprocity agreements. Illinois, Indiana, Kentucky, and Michigan residents are not required to file a Wisconsin return if the only Wisconsin income is from personal services.

WYOMING

Website: <http://revenue.wyo.gov>

Tax assistance: 307-777-5200

Filing requirements. Wyoming does not have a personal income tax.

Notes

Quick Facts, Worksheets, Where to File

All worksheets included in Tab 3 may be copied and used in your tax practice.



Tab 3 Topics

Quick Facts Data Sheet.....	Page 3-1	Donations Substantiation Guide	Page 3-8
Business Use of Home Worksheet	Page 3-4	Earned Income Credit (EIC) Worksheet (2025).....	Page 3-9
Capital Loss Carryover Worksheet (2025).....	Page 3-5	Net Operating Loss Worksheets	Page 3-9
Form 8949 (Sales and Other Dispositions of Capital Assets)—Gain/Loss Adjustment Codes	Page 3-5	Social Security Benefits Worksheet (2025).....	Page 3-13
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Donated Goods Valuation Guide	Page 3-7	Where to File 2025 Form 1040	Page 3-16
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		Where to File Form 4868 for 2025 Return	Page 3-16

Quick Facts Data Sheet					
	2026	2025	2024	2023	2022
General Deductions and Credits					
Standard deduction:					
MFJ or QSS	\$ 32,200	\$ 31,500	\$ 29,200	\$ 27,700	\$ 25,900
Single	16,100	15,750	14,600	13,850	12,950
HOH	24,150	23,625	21,900	20,800	19,400
MFS	16,100	15,750	14,600	13,850	12,950
Additional for age 65 or older or blind each (MFJ, QSS, MFS)	1,650	1,600	1,550	1,500	1,400
Additional for age 65 or older or blind each (Single, HOH)	2,050	2,000	1,950	1,850	1,750
Earned income credit:					
Earned income and AGI must be less than (MFJ):¹					
No qualifying children	\$ 26,820	\$ 26,214	\$ 25,511	\$ 24,210	\$ 22,610
One qualifying child	58,863	57,554	56,004	53,120	49,622
Two qualifying children	65,899	64,430	62,688	59,478	55,529
Three or more qualifying children	70,224	68,675	66,819	63,398	59,187
Maximum amount of credit (all filers except MFS):					
No qualifying children	\$ 664	\$ 649	\$ 632	\$ 600	\$ 560
One qualifying child	4,427	4,328	4,213	3,995	3,733
Two qualifying children	7,316	7,152	6,960	6,604	6,164
Three or more qualifying children	8,231	8,046	7,830	7,430	6,935
Investment income limit	12,200	11,950	11,600	11,000	10,300
Child tax credit/credit for other dependents:					
Credit per child	\$ 2,200	\$ 2,200	\$ 2,000	\$ 2,000	\$ 2,000
Refundable portion limit	1,700	1,700	1,700	1,600	1,500
Refundable child tax credit—earned income floor	2,500	2,500	2,500	2,500	2,500
Credit per other dependent	500	500	500	500	500
Adoption credit/exclusion:					
Maximum credit/exclusion (and amount allowed for adoption of special needs child)	\$ 17,670	\$ 17,280	\$ 16,810	\$ 15,950	\$ 14,890
Refundable portion limit	\$ 5,120	\$ 5,000	N/A	N/A	N/A
Credit/exclusion phase-out begins at AGI of:					
All taxpayers except MFS	\$ 265,080	\$ 259,190	\$ 252,150	\$ 239,230	\$ 223,410
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Kiddie tax unearned income threshold	\$ 2,700	\$ 2,700	\$ 2,600	\$ 2,500	\$ 2,300
Foreign earned income exclusion	\$ 132,900	\$ 130,000	\$ 126,500	\$ 120,000	\$ 112,000
FICA/SE Taxes					
Maximum earnings subject to tax:					
Social security tax	\$ 184,500	\$ 176,180	\$ 168,600	\$ 160,200	\$ 147,000
Medicare tax	No Limit	No Limit	No Limit	No Limit	No Limit
Maximum tax paid by:					
Employee—social security	\$ 11,439.00	\$ 10,918.20	\$ 10,453.20	\$ 9,932.40	\$ 9,114.00
Self-employed—social security	22,878.00	21,836.40	20,906.40	19,864.80	18,228.00
Employee or self-employed—Medicare	No Limit	No Limit	No Limit	No Limit	No Limit
Additional Medicare tax begins at earnings of:					
MFJ	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Single, HOH, or QSS	200,000	200,000	200,000	200,000	200,000
MFS	125,000	125,000	125,000	125,000	125,000

Table continued on the next page

Quick Facts Data Sheet (Continued)

	2026	2025	2024	2023	2022	
Business Deductions						
Section 179 deduction:						
Overall limit	\$ 2,560,000	\$ 2,500,000	\$ 1,220,000	\$ 1,160,000	\$ 1,080,000	
SUV limit (per vehicle)	32,000	31,300	30,500	28,900	27,000	
Qualifying property phase-out threshold	4,090,000	4,000,000	3,050,000	2,890,000	2,700,000	
Depreciation limit—autos, trucks, and vans (1st year)	^{2,7}	12,200 ²	12,400 ²	12,200 ²	11,200 ²	
Standard mileage allowances:						
Business	72.5¢	70¢	67¢	65.5¢	58.5¢/62.5¢ ⁶	
Charity work	14¢	14¢	14¢	14¢	14¢	
Medical/moving	20.5¢	21¢	21¢	22¢	18¢/22¢ ⁶	
Qualified business income (QBI) deduction taxable income thresholds:						
MFJ	\$ 403,500	\$ 394,600	\$ 383,900	\$ 364,200	\$ 340,100	
Single, HOH, or QSS	201,750	197,300	191,950	182,100	170,050	
MFS	201,775	197,300	191,950	182,100	170,050	
Excess business loss disallowance limits:						
MFJ	\$ 512,000	\$ 626,000	\$ 610,000	\$ 578,000	\$ 540,000	
Single, HOH, QSS, or MFS	256,000	313,000	305,000	289,000	270,000	
Health Care Deductions/Exclusions/Credits						
Health savings accounts (HSAs):						
Self-only coverage:	Contribution limit	\$ 4,400	\$ 4,300	\$ 4,150	\$ 3,850	\$ 3,650
	Plan minimum deductible	1,700	1,650	1,600	1,500	1,400
	Plan out-of-pocket limit	8,500	8,300	8,050	7,500	7,050
Family coverage:	Contribution limit	8,750	8,550	8,300	7,750	7,300
	Plan minimum deductible	3,400	3,300	3,200	3,000	2,800
	Plan out-of-pocket limit	17,000	16,600	16,100	15,000	14,100
	Additional contribution limit—age 55 or older	1,000	1,000	1,000	1,000	1,000
Long-term care insurance—deduction limits:						
Age 40 and under	\$ 500	\$ 480	\$ 470	\$ 480	\$ 450	
Age 41 – 50	930	900	880	890	850	
Age 51 – 60	1,860	1,800	1,760	1,790	1,690	
Age 61 – 70	4,960	4,810	4,710	4,770	4,510	
Age 71 and older	6,200	6,020	5,880	5,960	5,640	
Long-term care—excludible per diem	\$ 430	\$ 420	\$ 410	\$ 420	\$ 390	
Medical savings accounts (MSAs):						
Self-only coverage:	Plan minimum deductible	\$ 2,900	\$ 2,850	\$ 2,800	\$ 2,650	\$ 2,450
	Plan maximum deductible	4,400	4,300	4,150	3,950	3,700
	Plan out-of-pocket limit	5,850	5,700	5,550	5,300	4,950
Family coverage:	Plan minimum deductible	5,850	5,700	5,550	5,300	4,950
	Plan maximum deductible	8,750	8,550	8,350	7,900	7,400
	Plan out-of-pocket limit	10,700	10,500	10,200	9,650	9,050
Health flexible spending arrangement—contribution limit	\$ 3,400	\$ 3,300	\$ 3,200	\$ 3,050	\$ 2,850	
Advance payment of health insurance premium tax credit—repayment limit:³						
Household income < 200% of federal poverty line (FPL)	N/A	\$ 750	\$ 750	\$ 700	\$ 650	
Household income ≥ 200% of FPL, but < 300%	N/A	1,950	1,900	1,800	1,650	
Household income ≥ 300% of FPL, but < 400%	N/A	3,250	3,150	3,000	2,800	
Qualified small employer HRA reimbursement limits:						
Employee only	\$ 6,450	\$ 6,350	\$ 6,150	\$ 5,850	\$ 5,450	
Employee and family	13,100	12,800	12,450	11,800	11,050	
Small employer health insurance credit—average wage limit	\$ 34,100	\$ 33,300	\$ 32,400	\$ 30,700	\$ 28,700	
Education Tax Incentives						
Education savings accounts (ESAs) phase-out begins at AGI of:						
MFJ	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000	
Single, HOH, QSS, or MFS	95,000	95,000	95,000	95,000	95,000	
American opportunity credit—maximum credit (per student)	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	
Lifetime learning credit (LLC)—maximum credit (per return)	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	
Education credit phase-out begins at AGI of:						
MFJ:	American opportunity	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000
	LLC	160,000	160,000	160,000	160,000	160,000
Single, HOH, or QSS:	American opportunity	80,000	80,000	80,000	80,000	80,000
	LLC	80,000	80,000	80,000	80,000	80,000
MFS		Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Student loan interest deduction limit	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	
Student loan interest deduction phase-out begins at AGI of:						
MFJ	\$ 175,000	\$ 170,000	\$ 165,000	\$ 155,000	\$ 145,000	
Single, HOH, or QSS	85,000	85,000	80,000	75,000	70,000	
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed	

Quick Facts Data Sheet (Continued)

	2026	2025	2024	2023	2022
Savings bonds income exclusion phase-out begins at AGI of:					
MFJ or QSS	\$ 152,650	\$ 149,250	\$ 145,200	\$ 137,800	\$ 128,650
Single or HOH	101,800	99,500	96,800	91,850	85,800
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Additional Taxes					
AMT exemption:					
MFJ or QSS	\$ 140,200	\$ 137,000	\$ 133,300	\$ 126,500	\$ 118,100
Single or HOH	90,100	88,100	85,700	81,300	75,900
MFS	70,100	68,500	66,650	63,250	59,050
Child subject to kiddie tax—earned income plus	9,750	N/A ⁴	N/A ⁴	N/A ⁴	N/A ⁴
Net investment income tax begins at AGI of:					
MFJ or QSS	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Single or HOH	200,000	200,000	200,000	200,000	200,000
MFS	125,000	125,000	125,000	125,000	125,000
Retirement Plans					
IRA contribution limits:					
Under age 50 at year end	\$ 7,500	\$ 7,000	\$ 7,000	\$ 6,500	\$ 6,000
Age 50 or older at year end	8,600	8,000	8,000	7,500	7,000
Traditional IRA deduction phase-out begins at AGI of (taxpayer or spouse covered by employer retirement plan):					
MFJ and QSS (covered spouse)	\$ 129,000	\$ 126,000	\$ 123,000	\$ 116,000	\$ 109,000
MFJ (non-covered spouse)	242,000	236,000	230,000	218,000	204,000
Single and HOH	81,000	79,000	77,000	73,000	68,000
MFS	0	0	0	0	0
Roth IRA contribution phase-out begins at AGI of:					
MFJ or QSS	\$ 242,000	\$ 236,000	\$ 230,000	\$ 218,000	\$ 204,000
Single or HOH	153,000	150,000	146,000	138,000	129,000
MFS	0	0	0	0	0
SIMPLE IRA plan elective deferral limits:					
Under age 50 at year end	\$ 17,000	\$ 16,500	\$ 16,000	\$ 15,500	\$ 14,000
Age 50–59 or 64 and older at year-end	21,000	20,000	19,500	19,000	17,000
Age 60–63 at year-end	22,250	21,750	N/A	N/A	N/A
401(k), 403(b), 457, and SARSEP elective deferral limits:					
Under age 50 at year end	\$ 24,500	\$ 23,500	\$ 23,000	\$ 22,500	\$ 20,500
Age 50–59 or 64 and older at year-end	32,500	31,000	30,500	30,000	27,000
Age 60–63 at year-end	35,750	34,750	N/A	N/A	N/A
Profit-sharing plan/SEP contribution limits					
	\$ 72,000	\$ 70,000	\$ 69,000	\$ 66,000	\$ 61,000
Compensation limit (for employer contributions to profit sharing plans)					
	\$ 360,000	\$ 350,000	\$ 345,000	\$ 330,000	\$ 305,000
Defined benefit plans—annual benefit limit					
	\$ 290,000	\$ 280,000	\$ 275,000	\$ 265,000	\$ 245,000
Retirement saver's credit phased-out when AGI exceeds:					
MFJ	\$ 80,500	\$ 79,000	\$ 76,500	\$ 73,000	\$ 68,000
HOH	60,375	59,250	57,375	54,750	51,000
Single, MFS, or QSS	40,250	39,500	38,250	36,500	34,000
Key employee compensation threshold					
	\$ 235,000	\$ 230,000	\$ 220,000	\$ 215,000	\$ 200,000
Highly compensated threshold					
	\$ 160,000	\$ 160,000	\$ 155,000	\$ 150,000	\$ 135,000
Social Security					
Maximum earnings and still receive full social security benefits:					
Under full retirement age (FRA) at year-end, benefits reduced by \$1 for each \$2 earned over	\$ 24,480	\$ 23,400	\$ 22,320	\$ 21,240	\$ 19,560
Year FRA reached, benefits reduced \$1 for each \$3 earned over (months up to FRA only)	65,160	62,160	59,520	56,520	51,960
Month FRA reached and later	No Limit	No Limit	No Limit	No Limit	No Limit
Estate and Gift Taxes					
Estate and gift tax exclusion	\$ 15,000,000 ⁵	\$ 13,990,000 ⁵	\$ 13,610,000 ⁵	\$ 12,920,000 ⁵	\$ 12,060,000 ⁵
GST tax exemption	\$ 15,000,000	\$ 13,990,000	\$ 13,610,000	\$ 12,920,000	\$ 12,060,000
Gift tax annual exclusion	\$ 19,000	\$ 19,000	\$ 18,000	\$ 17,000	\$ 16,000
<p>Note: The exemption deduction amount is zero; however, for other Code provisions that refer to the Section 151 exemption amount (for example, the definition of qualifying relative when determining dependents under IRC Sec. 152), the amount is \$5,300 for 2026, \$5,200 for 2025, \$5,050 for 2024, \$4,700 for 2023, and \$4,400 for 2022.</p> <p>¹ Phaseout amount for all other filers (except MFS) is amount shown reduced by: \$7,270 (\$7,280 if no children) for 2026, \$7,120 (\$7,110 if no children) for 2025, \$6,920 for 2024, \$6,560 (\$6,570 if no children) in 2023; \$6,130 in 2022.</p> <p>² Add \$8,000 if special depreciation claimed.</p> <p>³ For single filing status, the amount is half of the amount shown. For tax years 2021–2025, no additional income tax is imposed on advance credit payments exceeding the taxpayer's PTC. Beginning in 2026, the 2025 Act (formerly known as One Big Beautiful Bill or OB BB) eliminates the cap on repayment of excess advance PTC. For tax years 2026 and after, taxpayers must repay the full excess amount.</p> <p>⁴ The 2019 SECURE Act suspended the provision limiting the exemption amount for children subject to the kiddie tax to the sum of the child's earned income plus \$5,000 (indexed annually for inflation) for tax years 2018–2025 [IRC Sec. 55(d)(4)(A)(iii)]. The 2025 Act removed the limitation. Beginning in 2026, the AMT exemption amount for a child subject to the kiddie tax will again be capped at the sum of the child's earned income for the year plus \$9,750 (for 2026).</p> <p>⁵ Plus the amount of any deceased spousal unused exclusion and/or any restored exclusion related to lifetime gifts to a same-sex spouse.</p> <p>⁶ The first amount applies to 1/1/22–6/30/22 and the second amount applies to 7/1/22–12/31/22.</p> <p>⁷ Amount not available at time of publication.</p>					

Business Use of Home Worksheet

Caution: Schedule C filers must use Form 8829 (Expenses for Business Use of Your Home) or claim the deduction computed under the simplified method on Schedule C, line 30. Use this worksheet if Schedule F is filed or if the individual is a partner (result to Schedule E). For daycare facilities not used exclusively for business, see Form 8829.

Part 1—Part of Home Used for Business:

- 1) Area of home used for business..... 1) _____
- 2) Total area of home..... 2) _____
- 3) Percentage of home used for business (divide line 1 by line 2 and show result as percentage)..... 3) _____ %

Part 2—Allowable Deductions:

- 4) Gross income from business..... 4) _____
- | | (a) | (b) | |
|--|-----------------|-------------------|-----------|
| | Direct Expenses | Indirect Expenses | |
| 5) Casualty loss..... | 5) _____ | _____ | |
| 6) Deductible mortgage interest..... | 6) _____ | _____ | |
| 7) Real estate taxes..... | 7) _____ | _____ | |
| 8) Total of lines 5 through 7..... | 8) _____ | _____ | |
| 9) Multiply column (b) of line 8 by line 3..... | | 9) _____ | |
| 10) Add column (a) of line 8 and line 9..... | | 10) _____ | |
| 11) Business expenses not related to business use of home..... | | 11) _____ | |
| 12) Add lines 10 and 11..... | | | 12) _____ |
| 13) Deduction limit. Subtract line 12 from line 4 (if zero or less, enter -0-)..... | | | 13) _____ |
| 14) Excess mortgage interest..... | 14) _____ | _____ | |
| 15) Excess real estate taxes..... | 15) _____ | _____ | |
| 16) Insurance..... | 16) _____ | _____ | |
| 17) Rent..... | 17) _____ | _____ | |
| 18) Repairs and maintenance..... | 18) _____ | _____ | |
| 19) Utilities..... | 19) _____ | _____ | |
| 20) Other expenses related to use of home..... | 20) _____ | _____ | |
| 21) Add lines 14 through 20..... | 21) _____ | _____ | |
| 22) Multiply column (b) of line 21 by line 3..... | | 22) _____ | |
| 23) Carryover of operating expenses from prior year..... | | 23) _____ | |
| 24) Add column (a) of line 21, line 22 and line 23..... | | | 24) _____ |
| 25) Allowable operating expenses. Enter the <i>smaller</i> of line 13 or line 24..... | | | 25) _____ |
| 26) Limit on excess casualty losses and depreciation. Subtract line 25 from line 13..... | | | 26) _____ |
| 27) Excess casualty losses..... | 27) _____ | _____ | |
| 28) Depreciation of home from line 40 below..... | 28) _____ | _____ | |
| 29) Carryover of excess casualty losses and depreciation from prior year..... | 29) _____ | _____ | |
| 30) Add lines 27 through 29..... | | | 30) _____ |
| 31) Allowable excess casualty losses and depreciation. Enter the <i>smaller</i> of line 26 or line 30..... | | | 31) _____ |
| 32) Add lines 10, 25, and 31..... | | | 32) _____ |
| 33) Casualty losses included on lines 10 and 31..... | | | 33) _____ |
| 34) Allowable expenses for business use of home. (Subtract line 33 from line 32.)..... | | | 34) _____ |

Part 3—Depreciation of Home:

- 35) Smaller of adjusted basis or fair market value of home when first used for business..... 35) _____
- 36) Basis of land (or FMV, if FMV of home used on line 35)..... 36) _____
- 37) Depreciable basis of building (subtract line 36 from line 35)..... 37) _____
- 38) Business basis of building (multiply line 37 by line 3)..... 38) _____
- 39) MACRS depreciation percentage..... 39) _____
- 40) Depreciation allowable (multiply line 38 by line 39)..... 40) _____

Part 4—Carryover of Unallowed Expenses to Next Year:

- 41) Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-..... 41) _____
- 42) Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-..... 42) _____

Qualified Business Income Deduction Worksheet (2025)¹ (Continued)

Reduction for qualified payments received from cooperatives

32) QBI allocable to payments received from cooperative (Line 7).....	32) \$ _____
33) 9% of QBI from this trade or business allocable to payments received from cooperative (Line 32 × 9%)	33) _____
34) W-2 wages allocable to payments received from cooperative (Line 21 × Line 7 ÷ Line 1)	34) _____
35) 50% of wages allocable to payments received from cooperative (Line 34 × 50%)	35) _____
36) Lesser of 9% of QBI or 50% of wages allocable to cooperative payments (lesser of Line 33 or 35)	36) _____
37) QBI deductible amount reduced for cooperative allocation, if any (Line 31 – Line 36)	37) _____
38) If applicable, QBI deductions from other trades or businesses (total of Lines 37 from all other worksheets)	38) \$ _____
39) QBI deduction from all trades or businesses (Line 37 + Line 38).....	39) \$ _____

Qualified REIT and PTP income

40) Total REIT and PTP income	40) \$ _____
41) QBI deduction at 20% (Line 40 × 20%)	41) _____
42) Combined QBI amount before taxable income limit (Line 39 + Line 41)	42) \$ _____

Taxable income limitations

43) Taxable income before QBI deduction (Line 4)	43) \$ _____
44) Net capital gain.....	44) _____
45) Excess of taxable income over net capital gain (Line 43 – Line 44)	45) _____
46) Taxable income limit (Line 45 × 20%).....	46) \$ _____
47) Total QBI deduction (lesser of Line 42 or Line 46)	47) \$ _____

QPAI deduction from cooperatives

48) QPAI deduction identified in writing by cooperative (Line 9)	48) \$ _____
49) Taxable income before QPAI deduction and after QBI deduction (Line 43 – Line 47)	49) _____
50) Allowable QPAI deduction from cooperative (lesser of Line 48 or Line 49).....	50) \$ _____
51) Total Section 199A deduction (Line 47 + Line 50)	51) \$ _____

¹ Compute separately for each trade or business and then combine the Line 37 amounts on Line 38. In the case of a partnership or S corporation, the provision applies at the partner or shareholder level. Each partner takes into account the partner's allocable share of each qualified item of income, gain, deduction, and loss, and is treated as having W-2 wages for the tax year equal to the partner's allocable share of W-2 wages of the partnership. The partner's allocable share of W-2 wages is required to be determined in the same manner as the partner's share of wage expenses. Losses from carryovers and businesses with negative QBI must be apportioned among businesses with positive QBI [see Reg. 1.199A-1(c) and (d)]. Form 8995-A, Schedule C (Loss Netting and Carryforward) may be used to compute loss netting.

² Specified service businesses are excluded from the definition of *qualified trade or business* when the taxpayer's taxable income exceeds the threshold amount plus phase-in range amount (thus, the exclusion is deemed to phase-in over the phase-in range).

2025 State and Local Sales Tax Deduction

For 2025, taxpayers can elect to deduct state and local sales taxes instead of state and local income taxes (see *Electing to Deduct Sales Tax* on Page 5-6). Instead of deducting their actual expenses, taxpayers can use optional sales tax tables [based on the taxpayer's state(s) of residence] provided by the IRS. The deduction worksheet and any optional tables issued by the IRS will be posted to the *Handbook Updates* section of tax.thomsonreuters.com/quickfinder.

Where to File 2025 Form 1040

Due Date: April 15, 2026

	Address to: <i>“Department of the Treasury Internal Revenue Service”</i>	Address to: <i>“Internal Revenue Service”</i>
Taxpayer lives in:	Without payment	With payment
AL, FL, GA, LA, MS, NC, SC, TN, TX	Austin, TX 73301-0002	P.O. Box 1214 Charlotte, NC 28201-1214
AK, CA, CO, HI, ID, KS, MI, MT, NE, NV, ND, OH, OR, SD, UT, WA, WY	Ogden, UT 84201-0002	P.O. Box 931000 Louisville, KY 40293-1000
AR, AZ, NM, OK	Austin, TX 73301-0002	P.O. Box 931000 Louisville, KY 40293-1000
CT, DC, DE, IL, IN, IA, KY, ME, MD, MA, MN, MO, NH, NJ, NY, PA, RI, VT, VA, WV, WI	Kansas City, MO 64999-0002	P.O. Box 931000 Louisville, KY 40293-1000
A foreign country, U.S. possession or territory; or uses an APO or FPO address; or files Form 2555 or 4563; or is a dual-status alien. If taxpayer lives in American Samoa, Puerto Rico, Guam, U.S. Virgin Islands, or the Northern Mariana Islands, see Pub 570.	Austin, TX 73301-0215 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA

Where to File Form 1040-ES for 2026

Due Dates: See *Estimated Tax Payments—Due Dates* on Page 16-7 of the *1040 Quickfinder® Handbook*.

Address to: “Internal Revenue Service”

Taxpayer lives in:	Send to:
AL, AK, AZ, CA, CO, FL, GA, HI, ID, KS, LA, MI, MS, MT, NE, NV, NM, NC, ND, OH, OR, PA, SC, SD, TN, TX, UT, WA, WY	P.O. Box 1300 Charlotte, NC 28201-1300
AR, CT, DE, DC, IL, IN, IA, KY, ME, MD, MA, MN, MO, NH, NJ, NY, OK, RI, VT, VA, WV, WI	P.O. Box 931100 Louisville, KY 40293-1100
A foreign country, American Samoa, or Puerto Rico (or is excluding income under IRC Sec. 933); or uses an APO or FPO address; or files Form 2555 or 4563; or is a dual-status alien or nonpermanent resident of Guam or the U.S. Virgin Islands	P.O. Box 1303 Charlotte, NC 28201-1303, USA
<i>Address to: “Department of Revenue and Taxation, Government of Guam”</i>	
Guam: Bona fide residents*	P.O. Box 23607 GMF, GU 96921
<i>Address to: “Virgin Islands Bureau of Internal Revenue”</i>	
U.S. Virgin Islands: Bona fide residents*	6115 Estate Smith Bay, Suite 22 St. Thomas, VI 00802
*Bona fide residents must prepare separate vouchers for estimated income tax and self-employment tax payments. Send the income tax vouchers to the address for bona fide residents and the self-employment tax vouchers to the address for non-bona fide residents.	

Where to File Form 4868 for 2025 Return

Due Date: April 15, 2026

	Address to: <i>“Department of the Treasury, Internal Revenue Service Center”</i>	Address to: <i>“Internal Revenue Service”</i>
Taxpayer lives in:	Without payment	With payment
AL, FL, GA, LA, MS, NC, SC, TN, TX	Austin, TX 73301-0045	P.O. Box 1302 Charlotte, NC 28201-1302
AK, CA, CO, HI, ID, KS, MI, MT, NE, NV, ND, OH, OR, SD, UT, WA, WY	Ogden, UT 84201-0045	P.O. Box 931300 Louisville, KY 40293-1300
CT, DE, DC, IL, IN, IA, KY, ME, MD, MA, MN, MO, NH, NJ, NY, PA, RI, VT, VA, WV, WI	Kansas City, MO 64999-0045	P.O. Box 931300 Louisville, KY 40293-1300
AR, AZ, NM, OK	Austin, TX 73301-0045	P.O. Box 931300 Louisville, KY 40293-1300
A foreign country, American Samoa, or Puerto Rico; or is excluding income under IRC Sec. 933; or using an APO or FPO address; or filing Form 2555 or 4563; or is a dual-status alien; or is a nonpermanent resident of Guam or the U.S. Virgin Islands.	Austin, TX 73301-0215 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA
All foreign estate and trust Form 1040-NR filers	Kansas City, MO 64999-0045 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA
All other Form 1040-NR and 1040-SS filers	Austin, TX 73301-0215 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA

apart from their spouse for the entire year, check the box on line 20.

- Nondeductible contributions to a traditional IRA on Form 8606.
- 2025 conversion contributions to a Roth IRA on Form 8606. See *Roth IRA Conversions* on Page 14-8.

Student Loan Interest Deduction

See *Student Loan Interest Deduction* on Page 13-5.

Archer MSA Deduction

A medical savings account (MSA) is a trust established to pay for qualified medical expenses of the account holder. A participant must:

- 1) Work for a small employer or be self-employed and
- 2) Have a high-deductible health plan (HDHP) (IRC Sec. 220).

2025 MSA High-Deductible Health Plan		Individual Coverage	Family Coverage
Annual plan deductibles	Minimum	\$2,850	\$5,700
	Maximum	4,300	8,550
Out-of-pocket expense limit		5,700	10,500
Maximum annual contribution		65% of deductible	75% of deductible

Qualified medical expense may include amounts paid for nonprescription medical products including menstrual care products [IRC Sec. 220(d)(2)(A)].

Contributions are limited to net self-employment (SE) earnings or employee compensation from the business establishing the HDHP, and may be made by an employer, an employee, or a self-employed individual. 2025 contributions must be made on or before April 15, 2026.

Taxpayers receive Form 5498-SA, which shows the amount contributed during the year. Report all contributions on Form 8853. Include the deductible amount in the total on line 23 of Form 1040, Schedule 1.

Excess contributions are subject to a 6% additional tax (calculated on Form 5329) unless the excess plus allocable income is distributed by the filing due date, including extensions.

Total Adjustments to Income

Add lines 11 through 23 and 25 of Form 1040, Schedule 1 and enter the total on line 26 of the form.

Include the following adjustments where indicated on lines 24a through 24k; for other adjustments entered on line 24z provide the description to the left of the line:

- Jury duty pay given to employer because employer continued to pay salary while on jury duty. (Also reported as income on line 8h.)
- Expenses from the rental of personal property if the income from the rental of personal property was reported on line 8l.
- Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m.
- Reforestation amortization if the taxpayer could claim a deduction for these costs and did not have to file Schedule C or F.
- Repayment of supplemental unemployment benefits under the Trade Act of 1974. Alternatively, the taxpayer may be able to claim a credit against tax (IRS Pub. 525).
- Contributions to Section 501(c)(18)(D) pension plans. This amount should be identified with Code H in box 12 of Form W-2.
- Contributions by certain chaplains to Section 403(b) plans (Pub. 517).
- Attorneys' fees for settlements in connection with unlawful discrimination, but only to the extent of the amount included in income (see *Attorney fees* on Page 4-25).
- Attorneys' fees and court costs paid in connection with a taxable IRS whistleblower's award.
- Foreign housing deduction claimed on Form 2555.
- Excess deductions of IRC Sec. 67(e) expenses from Schedule K-1 (Form 1041), box 11, code A.

Attorney fees. An above-the-line deduction is allowed for attorney fees and costs paid by or on behalf of the taxpayer in legal actions involving [IRC Sec. 62(a)(20)]:

- Claims of unlawful discrimination. For this purpose, unlawful discrimination actions include (among others) actions involving violations of:
 - The Civil Rights Acts of 1964 and 1991,
 - The Congressional Accountability Act of 1995,
 - The National Labor Relations Act,
 - The Family and Medical Leave Act of 1993,
 - The Fair Housing Act,
 - The Americans with Disabilities Act of 1990, and
 - Various whistle blower statutes.
- Certain claims against the federal government.
- Private causes of action under the Medicare Secondary Payer law.

The above-the-line deduction is claimed on line 24h of Form 1040, Schedule 1. The deduction is limited to the amount includible in the taxpayer's gross income for the tax year on account of a judgment or settlement resulting from the claim, whether by suit or agreement and whether as lump sum or periodic payments.

SCHEDULE 1-A—PART I: MODIFIED ADJUSTED GROSS INCOME (MAGI) AMOUNT

Law Change Alert: The 2025 Act introduced four new temporary deductions for individuals for tax years 2025-2028: (1) No Tax on Tips, (2) No Tax on Overtime, (3) No Tax on Car Loan Interest, and (4) Enhanced Deduction for Seniors. The IRS released a new Form 1040, Schedule 1-A (Additional Deductions) for taxpayers to calculate and report these deductions. See additional discussion about *No Tax on Tips and Overtime* on Page 25-1. Each section of Schedule 1-A calculates one of the new deductions. Each deduction is subject to its own limitations. However, each one will rely on modified adjusted gross income (MAGI) as calculated in Schedule 1-A, Part I.

Enter AGI from Form 1040, Line 11b on Schedule 1-A, Line 1. Adjust AGI to arrive at MAGI with the following items on Schedule 1-A, Part I, Lines 2a-2e:

- Income excluded from Puerto Rico,
- The foreign earned income exclusion from Form 2555, line 45,
- The foreign housing deduction from Form 2555, line 50, and
- Income excluded by bona fide residents of American Samoa from Form 4563, line 15.

Line 3 is MAGI and should be used to calculate the deductions on the rest of Schedule 1-A.

SCHEDULE 1-A—PART II: NO TAX ON TIPS

The 2025 Act introduced the No Tax on Tips deduction for tax years 2025-2028 (IRC Sec. 224). Effective for tax years 2025-2028, employees and self-employed individuals may deduct up to \$25,000 per tax return in "qualified tips" if they work in certain industries and occupations that "customarily and regularly receive tips." In proposed regulations (REG-110032-25), the IRS released the official list of jobs eligible for the new No Tax on Tips deduction, including nearly 70 occupations grouped into 8 different categories. Occupations include beverage and food services, entertainment and events, and transportation and delivery. See *Regular and Customary Tipped Occupations as of December 31, 2024* on Page 25-13 for full list of occupations.

Qualified tips are voluntary cash or charged tips received from customers or through tip sharing (FS-2025-03). Qualified tips under the proposed regulations (REG-110032-25) are defined as

amounts received as cash tips by an individual in an occupation that customarily and regularly received tips on or before December 31, 2024, subject to certain limitations. *Cash tips* are also further defined in the proposed regulations. Cash tips must be reported to taxpayers by their employer on Form W-2 or Forms 1099. Tips that are not reported by employees to their employer may still be deductible if taxpayers properly file Form 4137 (Social Security and Medicare Tax on Unreported Tip Income) with their federal tax returns.

Note: The IRS has announced it will not update 2025 information returns, such as Form W-2 and Forms 1099, to account for the amounts eligible for the new deductions. Employers should begin tracking qualified tips and overtime pay under the 2025 Act immediately as well as implementing processes for retroactive tracking. [See Notice 2025-69 for additional guidance on 2025 reporting requirements.](#) Taxpayers should expect new guidance and updated forms for tax year 2026 (IR-2025-82).

Tips received by a self-employed taxpayer are eligible for the deduction only to the extent that the gross income of the qualifying trade or business generating the tips exceeds the sum of deductions (other than the Section 224 tip deduction) for the trade or business for the taxable year.

This is a below-the-line deduction available to both itemizing and non-itemizing taxpayers. Married taxpayers must file jointly to receive the deduction. Taxpayers filing as married filing separately status are not eligible for the deduction. Taxpayers claiming this deduction must have a valid social security number. The deduction is capped at \$25,000 of qualified tips and is phased out by \$100 for each \$1,000 by which the taxpayer's MAGI (as calculated on Schedule 1-A, Part I) exceeds \$150,000 (\$300,000 MFJ). The deduction is fully phased-out at MAGI of \$400,000 (\$550,000 MFJ).

Reporting. Taxpayers should report any qualified tips received as an employee on Schedule 1-A, Part II, line 4a for qualified tips included on Form W-2, box 7, or on line 4b for qualified tips received as an employee included on Form 4137, line 1(c). Enter the larger of line 4a or 4b on line 4c if taxpayer only received qualified tips from one employer.

Taxpayers should report any qualified tips received in the course of a trade or business on Schedule 1-A, Part II, line 5 for qualified tips included on Forms 1099.

Total qualified tips will be reported on Schedule 1-A, line 6. Taxpayers may then figure the deduction as limited by the deduction cap of \$25,000 and the MAGI limitations following Schedule 1-A, lines 7 through 12. The total deduction available will be reported on Schedule 1-A, Line 13 and should be included in the total additional deductions reported on Form 1040, Line 13b.

[The IRS is expected to provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and payors subject to the new reporting requirements.](#)

Qualified Business Income Deduction. Self-employed individuals in a specified service trade or business (SSTB) under IRC Sec. 199A are not eligible for the No Tax on Tips deduction. An employee whose employer is an SSTB is not eligible for the No Tax on Tips deduction. [See Notice 2025-69 for additional guidance.](#)

Note: For self-employed individuals with income from a non-SSTB, tip income deducted under IRC Sec. 224 is excluded from QBI for the IRC Sec. 199A deduction. This is to disallow double-dipping.

SCHEDULE 1-A—PART III: NO TAX ON OVERTIME

The 2025 Act introduced the No Tax on Overtime deduction for tax years 2025–2028 (IRC Sec. 225). Effective for tax years 2025–2028, employees receiving “qualified overtime pay” may deduct the amount that exceeds their regular rate of pay, that is, the “half” portion of the time-and-a-half compensation pay, up to \$12,500 (\$25,000 MFJ).

Qualified overtime compensation means the overtime compensation paid to an individual required under section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate at which the individual is employed (see <https://www.dol.gov/agencies/whd/overtime>). [See Notice 2025-69 for additional guidance.](#)

This is a below-the-line-deduction available to both itemizing and non-itemizing taxpayers. Married taxpayers must file jointly to receive the deduction. Taxpayers filing as married filing separately status are not eligible for the deduction. Taxpayers claiming this deduction must have a valid social security number. The deduction is phased out by \$100 for each \$1,000 by which the taxpayer's MAGI (as calculated on Schedule 1-A, Part I) exceeds \$150,000 (\$300,000 MFJ). The deduction is fully phased-out at MAGI of \$275,000 (\$550,000 MFJ).

The qualified overtime compensation must be reported on Form W-2, Form 1099, or other specified statement furnished to the individual.

Note: Qualified overtime compensation does not include qualified tip income.

Reporting. Taxpayers should report any qualified overtime compensation included on Form W-2 on Schedule 1-A, Part III, line 14a and any qualified overtime compensation included on Forms 1099 on Schedule 1-A, Part III, lines 14b. Total qualified overtime compensation will be reported on Schedule 1-A, Part III, line 14c.

Taxpayers may then figure the deduction as limited by the deduction cap of \$12,500 (\$25,000 MFJ) and the MAGI limitations following Schedule 1-A, lines 15 through 20. The total deduction available will be reported on Schedule 1-A, Line 21 and should be included in the total additional deductions reported on Form 1040, Line 13b.

[The IRS is expected to provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and other payors subject to the new reporting requirements.](#)

SCHEDULE 1-A—PART IV: NO TAX ON CAR LOAN INTEREST

See *Qualified Passenger Vehicle Loan Interest* on Page 5-9.

The 2025 Act introduced the No Tax on Car Loan Interest deduction for tax years 2025–2028 [IRC Sec. 163(h)(4)]. Effective for tax years 2025–2028, taxpayers may deduct up to \$10,000 per year for qualified passenger vehicle loan interest.

Note: Proposed regulations released in December 2025 clarify that since IRC Sec. 163(h)(4)(C)(i) does not provide a different deduction amount for joint filers, the \$10,000 limitation applies *per* Federal tax return. This means that the maximum deduction for joint filers is \$10,000; however, if two taxpayers are filing as married filing separately, the \$10,000 limitation would apply separately to each taxpayer's return [Prop. Reg. 1.163-16(h)(1)].

To qualify for the deduction, the interest must be paid on a loan that originated after December 31, 2024, for an applicable (**qualifying**) passenger vehicle. The vehicle must be for personal use (not for business or commercial use), and it must be a new vehicle (neither leased or used vehicles qualify). See *Qualified Passenger Vehicle Loan Interest* on Page 5-9 for more details.

Note: If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction.

This is a below-the-line-deduction available to both itemizing and non-itemizing taxpayers. Taxpayers must report the vehicle identification number (VIN) of the qualified vehicle on their tax return. The deduction is phased out by \$200 for each \$1,000 that the taxpayer's MAGI (as calculated on Schedule 1-A, Part I) exceeds \$100,000 (\$200,000 MFJ). The deduction is fully phased-out at MAGI of \$150,000 (\$250,000 MFJ).

Reporting. Taxpayers claiming the deduction should report the applicable passenger vehicle VIN on Schedule 1-A, Part IV, line 22, column (i). Taxpayers should receive Form 1098-VLI (Vehicle

Loan Interest Statement) or an equivalent for specified passenger vehicle loan interest payments of \$600 or more made during the year. Total interest for the loan being claimed as a deduction on Schedule 1-A should be reported on line 22, column (iii).

Note: Taxpayers cannot claim interest deduction on Schedule C, E, or F for the same interest deducted on Schedule 1-A. Report any interest deducted on Schedules C, E or F on Schedule 1-A, Part IV, line 22, column (ii).

The total qualified car loan interest will be the sum of all loan interest reported on line 22 column (iii) and reported on Schedule 1-A, line 23. Taxpayers may then figure the deduction as limited by the deduction cap of \$10,000 and the MAGI limitations following Schedule 1-A, lines 24 through 29. The total deduction available will be reported on Schedule 1-A, Line 30 and should be included in the total additional deductions reported on Form 1040, Line 13b.

The IRS provided transitional relief for 2025 for lenders and other interest recipients subject to the new filing requirements (Notice 2025-57).

SCHEDULE 1-A—PART V: ENHANCED DEDUCTION FOR SENIORS

The 2025 Act introduced the Enhanced Deduction for Seniors for tax years 2025–2028 [IRC Sec. 151(d)(5)(C)]. Effective for tax years 2025–2028, “qualified individuals” can claim a new \$6,000 senior deduction (\$12,000 if MFJ and both taxpayers are qualified individuals). A *qualified individual* is a taxpayer age 65 or older before the close of the tax year.

This is a below-the-line-deduction available to both itemizing and non-itemizing taxpayers. The qualified individual(s) must include their SSN on their tax return. Married taxpayers must file a joint return with their spouse to qualify for the deduction. Taxpayers filing as married filing separately status are not eligible for the deduction. The deduction is phased out by 6% of any excess of the taxpayer’s MAGI (as calculated on Schedule 1-A, Part I) above \$75,000 (\$150,000 MFJ). The new deduction is in addition to the existing standard deduction available to those 65+ or blind.

Observation: This new deduction is not directly related to social security benefits. As the deduction is below-the-line, it does not impact the taxability of social security benefits (which is calculated in part using AGI).

Reporting. Taxpayers claiming the deduction should report MAGI from Schedule 1-A, line 3 on Schedule 1-A, Part V, line 31 and continue to determine if their MAGI exceeds the \$75,000 (\$150,000 MFJ) limitation on Schedule 1-A, line 32. If taxpayer’s MAGI does not exceed the limitation, skip line 34 and enter \$6,000 on line 35. If taxpayer’s MAGI does exceed the limitation, multiply line 33 by 6% to calculate the phase out amount and report this on line 34. Subtract the 6% of excess MAGI reported on line 34 from \$6,000 and enter on line 35. If taxpayer is a qualified individual, enter the amount from line 35 on line 36a. If taxpayer’s spouse is also a qualified individual, enter the amount from line 35 on line 36b. Add lines 36a and 36b to arrive at the total enhanced deduction for seniors on line 37. This should be included in the total additional deductions reported on Form 1040, Line 13b.

Note: All available deductions to the taxpayer as calculated on Schedule 1-A will be summed up and reported on Schedule 1-A, Part VI, Line 38 and should be reported on Form 1040, Line 13b as one amount.

SCHEDULE 2—PART I: TAX

Excess Advance Premium Tax Credit(s) Repayment

Individuals can choose to have some or all of their estimated health insurance premium tax credit paid in advance. If the advance

payments exceed the actual credit amount computed on Form 8962 (Premium Tax Credit), the difference is an additional amount of tax due, reported on line 1a of Form 1040, Schedule 2. However, the repayment is limited to the lesser of the excess amount or the amount shown in the following table [IRC Sec. 36B(f)(2); Rev. Proc. 2024-40].

Excess Advance Premium Tax Credit Repayment Limitations		
Household income as a % of the federal poverty line	Single	Any other filing status
Less than 200%	\$ 375	\$ 750
200%–299%	975	1,950
300%–399%	1,625	3,250
400% or more	No limit	No limit

See *Advance Payment of the Credit* on Page 12-12.

Repayment of New Clean Vehicle Credit(s) Transferred to Registered Dealer

Form 8936. Repayment of credit from Schedule A (Form 8936), Part II. See *Clean Vehicle Credit* on Page 11-6.

Repayment of Previously-owned Clean Vehicle Credit(s) Transferred to Registered Dealer

Form 8936. Repayment of credit from Schedule A (Form 8936), Part IV. See *Previously-owned (Used) Clean Vehicle Credit* on Page 11-8.

Recapture of Certain Credits and Payments

Form 4255. Form 4255 (Certain Credit Recapture, Excessive Payments, and Penalties) captures (in addition to prior year recaptured credits) the net elective payment election (EPE) amount, excessive payments (EPs) and penalties, and 20% penalty in Part I. Part II provides the recapture worksheet.

Alternative Minimum Tax

Form 6251. See *Alternative Minimum Tax (AMT)* on Page 12-15.

SCHEDULE 2—PART II: OTHER TAXES

Self-Employment Tax

See *Schedule SE—Self-Employment Tax* on Page 6-15.

Unreported Social Security and Medicare Tax

Tip income not reported to employer—Form 4137. An employee is required to report tips of \$20 or more per month to the employer. The employer is required to withhold FICA taxes on the reported tips. **Note:** Even though tips of less than \$20 per month are not subject to FICA, they are subject to income tax. IRS Pub. 531 (Reporting Tip Income) provides instructions on keeping daily tip records and reporting to employers. Form 4070A and Form 4070 are historical forms but can be found on <https://www.irs.gov/forms-pubs/prior-year>.

- Form 4070A** (Employee’s Daily Record of Tips). Employees can use this form (or a similar record) to establish the amount of tip income received during the year. Good records are necessary if actual income is less than that reported under allocated tips.
- Form 4070** (Employee’s Report of Tips to Employer). Employees use this form or a similar statement to report tips of \$20 or more per month to the employer. Tips must be reported by the 10th day of the following month.

Form 4137 (Social Security and Medicare Tax on Unreported Tip Income) is used to compute the social security and Medicare tax owed on tips not reported to the employer, including any allocated tips shown on Form W-2 that must be reported as income. These tips will then be credited to the employee’s social security record.

The employment taxes on the unreported tip income is reported on Form 1040, Schedule 2, line 5.

Form 4137 must be filed if an employee received:

- Cash and charge tips of \$20 or more in a calendar month and did not report all of those tips to the employer, or
- Form W-2 with allocated tips that must be reported as income shown in box 8.

The employer reports allocated tips in box 8 of Form W-2; they are not included in box 1 with taxable wages and reported tips. The employee must report the allocated tips as wage income on line 1c of Form 1040, unless they have adequate tip records to substantiate a smaller amount.

Note: Allocated tips are tips that an employer assigns to an employee in addition to those the employee reported to the employer during the year. This occurs if:

- The employer is a restaurant, cocktail lounge, or similar business that must allocate tips to employees; and
- The tips the employee reported to the employer were less than their share of 8% of food and drink sales.

The allocated amount is based on a percentage of the establishment's gross receipts that are deemed to be tips. For more information on allocated tips, see *Waiters and Waitresses* in Tab 12 of the *Individuals—Special Tax Situations Quickfinder® Handbook*.

Uncollected social security and Medicare tax on wages—Form 8919. A taxpayer files Form 8919 to pay FICA taxes when they believe they have been misclassified as an independent contractor (rather than an employee) by their employer. These taxes are reported on Form 1040, Schedule 2, line 6. Form 8919 is required when all of the following are true:

- The individual performed services for a firm.
- The firm did not withhold the individual's share of social security and Medicare taxes.
- The individual believes that their pay from the firm was not for services as an independent contractor.
- One of the following reason codes (listed on Form 8919) applies to the individual:
 - A—They filed Form SS-8 (Determination of Worker Status or Purposes of Federal Employment Taxes and Income Tax Withholding) and received a determination letter stating they are an employee of the firm.
 - C—They received other IRS correspondence stating they are an employee.
 - G—They filed Form SS-8 and has yet to receive a reply from the IRS.
 - H—They received a Form W-2 and a Form 1099-MISC and/or 1099-NEC from the same firm for 2025 and the amount on Form 1099-MISC and/or 1099-NEC should have been included as wages on Form W-2. (Do not file Form SS-8 if selecting reason code H.)

Practice Tip: If none of the reason codes listed above apply, a taxpayer who believes that they should have been treated as an employee should file Form SS-8 on or before the day their Form 1040 is due. Then, they can file Form 8919 and check reason code "G."

Additional Tax on IRAs or Other Tax-Favored Accounts

Form 5239. See Tab 14.

Household Employment Taxes

Schedule H. See *Household Employers* on Page 12-18.

Additional 0.9% Medicare Tax on Earnings

Wages and compensation as well as self-employment (SE) income are subject to a 0.9% additional Medicare tax to the extent they

exceed the thresholds shown in *Additional Medicare Tax Earnings Thresholds* on Page 4-28 [IRC Secs. 1401(b)(2) and 3101(b)(2)].

Additional Medicare Tax Earnings Thresholds	
Filing Status	Tax imposed on Medicare earnings over:
MFJ	\$ 250,000
Single, HOH, QSS	200,000
MFS	125,000

Note: The threshold for SE earnings may be adjusted if the taxpayer also has wages. See *Threshold amounts for self-employed individuals* on Page 4-28.

Employer's obligation to withhold the tax. An employer must withhold the additional Medicare tax from wages only to the extent that the employee receives Medicare wages (box 5 of Form W-2) from the employer in excess of \$200,000 in a calendar year. Any withholding is included in the amount in box 6 (Medicare tax withheld) of the employee's Form W-2. In determining whether Medicare wages exceed \$200,000, the employer does not consider the employee's filing status or other wages or compensation that might impact the employee's liability for the tax [IRC Sec. 3102(f)].

Observation: The amount of Medicare wages can be greater than taxable wages because certain items [for example, employee pre-tax elective deferrals to a 401(k) plan] are subject to Medicare tax but not income tax. In some situations, individuals will owe the additional Medicare tax, but it will not be withheld by the employer. This could occur when an individual works for more than one employer during the year and earns more than the threshold amount in total, but less than \$200,000 from any of their employers. Likewise, when married individuals both work and together earn over \$250,000, but neither earns more than \$200,000, the tax will not be withheld.

Example #1: Winston Corporation has two employees that it knows are married to each other and who each receive \$150,000 of Medicare wages. So Winston knows their combined Medicare wages exceed the \$250,000 threshold for taxpayers filing jointly. However, Winston should not combine their Medicare wages to determine whether additional Medicare tax should be withheld. Since neither employee's Medicare wages exceed \$200,000, Winston should not withhold the additional Medicare tax from either of their wages.

Example #2: Jim is married and files a joint return. For 2025, Jim has \$190,000 of Medicare wages and his wife, Kim, receives Medicare wages of \$150,000. Neither Jim's nor Kim's Medicare wages are in excess of \$200,000, so neither of their employers is required to withhold additional Medicare tax. Jim and Kim will have to pay additional Medicare tax on \$90,000 (\$340,000 minus the \$250,000 threshold for a joint return).

If an employer fails to withhold the additional Medicare tax, the employee is liable for the tax. The IRS will not collect the tax from the employer if the employee pays the tax. However, the employer would be subject to any applicable penalties or additions to tax for failure to withhold the tax as required.

Threshold amounts for self-employed individuals. The thresholds for determining the additional Medicare tax for self-employed individuals are the same as for employees, except that a self-employed person must reduce their threshold (but not below zero) by any wages taken into account in determining the taxpayer's additional Medicare tax. *Exception:* The threshold is not reduced for any Railroad Retirement Tax Act (RRTA) compensation.

Example: Elliott and Felicia file MFJ. Elliott has \$140,000 in SE income, while Felicia has \$130,000 in Medicare wages. Because her Medicare wages are not in excess of \$200,000, Felicia's employer did not withhold additional Medicare tax. But, Felicia's Medicare wages reduce Elliott's SE income threshold to \$120,000 (\$250,000 threshold minus \$130,000 of wages). Elliott and Felicia are subject to additional Medicare tax on \$20,000 of Elliott's SE income (\$140,000 SE income minus the reduced threshold of \$120,000).

Allocating Home Mortgage Interest

Special rules apply to qualified residence interest. See *Interest—Mortgages* on Page 5-9 for more information.

INVESTMENT INTEREST EXPENSE

Form 4952; See also IRS Pub. 550

Investment Interest

Investment interest is interest paid on money borrowed (including margin interest) to buy investment property such as stocks, bonds, and mutual funds and is deductible each year up to the amount of net investment income received.

Investment interest expense not allowed in the current year because of the investment income limitation is carried forward indefinitely.

👁️ **Observation:** Deductible investment interest expense offsets total investment income when computing the 3.8% NIIT. See *3.8% Net Investment Income Tax* on Page 12-17 for details.

Investment property includes:

- Property that produces interest, dividends, annuities, or royalties (not from trade or business).
- Property that produces gain or loss from the sale or trade of property held for producing these types of income or held for investment (other than passive activities).



Net investment income. The excess of investment income over investment expenses (other than interest expense).

Investment income includes:

- Income from property held for investment (such as interest, non-qualified dividends, annuities, and royalties).
- Excess of net gains over any net capital gain (defined later in this section) from the sale of investment property (essentially, net gain from the sale of investment property that is taxed at ordinary tax rates). **Note:** Net gain for the year is computed taking capital loss carryovers into account (Ltr. Rul. 9549002; *Lenahan*, TC Summary Opinion 2002-124).
- Investment income of a child whose income is reported on the parent's return (Form 8814).

Investment income does not include:

- Net capital gain (excess of net long-term capital gain over net short-term capital losses), unless elected (see *Net Capital Gain/Qualified Dividend Election* on Page 5-9).
- Qualified dividend income, unless elected.
- Alaska Permanent Fund dividends.

Net Capital Gain/Qualified Dividend Election

Net investment income does not include net capital gain or qualified dividend income eligible for the favorable long-term capital gain rate (0%, 15%, or 20%). However, an election is available to treat all or part of net capital gain and/or qualified dividend income as investment income, provided the taxpayer reduces the amount of long-term gain or dividend income eligible for the lower tax rates. The election is made on Form 4952.

Electing to Capitalize Taxes and Interest

Taxpayers can elect annually to capitalize taxes and interest on unimproved and unproductive land rather than taking a current tax deduction [Reg. 1.266-1(b)(1)]. The election is made by filing a statement with the original return for the year the election is made. It is effective only for the year for which it is made. The election is useful when the taxpayer does not benefit from deducting the expense, such as when itemized deductions do not exceed the standard deduction, or when investment interest expense is limited by investment income.

QUALIFIED PASSENGER VEHICLE LOAN INTEREST

Schedule 1-A (Form 1040)

📌 **Law Change Alert:** For tax years 2025–2028, the 2025 Act allows a deduction of up to \$10,000 per year for qualified passenger vehicle loan interest [IRC Sec. 163(h)(4)].

Definition. Qualified passenger vehicle loan interest means any interest which is paid or accrued during the tax year on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of an applicable passenger vehicle for personal use, secured by a first lien on the vehicle [IRC Sec. 163(h)(4)(B)].

🔗 **Note:** Proposed regulations released in December 2025 specifies that a vehicle is considered purchased for personal use if, at the time the loan is incurred, the taxpayers expects the vehicle to be used for personal use more than 50% of the time (REG-113515-25).

Applicable passenger vehicle. Applicable passenger vehicle means any vehicle [IRC Sec. 163(h)(4)(D)]:

- 1) the original use of which commences with the taxpayer,
- 2) which is manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails),
- 3) which has at least 2 wheels,
- 4) which is a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle,
- 5) which is treated as a motor vehicle for purposes of title II of the Clean Air Act, and,
- 6) which has a gross vehicle weight rating of less than 14,000 pounds.

Final assembly of the vehicle must occur within the United States (<https://www.nhtsa.gov/vin-decoder>).

Limitation. This deduction will begin to phase out for taxpayers with MAGI of \$100,000 for single filers (\$200,000 for MFJ) [IRC Sec. 163(h)(4)(C)(ii)].

Reporting. This is a below-the-line deduction, meaning taxpayers taking the standard deduction instead of itemizing deductions on Schedule A may also take this deduction. Taxpayers must report the vehicle identification number (VIN) on their tax return [IRC Sec. 163(h)(4)(B)(iii)]. See *Schedule 1-A—Part IV: No Tax on Car Loan Interest* on Page 4-26 for further details on how to claim this deduction.

INTEREST—MORTGAGES

See also IRS Pub. 936

The maximum amount of acquisition indebtedness for which the mortgage interest is deductible to indebtedness of \$750,000 (\$375,000 if MFS) [IRC Sec. 163(h)(3)(F)]. In addition, interest paid on home equity indebtedness is not deductible unless the debt qualifies as acquisition indebtedness (that is, proceeds were used to buy, build, or substantially improve the home).

🔗 **Note:** The 2025 Act has permanently extended the \$750,000 (\$375,000 if MFS) cap on acquisition debt [IRC Sec. 163(h)(3)(F), as amended by the 2025 Act]. It also extended the moratorium on deducting home equity interest unless the loan proceeds are used to improve the property.

👁️ **Observation:** Taxpayers who incurred their debt on or before December 15, 2017 apply, the former \$1 million (\$500,000 if MFS) debt limit.

Qualified Residence Interest

Instead of using the interest-tracing rules, qualified residence interest is defined and deducted as follows:

- 1) *Acquisition debt—mortgages incurred after October 13, 1987:*
 - Debt incurred to acquire, construct, or substantially improve the taxpayer's main or second home. (Interest on a third home is nondeductible personal interest unless the home is business or investment property.)

Continued on the next page

Note: Taxpayers not using all their home mortgage loan proceeds to buy, build, or substantially improve their home must indicate on line 8 of Schedule A by checking the box.

- Debt must be secured by the home(s).
- For determining qualified residence interest, debt is limited to \$750,000 (\$375,000 if MFS) for mortgages incurred after December 15, 2017. For mortgages incurred on or before December 15, 2017, the debt limit is \$1 million (\$500,000 if MFS). See the *Deductible Home Mortgage Interest Worksheet* on Page 5-12 for calculating deductible interest when acquisition debt is more than the applicable threshold amount.

Note: For unmarried co-owners of a residence, the debt limits apply to each taxpayer, not to the property [Voss, 116 AFTR 2d 2015-5529 (9th Cir. 2015)]. The IRS announced that it will follow the Voss decision (AOD 2016-02).



- Refinancing of an acquisition debt is considered acquisition debt to the extent it does not exceed the principal outstanding on the loan immediately before the refinancing.

Note: The \$1 million (\$500,000 if MFS) debt limitation applies to any indebtedness incurred on or before December 15, 2017, including refinanced qualified residence indebtedness originally incurred before that date to the extent the amount and term of the indebtedness resulting from the refinancing does not exceed the amount and term of the original indebtedness [IRC Sec. 163(h)(3)(F)(ii)]. Thus, the maximum dollar amount that may be treated as acquisition indebtedness will not decrease by reason of a refinancing.

Court Case: Taxpayers arranged to have their mortgage modified. Under the new loan terms, all the past-due interest accrued on the old loan was rolled into the new loan. The bank issued Form 1098, reporting the amount of interest it had received from them during that year. The taxpayers deducted the amount of interest they paid during the year plus the interest that was capitalized into the principal of their modified mortgage loan. The Tax Court disallowed the deduction, concluding that the mortgage interest deduction is limited to the amount of interest actually paid on the loan during the year. The deduction for the capitalized interest can be claimed if and when the capitalized interest is paid (Copeland, TC Memo 2014-226).

- Additional amounts borrowed to make substantial improvements to the home increase acquisition debt. This includes home equity loans, home equity lines of credit (HELOCs), and second mortgages used to buy, build, or substantially improve the taxpayer's home that secures the loan (IR-2018-32).



2) Home equity debt—after October 13, 1987:

- Debt secured by the home (main or second) that exceeds the acquisition debt. Interest paid on home equity debt generally is not deductible.

Exception: A home equity loan used to build an addition to an existing home is treated as acquisition indebtedness and therefore, interest paid is typically deductible, while interest on the same loan used to pay personal living expenses, such as credit card debts, is not (IR-2018-32). The loan must be secured by the taxpayer's home, not exceed the cost of the home and, when combined with other acquisition

indebtedness, not exceed the overall limit on acquisition indebtedness.

Example #1: In January 2025, Jack and Jane take out a \$500,000 mortgage to purchase a main home with a FMV of \$800,000. In February 2025, they take out a \$250,000 home equity loan to put an addition on the main home. Both loans are secured by the main home and the total does not exceed the cost of the home. Because the total amount of both loans does not exceed \$750,000, all of the interest paid on the loans is deductible.

Variation: If they used the home equity loan proceeds for personal expenses, such as paying off student loans and credit cards, then the interest on the home equity loan would not be deductible.

Example #2: In January 2025, Harold and Sally take out a \$500,000 mortgage to purchase a main home. The loan is secured by the main home. In February 2025, they take out a \$250,000 loan to purchase a vacation home. The loan is secured by the vacation home. Because the total amount of both mortgages does not exceed \$750,000, all of the interest paid on both mortgages is deductible.

Variation: If they took out a \$250,000 home equity loan on the main home to purchase the vacation home, then the interest on the home equity loan would not be deductible.

3) Grandfathered debt—mortgages incurred before October 14, 1987:

- All interest on debt secured by a main or second home is fully deductible, regardless of the purpose for which funds were used.
- Pre-October 14, 1987, debt reduces the limit that applies for additional acquisition debt incurred after October 13, 1987.
- Refinancing pre-October 14, 1987, debt after October 13, 1987, is treated as acquisition debt to the extent it does not exceed the outstanding principal immediately before the refinancing and the repayment period does not extend beyond:
 - The remaining term of the original debt, if the original debt was to be repaid over its term or
 - If the original debt was not to be repaid over its term, the term of the first refinancing (but not more than 30 years after the first refinancing).

Equitable owner. Taxpayers can deduct interest paid on a mortgage if they are the legal or equitable owner of the mortgaged real estate, even if they are not directly liable on the debt (Reg. 1.163-1). Chief Counsel Advice 201451027 addresses three fact patterns of the mortgage interest deduction, including when (1) one of the obligors is a deceased spouse and the bank issues Form 1098 under the deceased spouse's social security number; (2) the obligors are unmarried and the bank issues a Form 1098 under only one social security number, or under both; and (3) related persons co-own a house together and are liable on the mortgage and the bank issues Form 1098 under the name of one or both co-obligors. Funds paid from a joint account with two equal owners are presumed to be paid equally by each owner (absent evidence to the contrary). However, if the mortgage interest is paid from separate funds, each taxpayer is entitled to deduct all of the interest he pays with separate funds (CCA 201451027). See *Equitable owner* on Page 5-7 for more on who is considered an equitable owner of property.

Court Case #1: The Tax Court ruled that a taxpayer couldn't claim home mortgage interest deductions for making loan payments on a mortgage obtained by her brother on a home owned by him. The taxpayer was not able to establish that she was an equitable owner of the property (Puentes, TC Memo 2014-224).

Schedule C—Principal Business or Professional Activity Codes

The six-digit codes are based on the North American Industry Classification System (NAICS).
Select the category that best describes the primary business activity. Then, select the activity that best identifies the principal source of sales or receipts.

North American Industry Classification System (NAICS).	six-digit codes are based on the North American Industry Classification System (NAICS).	estate agent). Now find the six-digit code assigned to this activity (for example, 531210, the code for offices of real estate agents and brokers) and enter it on Schedule C, line B.
<p>These codes for the Principal Business or Professional Activity classify sole proprietorships by the type of activity they are engaged in to facilitate the administration of the Internal Revenue Code. These</p>	<p>Select the category that best describes your primary business activity (for example, Real Estate). Then select the activity that best identifies the principal source of your sales or receipts (for example, real</p>	<p>Note. If your principal source of income is from farming activities, you should file Schedule F.</p>
<p>Accommodation, Food Services, & Drinking Places</p> <p>Accommodation</p> <p>721310 Rooming & boarding houses, dormitories, & workers' camps</p> <p>721210 RV (recreational vehicle) parks & recreational camps</p> <p>721100 Traveler accommodation (including hotels, motels, & bed & breakfast inns)</p> <p>Food Services & Drinking Places</p> <p>722514 Cafeterias, grill buffets, & buffets</p> <p>722410 Drinking places (alcoholic beverages)</p> <p>722511 Full-service restaurants</p> <p>722513 Limited-service restaurants</p> <p>722515 Snack & non-alcoholic beverage bars</p> <p>722300 Special food services (including food service contractors & caterers)</p>	<p>113000 Forestry & logging (including forest nurseries & timber tracts)</p> <p>114210 Hunting & trapping</p> <p>Support Activities for Agriculture & Forestry</p> <p>115210 Support activities for animal production (including farriers)</p> <p>115110 Support activities for crop production (including cotton ginning, soil preparation, planting, & cultivating)</p> <p>115310 Support activities for forestry</p>	<p>238170 Siding contractors</p> <p>238910 Site preparation contractors</p> <p>238120 Structural steel & precast concrete construction contractors</p> <p>238340 Tile & terrazzo contractors</p> <p>238290 Other building equipment contractors</p> <p>238390 Other building finishing contractors</p> <p>238190 Other foundation, structure, & building exterior contractors</p> <p>238990 All other specialty trade contractors</p>
<p>Administrative & Support and Waste Management & Remediation Services</p> <p>Administrative & Support Services</p> <p>561430 Business service centers (including private mail centers & copy shops)</p> <p>561740 Carpet & upholstery cleaning services</p> <p>561440 Collection agencies</p> <p>561450 Credit bureaus</p> <p>561410 Document preparation services</p> <p>561300 Employment services</p> <p>561710 Exterminating & pest control services</p> <p>561210 Facilities support (management) services</p> <p>561600 Investigation & security services</p> <p>561720 Janitorial services</p> <p>561730 Landscaping services</p> <p>561110 Office administrative services</p> <p>561420 Telephone call centers (including telephone answering services & telemarketing bureaus)</p> <p>561500 Travel arrangement & reservation services</p> <p>561490 Other business support services (including repossession services, court reporting, & stenotype services)</p> <p>561790 Other services to buildings & dwellings</p> <p>561900 Other support services (including packaging & labeling services, & convention & trade show organizers)</p> <p>Waste Management & Remediation Services</p> <p>562000 Waste management & remediation services</p>	<p>Arts, Entertainment, & Recreation</p> <p>Amusement, Gambling, & Recreation Industries</p> <p>713100 Amusement parks & arcades</p> <p>713200 Gambling industries</p> <p>713900 Other amusement & recreation services (including golf courses, skiing facilities, marinas, fitness centers, bowling centers, skating rinks, miniature golf courses)</p> <p>Museums, Historical Sites, & Similar Institutions</p> <p>712100 Museums, historical sites, & similar institutions</p> <p>Performing Arts, Spectator Sports, & Related Industries</p> <p>711410 Agents & managers for artists, athletes, entertainers, & other public figures</p> <p>711510 Independent artists, writers, & performers</p> <p>711100 Performing arts companies</p> <p>711300 Promoters of performing arts, sports, & similar events</p> <p>711210 Spectator sports (including professional sports clubs & racetrack operations)</p>	<p>Educational Services</p> <p>611000 Educational services (including schools, colleges, & universities)</p>
<p>Agriculture, Forestry, Hunting, & Fishing</p> <p>112900 Animal production (including breeding of cats and dogs)</p> <p>114110 Fishing</p>	<p>Construction of Buildings</p> <p>236200 Nonresidential building construction</p> <p>236100 Residential building construction</p> <p>Heavy and Civil Engineering Construction</p> <p>237310 Highway, street, & bridge construction</p> <p>237210 Land subdivision</p> <p>237100 Utility system construction</p> <p>237990 Other heavy & civil engineering construction</p> <p>Specialty Trade Contractors</p> <p>238310 Drywall & insulation contractors</p> <p>238210 Electrical contractors</p> <p>238350 Finish carpentry contractors</p> <p>238330 Flooring contractors</p> <p>238130 Framing carpentry contractors</p> <p>238150 Glass & glazing contractors</p> <p>238140 Masonry contractors</p> <p>238320 Painting & wall covering contractors</p> <p>238220 Plumbing, heating & air-conditioning contractors</p> <p>238110 Poured concrete foundation & structure contractors</p> <p>238160 Roofing contractors</p>	<p>Finance & Insurance</p> <p>Credit Intermediation & Related Activities</p> <p>522100 Depository credit intermediation (including commercial banking, savings institutions, & credit unions)</p> <p>522200 Nondepository credit intermediation (including sales financing & consumer lending)</p> <p>522300 Activities related to credit intermediation (including loan brokers)</p> <p>Insurance Agents, Brokers, & Related Activities</p> <p>524210 Insurance agencies & brokerages</p> <p>524290 Other insurance related activities</p> <p>Securities, Commodity Contracts, & Other Financial Investments & Related Activities</p> <p>523160 Commodity contracts intermediation</p> <p>523150 Investment banking & securities intermediation</p> <p>523210 Securities & commodity exchanges</p> <p>523900 Other financial investment activities (including investment advice)</p> <p>Health Care & Social Assistance</p> <p>Ambulatory Health Care Services</p> <p>621610 Home health care services</p> <p>621510 Medical & diagnostic laboratories</p> <p>621310 Offices of chiropractors</p> <p>621210 Offices of dentists</p> <p>621330 Offices of mental health practitioners (except physicians)</p> <p>621320 Offices of optometrists</p> <p>621340 Offices of physical, occupational & speech therapists, & audiologists</p> <p>621111 Offices of physicians (except mental health specialists)</p> <p>621112 Offices of physicians, mental health specialists</p> <p>621391 Offices of podiatrists</p> <p>621399 Offices of all other miscellaneous health practitioners</p>
		<p>621400 Outpatient care centers</p> <p>621900 Other ambulatory health care services (including ambulance services, blood, & organ banks)</p> <p>Hospitals</p> <p>622000 Hospitals</p> <p>Nursing & Residential Care Facilities</p> <p>623000 Nursing & residential care facilities</p> <p>Social Assistance</p> <p>624410 Childcare services</p> <p>624200 Community food & housing, & emergency & other relief services</p> <p>624100 Individual & family services</p> <p>624310 Vocational rehabilitation services</p> <p>Information</p> <p>Publishing Industries</p> <p>513000 Publishing industries</p> <p>Broadcasting & Content Providers & Telecommunications</p> <p>516000 Broadcasting & content providers</p> <p>517000 Telecommunications (including Wired, Wireless, Satellite, Cable & Other Program Distribution, Resellers, Agents, Other Telecommunications, & Internet service providers)</p> <p>Data Processing, Web Search Portals, & Other Information Services</p> <p>518210 Computing infrastructure providers, data processing, web hosting, & related services</p> <p>519200 Web search portals, libraries, archives, & other info. services</p> <p>Motion Picture & Sound Recording</p> <p>512100 Motion picture & video industries (except video rental)</p> <p>512200 Sound recording industries</p> <p>Manufacturing</p> <p>315000 Apparel mfg.</p> <p>312000 Beverage & tobacco product mfg.</p> <p>334000 Computer & electronic product mfg.</p> <p>335000 Electrical equipment, appliance, & component mfg.</p> <p>332000 Fabricated metal product mfg.</p> <p>337000 Furniture & related product mfg.</p> <p>333000 Machinery mfg.</p> <p>339110 Medical equipment & supplies mfg.</p> <p>322000 Paper mfg.</p> <p>324100 Petroleum & coal products mfg.</p> <p>326000 Plastics & rubber products mfg.</p> <p>331000 Primary metal mfg.</p> <p>323100 Printing & related support activities</p> <p>313000 Textile mills</p> <p>314000 Textile product mills</p> <p>336000 Transportation equipment mfg.</p> <p>321000 Wood product mfg.</p> <p>339900 Other miscellaneous mfg.</p> <p>Chemical Manufacturing</p> <p>325100 Basic chemical mfg.</p>

Note: These codes are from 2024 instructions. 2025 instructions not available at the date of publication.

Schedule C—Principal Business or Professional Activity Codes (Continued)

325500 Paint, coating, & adhesive mfg.	811190 Other automotive repair & maintenance (including oil change & lubrication shops & car washes)	532282 Video tape & disc rental	459410 Office supplies & stationery retailers
325300 Pesticide, fertilizer, & other agricultural chemical mfg.		532289 Other consumer goods rental	459910 Pet & pet supplies retailers
325410 Pharmaceutical & medicine mfg.	811310 Commercial & industrial machinery & equipment (except automotive & electronic) repair & maintenance	Religious, Grantmaking, Civic, Professional, & Similar Organizations	459510 Used merchandise retailers
325200 Resin, synthetic rubber, & artificial & synthetic fibers & filaments mfg.		813000 Religious, grantmaking, civic, professional, & similar organizations	459990 All other miscellaneous retailers (including tobacco, candle, & trophy retailers)
325600 Soap, cleaning compound, & toilet preparation mfg.	811210 Electronic & precision equipment repair & maintenance	Retail Trade	Nonstore Retailers
325900 Other chemical product & preparation mfg.	811430 Footwear & leather goods repair	Building Material & Garden Equipment & Supplies Dealers	xx Nonstore retailers sell all types of merchandise using such methods as Internet, mail-order catalogs, interactive television, or direct sales. These types of Retailers should select the PBA associated with their primary line of products sold.
Food Manufacturing	811410 Home & garden equipment & appliance repair & maintenance	444140 Hardware retailers	xx For example, establishments primarily selling prescription and non-prescription drugs, select PBA code <i>456110 Pharmacies & Drug Retailers.</i>
311110 Animal food mfg.	811420 Reupholstery & furniture repair	444110 Home centers	
311800 Bakeries, tortilla, & dry pasta mfg.	811490 Other personal & household goods repair & maintenance	444200 Lawn & garden equipment & supplies retailers	
311500 Dairy product mfg.	Professional, Scientific, & Technical Services	444120 Paint & wallpaper retailers	
311400 Fruit & vegetable preserving & speciality food mfg.	541100 Legal services	444180 Other building materials dealers	
311200 Grain & oilseed milling	541211 Offices of certified public accountants	Clothing & Accessories Retailers	
311610 Animal slaughtering & processing	541214 Payroll services	458110 Clothing & clothing accessories retailers	
311710 Seafood product preparation & packaging	541213 Tax preparation services	458310 Jewelry retailers	
311300 Sugar & confectionery product mfg.	541219 Other accounting services	458320 Luggage & leather goods retailers	
311900 Other food mfg. (including coffee, tea, flavorings, & seasonings)	Architectural, Engineering, & Related Services	458210 Shoe retailers	
Leather & Allied Product Manufacturing	541310 Architectural services	Electronic & Appliance Retailers	
316210 Footwear mfg. (including leather, rubber, & plastics)	541350 Building inspection services	449210 Electronics & appliance retailers (including computers)	
316110 Leather & hide tanning & finishing	541340 Drafting services	Food & Beverage Retailers	
316990 Other leather & allied product mfg.	541330 Engineering services	445320 Beer, wine, & liquor retailers	
Nonmetallic Mineral Product Manufacturing	541360 Geophysical surveying & mapping services	445250 Fish & seafood retailers	
327300 Cement & concrete product mfg.	541320 Landscape architecture services	445230 Fruit & vegetable retailers	
327100 Clay product & refractory mfg.	541370 Surveying & mapping (except geophysical) services	445100 Grocery & convenience retailers	
327210 Glass & glass product mfg.	541380 Testing laboratories & services	445240 Meat retailers	
327400 Lime & gypsum product mfg.	Computer Systems Design & Related Services	445290 Other specialty food retailers	
327900 Other nonmetallic mineral product mfg.	541510 Computer systems design & related services	445132 Vending machine operators	
Mining	Specialized Design Services	Furniture & Home Furnishings Retailers	
212110 Coal mining	541400 Specialized design services (including interior, industrial, graphic, & fashion design)	449110 Furniture retailers	
211120 Crude petroleum extraction	Other Professional, Scientific, & Technical Services	449120 Home furnishings retailers	
212200 Metal ore mining	541800 Advertising, public relations, & related services	Gasoline Stations & Fuel dealers	
211130 Natural gas extraction	541600 Management, scientific, & technical consulting services	457100 Gasoline stations (including convenience stores with gas)	
212300 Nonmetallic mineral mining & quarrying	541910 Market research & public opinion polling	457210 Fuel dealers (including heating oil & liquefied petroleum)	
213110 Support activities for mining	541920 Photographic services	General Merchandise Retailers	
Other Services	541700 Scientific research & development services	455000 General merchandise retailers	
Personal & Laundry Services	541930 Translation & interpretation services	Health & Personal Care Retailers	
812111 Barber shops	541940 Veterinary services	456120 Cosmetics, beauty supplies, & perfume retailers	
812112 Beauty salons	541990 All other professional, scientific, & technical services	456130 Optical goods retailers	
812220 Cemeteries & crematories	Real Estate & Rental & Leasing	456110 Pharmacies & drug retailers	
812310 Coin-operated laundries & drycleaners	Real Estate	456190 Other health & personal care retailers	
812320 Drycleaning & laundry services (except coin-operated) (including laundry & drycleaning drop-off & pickup sites)	531100 Lessors of real estate (including miniwarehouses & self-storage units)	Motor Vehicle & Parts Dealers	
812210 Funeral homes & funeral services	531210 Offices of real estate agents & brokers	441300 Automotive parts, accessories, & tire retailers	
812330 Linen & uniform supply	531320 Offices of real estate appraisers	441222 Boat dealers	
812113 Nail salons	531310 Real estate property managers	441227 Motorcycle, ATV, & all other motor vehicle dealers	
812930 Parking lots & garages	531390 Other activities related to real estate	441110 New car dealers	
812910 Pet care (except veterinary) services	Rental & Leasing Services	441210 Recreational vehicle dealers (including motor home & travel trailer dealers)	
812920 Photofinishing	532100 Automotive equipment rental & leasing	441120 Used car dealers	
812190 Other personal care services (including diet & weight reducing centers)	532400 Commercial & industrial machinery & equipment rental & leasing	Sporting Goods, Hobby, Book, Musical Instrument & Miscellaneous Retailers	
812990 All other personal services	532210 Consumer electronics & appliances rental	459210 Book retailers & news dealers (including newsstands)	
Repair & Maintenance	532281 Formal wear & costume rental	459120 Hobby, toy, & game retailers	
811120 Automotive body, paint, interior, & glass repair	532310 General rental centers	459140 Musical instrument & supplies retailers	
811110 Automotive mechanical & electrical repair & maintenance	532283 Home health equipment rental	459130 Sewing, needlework, & piece goods retailers	
	532284 Recreational goods rental	459110 Sporting goods retailers	
		459920 Art dealers	
		459310 Florists	
		459420 Gift, novelty, & souvenir retailers	
		459930 Manufactured (mobile) home dealers	

Note:—These codes are from 2024 instructions. 2025 instructions not available at the date of publication.

Social Security

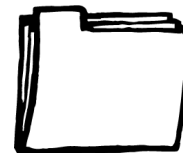


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SOCIAL SECURITY BENEFITS

- 1) **Retirement.** Monthly benefits paid to retired workers as early as age 62.
- 2) **Family.** Monthly benefits paid to spouse, children (including dependent adults who have been disabled since childhood), and some ex-spouses of retired and disabled workers.
- 3) **Survivor.** Monthly benefits paid to the surviving spouse, children (including dependent adults who have been disabled since childhood), some ex-spouses, and dependent parents of a deceased worker.
- 4) **Disability.** Monthly benefits paid to workers under age 65 with a qualifying disability.
- 5) **Supplemental Security Income (SSI).** Monthly benefits to disabled adults and children who have limited income and resources and to people age 65 and older without disabilities who meet the financial limits. See *Supplemental Security Income* on Page 14-33.



Social Security and Medicare Highlights

	2026 ⁵	2025	2024
Cost-of-living (COLA) adjustment	2.80%	2.50%	3.20%
Maximum earnings and still receive full social security benefits:			
Under full retirement age (FRA) at year-end	\$ 24,480	\$ 23,400	\$ 22,320
Year FRA reached ¹	65,160	62,160	59,520
Month FRA reached and later.....	No Limit	No Limit	No Limit
Maximum earnings subject to:			
Social security tax.....	\$ 184,500	\$ 176,100	\$ 168,600
Medicare tax	No Limit	No Limit	No Limit
Tax Rates			
Employee:			
Social security	6.20%	6.20%	6.20%
Medicare.....	1.45 ²	1.45 ²	1.45 ²
Employer:			
Social security	6.20%	6.20%	6.20%
Medicare.....	1.45	1.45	1.45
Self-Employed:			
Social security	12.40%	12.40%	12.40%
Medicare.....	2.90 ²	2.90 ²	2.90 ²
Earnings needed to earn one quarter of social security coverage	\$ 1,890	\$ 1,810	\$ 1,730
Medicare:			
Part A monthly premium ³	\$ 565.00	\$ 518.00	\$ 505.00
Part B monthly premium ⁴	202.90	185.00	174.70
Hospital deductible	1,736.00	1,676.00	1,632.00
Medical deductible.....	283.00	257.00	240.00

¹ Limit applies only to months before attaining FRA. See *Earnings May Reduce Benefits* on Page 14-28.

² Plus 0.9% additional Medicare tax on earned income exceeding \$200,000 (\$250,000 combined earned income if MFJ; \$125,000 if MFS).

³ Applies if less than 40 quarters of covered employment. Lower premium if 30–39 quarters of covered employment. See *Medicare Part A Premiums (2026)* on Page 14-30.

⁴ Beneficiaries with higher incomes pay a higher premium. See *Medicare Part B Premiums (2026)* on Page 14-31.

⁵ Amounts not available at time of publication.

Social Security Statement

An individual's social security statement is available at www.ssa.gov/myaccount. To access the statement, individuals must create a *my Social Security* account. The statement includes estimates of the individual's retirement and disability benefits, lifetime earnings according to social security's records, and the estimated social security and Medicare taxes the individual has paid.

Digital Social Security Card

The Social Security Administration (SSA) provides a secure, accessible alternative to physical social security cards. Individuals with a *my Social Security* account can securely view their Social Security Number (SSN) online through the *my Social Security* portal on their computer or mobile device.

Estimating Social Security Benefits

An estimate of social security benefits can be found on the social security statement or online at www.ssa.gov/prepare/plan-retirement. There are calculators that estimate potential benefit amounts using assumptions about retirement dates and different levels of future earnings. The calculators show retirement benefits as well as disability and survivor benefit amounts.

Tax on Social Security Benefits

A portion of social security benefits is taxed if income above a "base amount" (based on filing status) is received in addition to social security benefits (IRC Sec. 86). Form SSA-1099 is received each January showing the amount of benefits received in the previous year. See the *Social Security Benefits Worksheet (2025)* on Page 3-13.

Single and HOH returns. If combined income is over \$25,000 (base amount) and under \$34,001, up to 50% of benefits are taxable. If combined income is above \$34,000, up to 85% of benefits are taxable.

Joint returns. If combined income is over \$32,000 (base amount) and under \$44,001, up to 50% of benefits are taxable. If combined income is above \$44,000, up to 85% of benefits are taxable.

Married filing separate returns. If the taxpayer lived apart from his spouse all year, benefits are taxed the same as for a single person. If the taxpayer lived with his spouse at any time during the year, the base amount is \$0 and the taxpayer will generally pay tax on up to 85% of benefits regardless of income.

Social Security Quick Chart—Retirement Benefits (2026)

	Early Retirement (Permanently Reduced Benefits)	Full Retirement (Full Benefits)	Delayed Retirement (Permanently Increased Benefits)																																																		
Eligibility for Benefits	Workers are eligible for early retirement benefits at age 62. Note: If retirement is disability-related, apply for disability benefits, which generally equal full retirement benefits.	Full retirement age (FRA) (see below) is when a worker can retire and collect full retirement benefits.	Delayed retirement is available for a worker over the FRA. At age 70, workers automatically receive benefits.																																																		
Age and Benefit Payments	Receiving benefits before FRA permanently reduces monthly benefits based on number of months benefits received before FRA. Spousal benefits based on the worker's coverage are also reduced. <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2">% of Full Benefits if Worker Receives Benefits at Age 62</th> </tr> <tr> <th>Worker</th> <th>Spouse</th> </tr> </thead> <tbody> <tr> <td>1943–1954</td> <td>70.00%</td> </tr> <tr> <td>1955</td> <td>74.17</td> </tr> <tr> <td>1956</td> <td>73.33</td> </tr> <tr> <td>1957</td> <td>72.50</td> </tr> <tr> <td>1958</td> <td>71.61</td> </tr> <tr> <td>1959</td> <td>70.83</td> </tr> <tr> <td>After 1959</td> <td>70.00</td> </tr> </tbody> </table>	% of Full Benefits if Worker Receives Benefits at Age 62		Worker	Spouse	1943–1954	70.00%	1955	74.17	1956	73.33	1957	72.50	1958	71.61	1959	70.83	After 1959	70.00	FRA depends on the year the worker was born. <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Worker Born</th> <th>Full Retirement Age</th> </tr> </thead> <tbody> <tr> <td>1943–1954</td> <td>66 yrs, 0 months</td> </tr> <tr> <td>1955</td> <td>66 yrs, 2 months</td> </tr> <tr> <td>1956</td> <td>66 yrs, 4 months</td> </tr> <tr> <td>1957</td> <td>66 yrs, 6 months</td> </tr> <tr> <td>1958</td> <td>66 yrs, 8 months</td> </tr> <tr> <td>1959</td> <td>66 yrs, 10 months</td> </tr> <tr> <td>After 1959</td> <td>67 yrs, 0 months</td> </tr> </tbody> </table>	Worker Born	Full Retirement Age	1943–1954	66 yrs, 0 months	1955	66 yrs, 2 months	1956	66 yrs, 4 months	1957	66 yrs, 6 months	1958	66 yrs, 8 months	1959	66 yrs, 10 months	After 1959	67 yrs, 0 months	Delaying benefits past FRA increases benefits as follows: <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Worker Born</th> <th>Increase in Benefits Each Year After FRA</th> </tr> </thead> <tbody> <tr> <td>1931–1932</td> <td>5.0%</td> </tr> <tr> <td>1933–1934</td> <td>5.5</td> </tr> <tr> <td>1935–1936</td> <td>6.0</td> </tr> <tr> <td>1937–1938</td> <td>6.5</td> </tr> <tr> <td>1939–1940</td> <td>7.0</td> </tr> <tr> <td>1941–1942</td> <td>7.5</td> </tr> <tr> <td>After 1942</td> <td>8.0</td> </tr> </tbody> </table>	Worker Born	Increase in Benefits Each Year After FRA	1931–1932	5.0%	1933–1934	5.5	1935–1936	6.0	1937–1938	6.5	1939–1940	7.0	1941–1942	7.5	After 1942	8.0
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Earnings Limit/Benefits Reduction
 Years before individual reaches full retirement age, benefits are reduced by \$1 for each \$2 earned over \$24,480.

	General Rule	Special-Rule—Certain Nonprofit Employees																								
Social Security Credits Needed for Coverage	Workers can earn up to four credits per year. For 2026, a credit is earned for each \$1,890 of earnings. So, workers earning at least \$7,560 in 2026 earn four credits.	Age on 1/1/84																								
Note: The same number of credits is required regardless of retirement date.	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Worker Born</th> <th>Credits Needed</th> </tr> </thead> <tbody> <tr> <td>1929 or later</td> <td>40</td> </tr> <tr> <td>1928</td> <td>39</td> </tr> <tr> <td>1927</td> <td>38</td> </tr> <tr> <td>1925</td> <td>37</td> </tr> <tr> <td>1926</td> <td>36</td> </tr> <tr> <td>1924</td> <td>35</td> </tr> </tbody> </table>	Worker Born	Credits Needed	1929 or later	40	1928	39	1927	38	1925	37	1926	36	1924	35	<table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td>60 or over</td> <td>6</td> </tr> <tr> <td>59</td> <td>8</td> </tr> <tr> <td>58</td> <td>12</td> </tr> <tr> <td>57</td> <td>16</td> </tr> <tr> <td>55 or 56</td> <td>20</td> </tr> </tbody> </table>	60 or over	6	59	8	58	12	57	16	55 or 56	20
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Medicare Quick Chart (2026)

Part	Description	Premiums	Deductible/Coinsurance
A	<i>Hospital Insurance.</i> Covers inpatient hospital care, care in a skilled nursing facility following a hospital stay, hospice and home health care and blood.	<ul style="list-style-type: none"> None if 40 or more quarters of Medicare coverage. \$311.00/mo if 30–39 quarters of Medicare coverage. \$565.00/mo for other eligible individuals. 	<i>Hospital stay:</i> <ul style="list-style-type: none"> \$1,736.00 for days 1–60. \$434.00/day for days 61–90. \$868.00/day for days 91–150. All costs beyond 150 days. <i>Skilled nursing facility:</i> <ul style="list-style-type: none"> \$217.00/day for days 21–100.
B	Medical Insurance. Covers doctors' services and other medical services and supplies.	\$202.90–689.90/mo., depending on income.	<ul style="list-style-type: none"> Deductible: \$283.00 Coinsurance: 20% of Medicare-approved amount.
Eligibility	Workers are not eligible for Medicare until they are age 65, are disabled or have permanent kidney failure. Receiving social security benefits before FRA has no impact.		

¹—Amounts not available at time of publication.

Social Security Quick Chart—Family, Survivor, and Disability Benefits (2026)

	Family Benefits (Worker Living)	Survivor Benefits (Worker Deceased)	Disability Benefits (Worker Disabled)																																			
<p>Eligibility for Benefits[†]</p> <p>Family members who may be eligible for benefits when worker retires:</p> <ul style="list-style-type: none"> • Spouse, if age 62 or older, unless spouse's own social security benefit is greater than half the worker's benefit. • Spouse at any age, if caring for the worker's child who is under age 16 or is disabled and receiving social security benefits. • Unmarried children, if they are: <ul style="list-style-type: none"> – Under age 18, – Age 18 or 19 if a full-time elementary or secondary school student or – Age 18 or older and disabled, if the disability started before age 22. 	<p>Family members of a deceased worker who may be eligible for benefits:</p> <ul style="list-style-type: none"> • Surviving spouse age 60 or older. • Surviving spouse age 50 or older and disabled. • Surviving spouse at any age if caring for the worker's child who is under age 16 or is disabled and receiving social security benefits. • Unmarried children, if they are: <ul style="list-style-type: none"> – Under age 18, – Age 18 or 19 if a and full-time elementary or secondary students or – Age 18 or older and disabled, if the disability started before age 22. • Dependent parents age 62 or older. • One-time death benefit of \$255 is payable to the surviving spouse or to minor children. 	<p>Workers can receive disability benefits at any age. At FRA, benefits become retirement benefits, but amount is the same. Family members who may be eligible for benefits when worker receives disability benefits:</p> <ul style="list-style-type: none"> • Spouse, if age 62 or older, unless spouse's own social security benefit is greater than half the worker's benefit. • Spouse at any age, if caring for the worker's child who is under age 16 or is disabled and receiving social security benefits. • Unmarried children, if they are: <ul style="list-style-type: none"> – Under age 18, – Age 18 or 19 if a full-time elementary or secondary school students or – Age 18 or older and disabled, if the disability started before age 22. 																																				
<p>Ex-Spouse (Divorced) Benefits[†]</p> <p>An ex-spouse (even if remarried) can receive benefits if he:</p> <ul style="list-style-type: none"> • Was married to the worker for at least 10 years, • Is unmarried and at least age 62, • Has been divorced at least two years and • Is not individually entitled to a retirement or disability benefit over half the worker's benefit. <p>Note: These benefits do not affect benefits received by the worker's family.</p>	<p>An ex-spouse (even if remarried) can receive benefits if he:</p> <ul style="list-style-type: none"> • Was married to the worker for at least 10 years, • Is unmarried and at least age 60 (age 50 if disabled), • Is not entitled to a surviving spouse's benefits, • Is not entitled to a retirement benefit over half the worker's full benefit or • Is caring for the deceased worker's child (who is entitled to child's benefits and is under age 16 or disabled). 	<p>An ex-spouse (even if remarried) can receive benefits if he:</p> <ul style="list-style-type: none"> • Was married to the worker at least 10 years, • Is unmarried and at least age 62 and • Is not individually entitled to a retirement or disability benefit over half the worker's full benefit. 																																				
<p>Credits Needed for Benefits[†]</p> <p>The same number of credits needed for workers to receive retirement benefits is needed for their families to receive family benefits. See <i>Social Security Quick Chart—Retirement Benefits (2026)</i> on Page 14-26.</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Credits Needed</th> </tr> <tr> <th style="text-align: center;">Worker Dies Before Age 62</th> <th style="text-align: center;">Worker Dies After Reaching Age 62</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Worker Born 1929 or earlier</td> <td style="text-align: center;">One credit for each year after 1950 and before the year of death</td> </tr> <tr> <td style="text-align: center;">After 1929</td> <td style="text-align: center;">One credit for each year after age 21 and before the year of death.</td> </tr> </tbody> </table> <p>Note: Workers never need more than 40 credits for their family to receive survivor benefits. Also, survivor benefits can be paid to the worker's children, and the worker's spouse who is caring for the children, if the worker has six credits in the three years before death.</p>	Credits Needed		Worker Dies Before Age 62	Worker Dies After Reaching Age 62	Worker Born 1929 or earlier	One credit for each year after 1950 and before the year of death	After 1929	One credit for each year after age 21 and before the year of death.	<p>Disabled at Age: Credits Needed</p> <p>Before age 24 Six credits in the three years before the disability began.</p> <p>Age 24–30 Credits for working half the time between age 21 and the time of disability</p> <p>Age 31 or older ... Number of credits needed depends on age (see below), and the worker must have earned 20 credits in the 10 years immediately before the disability began (unless the worker is blind).</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Disabled at Age:</th> <th style="text-align: left;">Credits Needed</th> <th style="text-align: left;">Disabled at Age:</th> <th style="text-align: left;">Credits Needed</th> </tr> </thead> <tbody> <tr> <td>31–42</td> <td>20</td> <td>52</td> <td>30</td> </tr> <tr> <td>44</td> <td>22</td> <td>54</td> <td>32</td> </tr> <tr> <td>46</td> <td>24</td> <td>56</td> <td>34</td> </tr> <tr> <td>48</td> <td>26</td> <td>58</td> <td>36</td> </tr> <tr> <td>50</td> <td>28</td> <td>60</td> <td>38</td> </tr> <tr> <td></td> <td></td> <td>62 or older</td> <td>40</td> </tr> </tbody> </table>	Disabled at Age:	Credits Needed	Disabled at Age:	Credits Needed	31–42	20	52	30	44	22	54	32	46	24	56	34	48	26	58	36	50	28	60	38			62 or older	40
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<p>Note: This table does not cover all situations.</p>																																						

Social Security Credits

A person becomes insured (eligible for social security benefits) by acquiring a certain number of credits. Wage earners and self-employed taxpayers earn one credit for each \$1,890 of earnings in 2026, up to a maximum of four credits per year. For example, if a worker earns \$7,560 in the first two months of 2026, he receives four credits (4 × \$1,890) for 2026.

In most cases, a worker needs 40 credits (10 years of work) to be eligible for social security retirement benefits. Exceptions apply for workers who become disabled or die. See the *Social Security Quick Chart—Retirement Benefits (2026)* on Page 14-26 and the *Social Security Quick Chart—Family, Survivor, and Disability Benefits (2026)* on Page 14-27 for details.

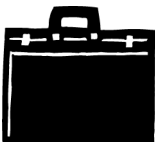
Note: Credits are only used to determine eligibility for coverage and have no effect on the amount of benefits payable.

Optional SE Tax Methods

Self-employment (SE) tax normally is due only when SE earnings are \$400 or more. However, some taxpayers with less than \$400 of net SE income may benefit by choosing to pay SE tax under one of the optional methods. Possible benefits include:

- Receiving credit for social security benefit coverage.
- Increasing the individual's earned income for computing the child and dependent care credit, earned income credit, or the additional child tax credit.

The optional methods are chosen by completing Schedule SE (Self-Employment Tax).



Farm optional method. Use the farm optional method only for SE earnings from a farming business and if either of the following tests is met (in 2025):

- 1) Gross farm income is \$10,860 or less.
- 2) Net farm profits are less than \$7,840.

Maximum income for the optional farm method is \$7,240 or the smaller of two-thirds of gross farm income.

Nonfarm optional method. This optional method is available for determining net SE earnings from a nonfarm business and is available when net nonfarm profit is less than \$7,840 (2025) and also less than 72.189% of gross nonfarm income. In addition, SE income must have been \$400 or more in two of the last three years. The nonfarm optional method cannot be used for more than five years, whether or not consecutive.

Workers Not Covered by Social Security

- Most federal employees hired before 1984. (Since January 1, 1983, all federal employees have paid the Medicare hospital insurance part of the social security tax.)
- Railroad employees with more than 10 years of service.
- Employees of some state and local governments that chose not to participate in social security.
- Children under age 18 who work for a parent, and children age 18 to 21 who work for a parent, but not in the parent's trade or business (for example, domestic services).

Special Rules Apply to Some Workers

- 1) *Domestic employees* in a private household are covered by social security if paid at least \$2,800 in 2025.
- 2) *Farm employees* including domestic workers on a farm are covered by social security if:
 - Cash wages were paid to an employee by an employer whose expenditures for agricultural labor are \$2,500 or more in a calendar year or
 - Cash wages of \$150 or more were paid to an employee by an employer whose expenditures for agricultural labor are less than \$2,500 in a calendar year.

3) *Employees of a church/church-controlled organization.* A church or qualified church-controlled organization can elect to have services performed by their employees exempt from social security taxes if it is opposed to paying such taxes for religious reasons.

Note: An employee of an electing church is considered self-employed and earnings are subject to SE tax if he is paid wages of \$108.28 or more in one year.

4) *State and local government employees:*

- *Before July 2, 1991*, were covered by social security only under an agreement between the state and the Secretary of Health and Human Services.
- *After July 1, 1991*, are automatically covered by social security if they are not covered by a public pension. *Exception:* Election officials and workers earning less than \$2,400 in 2025; students employed in public schools, colleges and universities; institutionalized patients or inmates; and emergency workers.

5) *Military.* Basic pay received while on active duty (or active or inactive duty for training) in the military service in 1957 or later is covered by social security.

- For active service between September 16, 1940 and December 31, 1956, a monthly wage credit of \$160 may be granted, even if no social security contributions were paid.

Note: These free earnings-credits do not appear on the earnings statement.

- From 1957 through 1977, persons in the Armed Forces were credited with an extra \$300 earnings for each quarter in which active duty pay was received.
- From 1978 through 2001, persons in the Armed Forces were credited with an extra \$100 earnings for each \$300 of covered annual earnings, up to a maximum of \$1,200 of additional earnings for any calendar year.

RETIREMENT BENEFITS

See the *Social Security Quick Chart—Retirement Benefits (2026)* on Page 14-26 for information on retirement benefits.

Full Retirement Age

Workers who take their benefits at the full retirement age (FRA) receive full social security benefits. Those receiving benefits before FRA receive reduced benefits. Workers who wait until after their FRA to receive benefits receive increased benefits.

FRA is defined as the age a person can receive full benefits when first applying for social security. See the *Social Security Quick Chart—Retirement Benefits (2026)* on Page 14-26 for a list of FRAs per year of birth and the percentage decrease or increase when workers begin taking benefits before or after FRA.

Observation: The maximum social security benefit for a worker who starts taking benefits at FRA is \$4,152 per month (for 2026). The actual amount depends on a formula that considers the worker's lifetime earnings.

Earnings May Reduce Benefits

Workers who take social security retirement benefits before their FRA will have some of their benefits withheld if their earnings exceed the limits shown below. The limits apply only in months before reaching FRA. However, if a worker starts receiving benefits prior to his FRA and those benefits are reduced because of his excess earnings, when the worker reaches FRA, his benefit amount is recalculated to give him credit for the months that benefits were reduced because of his excess earnings. In the month the worker reaches FRA and thereafter, earnings have no effect on the benefit amount.

Earnings Limit for Individuals Receiving Benefits Before FRA (2026)

Under FRA, benefits reduced by \$1 for each \$2 earned over.....	\$24,480
Year FRA reached, benefits reduced \$1 for each \$3 earned over (months up to FRA only)	65,160
Month FRA reached and later.....	No Limit

- Wages, salaries, and commissions count toward the earnings limit when earned, and not when paid.
- Net SE income counts toward the earnings limit when paid, and not when earned. *Exception:* Net SE income does not count toward the earnings limit if paid in a year after the retiree became eligible for social security, and it was earned before the retiree became eligible for social security benefits.

Notes:

- If other family members receive benefits on the worker's record, total family benefits will be affected by the worker's earnings.
- If a family member works, the family member's earnings affect only his own benefits.
- Earnings do not affect entitlement to Medicare benefits.

Example: Elroy began receiving social security benefits in 2025, but did not reach FRA until August 1, 2026. He earned \$66,600 in the seven months from January through July of 2026. During this period, his social security benefit is reduced by \$480 $[(\$66,600 - \$65,160) \div 3]$.

Special payments after retirement. After the taxpayer begins taking benefits, he may receive special payments for work done before receiving social security benefits. Usually, special payments will not affect benefits if the SSA knows that the special payments are for compensation for work done before taking benefits. Bonuses, vacation pay, commissions, and sick pay are examples of special payments.

Contact the SSA and inform them when earnings include a special payment. If they agree, the special payment will not be counted toward the total earnings for the year.

Special rule—first year benefits received. When a person begins receiving benefits before FRA, the earnings limit only applies to the months after he begins collecting social security benefits.

Example: John turned age 62 on August 30, 2026 and chose to begin receiving social security benefits on that date. Before he began receiving benefits, John worked full time and earned \$45,000 during January through August of 2026.

Assume John takes a part-time job in September of 2026 and earns \$500 per month from September–December. Although his earnings for the year substantially exceed the 2026 earnings limit (\$24,480), he will still receive a full social security check for September through December because his earnings in those months are less than the 2026 monthly limit of \$2,040 $(\$24,480 \div 12)$. The limit is applied on a monthly basis only for the year benefits are first received. In future years, the earnings limit applies on a yearly basis.

Government Pension Offset (GPO)

Prior to 2024, retirees receiving a pension from work not covered by social security (federal civil service, state or local government employment, etc.), may have had their social security benefits reduced.

The Social Security Fairness Act (HR 82) was signed into law on January 5, 2025, repealing the GPO provisions effective December 31, 2023. Reductions for the GPO have been removed from the social security benefit calculation. The new calculation has been implemented retroactively for 2024, and impacted beneficiaries should have received a lump sum, deposited into the bank account SSA has on file, for the 2024 increase in benefits. Going forward, beneficiaries will receive an increased monthly benefit based on the new law.

Months Benefits Are Not Payable

No benefits are payable for:

- The month of the person's death (for worker's benefits only; survivors' benefits begin in the month of the worker's death).
 - The month in which a person reaches age 62 (unless the birthday is on the first or second day of the month). An individual receiving benefits at full retirement age receives the first check for the first month he meets all of the eligibility requirements.
 - Months during which an individual serves jail time related to a crime punishable by imprisonment of at least one month for which he is convicted. For most social security programs, the full month's benefits are not payable even when an individual served only a day of that month in jail surrounding a criminal conviction.
- Note:** Family members eligible for benefits can continue to receive benefits.

FAMILY AND SURVIVOR BENEFITS

See the *Social Security Quick Chart—Family, Survivor, and Disability Benefits (2026)* on Page 14-27 for information on survivor benefits.

DISABILITY BENEFITS

See the *Social Security Quick Chart—Family, Survivor, and Disability Benefits (2026)* on Page 14-27 for information on disability benefits.

Definition. *Disabled* under social security means a worker must have a medical condition that: (1) prevents the worker from doing the work he did before, (2) prevents him from adjusting to other work, and (3) is either expected to last (or has lasted) for at least 12 months, or expected to result in death. Social security disability benefits are not intended for temporary conditions.

Determination of Disability—Process

- 1) If earnings average more than \$1,690 (\$2,830 if blind) (in 2026) per month, a person is generally not considered disabled.
- 2) Impairments must interfere with basic work-related activities.
- 3) Condition must be found in the list of disabling impairments maintained by the SSA. If the condition is not on the list, a decision is made if it is of equal severity to an impairment on the list.
- 4) Determination must be made whether the condition interferes with the ability to do the kind of work done before the disability.
- 5) If work done before cannot be done, other types of work are considered. Age, education, past work experience, and transferable skills are considered.

Note: Special rules apply to blind persons because of the impact of blindness on the ability to work. Contact the SSA for information.

Work Incentives

If a person is receiving disability benefits, the following work incentives apply.

Note: Disabled recipients must report all income received from work, no matter how little the amount.

Trial work period allows individuals to test their ability to work for at least nine months. During a trial work period, individuals receive full social security benefits regardless of how much they earn as long as they report their work activity and continue to have a disabling impairment. In 2026, a trial work month is any month in which the disabled individual's earnings are over \$1,210. The trial work period continues until the individual has worked nine months within a 60-month period.

Extended eligibility period. For at least 36 months after a successful trial work period, if a person is still disabled, he will be eligible to receive a monthly benefit without a new application for any month his earnings drop below \$1,690 (\$2,830 if blind) (for 2026).

Expedited reinstatement. If benefits stop due to substantial earnings, a person who is unable to continue working due to his disability has five years to request that his benefits resume without reapplying or waiting for a review of the medical condition.

Deductions for impairment-related expenses. Work expenses related to the disability may be deducted from earnings in determining whether they constitute substantial work.

Medicare continuation. If an individual has premium-free Medicare hospital insurance and starts working, he may have at least 8½ years of extended coverage (including the nine-month trial work period if he is still disabled). After that, the individual may purchase Medicare Part A coverage by paying a monthly premium.

Other Payments—Impact on Disability Benefits

Workers' compensation or certain other government disability benefits may reduce social security disability benefits, or social security disability benefits may reduce other disability payments. The sum of all social security disability benefits paid to the worker and to his family cannot exceed 80% of the worker's earnings averaged over a period of time shortly before the disability.

Disabled After Age 62

If a worker becomes disabled after age 62 and has received a reduced retirement benefit before becoming entitled to disability payments, the disability benefit will be reduced for the number of months he received the early retirement benefit.

MEDICARE
www.medicare.gov

Medicare is a national health insurance program for:

- Persons age 65 and older.
- Certain disabled persons.
- Person of any age with end-stage renal disease or Lou Gehrig's disease.

Medicare is four programs:

- **Part A: Hospital insurance.** For most Medicare beneficiaries, there is no premium for Medicare Part A. Individuals who are ineligible for free Part A can still enroll, but must pay a premium. See the table *Medicare Part A Premiums (2026)* on Page 14-30.
- **Part B: Medical insurance.** See the table *Medicare Part B Premiums (2026)* on Page 14-31.
- **Part C: Combined Part A and Part B.** Private insurance companies approved by Medicare provide this combined coverage through Medicare Advantage Plans like HMOs and PPOs.
- **Part D: Prescription drug coverage.** Optional coverage—see *Medicare Drug Plans (Part D)* on Page 14-31.

Note: See the table *2026 Medicare Benefits* on Page 14-32 for a listing of covered services.

Medicare premium assistance. If a Medicare recipient has limited income and assets, programs are available to help pay medical costs. State rules vary. Contact the applicable state medical assistance (Medicaid) office. Contact information for each state is available at www.medicare.gov. Choose "Talk to someone", "Find Your State Office," and select your state.

- 1) **Qualified Medicare Beneficiary (QMB).** Pays Medicare premiums, deductibles, coinsurance, and copayments for certain elderly and disabled persons entitled to Medicare Part A.

- 2) **Specified Low-Income Medicare Beneficiary (SLMB).** Pays the medical insurance (Part B) premium for persons with incomes up to 20% over the national poverty level.
- 3) **Qualifying Individual (QI).** Pays the Part B premiums only.
- 4) **Qualified Disabled & Working Individuals (QDWI).** Pays Part A premiums only.

Eligibility for Hospital Insurance (Part A)

Age 65 and older. A person is eligible for Medicare Part A if he:

- 1) Is receiving social security or railroad retirement benefits,
- 2) Is not receiving social security or railroad retirement benefits, but has worked long enough to be eligible for them,
- 3) Is entitled to social security benefits based on his spouse's (or divorced spouse's) work record, and that spouse is at least age 65 (the spouse does not have to apply for benefits in order for the person to be eligible based on the spouse's work) or
- 4) Has worked long enough in federal, state or local government to be insured for Medicare.

Under age 65. A person is eligible for Medicare Part A if he:

- Has been entitled to social security disability benefits for at least 24 months,
- Has received a disability pension from the railroad retirement board and meets certain conditions, or
- Has Lou Gehrig's disease or end-stage renal disease.

Family members:

- 1) Under certain conditions, a spouse, divorced spouse, surviving spouse, and dependent parent may be eligible for hospital insurance at age 65.
- 2) Disabled surviving spouse under age 65, disabled divorced surviving spouse under age 65, and disabled children may be eligible, usually after a 24-month qualifying period.

Permanent kidney failure. People with end-stage renal disease are eligible for Medicare Part A at any age if they receive maintenance dialysis or a kidney transplant and:

- Are insured or are getting monthly benefits under social security or the railroad retirement system or
- Have worked long enough in government for Medicare insurance.

Notes:

- A spouse or child with this condition may be eligible for coverage based on another's work record.
- There may be a three-month waiting period after dialysis treatments begin for coverage to commence.

Medicare Part A Premiums (2026)¹	
Quarters of Covered Employment	Monthly Premium
30-39.....	\$311
Less than 30.....	\$565

¹ Applies only if ineligible for premium-free Part A. Part A is generally free when individual (or spouse) has at least 40 quarters of coverage.
Note: 2026 amounts not available at time of publication. Amounts shown are for 2025.

Eligibility for Medical Insurance (Part B)

- 1) A person age 65 or older, or a person entitled to Part A hospital insurance benefits, can enroll in Part B plan by paying a monthly premium. No social security or government work quarters of coverage are needed.
- 2) Aliens age 65 or older not eligible for premium-free Part A must be lawfully admitted permanent residents and live in the U.S. for five continuous years before they can enroll in Part B.

Higher Part B premiums for higher income individuals. Certain Medicare Part B enrollees pay a higher Part B premium based on their income.

Medicare Part B Premiums (2026)			
Single, HOH, QSS	Annual Income ¹		Monthly Premium
	MFJ	MFS	
≤ \$109,000	≤ \$218,000	≤ \$109,000	\$202.90
\$109,001–137,000	\$218,001–274,000	N/A	284.10
\$137,001–171,000	\$274,001–342,000	N/A	405.80
\$171,001–205,000	\$342,001–410,000	N/A	527.50
\$205,001–499,999	\$410,001–749,999	\$109,001–390,999	649.20
\$500,000 or more	\$750,000 or more	\$391,000 or more	689.90

¹ 2024 AGI plus tax-exempt interest and exclusions for U.S. savings bond interest and foreign earned income and housing.
Note: 2026 amounts not available at time of publication. Amounts shown are for 2025.

There is also a Part B deductible each year before Medicare starts to pay its share.

Medicare Options

Most Medicare beneficiaries can choose to receive all Medicare benefits either through the original fee-for-service program (Parts A and B) or through a variety of managed care and other programs under Medicare Advantage (Part C).

1) *Fee-for-service (Parts A & B).* Medicare pays a set percentage of hospital, doctor and other health care expenses, and the beneficiary is responsible for certain deductibles and coinsurance payments. Beneficiaries choose Medicare-approved licensed physicians, hospitals, health care providers, or facilities.

Note: A Medigap policy can supplement fee-for-service coverage.

2) *Medicare Advantage Plans (Part C).* Medicare Advantage Plans are private medical plans approved by Medicare designed to provide coverage offered by Original Medicare (Parts A and B) but may include additional services. There are different types of Medicare Advantage Plans including: health maintenance organizations (HMOs), preferred provider organizations (PPOs), private fee-for-service plans (PFFSs), medical savings account (MSAs), special needs plans (SNPs), and HMO point-of-service (HMOPOSs). Generally, services must be obtained from the provider's network unless for an emergency inside/outside the service area. The organization receives a monthly payment from Medicare and the beneficiary must be enrolled in and pay the monthly premium for Medicare Part B. A monthly premium and a co-payment each time a service is used is typically charged. In addition, some benefits beyond Medicare may be provided, including preventative care, prescription drugs, dental care, hearing aids, and eyeglasses.

Note: A Medigap policy is usually not needed with an advantage plan.

Medicare Drug Plans (Part D)

Everyone with Medicare can join a Medicare prescription drug plan (Part D) in their area. Individuals may sign up when they first become eligible for Medicare (three months before the month they turn age 65 until three months after the month they turn age 65). Individuals who receive Medicare due to a disability can join from three months before to three months after their 25th month of cash disability payments.

Individuals can also join, switch or drop Medicare Part D coverage during the open enrollment period, which runs from October 15–December 7. The change will take effect the following January 1. But, individuals who don't sign up when first eligible may pay a penalty (premiums increase by 1% for every month enrollment is delayed).

Caution: If an individual who is enrolled in a Medicare Advantage Plan that includes prescription drug coverage joins a Medicare prescription drug (Part D) plan, he will be disenrolled from his Medicare Advantage Plan and returned to Original Medicare.

Medicare Drug Coverage Cost Components	
The actual dollar amounts vary depending on the plan chosen and the drugs purchased.	
Component	Additional Cost
Monthly Premium	Paid in addition to Part B premium
Yearly Deductible	Amount paid before the plan pays
Copayments	Individual per-prescription share of cost

Source: www.medicare.gov
Note: In 2026, out-of-pocket costs for covered drugs are capped at \$2,100.

Income-related premium adjustment. An individual's monthly Medicare Part D premium is increased when his annual income reaches a certain level. This applies to Part D coverage he gets from a Medicare prescription drug plan, a Medicare Advantage Plan with prescription drug coverage (like an HMO or PPO), or a Medicare cost plan that includes Medicare prescription drug coverage.

Medicare Part D Premium Adjustment (2026)			
Single, HOH, QSS	Annual Income ¹		Premium Adjustment ²
	MFJ	MFS	
≤ \$109,000	≤ \$218,000	≤ \$109,000	\$ 0
\$109,000–137,000	\$218,001–274,000	N/A	14.50
\$137,001–171,000	\$274,001–342,000	N/A	37.50
\$171,001–205,000	\$342,001–410,000	N/A	60.40
\$205,001–499,999	\$410,001–749,999	\$ 109,001–390,999	83.30
\$ 500,000 or more	\$ 750,000 or more	\$ 391,000 or more	91.00

¹ 2024 AGI plus tax-exempt interest and exclusions for U.S. savings bond interest and foreign earned income and housing.
² This amount is paid in addition to the plan's premium.
Note: 2026 amounts not available at time of publication. Amounts shown are for 2025.

Individuals will be notified by social security if they have to pay the additional Part D premium.

Note: As part of the Inflation Reduction Act (IRA), the coverage gap phase (also called the *donut hole*) has been eliminated. The coverage gap was a temporary limit on what the drug plan would pay for drugs. Beginning in 2025, Part D coverage will consist of a three-phase benefit: 1) a deductible phase, 2) an initial coverage phase, and 3) a catastrophic phase. There will be no initial coverage limit, and the initial coverage phase will extend to the maximum annual out-of-pocket threshold, at which point the catastrophic phase will begin. **Note:** As part of the IRA changes, out-of-pocket costs for covered drugs are capped at \$2,100 for 2026.

Extra Help. Individuals who meet certain income and resource limits may qualify for Extra Help from Medicare to pay the costs of Medicare prescription drug coverage. Individuals automatically qualify if they have Medicare and meet any of these conditions:

- Have full Medicaid coverage.
- Get help from their state Medicaid program paying their Part B premiums (in a Medicare savings program).
- Get Supplemental Security Income (SSI) benefits.

MEDIGAP INSURANCE

Medicare supplemental insurance policies (Medigap) are private insurance policies designed to cover all or part of the deductible and coinsurance amounts not covered by the original fee-for-service Medicare plan. Medigap policies may also cover certain things that Medicare doesn't cover.

**2026 Medicare Benefits
(Not All-Inclusive)**

Hospital Insurance (Medicare Part A)—2026 Benefits per Benefit Period

Service	Benefit	Medicare Pays	Recipient Pays¹
Hospitalization. Semi-private room and board, drugs as part of inpatient treatment, general nursing and other hospital services and supplies (includes mental health care).	First 60 days	All but \$1,736	\$1,736
	61st–90th day	All but \$434 per day	\$434 per day
	91st–150th day ²	All but \$868 per day	\$868 per day
	Beyond 150 days	Nothing	All costs
Skilled nursing facility care (following a hospital stay). Semi-private room and board, skilled nursing and rehabilitative services, and other services and supplies. ³	First 20 days	100% of approved amount	Nothing
	21st–100th day	All but \$217 per day	Up to \$217 per day
	Beyond 100 days	Nothing	All costs
Home health services. Medically-necessary part-time or intermittent skilled nursing care and/or physical therapy, speech-language pathology services, and/or services for people with a continuing need for occupational therapy. The patient must be homebound.	As long as medically necessary.	100% of approved amount; 80% of approved amount for durable medical equipment.	Nothing for services; 20% of approved amount for durable medical equipment.
Hospice care. Pain relief, symptom management, and support services for the terminally ill. Inpatient respite care (up to five days per stay) so usual caregiver can rest.	For as long as doctor certifies need.	Amounts over \$5.00 for outpatient drugs; 95% of Medicare-approved amount for inpatient respite care.	Up to \$5.00 for outpatient drugs and 5% of approved amount for inpatient respite care.

Medical Insurance (Medicare Part B)—2026 Benefits per Calendar Year

Service	Benefit	Medicare Pays⁴	Recipient Pays^{1,4}
Medical expenses. Doctors' services, inpatient and outpatient medical and surgical services and supplies, physical and speech therapy, durable medical equipment, and other services.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount and limited charges above approved amount.
Laboratory services. Blood tests, urinalysis, diagnostic x-ray tests, some screening tests and more.	Unlimited if medically necessary.	Generally, 100% of approved amount.	Nothing for services.
Home health services. Medically-necessary part-time or intermittent skilled nursing care and/or physical therapy, speech-language pathology services, and/or services for people with a continuing need for occupational therapy. The patient must be homebound.	Unlimited if medically necessary.	100% of approved amount; 80% of approved amount for durable medical equipment.	Nothing for services; 20% of approved amount for durable medical equipment.
Outpatient hospital services. Services for the diagnosis or treatment of illness or injury.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount, plus co-pay for other than doctor's services.
Mental health care (outpatient). Counseling, psychotherapy.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount.
Ambulatory surgical services	Unlimited if medically necessary.	Generally, 80% of approved amount.	20% of approved amount.
Preventative services. Certain services, including flu and pneumonia vaccines, mammograms, pap smears, and pelvic exams.	Unlimited if medically necessary.	Generally, 100% of approved amount.	Nothing. May have to pay 20% of the charge for a doctor's visit.

¹ Either the recipient or the recipient's insurance company is responsible for paying the amounts listed in the "Recipient Pays" column.

² Sixty reserve days may be used only once in a lifetime.

³ Must be after a three-day minimum medically-necessary inpatient hospital stay.

⁴ Must meet the Part B deductible before Medicare pays. For 2026, the Part B deductible is **\$217**.


~~⁵ Amounts not available at time of publication.~~

Enrollment. After the effective date of Medicare Part B, there is a six-month open enrollment period for Medigap policies. During this period, a person age 65 or older cannot be denied or charged a higher premium due to poor health.

Pre-existing conditions. Policies may exclude coverage for pre-existing conditions during the first six months the policy is in effect. Pre-existing conditions are conditions diagnosed or treated during the six-month period before the effective date of the Medigap policy.


Standard Medigap Policies

Insurance companies can only sell standardized Medigap policies. Each standardized policy must have specific benefits. There are 10 different standardized Medigap policies (Medigap Plans A-D, F, G, and K-N). Each plan has a different combination of basic and extra benefits. *Exception:* In Massachusetts, Minnesota, and Wisconsin, Medigap policies are standardized in a different way. See "Supplements and Other Insurance" at www.medicare.gov for details on all the standardized plans.

 **Note:** Starting June 1, 2010, plans E, H, I, and J are no longer available to buy. But, individuals who already have those plans (or who bought them before June 1, 2010) can keep them.

Starting January 1, 2020, plans C and F are no longer available for individuals that turn 65 on or after this date. But, individuals who already have those plans (enrolled before January 1, 2020) can keep them.

Every Medigap policy must follow federal and state laws and must be clearly identified as *Medicare Supplement Insurance*. Insurance companies can sell only standardized Medigap policies. All plans offer the same basic benefits but some offer additional benefits. Insurance companies decide which Medigap policies they want to offer. Although the plans are standardized, insurance companies can charge different premiums for them.

 **Practice Tip:** Married individuals must each buy their own Medigap policy. A Medigap policy won't cover any health care costs for the insured's spouse.

MEDICAID

www.medicaid.gov

Medicaid is a program of medical assistance for people with low income and limited assets. It is a joint venture between the federal and state governments. States are required by the federal government to provide coverage to certain categories of

Reference Materials and Worksheets



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Where to File: Business Returns Filing Addresses—2025 Returns

Note: At the time of publication, the IRS had not released the 2025 filing addresses for business returns. This information will be posted to the *Handbook Updates* section of tax.thomsonreuters.com/quickfinder when available.

Principal Business Activity Codes—Forms 1065, 1120, and 1120-S

Note: At the time of publication, the IRS had not released the 2025 principal business activity codes for business returns. This information will be posted to the *Handbook Updates* section of tax.thomsonreuters.com/quickfinder when available.

Business Quick Facts Data Sheet¹

	2026	2025	2024	2023	2022
FICA/SE Taxes					
Maximum earnings subject to tax:					
Social Security tax	\$ 184,500	\$ 176,100	\$ 168,600	\$ 160,200	\$ 147,000
Medicare tax	No Limit	No Limit	No Limit	No Limit	No Limit
Maximum tax paid by:					
Employee—Social Security	\$ 11,439.00	\$ 10,918.20	\$ 10,453.20	\$ 9,932.40	\$ 9,114.00
SE—Social Security	22,878.00	21,836.40	20,906.40	19,864.80	18,228.00
Employee or SE—Medicare	No Limit	No Limit	No Limit	No Limit	No Limit
Business Deductions					
Section 179 deduction—limit	\$ 2,560,000	\$ 2,500,000	\$ 1,220,000	\$ 1,160,000	\$ 1,080,000
Section 179 deduction—SUV limit (per vehicle)	32,000	31,300	30,500	28,900	27,000
Section 179 deduction—qualifying property phase-out threshold	4,090,000	4,000,000	3,050,000	2,890,000	2,700,000
Depreciation limit—autos, trucks, and vans (1st year with special depreciation)	²	20,200	20,400	20,200	19,200
Depreciation limit—autos, trucks, and vans (1st year with no special depreciation)	²	12,200	12,400	12,200	11,200
Retirement Plans					
SIMPLE IRA plan elective deferral limits:					
Under age 50 at year end	\$ 17,000 ³	\$ 16,500 ³	\$ 16,000 ³	\$ 15,500	\$ 14,000
Age 50 or older at year end	21,000 ^{3,4}	20,000 ^{3,4}	19,500 ³	19,000	17,000
401(k), 403(b), 457, and SARSEP elective deferral limits:					
Under age 50 at year end	\$ 24,500	\$ 23,500	\$ 23,000	\$ 22,500	\$ 20,500
Age 50 or older at year end	32,500 ⁵	31,000 ⁵	30,500	30,000	27,000
Profit-sharing plan/SEP contribution limits	72,000 ³	70,000 ³	69,000	66,000	61,000
Compensation limit (for employer contributions to profit-sharing plans)	360,000	350,000	345,000	330,000	305,000
Defined benefit plans—annual benefit limit	290,000	280,000	275,000	265,000	245,000
Key employee compensation threshold	235,000	230,000	220,000	215,000	200,000
Highly compensated threshold	160,000	160,000	155,000	150,000	135,000
Estate and Gift Taxes					
Estate tax exclusion	\$15,000,000 ⁶	\$ 13,990,000 ⁶	\$13,610,000 ⁶	\$12,920,000 ⁶	\$12,060,000 ⁶
Gift tax exclusion	15,000,000 ⁶	13,990,000 ⁶	\$13,610,000 ⁶	12,920,000 ⁶	12,060,000 ⁶
GST tax exemption	15,000,000	13,990,000	13,610,000	12,920,000	12,060,000
Gift tax annual exclusion	19,000	19,000	18,000	17,000	16,000

¹ See Tab 3 for an expanded *Quick Facts Data Sheet*.

² Amount not released by IRS at publication time; will be posted to the *Handbook Updates* section of tax.thomsonreuters.com/quickfinder when available.

³ Beginning in 2024, this limit is increased by 10% if the employer has no more than 25 employees. For employers with 26–100 employees, higher elective deferral limits are allowed if the employer contributes either 3% of compensation or 4% of an employee's elective deferrals.

⁴ \$5,250 for individuals who are 60, 61, 62, or 63 in 2025 and 2026.

⁵ \$11,250 for individuals who are 60, 61, 62, or 63 in 2025 and 2026.

⁶ Plus the amount of any deceased spousal unused exclusion and/or any restored exclusion related to lifetime gifts to a same-sex spouse—see Tab 22.

Types of Payments—Where to Report

Source: 2025 *General Instructions for Certain Information Returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G)*.

Below is an alphabetic list of some payments and the forms to file and report them on. However, it is not a complete list of all payments, and the absence of a payment from the list does not indicate that the payment is not reportable. For instructions on a specific type of payment, see the separate instructions in the form(s) listed.

Type of Payment	Report on Form	Type of Payment	Report on Form	Type of Payment	Report on Form
ABLE accounts:		Employee compensation	W-2	Tax-exempt OID	1099-OID
—Contributions	5498-QA	Excess deferrals, excess contributions-distributions	1099-R	Patronage dividends	1099-PATR
—Distributions	1099-QA	Exercise of incentive stock option under section 422(b)	3921	Payment card transactions	1099-K
Abandonment	1099-A	Fees—employee	W-2	Pensions	1099-R
Accelerated death benefits	1099-LTC	Fees—nonemployee	1099-NEC	Points	1098
Acquisition of control	1099-CAP	Fishing boat crew members proceeds	1099-MISC	Prizes—employee	W-2
Agriculture payments	1099-G	Fish purchases for cash	1099-MISC	Prizes—nonemployee	1099-NEC
Allocated tips	W-2	Foreclosures	1099-A	Profit-sharing plan	1099-R
Alternate TAA payments	1099-G	Foreign persons' income	1042-S	Punitive damages	1099-MISC
Annuities	1099-R	401(k) contributions	W-2	Qualified longevity annuity contract	1098-Q
Archer MSAs:		404(k) dividend	1099-DIV	Qualified plan distributions	1099-R
—Contributions	5498-SA	Gambling winnings	W-2G	Qualified tuition program payments	1099-Q
—Distributions	1099-SA	Golden parachute—employee	W-2	Real estate transactions	1099-S
Attorney, fees and gross proceeds	1099-MISC	Golden parachute—nonemployee	1099-NEC	Recharacterized IRA contributions	1099-R, 5498
Auto reimbursements—employee	W-2	Grants—taxable	1099-G	Refund—state and local tax	1099-G
Auto reimbursements—nonemployee	1099-NEC	Health care services	1099-MISC	Rents	1099-MISC
Awards—employee	W-2	Health coverage tax credit (HCTC) advance payments	1099-H	Reportable policy sale	1099-LS
Awards—nonemployee	1099-NEC	Health savings accounts:		Retirement	1099-R
Barter exchange income	1099-B	—Contributions	5498-SA	Roth conversion IRA contributions	5498
Bond tax credit	1097-BTC	—Distributions	1099-SA	Roth conversion IRA distributions	1099-R
Bonuses—employee	W-2	Income attributable to domestic production activities, deduction for	1099-PATR	Roth IRA contributions	5498
Bonuses—nonemployee	1099-NEC	Income tax refunds—state and local	1099-G	Roth IRA distributions	1099-R
Broker transactions	1099-B	Indian gaming profits paid to tribal members	1099-MISC	Royalties	1099-MISC, 1099-S
Cancellation of debt	1099-C	Interest income	1099-INT	Timber—pay-as-cut contract	1099-S
Capital gain distributions	1099-DIV	Tax-exempt	1099-INT	Sales:	
Car expense—employee	W-2	Interest, mortgage	1098	—Real estate	1099-S
Car expense—nonemployee	1099-NEC	IRA contributions	5498	—Securities	1099-B
Changes in capital structure	1099-CAP	IRA distributions	1099-R	Section 1035 exchange	1099-R
Charitable gift annuities	1099-R	Life insurance contract distributions	1099-R, 1099-LTC	Seller's investment in life insurance contract	1099-SB
Commissions—employee	W-2	Liquidation—distributions	1099-DIV	SEP contributions	W-2, 5498
Commissions—nonemployee	1099-NEC	Loans, distribution from pension plan	1099-R	SEP distributions	1099-R
Commodities transactions	1099-B	Long-term care benefits	1099-LTC	Severance pay	W-2
Compensation—employee	W-2	Medicare Advantage MSAs:		Sick pay	W-2
Compensation—nonemployee	1099-NEC	—Contributions	5498-SA	SIMPLE contributions	W-2, 5498
Contributions of motor vehicles, boats, and airplanes	1098-C	—Distributions	1099-SA	SIMPLE distributions	1099-R
Cost of current life insurance protection	1099-R	Medical services	1099-MISC	Student loan interest	1098-E
Coverdell ESA contributions	5498-ESA	Mileage—employee	W-2	Substitute payments in lieu of dividends or tax-exempt interest	1099-MISC
Coverdell ESA distributions	1099-Q	Mileage—nonemployee	1099-NEC	Supplemental unemployment	W-2
Crop insurance proceeds	1099-MISC	Military retirement	1099-R	Tax refunds—state and local	1099-G
Damages	1099-MISC	Mortgage assistance payments	1098-MA	Third party network transactions	1099-K
Death benefits	1099-R	Mortgage interest	1098	Tips	W-2
Debt cancellation	1099-C	Moving expense	W-2	Traditional IRA contributions	5498
Dependent care payments	W-2	Nonemployee compensation	1099-NEC	Traditional IRA distributions	1099-R
Digital asset sales	1099-DA	Nonqualified deferred compensation:		Transfer of stock acquired through an employee stock purchase plan under section 423(c)	3922
Direct rollovers	1099-Q, 1099-R, 5498	—Beneficiary	1099-R	Tuition	1098-T
Direct sales of consumer products for resale	1099-MISC, 1099-NEC	—Employee	W-2	Unemployment benefits	1099-G
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Discharge of indebtedness	1099-C	Original issue discount (OID)	1099-OID	Vacation allowance—nonemployee	1099-NEC
Dividends	1099-DIV			Wages	W-2
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Partnerships



Tab 16 Topics

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BASICS OF PARTNERSHIPS

Form 1065; See also IRS Pub. 541 and Partnership Example on Page 16-17

Filing requirements. Every domestic (non-foreign) partnership that has income, deductions, and/or tax credits for the year must file a return, unless it has elected not to be treated as a partnership (see *Exclusion From Partnership Treatment* on Page 16-5) [Reg. 1.6031(a)-1].

Filing deadline. Returns are due by the 15th day of the third month following the close of the tax year.

Extension deadline and form number. The extended deadline is six months (Reg. 1.6081-2). For calendar year 2025 returns, the extended due date is September 15, 2026. File Form 7004 to extend the filing deadline.

Electronic filing requirements. Partnerships with more than 100 partners and partnerships required to file at least 10 returns of any type during the calendar year, including information, income tax, employment tax, and excise tax returns are required to file returns electronically. Other partnerships generally have the option to file electronically. The IRS may provide waivers and exemptions where electronic filing would cause undue hardship, or where the technology required to file in electronic form conflicts with religious beliefs.

Penalties. The statutory penalty amount for failure to file a partnership return is indexed by a cost-of-living adjustment (COLA). The COLA adjusted penalty amount for failure to file a return in 2026 is \$255 per month or part of a month per partner up to twelve months (IRC Sec. 6698; Rev. Proc. 2024-40). The penalty is assessed against the partnership. Rev. Proc. 84-35 provides relief to certain small partnerships (generally domestic partnerships with 10 or fewer partners at all times during the year) from the penalty under IRC Sec. 6698(a) for failure to file a partnership return. The revenue procedure references the small partnership exception in IRC Sec. 6231(a)(1)(B), which was repealed by the Bipartisan Budget Act of 2015. In a Program Manager Technical Advice (PMTA 2020-01), the IRS concluded that despite the repeal of IRC Sec. 6231(a)(1)(B), Rev. Proc. 84-35 continues to apply.

Amended return. Partnerships that become aware of incorrect items of income, deductions, etc. may amend the return. Small partnerships (non-BBA—see *Partnership Audit Rules* on Page 16-3) and partnerships that elect out of the centralized partnership audit regime (see *Electing out of the rules* on Page 16-3) filing electronically to amend Form 1065 and Schedules K-1 check box G(5) on page 1 of Form 1065 to indicate that it is an amended return and follow the Form 1065 instructions for statements and explanations that are required. If the income, deductions, credits, or other information provided to any partner on Schedule K-1 or Schedule K-3, as applicable, is incorrect, file an amended Schedule K-1 or K-3 for that partner with the amended Form 1065. The amended Schedules K-1/K-3 should be provided to each partner.

Partnerships subject to the centralized partnership audit regime must use Form 8082 [Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR)] to file electronically. If paper returns are used to correct a previously filed partnership return, use Form 1065-X [Amended Return or Administrative Adjustment Request (AAR)].

According to IRS guidance for e-filing amended partnership returns (see www.irs.gov/e-file-providers/guidance-for-amended-partnership-returns), a subsequent return filed after the original return will be treated as an amended return, when the amended return box is checked. A taxpayer filing an amended return must select the Amended Return checkbox (designation) in the software or the return will be rejected as a duplicate filing. The IRS amended return process requires that any e-filed return marked as an amended return pass all of the same business rules as an original e-filed business return. Taxpayers e-filing amended returns should have already filed their underlying tax returns.

For e-filing amended returns for Form 1065, taxpayers under the BBA must file an AAR instead of an amended return. For Form 1065 filers not subject to the BBA, the easiest process for e-filing the amended return will be to update the underlying original for the changed items. Once the return has been updated with the changes, attach an Amended Return Statement (described below) and any other supporting explanations and re-file the complete new return, ensuring that the Amended Return checkbox is selected.

For taxpayers who e-filed original returns with voluminous PDFs and/or who filed returns that used the paper or PDF option, some of the PDF/paper information may not need to be re-filed with the amended return if the changes do not affect the information contained in those files (for example, PDF elections, paper/PDF 8858, 8865, etc.).

Amended Form 1065 returns not subject to the BBA will require, at a minimum, the following:

- The corrected Form 1065, including all Schedules K-1, completed in its entirety with the Amended Return checkbox selected.
- All forms, schedules, and attachments that changed or that support changes on the amended Form 1065.
- Placeholder forms to pass any applicable business rules (such as 8858, 8865, etc.) where there is no change to the underlying data on that form. If the underlying data has changed, the corrected form must be attached.
- An Amended Return Statement that identifies the line number of each amended item, the corrected amount or treatment of the item, and an explanation of the reasons for each change. The statement should be attached to the 1065 return. The statement must be named Amended Return Statement.
- A signed signature document (Form 8453-PE), or use of a Practitioner's PIN (Form 8879-PE).

Schedules K-2 and K-3. Schedule K-2 (Partners' Distributive Share Items-International) and Schedule K-3 (Partner's Share of Income, Deductions, Credits, etc.-International) replaced the boxes on Schedule K-1 related to reporting items of international tax relevance. A partnership with no foreign partners, no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may still be required to file Schedules K-2 and K-3 (for example, (1) if a partner claims a foreign tax credit or otherwise needs information from the partnership to complete Form 1116 [Foreign Tax Credit (Individual, Estate, or Trust)] or Form 1118 (Foreign Tax Credit-Corporations), (2) the partnership makes certain deductible payments to foreign related parties of its domestic partners, (3) the partnership has direct or indirect domestic corporate partners, or (4) the partnership is a publicly traded partnership (PTP)). Partnership Instructions for

Schedules K-2 and K-3 (Form 1065) provide a *domestic filing exception*, a *Form 1116 exemption exception*, and a *small partnership filing exception* for filing and furnishing Schedules K-2 and K-3.

Domestic filing exception. Partnerships that meet this exception do not have to include Schedules K-2 and K-3 in their tax return or furnish copies of Schedule K-3 to their partners unless requested by a partner after the date one month before the date the partnership files its Form 1065. If a partner requests a Schedule K-3 after the one-month date, the partnership must provide the schedule to the partner, but Schedules K-2/K-3 are not filed with the IRS. Domestic partnerships potentially qualify for the domestic filing exception if they have no foreign activity or have limited foreign activity. For this exception, foreign activity is:

- 1) Payment or accrual of foreign income taxes.
- 2) Foreign-source income or loss.
- 3) Ownership interest in a foreign partnership (generally, a partnership that is not a domestic partnership).
- 4) Ownership interest in a foreign corporation.
- 5) Ownership of a foreign branch.
- 6) Ownership interest in a disregarded foreign entity.

Limited foreign activity. If a partnership has foreign activity, such foreign activity is limited to:

- 1) Passive category foreign income (for example, dividend income);
- 2) Upon which no more than \$300 of foreign income taxes allowable as a foreign tax credit (FTC) are paid or accrued by the partnership; and
- 3) The foreign income and FTC are shown on a payee statement (for example, Form 1099) furnished to the partnership.

Domestic partnerships that have no (or limited) foreign activity qualify for the domestic filing exception if they meet the following three tests: 1) U.S. Citizen/Resident Alien Partners Test; 2) Notification Test; and 3) No Schedule K-3 Requests by the One-Month Date. See Partnership Instructions for Schedules K-2 and K-3 (Form 1065) for more information.

Form 1116 exemption exception. A domestic partnership is not required to complete Schedules K-2 and K-3 if all partners are eligible for the Form 1116 exemption and the partnership receives notification of the partners' eligibility for such exemption by the one-month date.

Beginning with tax year 2024, partnerships that answered "Yes" to question 4 on Schedule B of Form 1065 (generally, those with total receipts less than \$250,000 and assets less than \$1 million) are no longer required to file Schedules K-2 and K-3. Partnerships will be subject to the same notification requirements of the domestic filing exception.

Schedules K-1/K-3 deadline. Partnerships are required to furnish a Schedule K-1/K-3 to each partner by the due date, including extensions, of the partnership tax return (Form 1065). For statements required to be furnished in 2026, a \$340 penalty, imposed with respect to each Schedule K-1/K-3 for which a failure occurs, applies for failure to furnish Schedule K-1/K-3 when due or failure to include all required information or for including incorrect information. The maximum penalty is \$4,098,500 for all such failures during a calendar year for taxpayers with average annual gross receipts for the most recent three tax years of more than \$5,000,000. For taxpayers with average annual gross receipts of \$5,000,000 or less, the maximum penalty is \$1,366,000. If the requirement to report correct information is intentionally disregarded, each \$340 penalty is increased to \$680 or, if greater, 10% of the aggregate amount of items required to be reported, and the \$1,366,000 (or \$4,098,500) maximum doesn't apply. The \$340 penalty may be reduced to \$60 or \$130 per failure, and the \$1,366,000 (or \$4,098,500) maximum penalty to \$239,000 or

\$683,000 (or \$683,000 or \$2,049,000), respectively, depending on when the failure is corrected (IRC Sec. 6722; Rev. Proc. 2024-40).

Electronic Schedule K-1. Partnerships required to furnish a K-1 to a partner may provide it in an electronic format instead of on paper. The partner's affirmative consent to receive the K-1 in electronic format is one of the requirements of Rev. Proc. 2012-17 that must be met for the partnership to be treated as furnishing the K-1 timely.

Online business tax account. Individual partners of partnerships are eligible for an IRS business tax account (BTA). BTA is an online self-service tool for business taxpayers that allows them to view and make balance-due payments. When fully developed, BTA will allow many types of business taxpayers to check their tax history, make payments, view notices, authorize powers of attorney, and conduct other business with the IRS. Individual partners will be able to access business tax account information once they have filed a business return with the Schedule K-1 and it is processed by the IRS. To access a business tax account, individuals must have a Schedule K-1 for a minimum of one year on file. Only information for the years they have a Schedule K-1 on file will be available. New businesses won't have access until a business return is submitted, processed, and on file with the IRS. The business tax account is available at www.irs.gov/businesses/business-tax-account.

Income/tax rates. Profits and losses are passed through to partners on Schedule K-1 and taxed on their individual returns.

Limited liability companies (LLCs) are created and regulated under state law. Those with more than one member are treated as partnerships for federal income tax purposes, unless an election is made to be taxed as a corporation. LLCs generally have the same options as partnerships for electing tax treatment under check-the-box regulations. See *Limited Liability Company (LLC)* on Page 20-1 for more information.


Partnership representative. A partnership's primary representative in dealings with the IRS is its *partnership representative* (PR). The partnership must designate its PR by completing information on page 4 of Form 1065 for the tax year for which the designation applies. Designation of a PR is made separately for each tax year, and is only effective for the tax year for which it is made [Reg. 301.6223-1(a) and (c)].

The PR is not required to be a partner, and can be any person (including an individual or an entity) with a substantial presence in the U.S. A wholly-owned disregarded entity is eligible to serve as a PR, and the partnership can designate itself as its own PR. A person who is not an individual can be a PR only if an individual who meets the substantial presence test is appointed by the partnership as the sole individual through whom the PR will act. A PR meeting these requirements is an *entity partnership representative* and the individual through whom such an entity partnership representative acts is the *designated individual*. The designated individual must be appointed at the same time as the PR [Reg. 301.6223-1(b)].

The PR has the sole authority to bind the partnership and all partners. If a partnership does not designate a PR, the IRS may select any person as the PR, with certain limitations. Partnerships will need to ensure their agreements establish procedures for choosing, removing, and replacing the PR. In addition, the partnership agreement should carefully outline the duties of the representative.

Consider addressing in the partnership agreement whether the:

- PR must provide partners with copies of IRS notices and inform them of the status of an audit or tax proceeding.
- Consent of a majority of the partners is needed before the PR can agree to extend the statute of limitations or settle with the IRS. (While such a provision will not limit the PR's authority in the eyes of the IRS, it may give partners recourse under state law if the PR fails to comply.)
- Partnership agreement should limit the PR's fiduciary risk through indemnity protection.

 **Note:** Effective October 7, 2025, the IRS has issued updated guidance on procedure changes pertaining to the designation of the partnership representative. See LB&I-04-1025-0010 for more information.

reporting trade or business income either as a partnership between the spouses or as a proprietorship do not apply if one spouse is a genuine employee of the other spouse's sole proprietorship.

Tax Assessments

The Supreme Court upheld the IRS's right to pursue claims against individual partners in their Chapter 13 bankruptcy cases for partnership employment taxes assessed less than 10 years earlier. The three-year deadline for assessment of tax was met by the assessment against the partnership, and was not dependent on additional separate assessments against each individual partner [*Galletti*, 93 AFTR 2d 2004-1425 (Sup. Ct. 2004)].

Exclusion From Partnership Treatment

Certain investing and operating agreement partnerships that do not actively conduct a business may choose to be excluded from partnership treatment for federal income tax purposes (Reg. 1.761-2).

Investing partnership. *A group whose members:*

- 1) Jointly purchase and sell investment property,
- 2) Own the property as co-owners,
- 3) Reserve the right separately to take or dispose of their shares of any property acquired or retained,
- 4) Do not actively conduct business, and
- 5) Do not irrevocably authorize another person to purchase, sell, or exchange the investment property. A member may delegate someone to act for his account for not more than one year.

Operating agreement group. *A group whose members:*

- 1) Participate in joint production, extraction, or use of property,
- 2) Own the property as co-owners,
- 3) Reserve the right separately to take in kind or dispose of their shares of any property produced, extracted, or used, and
- 4) Do not jointly sell services or the property produced or extracted, although a member may delegate authority to sell his share of the property produced for his account for a period not to exceed one year.

Advantages of electing out of partnership status:

- 1) Tax elections are made at the individual level rather than at the partnership level.
- 2) A partnership tax return is not required.
- 3) Members do not have to depend on the partnership to give proper tax treatment to various items.
- 4) Co-owners can trade fractional real estate interests in tax-deferred Section 1031 like-kind exchanges.

To make the election, attach a statement to a blank Form 1065 (that includes only the name or other identification of the organization and its address) and file by the due date (including extensions) of the partnership tax return. The statement must contain [Reg. 1.761-2(b)(2)]:

- 1) The name and address of the organization;
- 2) The names, addresses, and TINs of all members;
- 3) A statement that the organization qualifies as an investing partnership under Reg. 1.761-2(a)(2) or as an operating agreement group under Reg. 1.761-2(a)(3);
- 4) A statement that all members of the organization consent to be excluded from Subchapter K; and
- 5) The contact name and address where information may be obtained about the written or oral operating agreement.

Once the election is made, it cannot be revoked without IRS consent unless the organization ceases to qualify. If the organization begins to operate an active business, the election is revoked and the partnership must begin to file Form 1065.

⚠️ Caution: The election applies only for purposes of determining federal income tax liability. Even with a valid exclusion in place, it is possible for a business entity to be treated as a partnership under other sections of the Code. The election out privilege is often unavailable to operations that are conducted using LLCs because most state LLC statutes provide that the LLC (as opposed to its members) owns the LLC's property. Additionally, most state LLC statutes provide that an LLC member cannot demand a distribution of property. The IRS has held (FSAs 200216005 and 199923017; Ltr. Ruls. 200305025 and

200305026) that limited partnerships cannot elect out of partnership classification under IRC Sec. 761. This determination was reached due to the fact that the partnerships were formed under the respective states' Revised Uniform Limited Partnership Act (RULPA). Under the RULPA, partners of a limited partnership are considered to own interests in the partnership. Ownership of a partnership interest does not necessarily give a partner the right to take and dispose of the underlying partnership property. For this reason, the IRS ruled that partners under RULPA are not co-owners of partnership property and cannot take their shares of the property at will.

Court Case #1: A business not taxed as a partnership was an employer for employment tax purposes [*Cokes*, 91 TC 222 (1988)].

Court Case #2: A business with a valid exclusion in place was treated as a partnership for purposes of limitations on investment tax credits [*Bryant*, 46 TC 848 (1966)].

PARTNERSHIP INCOME AND EXPENSES

A partnership is a pass-through entity. Income or loss is passed through to partners, who then report it on their tax returns. The partnership itself does not pay income tax.

A partnership computes income from business operations similarly to a sole proprietor. Net profit or loss is allocated among the partners according to the partnership agreement, generally in proportion to ownership interests. Income or loss that is passed through to a partner is referred to as the partner's *distributive share*.

The character of income, gains, losses, deductions, or credits included in a partner's distributive share is determined as if the individual partner directly received the income or incurred the expense from the same source from which the partnership received the income or incurred the expense. So, for example, if a late filing penalty is nondeductible when paid by an individual, it retains its nondeductible character when passed through the partnership to the individual partner [IRC Sec. 702(b)].

Each partner pays tax on his distributive share of income in the year earned or received (depending on whether the partnership uses the accrual or cash method of accounting), regardless of when the income is distributed. Accordingly, when a partnership distributes cash or property to a partner, the transaction is generally not taxable. IRC Sec. 1446(f)(1) mandates a 10% withholding tax on any portion of a gain on a disposition of an interest in a partnership with effectively connected United States income. However, withholding is generally not required if the transferor furnishes an affidavit to the transferee stating, among other things, that the transferor is not a foreign person (TD 9926). The rules do not apply to the transfer of a publicly traded partnership (PTP) interest. See *Partnership Distributions* on Page 16-15.

Form 1065 (U.S. Return of Partnership Income) reports business income, deductions, credits, gains, and losses resulting from partnership operations. Form 1065 includes a separate Schedule K-1 for each partner, which shows each partner's distributive share of income, along with certain other separately stated items. The partnership must furnish a copy of Schedule K-1 to each partner by the due date, including extensions, of the partnership return. See also *Schedules K-2 and K-3* on Page 16-1.

An individual reports ordinary income from a partnership on Schedule E of Form 1040. Other items of income or loss are reported on the appropriate forms or schedules. For example, capital gains shown on a partner's K-1 are reported on Schedule D of a partner's Form 1040.

Business Interest Expense Limitation

IRC Sec. 163(j) limits the annual deduction of business interest expense to the sum of a taxpayer's: (1) business interest income, (2) 30% of adjusted taxable income (ATI) (if a positive amount), and (3) floor plan financing interest [IRC Sec. 163(j)(9)]. The limitation applies:

- To businesses regardless of form, with several exceptions.

Continued on the next page

- First at the partnership or S corporation level and again at the partner or shareholder level.
- Generally to taxpayers with average annual gross receipts for the three-tax-year period ending with the prior tax year of over \$25 million, adjusted for inflation (\$31 million for 2025).

A partnership that has current year gross receipts greater than \$5 million is required to report gross receipts to partners for the three immediately preceding tax years as well as gross receipts for the current year. The gross receipts are reported on a partner's Schedule K-1, in box 20 with the code AG. Partnerships whose current year gross receipts are less than or equal to \$5 million may also use this code to report gross receipts.

Final regulations (TD 9905 and 9943) address, among other things, the calculation of ATI and the application of the limitation to Controlled Foreign Corporations (CFCs). The regulations also provide guidance regarding the definitions of *real property development*, *real property redevelopment*, and *syndicate*. The regulations affect taxpayers that have business interest expense, particularly pass-through entities, their partners and shareholders, as well as foreign corporations and their U.S. shareholders.

Excess business interest expense (EBIE) is the amount of disallowed business interest expense of the partnership for a tax year.

Form to use. The limitation is computed on Form 8990 [Limitation on Business Interest Expense Under Section 163(j)].

Business interest. Interest is considered business interest if it is on debt that is properly allocable to a trade or business as defined in IRC Sec. 163(j)(7), *not* to a trade or business (1) in which the taxpayer is an employee, (2) that is an electing (a) real property trade or business or (b) farming business, or (3) that furnishes or sells certain public utility products or services. Business interest does not include investment interest.

Adjusted taxable income (ATI). This is taxable income computed without regard to any [IRC Sec. 163(j)(8)]:

- 1) Item of income, gain, deduction, or loss not properly allocable to a trade or business.
- 2) Business interest income or expense.
- 3) NOL under IRC Sec. 172.
- 4) QBI deduction under IRC Sec. 199A.
- 5) Deduction allowable for depreciation, amortization, or depletion.
- 6) Other adjustments in regulations issued or to be issued.

Law Change Alert: For tax years beginning on or after January 1, 2022, and before January 1, 2025, allowable depreciation, amortization, or depletion reduced ATI and may have significantly limited the allowable deduction for business interest expense. The 2025 Act (formerly referred to as the One Big Beautiful Bill or OBBB) restored the add-back of these deductions in computing ATI [IRC Sec. 163(j)(8)(v)]. The 2025 Act provides that (1) the business interest expense limitation is calculated before applying any interest capitalization rules, with any allowable interest after applying the limitation allocated first to amounts that would be capitalized and the remainder, if any, to amounts that would be deducted; and (2) any business interest carried forward is not subject to the interest capitalization provisions [IRC Sec. 163(j)(10), which applies to tax years beginning after December 31, 2025]. **The IRS issued Fact Sheet 2025-9 on December 23, 2025 which contains FAQs regarding the limitation changes implemented by the 2025 Act.**

Tax shelters. A tax shelter isn't eligible for the \$25 million gross receipts exception (\$31 million for 2025). For this purpose, tax shelter means [IRC Secs. 448(d)(3) and 461(i)(3)(B)]:

- 1) An enterprise (other than a C corporation) whose interests have been offered for sale in a transaction required to be registered with a state or federal agency that regulates the sale of securities,
- 2) A syndicate, or
- 3) An entity formed to avoid or evade federal income tax.

Syndicates. While it's uncommon for a partnership to run afoul of item 1 or 3 above, a partnership may unintentionally be a *syndicate*, which is an entity (other than a C corporation) that allocates more than 35% of its losses during the tax year to limited partners or limited entrepreneurs [Reg. 1.1256(e)-2]. Gains or losses from

sales of capital assets or Section 1221(a)(2) assets (real or depreciable property used in a business) are not taken into account for the 35% of losses calculation. A *limited entrepreneur* is one who has an interest in an enterprise other than as a limited partner and does not actively participate in the management of the enterprise [IRC Sec. 461(k)(4)].

Limited partners/entrepreneurs who actively participate in the management of the entity (or who actively participated for at least five years or whose spouse, ancestors, or descendants actively participate) are not considered limited partners/entrepreneurs for the syndicate definition. Neither is the estate of an individual who actively participated.

A facts and circumstances test is used to determine if someone actively participates in management. Owners who make operational or management decisions for the business, or have the authority to hire and fire employees, generally escape classification as limited partners/entrepreneurs for the syndicate definition. However, those who are protected against loss to any significant degree are more prone to qualify.

Reg. 1.448-2(b)(2)(iii)(B) permits entities to elect to determine syndicate status by looking at whether they allocated more than 35% of their losses to limited owners in the prior year. This allows the entity to know early in the year whether it is a tax shelter. Since syndicate status depends on whether an entity generates a tax loss (of which more than 35% is allocated to limited owners), an entity's status can change from year to year. The regular test looks at whether the entity generates a loss for the year in question, so an entity may not know whether it's a syndicate until after year-end. Classification as a tax shelter means that an entity does not qualify for the small-taxpayer exemption from the Section 163(j) business interest expense limit. Entities making this election must attach a statement to their timely-filed federal income tax return (including extensions) that this election is made. If such a statement is not attached, the election is not valid and has no effect for any purpose. The final regulations indicate that this is an annual election and applies only to the tax year for which it is made [Reg. 1.448-2(b)(2)(iii)(B)].

Observation: A limited partnership that traditionally allocates 99% of its losses to limited partners (1% to a general partner) will be subject to IRC Sec. 163(j) even if it meets the \$25 million gross receipts test (\$31 million for 2025). This may have a disproportionate effect on certain industries that rely heavily on the limited partnership structure, including the real estate industry. Fortunately, there is an elective solution which is electing out of the Section 163(j) election.

Electing out of the Section 163(j) limitation—real property trade or business. A *real property trade or business* (that is, a real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business, including operation or management of a lodging facility) can elect to treat interest expense as not from a trade or business and thus, not subject to the Section 163(j) limit. To be an *electing real property trade or business*, an election must be made in a manner prescribed by the IRS and the alternative depreciation system (ADS) must be used to depreciate nonresidential real, residential rental, and qualified improvement property [IRC Secs. 163(j)(7)(B) and (j)(10)(A) and 168(g)(1)(F) and (g)(8)]. Thus, a limited partnership, LLC, or S corporation conducting a real property trade or business that is not eligible for the small business \$25 million gross receipts (\$31 million for 2025) exception to the Section 163(j) limit can avoid the limitation by electing to be treated as an electing real property trade or business. The effect of this election is that the entity's real property is depreciated under ADS and is not eligible for bonus depreciation. Once made, the ADS election is irrevocable.

Businesses that can use Section 179 expensing to compensate for the loss of bonus depreciation may find that being an electing real property trade or business has little tax cost relative to using the ADS in exchange for the exemption from the Section 163(j) limit.

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Corporations



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BASICS OF CORPORATIONS

Form 1120; see also IRS Pub. 542

Filing Requirements

Every corporation (except exempt—although exempt organizations that are corporations could be required to file other forms such as 990 and 990-T) must file regardless of the amount of income or loss. A corporation must continue to file until it is dissolved.

Filing deadline. For most C corporations, by the 15th day of the fourth month following the close of the tax year.

Note: C corporation returns are due April 15 (or the 15th day of the fourth month following the close of a fiscal year). However, for corporations with a June 30 year end, the return is due on the 15th day of the third month for tax years beginning before January 1, 2026. For tax years beginning after December 31, 2025, the general rule applies. The returns are due on the 15th day of the fourth month, making the due date October 15.

Electronic filing. Form 1120 is required to be e-filed for C corporations that annually file 10 or more returns of any type (including information returns such as Forms 1099, W-2, etc.). The final regulations eliminate the e-filing exception for income tax returns of corporations that report total assets under \$10 million at the end of their tax year. However, under certain conditions, corporations can request a hardship waiver of the electronic filing requirements [Reg. 301.6011-5(b)]. Additionally, the IRS provides an administrative exemption from e-filing for taxpayers for whom using the technology required to e-file conflicts with their religious beliefs (religious exemption). Generally, taxpayers claiming the religious exemption have the option to submit Form 8508 (Application for Waiver from Electronic Filing of Information Returns). However, taxpayers filing Form 1120 claiming the religious exemption must not file Form 8508 and should instead file the tax return in paper form, printing in bold letters “Religious Exemption” at the top of page 1 (Notice 2024-18). Filers who qualify for the religious exemption are not subject to the electronic filing waiver procedure that is available to other filers.

Extension deadline and form number. Form 7004 extends the deadline (1) six months for calendar year C corporations, (2) seven months for June 30 year end C corporations with tax years beginning before January 1, 2026 (six months for later tax years), or (3) six months for other fiscal year C corporations (Reg. 1.6081-3). An extension to file does not extend the time for paying tax.

Penalties:

- Estimated tax underpayment: see *Estimated Tax* on Page 17-3.
- Failure to make tax payments utilizing authorized methods: see *Tax Payments* on Page 17-3.

- Late filing penalty: 5% of the unpaid balance per month or part of a month, up to a maximum of 25% (plus any underpayment and/or late payment penalties and interest) [IRC Sec. 6651(a)(1)].

- Minimum penalty for late filing in 2026 (including 2025 tax returns due in 2026): if a return is more than 60 days late (including extensions), lesser of \$525 or 100% of the amount of tax required to be shown on the return [IRC Sec. 6651(a)].

Note: The statutory penalty amount is indexed by a cost-of-living adjustment (COLA) (see Rev. Proc. 2024-40).

- Late payment penalty: tax not paid by due date of a return is subject to a penalty of one half of one percent per month or part of a month, up to a maximum of 25% [IRC Sec. 6651(a)(2)].

If the corporation is assessed a penalty for late payment of tax for the same period in which a late filing penalty applies, the penalty for late filing is reduced by the amount of penalty for late payment, but not below the amount of the minimum penalty for late filing discussed earlier. Penalties for late filing and late payment will not be imposed if the corporation can show the failure was due to reasonable cause. A statement explaining the reasonable cause should be attached to the tax return. For reasonable cause exceptions, see Section 20.1.1.3—Criteria for Relief From Penalties, of the Internal Revenue Manual (available at www.irs.gov/irm).

Business tax account for C corporations. The IRS’s Business Tax Account (BTA) program is available to C corporations. The IRS explained that a person who can legally bind the corporation, known as a Designated Official (DO), can now access BTA on behalf of their C corporation. New features also include tax return, tax account, and entity transcripts for the current tax year and some previous tax years, with some transcripts available in Spanish. DOs can view and pay their corporation’s tax balances and make federal tax deposits. In addition, DOs and sole proprietors can use BTA to approve or reject a tax transcript authorization request through the IRS Income Verification Express Service, which allows lenders (only with taxpayer permission) to access a taxpayer’s tax records to verify its income (IRS Fact Sheet 2024-31).

Tax Rates on Taxable Income

The corporate tax rate is a flat 21%. This rate also applies to personal service corporations (PSCs) [see *Personal Service Corporation (PSC)* on Page 20-12].

Tax rate exceptions. Personal holding companies (PHCs) are subject to a 20% tax on undistributed PHC income [see *Personal Holding Company (PHC)* on Page 20-15]. C corporations may also be subject to a 20% accumulated earnings tax on accumulated taxable income (see *Accumulated Earnings Tax* on Page 17-13).

Stock buyback excise tax. IRC Sec. 4501 imposes a nondeductible excise tax on certain repurchases of corporate stock. This includes repurchases of their own stock or having their stock acquired by certain affiliates. Final regulations (TD 10002) provide guidance on the excise tax with respect to filing and payment requirements. Generally applicable to publicly traded domestic and certain foreign C corporations, the excise tax equals 1% of the fair market value (FMV) of any stock of the corporation that’s repurchased by the corporation after December 31, 2022. Form 7208 (Excise Tax on Repurchase of Corporate Stock) is used by affected taxpayers and attached once a year to their Form 720 (Quarterly Federal Excise Tax Return). For a tax year ending after June 28, 2024, the due date is the due date of the Form 720 for the first full quarter after that year end. The stock buyback excise tax applies to a *covered corporation* whose stock is repurchased or acquired during its tax year by the corporation or a *specified affiliate* from a person who is not the covered corporation or a specified affiliate of the covered corporation. A *covered corporation* is any domestic corporation whose stock is traded on an established securities market [IRC Sec. 4501(b)]. A *specified affiliate* is any subsidiary or partnership

that's more than 50% owned, directly or indirectly, by the covered corporation [IRC Sec. 4501(c)(2)]. In some instances, the excise tax applies to the acquisition of stock of certain foreign corporations [IRC Sec. 4501(d)].

Note: While the corporations subject to the excise tax must be publicly traded, the repurchased stock itself need not be publicly traded. So, corporations will need a means of establishing the FMV of repurchased stock that's not traded on an established market.

IRC Sec. 4501(e) provides a "de minimis" exception for stock repurchases subject to the excise tax. The excise tax does not apply where the total value of the stock repurchased during the tax year does not exceed \$1 million.

Proposed regulations (REG-115710-22) clarify that the determination of whether the de minimis \$1 million exception applies in a given tax year is made before applying a reduction for a statutory exception and a reduction under the netting rule. This means a corporation may still owe tax on stock repurchases of less than \$1 million if the aggregate amount of the repurchases exceeds \$1 million before exceptions and netting.

The proposed regulations also provide statutory exceptions to the excise tax, namely exceptions for reorganizations under IRC Sec. 4501(e)(1). The proposed regulations also include exclusive lists of transactions both subject to and exempt from the excise tax.

Note: While TD 10002 finalized rules related to the reporting and payment requirements for the excise tax, interim guidance from proposed regulation REG-115710-22 related to the statutory netting rule and the \$1 million "de minimis" exception for stock purchases has not yet been finalized.

Law Change Alert: The IRS has issued final regulations (T.D. 10037) on the 1% excise tax for corporate stock repurchases, effective for transactions occurring after November 24, 2025. The final regulations narrow the tax's applicability, withdraws some proposed rules, provides transition relief for certain preferred stock issued before August 16, 2022, and simplifies tax administration around the excise tax.

Corporation Defined

For federal tax purposes, corporations include the following:

- 1) Businesses organized under a federal or state law that identifies the entity as a corporation.
- 2) Joint stock companies.
- 3) Insurance companies.
- 4) Certain banks.
- 5) Business entities wholly owned by a state or any political subdivision thereof.
- 6) Certain foreign business entities.

Other entities, such as publicly traded partnerships, may be treated as corporations by other Code sections.

Check-the-box rules. Noncorporate entities, such as sole proprietorships and partnerships, may elect to be taxed as corporations by filing Form 8832 (Entity Classification Election).

Note: Corporations cannot elect out of corporate tax treatment. If an entity is classified as a corporation under IRS regulations, the entity must file as a corporation.

Caution: Some states have rules that classify entities for tax purposes. Not all states recognize reclassification of an entity under the check-the-box rules.

See *Check-the-Box Rules—Entity Classification Election (Form 8832)* on Page 20-2 for more information.

Limited Liability

A corporation formed under state law shields owners from liability for the corporation's actions. A shareholder's risk of loss is limited to the amount invested in stock. This is in contrast to sole proprietors or general partners in partnerships, who are personally liable for debts of the business.

State laws determine an entity's liability status. A proprietor or partnership cannot receive limited liability status simply by electing to be taxed as a corporation under the check-the-box rules.

Courts have disregarded the limited liability status of corporate shareholders in the following circumstances:

- Fraud.
- Bad faith.
- Failure to observe corporate formalities.
- Need to accomplish substantial justice.

A shareholder owning 100% of the stock of a corporation is particularly susceptible to having the corporate veil pierced. Incorporating a business is not a substitute for liability insurance.

Other shareholder liability. A corporation will not protect a shareholder from liability directly linked to the individual. For example, a shareholder who personally guarantees a corporate loan is liable for repayment. Similarly, if a shareholder performs services using his own vehicle and is involved in an accident, he may be liable for damages because he owns the vehicle.

Tax Treatment of C Corporations

For federal income tax purposes, a C corporation is a separate taxpaying entity. A corporation conducts business, realizes net income or loss, pays taxes, and distributes profits to shareholders. Income is taxed to the corporation when earned, and taxed again when distributed to the shareholders as dividends. The corporation does not receive a tax deduction for the dividends paid.

Example: Lookback Corporation is taxed at a flat 21% and its sole shareholder is in the highest individual bracket. The corporate tax on \$1,000 of profits equals \$210. The remaining \$790 dividend will incur tax of \$188 to the shareholder since he is in the highest bracket (20% individual tax rate on dividends plus 3.8% net investment income tax). This leaves \$602 in after-tax profits for the shareholder and results in an effective combined tax rate of 39.8%.

Unlike S corporations and partnerships, various types of income do not retain their character as they pass from a C corporation by dividends to shareholders.

Example: The BCA Corporation received tax-exempt interest and distributed it to shareholders as taxable dividends. The fact that the money was originally tax-exempt interest is of no consequence to a shareholder. However, if the company was an S corporation or a partnership, the tax-exempt interest would retain its character as it passed through to shareholders or partners.

Schedule M-3 (Form 1120)—Reconciliation of Books With Tax Return

Domestic corporations with total assets of \$10 million or more on the last day of the tax year must complete Schedule M-3 [Net Income (Loss) Reconciliation for Corporations With Total Assets of \$10 Million or More]. The schedule requires detailed explanations of the transactions that create book-tax differences, and is filed in place of Schedule M-1. Schedule M-3 is filed as an attachment to Form 1120. In addition, Form 8916-A (Supplemental Attachment to Schedule M-3) is filed to reconcile cost of goods sold and interest income and expense reported on Schedule M-3. Mixed consolidated return groups (those including certain insurance companies) must also file Form 8916 (Reconciliation of Schedule M-3 Taxable Income with Tax Return Taxable Income for Mixed Groups) to reconcile Schedule M-3 with their returns (Forms 1120, 1120-L, and 1120-PC).

A corporation filing Form 1120 that is not required to file Schedule M-3 may voluntarily file Schedule M-3 in place of Schedule M-1. For these corporations, and for those that are required to file Schedule M-3 but have less than \$50 million in total assets at the end of the tax year, there is an option concerning how Schedule M-3 is completed. In lieu of completing all parts of Schedule M-3, these corporations may complete the schedule only through Part I, and then complete Schedule M-1 of Form 1120 (or Form 1120-C, if applicable) instead of completing Parts II and III of Schedule M-3. In addition, these filers are not required to file Schedule B (Form 1120) or Form 8916-A. If this option is selected, make sure line 1 of Schedule M-1 equals line 11 of Part I of Schedule M-3.

A corporation filing Schedule M-3 must check the box on Form 1120, page 1, item A(4), indicating that Schedule M-3 is attached (whether required or voluntary). For IRS website information on Schedule M-3, search for "Schedule M-3" at www.irs.gov.

Caution: While the Joint Committee on Taxation estimated that approximately 150 corporations were subject to a prior proposed version of the CAMT, the CAMT exacts an annual compliance burden on a larger group of taxpayers. Specifically, in every year, a corporation will need to determine: 1) whether it is subject to the CAMT as an AC and 2) if it is an AC, the amount of its CAMT liability.

IRS guidance. Notice 2023-7 provided corporations with a safe harbor method for determining whether they are an AC for the first tax year beginning after December 31, 2022. All corporations, other than RICs, REITs, S corporations, and a corporation that is not an applicable corporation under the simplified method and chooses to apply that method (as explained in the Form 4626 instructions) must file Form 4626 whether or not they owe CAMT. The IRS has published proposed regulations that address the application of CAMT (REG-112129-23). The proposed regulations would affect taxpayers that are ACs, certain taxpayers that own interests in ACs, and certain entities in which ACs hold interests. Prop. Reg. 1.59-2(g)(2) provides a simplified method for a corporation to determine whether it is an AC.

The IRS has issued several other pieces of interim guidance, including Notice 2025-27, which provides (1) a new interim simplified method for determining applicable corporation status under IRC Sec. 59(k) and (2) updated tax years that will receive relief from estimated tax penalties (see *Estimated Tax on Page 17-3* for discussion). Under the new interim simplified method, large corporations with average AFSI of less than \$800 million will not be considered an AC subject to the CAMT. Before final regulations are issued, the IRS intends to issue proposed regulations similar to the interim guidance.

The IRS has issued Notices 2025-46 and 2025-49 which provide additional interim CAMT guidance. The notices contain several rules that appear to reduce AFSI and provide taxpayers with significant flexibility in relying upon CAMT guidance issued since September of 2024.

Base Erosion Minimum Tax

The base erosion minimum tax prevents companies from stripping earnings out of the U.S. through payments to foreign affiliates that are deductible for U.S. tax purposes. The tax [often called the base erosion and anti-abuse tax (BEAT)] is structured as an alternative minimum tax that applies when a multinational company reduces its regular U.S. tax liability to less than a specified percentage of its taxable income, after adding back deductible base eroding payments, and a percentage of tax losses claimed that were carried from another year (IRC Sec. 59A). The BEAT applies to corporations (other than RICs, REITs, and S corporations) that have average annual gross receipts of \$500 million or more for a three-tax year period.

LOSSES AND MISCELLANEOUS ITEMS

Passive Activity Losses

Passive loss rules of IRC Sec. 469 apply to noncorporate taxpayers, closely held C corporations, and PSCs [IRC Sec. 469(a)(2)]. Closely held C corporations and PSCs are subject to passive loss limitations to prevent taxpayers from incorporating simply to avoid the passive activity rules.

Closely held corporations. For purposes of the passive activity rules, a corporation is closely held if more than 50% of the value of outstanding stock is owned by five or fewer individuals at any time during the last half of the tax year [IRC Sec. 469(j)(1)]. A closely held corporation can offset passive losses against active income (unlike individuals), but not against portfolio income [IRC Sec. 469(e)(2)].

Note: Taxpayers subject to the passive activity rules are limited in their ability to use transferred eligible credits against their federal income tax liability. Generally, this means that purchased credits can only be used to offset their passive income tax liability. Most taxpayers do not have passive income tax liability as it generally does not include tax liability arising from most investment activities.

Casualty and Theft Losses

100% of the loss is allowed as a deduction against business income.

Corporate Terms

Brother-sister corporations. More than one corporation is owned by the same shareholders. See IRC Sec. 1563(a)(2) for definition and requirements.

Closely held corporation. A corporation that does not offer shares to the public on a securities exchange; the transferability of the shares may be restricted. Many of the shareholders participate in the management of the business. Although for most purposes, there is no maximum number of shareholders that a corporation can have to be considered a closely held corporation, these corporations generally have relatively few shareholders.

Consent dividends. A corporation can avoid or reduce the accumulated earnings tax by declaring a consent dividend. In a consent dividend, no cash or property is distributed to the shareholders. The corporation reduces accumulated E&P by the amount of the consent dividend, and the shareholder pays tax on the dividend as if it was received. The consent dividend will also increase the shareholder's basis in stock held. See the Form 972 (Consent of Shareholder To Include Specific Amount in Gross Income) instructions for details.

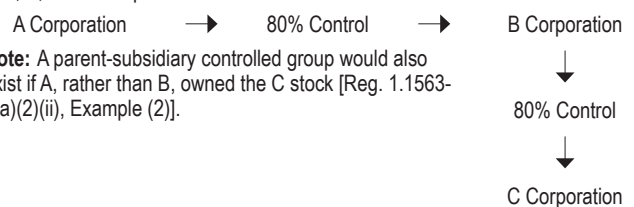
Consolidated returns. Corporations that are members of a parent-subsidary affiliated group, as defined in IRC Sec. 1504(a), may file a consolidated income tax return. The regulations under IRC Sec. 1502 outline the filing requirements for consolidated returns.

Controlled group. A controlled group of corporations as defined under IRC Sec. 1563(a) is limited for purposes of computing the accumulated earnings credit. See IRC Sec. 1561(a). A controlled group can be a parent-subsidary, brother-sister, or combined group. IRC Sec. 482 allows the IRS to reallocate income and deductions among the member corporations whenever it is determined that the members shifted the income and deductions to avoid tax.

Parent-subsidary group. One or more corporations are connected through stock ownership with a common parent corporation. See IRC Sec. 1563(a)(1) for definition and requirements.

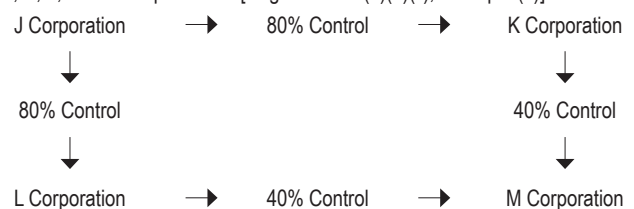
Control Structure of Parent-Subsidiary Group of Corporations

A Corporation. Common parent of a parent-subsidiary controlled group consisting of A, B, and C Corporations.



Note: A parent-subsidiary controlled group would also exist if A, rather than B, owned the C stock [Reg. 1.1563-1(a)(2)(ii), Example (2)].

J Corporation. Common parent of a parent-subsidiary controlled group consisting of J, K, L, and M Corporations. [Reg. 1.1563-1(a)(2)(ii), Example (3)].



Personal service corporations. The principal activity of the corporation is the performance of personal services. See the chart *Personal Service Corporation (PSC)* on Page 20-12 for the various definitions that apply.

Publicly held corporation. A corporation with shares traded on securities exchanges or for which price quotations are published.

CORPORATION EXAMPLE

A comprehensive corporation example with line-by-line instructions to help in the preparation of Form 1120

Earnings and profits. In this example, net income per books is computed under E&P rules. Earnings and profits rules determine the amount of a corporation's retained earnings that will be taxable as a dividend if distributed to shareholders. See *Net Income per Books vs. Taxable Income* on Page 24-14 for a side-by-side comparison of E&P rules and income tax rules. See *Corporate AMT* on Page 17-16 for discussion of the corporate AMT.

C corporation income is computed differently than income from a partnership or S corporation.

- C corporations pay income tax at the corporate level, which reduces C corporation book income.
- C corporations are not allowed a Section 179 deduction for E&P purposes (rather, the amount is deducted ratably over five years) [IRC Sec. 312(k)(3)(B)]. The deduction is allowed for tax purposes.
- Shareholders who perform services for a corporation are treated as employees. This results in higher payroll taxes at the corporate level as compared with a partnership.
- C corporations are allowed to deduct up to \$5,000 of organizational costs with the remainder of the costs amortized over 180 months, for tax purposes, but for E&P purposes, these costs must be capitalized [IRC Secs. 248 and 312(n)(3)].
- Section 195 start-up costs may be deducted and/or amortized for both tax and E&P purposes.

History. Jerry and Bob agreed to go into business together operating a training facility for skydivers called "Shout and Jump."

Organizational costs and start-up costs/amortization. Jerry and Bob met with an accountant and an attorney to discuss which business entity would best fit their needs. After determining they were capable of adhering to corporate formalities, these professionals advised them to form a corporation (see *Corporate Considerations* on Page M-1 of *Small Business Quickfinder® Handbook*). The accountant helped establish a bookkeeping system. The attorney helped incorporate the business. The accountant's fee was \$1,200; the attorney's fee was \$1,800. Both are considered organizational costs. The corporation paid advertising costs of \$2,016 before its grand opening, which is considered a start-up cost.

For tax purposes, Shout and Jump, Inc. may deduct the first \$5,000 of both organizational

costs and start-up costs and amortize any remaining organizational and start-up costs over a period of 180 months. Thus, the corporation deducts both the organizational costs of \$3,000 and the start-up costs of \$2,016.

Provisions of the Shout and Jump, Inc. incorporation agreement:

- The corporation authorizes one million shares of stock at par value \$100 per share. Jerry makes a capital contribution of \$69,000 in exchange for 690 shares of common stock. Bob makes a capital

contribution of \$46,000 in exchange for 460 shares of common stock.

Section 351 statements will be filed with the corporation and shareholders' tax returns to report these exchanges. See the *S Corporation Example* on Page 18-14 for a filled-in corporation statement. See *Transferor's Section 351 Statement* on Page 15-10 for a blank shareholder's statement.



Cash Flow Statement					
Name	Shout and Jump, Inc.	Period Ending	12/31/25	ID#	41-1234567
1)	Beginning cash balance			1)	0.00
	Include petty cash, checking and savings account balances, and undeposited checks on hand.				
2)	Cash receipts for sales and services:				
	Income Categories		Amounts		
	Jump Fees		242,600.00		
	Merchandise		129,280.00		
	Training Fees		41,812.00		
	Sales Tax Collected		5,818.00		
		Total		2)	419,510.00
3)	Cash contributions to capital			3)	115,000.00
4)	Cash received on accounts receivable not included on line 2 above			4)	
5)	Cash received from sale of assets			5)	
6)	Interest or other earnings credited to bank accounts			6)	316.04
7)	Loans repaid to the business:				
	Principal		Interest	Total Payment Received	
	Loan #1	+		=	
	Loan #2	+		=	
	Loan #3	+		=	
			Total	7)	
8)	Proceeds from bank loans, partner or stockholder loans, and other loans to business			8)	150,000.00
9)	Other sources of cash receipts (list)			9)	
10)	Total cash in—Add lines 1 through 9			10)	684,826.04
11)	Cash disbursements for business expenses including inventory purchases and bank charges:				
	Expense Categories		Amounts		
	Accounting (includes \$1,200 organizational costs)		4,200.00		
	Advertising (includes \$2,016 start-up costs)		13,183.00		
	Attorney Fees (includes \$1,800 organizational costs)		1,800.00		
	Bank Charges		280.00		
	Business Insurance		3,440.00		
	Estimated Income Tax: Federal		50,000.00		
	State		7,000.00		
	Health Insurance Premiums (includes \$3,200 for shareholder-employees)		8,000.00		
	Meals		560.00		
	Fuel and Repairs and Maintenance (\$20,840 + \$1,986)		22,826.00		
	Office Supplies and miscellaneous (\$490 + \$404)		894.00		
	Payroll		10,934.37		
	Taxes				
	Rent		14,200.00		
	Sales Tax Collections Paid to State		4,530.00		
	Utilities		5,270.00		
	Wages		115,482.00		
		Total		11)	262,599.37
12)	Distributions to partners or stockholders			12)	20,000.00
13)	Payments on business liabilities:				
	Liability		Principal	Interest (if any)	Total Paid
	Airplane loan	17,304.78	+	6,174.58	= 23,479.36
			+		=
			Total	13)	23,479.36
14)	Payments on accounts payable not included elsewhere			14)	67,418.00
15)	Payments for assets purchased			15)	196,000.00
16)	Personal expenses paid with business funds			16)	
17)	Cash disbursements for business loans to partners, shareholders or other parties			17)	
18)	Other cash disbursements (list)			18)	
19)	Total cash out—Add lines 11 through 18			19)	569,496.73
20)	Ending cash balance—Subtract line 19 from line 10			20)	115,329.31
	Must equal petty cash, checking and savings account balances, and undeposited checks on hand at end of period.				

Agricultural employers pay FUTA tax and file Form 940 if, during the current or preceding calendar year, they meet either of two tests regarding agricultural laborers [IRC Sec. 3306(a)(2)]:

- 1) Pay them wages \geq \$20,000 during any calendar quarter or
- 2) Employ \geq 10 of them for some part of a day (whether or not at the same time) during any 20 or more different weeks.

Wages paid for agricultural labor performed by aliens lawfully admitted to the U.S. on a temporary basis to work peak seasons are not subject to FUTA tax. However, the services performed by such aliens are still counted in determining whether an agricultural employer meets either of the two preceding tests.

Household employees. Wages paid to household employees are subject to FUTA tax if they total \$1,000 or more during any calendar quarter of the current or preceding calendar year [IRC Sec. 3306(a)(3)]. Household employers generally use Schedule H of Form 1040 to report and pay FUTA taxes for their household employees. However, if a household employee's wages are reported on Forms 941, 943, or 944, the employer must deposit the tax and use Form 940 to report FUTA tax.

Filing deadline. Form 940 is due by January 31 of the following calendar year.

Extensions. If all tax is deposited when due, the deadline is extended 10 days. There is no additional extension for Form 940.

Penalties:

- Late filing penalty of 5% of tax per month up to 25%.
- Late payment penalty of 0.5% of tax per month up to 25%.

See *Payroll Tax Deposit Requirements* on Page 23-1 for failure to make deposits of tax at a federal depository.

The *Trust Fund Recovery Penalty* on Page 23-12 does not apply to FUTA taxes.

FUTA tax rate and wage base [IRC Secs. 3301, 3302 and 3306(b)]:

- 6.0% of each employee's first \$7,000 of wages.
- *Certified state unemployment fund.* If the employer pays into a certified state unemployment fund by the due date of Form 940, the employer may receive a credit of up to 5.4% of the total taxable FUTA wages. The maximum credit is 90% of the FUTA tax rate ($90\% \times 6.0\% = 5.4\%$) [IRC Secs. 3302(c)(1) and 3302(d)(1)].

Caution: If an employer pays wages that are subject to the unemployment tax laws of a credit reduction state, the employer must pay additional federal unemployment tax when filing Form 940. A credit reduction state is one that has not repaid money borrowed from the federal government to pay unemployment benefits. The DOL determines these states. Form 940, Schedule A, lists all states and the applicable credit reduction rate.

FUTA deposit rules. Employers are required to deposit FUTA taxes by EFTPS any time the FUTA tax liability exceeds \$500 in a calendar quarter. If the FUTA tax liability is \$500 or less in a quarter, it can either be deposited or added to the next quarter's liability [IRC Sec. 6157; Reg. 31.6302(c)-3].

If the liability for the fourth quarter plus undeposited amounts from earlier quarters is over \$500, the deposit is due by January 31 of the following calendar year. If the tax is \$500 or less, the payment can either be deposited or paid with Form 940 by January 31 of the following calendar year on Form 940-V (Payment Voucher).

Practice Tip: To take advantage of the 10-day extension for filing Form 940, an employer must pay the tax due by January 31 of the following calendar year, even if it is \$500 or less.

Required deposits are due by the following dates:

If undeposited FUTA taxes are over \$500 on:	Deposit them by:
March 31	April 30
June 30	July 31
September 30	October 31
December 31	January 31

Example: Assume the FUTA tax liability for the first quarter is \$250. The FUTA tax liability for the second quarter is \$253. The combined liability of \$503 must be deposited by July 31.

Filing Amended Payroll Tax Returns

If wages or payroll tax information are not reported correctly on an originally filed payroll tax return, an amended return must be filed to provide the correct information. The IRS has 94X-X forms for amending payroll tax returns. For example, to amend Form 941, a Form 941-X must be filed. Generally, the amended return must be filed by the last day of the month following the calendar quarter in which the error was discovered to avoid interest and penalties.

Note: There is not an "X" form for Form 940. Instead, another Form 940 is filed, with the box for amended return in the top right corner checked.

The IRS has a webpage on filing amended returns at www.irs.gov/businesses/small-businesses-self-employed/correcting-employment-taxes.

Amended payroll tax returns (except for Form 944-X) can be filed electronically through the Modernized e-File (MeF) system.

Reporting Household Employment Tax

A household employee is someone hired to do household work where the employer controls what work is done and how it is done. Nannies, babysitters, personal nurses, caretakers, and domestic workers are some examples of household employees (IRS INFO 2010-0056). If the worker is deemed a household employee (see *Employee vs. Independent Contractor* on Page 23-9) with cash wages exceeding the annual household employee threshold, the employer must withhold and pay payroll taxes, report those taxes on Schedule H of Form 1040, and file a Form W-2 for the household employee. Schedule H is filed as part of the taxpayer's federal income tax return.

If a worker regularly comes to an individual's home and the individual dictates the worker's schedule and supervises the worker, that person is likely an employee. It doesn't matter whether the work is full-time or part-time or if the worker is hired through an agency. However, if an agency supplies the worker and controls what work is done and how it's done, the worker is not a household employee. Even a temporary arrangement, such as a nurse caring for an ailing parent for a few weeks during the year, may cause the individual paying the nurse to be considered a household employer.

Note: Individuals who periodically provide lawn care services, pool services, or other similar services to the general public, and provide their own tools, generally are not considered employees. Household employers have the following responsibilities for employment taxes:

FICA. Withhold (employee's share) and pay if wages paid to any one household employee are \$2,800 or more in 2025. Payment of \$2,700 or more to any one household employee requires the entire amount, including the first \$2,800, to be subject to FICA.

FUTA. Pay if combined wages for all household employees are \$1,000 or more in any calendar quarter of the current or prior year.

FITW. Employers are not required to withhold federal income tax. However, if the employer and employee agree, FITW can be done, based on a Form W-4 furnished to the employer.


For additional information, see *Household Employers* in Tab 12. See also IRS Pub. 926 (Household Employer's Tax Guide) and Schedule H, Form 1040.

Reporting Overtime Wages on Form W-2


Law Change Alert: For tax years 2025–2028, the 2025 Act (formerly referred to as the One Big Beautiful Bill or OBBB) allows individuals who receive qualified overtime compensation to deduct a certain amount of the overtime compensation from adjusted gross income (AGI) on their personal federal income tax return [IRC Sec. 225(a)]. A maximum of \$12,500 (for single taxpayers) or \$25,000 (for married, filing jointly) of overtime compensation can be deducted. The individual's deduction is reduced by \$100 for every \$1,000 of modified adjusted gross income (MAGI) exceeding \$150,000 (\$300,000 for married, filing jointly).

This means the employee will not pay federal income taxes on some of their qualified overtime compensation. However, FICA taxes are still paid on this income. The Act requires enhanced reporting of overtime income on Form W-2. For calendar year 2025, the IRS stated that employers should continue to withhold federal income taxes when overtime income is paid to the employee (IR-2025-82). The IRS will issue guidance for calendar years 2026-2028 on how FITW can be adjusted for overtime compensation that will not be subject to income taxes. For more information, see *Circular 230 on Page 25-3*.

Qualified overtime compensation for IRC Sec. 225(a) purposes is defined as overtime compensation paid to an individual (whether an employee or independent contractor) under Section 7 of the Fair Labor Standards Act (FLSA) that is in excess of the individual's regular pay rate. **Only the "time-and-a-half" premium required by the FLSA qualifies, not additional state law or collectively bargained overtime (Notice 2025-69).**


 **Note:** Although the individual will not be liable for federal income taxes on the qualified overtime compensation, the employer will continue to have an income tax deduction for federal income tax purposes for overtime compensation paid to employees or independent contractors.

Reporting Tip Income on Form W-2

 **Law Change Alert:** For tax years 2025–2028, the 2025 Act allows individuals who receive qualified tip income to deduct a certain amount of the income from AGI on their personal income tax return (IRC Sec. 224). A maximum of \$25,000 of qualified tip income can be deducted by each eligible taxpayer who receives tips in an occupation where tipping was customary before January 1, 2025. The deduction is allowed for both employees and independent contractors. The deduction phases out by \$100 for every \$1,000 of MAGI above \$150,000 (\$300,000 for married, filing jointly). Married individuals claiming the tip income deduction must file a joint return.

Employers and businesses paying independent contractors must properly report the qualified tip income and the recipient's occupation on Forms W-2, 1099-NEC, or 1099-K. For tips received in 2025, reporting entities **are not required to separately report qualified tips or overtime. Employees and independent contractors will need to use reasonable methods to determine and substantiate their qualified tip and overtime amounts for the deduction (Notice 2025-69).** The IRS must adjust withholding procedures to reflect the new deduction starting in 2026 and provide guidance regarding FITW on tip income (IRC Sec. 3402). For more information, see *Circular 230 on Page 25-3*.

The IRS released a list of occupations that qualify as occupations that customarily and regularly receive tips for purposes of the qualified tip income deduction in proposed regulations issued in September 2025. These nearly 70 occupations will be eligible for the deduction. The eligible occupations are listed in the proposed regulation using a TTOC, a three-digit code along with descriptions for the occupation [Prop. Reg. 1.224-1(f)]. See *Regular and Customary Tipped Occupations as of December 31, 2024* on Page 25-13 for a complete list.

 **Note:** Although the employee will not be liable for federal income taxes on the qualified income, the employer will continue to have an income tax deduction for federal income tax purposes for all overtime compensation paid to workers.


Forms W-2 and W-3

Form W-2 (Wage and Tax Statement) reports information about employee wages and withholding to the employee, the IRS, and the Social Security Administration (SSA). The employee copy of the completed Form W-2 should be *furnished* to each employee by January 31. *Furnished* includes mailing by January 31. Forms W-2 may be provided to employees electronically as long as the employee consents and does not withdraw the consent prior to receiving the statement [Reg. 31.6051-1(j)].

Employers may voluntarily truncate employees' social security numbers (SSNs) to appear in the form of truncated taxpayer identification numbers (TTINs) on all copies of Form W-2 except for Copy A filed with the SSA [Reg. 301.6109-4(b)(2)(iii)].


Form W-3 (Transmittal of Wage and Tax Statements) is a summary of an employer's Forms W-2 for the calendar year.

Due date for filing. Both paper and electronically filed Forms W-2 and W-3 must be filed with the SSA by January 31 of the following calendar year. A 30-day extension to file Form W-2 may be requested by submitting a complete application on Form 8809 (Application for Extension of Time to File Information Returns) indicating that at least one of the criteria on the form for granting an extension applies and signed under penalties of perjury. The IRS will only grant the extension in extraordinary circumstances or catastrophe.

 **Note:** If granted, an extension only extends the due date for filing with the IRS. It does not extend the due date for furnishing statements to recipients.

Errors. If an error is discovered after issuing a Form W-2 or W-3, corrections are made using Forms W-2c and W-3c. The corrected forms must be issued to the employee and sent to the SSA. A safe harbor exception to the penalty for failure to file correct information returns may apply to returns that are otherwise correct and timely filed, but that include *de minimis* errors in the amount required to be reported [IRC Sec. 6721(c)(3)]. An error is considered *de minimis* if no single amount reported differs from the correct amount by more than \$100, or if no amount reported for tax withheld differs from the correct amount by more than \$25 [Reg. 301.6722-1(d)(2)]. The safe harbor exception is not available if the failure is due to intentional disregard of the rules [IRC Sec. 6721(e)(1)].

Electronic filing. Employers filing 10 or more information returns for a calendar year must file all information returns electronically [Reg. 301.6011-2(c)(1)]. In determining whether the electronic filing threshold is met, most information returns (including all Forms W-2 and Forms 1099) must be aggregated [Reg. 301.6011-2(c)(4)(i)]. For example, a taxpayer filing five Forms W-2 and five Forms 1099-MISC (Miscellaneous Information) for a calendar year is required to file both the Forms W-2 and the Forms 1099-MISC electronically. This means that most employers must file Forms W-2 electronically. Corrected Forms W-2 must be filed electronically if the original Form W-2 was filed electronically.

 **Note:** Employers can obtain a waiver of the electronic filing requirement for a calendar year, based on undue hardship or if using the technology required to file electronically conflicts with the filers religious beliefs, by filing Form 8508 (Request for Waiver from Filing Information Returns Electronically). The request must be filed at least 45 days before the deadline for filing the forms.

Final Forms W-2—business closing. Employers that go out of business or stop paying wages to employees are required to issue Forms W-2 to their employees by the date the final Form 941 (or 944) is due (the final Form 941 is due the end of the month after the quarter, or year for Form 944, in which operations end). Final Forms W-2 and W-3 to be filed with the SSA are due by the last day of the month that follows the due date of the final Form 941 [Regs. 31.6051-1 and 31.6071(a)-1].

Nonemployee Compensation (Form 1099-NEC)

Box 1. Form 1099-NEC should be used by businesses (including sole proprietorships) and nonprofit organizations that paid \$600 or more during calendar year 2025 in the course of a trade or business for the following items (not an exhaustive list):

- 1) Services of an independent contractor (including parts and materials).
- 2) Directors' fees.

Who Is a Responsible Person?

The IRS takes the position that responsibility is a matter of status, duty and authority. A *responsible person* can be an officer or employee of a corporation, a partner or employee of a partnership, an accountant, a volunteer director/trustee, or an employee of a sole proprietorship, or any other person or entity that is responsible for collecting, accounting for and paying over trust fund taxes. A responsible person also may include one who signs checks for the business or otherwise has authority to cause the spending of business funds (IRS Pub. 15; IRM 8.25.1.3.1).

The following nonexclusive list of factors is vital to the determination of who is or is not a responsible person:

- 1) Who is an officer or director?
- 2) Who owns an entrepreneurial stake in the company?
- 3) Who is active in managing the day-to-day affairs of the company?
- 4) Who has hiring and firing authority?
- 5) Who makes decisions regarding which, when and in what order bills are paid?
- 6) Who exercises control over daily bank accounts and disbursement records?
- 7) Who has check-signing authority?
- 8) Who signs and files payroll tax returns (for example, Forms 941 or 944)?

The courts have stated that a taxpayer's title is not as important as the substance of their work.

Court Cases: *Manager held liable for penalty.* The general manager of a printing company that failed to pay its employment taxes was held liable for the Section 6672 penalty. The 10th Circuit Court noted that the manager was aware that the payroll taxes were not being paid and other creditors were being paid instead [Smith, 103 AFTR 2d 2009-880 (10th Cir. 2009)].

Accounting firm held responsible person. An accounting firm can be a responsible person for payroll taxes under IRC Sec. 6672. The firm had access and authority to control a client's payroll function and operating account, and there was no instruction that the firm should not remit payroll taxes when financial problems arose. Instead, the accountants wrote numerous other checks while payroll taxes went unpaid. The District Court concluded that the accounting firm was a responsible person and that the accountants willfully failed to pay the taxes. The District Court upheld the large Section 6672 penalty imposed by the IRS [Charles B. Erwin, 111 AFTR 2d 2013-748 (DC NC 2013)].

Restaurant manager's father not a responsible person. The father of a restaurant manager was not a *de facto* officer. The father, whose handwriting was more legible than his son's, occasionally wrote out business checks for his son to sign. Once, when his son was out of town, he signed four checks drawn on the restaurant's account for supplies and loan payments. The Tax Court determined that the taxpayer didn't have control of the restaurant's affairs; wasn't an officer, director, employee, or owner and wasn't an authorized signatory on the bank accounts (Schaffran, Sr., TC Memo 2017-35).

Voluntary board member/treasurer's actions not willful. A District Court denied imposition of a Section 6672 penalty against the taxpayer, a volunteer board member of a private school not involved in daily operations. Payroll duties were handled by the CEO and staff. The CEO had been directed by the board to pay the trust fund taxes. The taxpayer believed the CEO was in communication with the IRS and making installment payments as directed [Bibler, 121 AFTR 2d 2018-1573 (DC OH 2018)].

Each responsible person is entitled to recover, from any other responsible person, the excess of the trust fund taxes paid by that responsible person over their proportionate share of the trust fund taxes [IRC Sec. 6672(d)]. The law also requires the IRS to give a 60-day notice prior to issuing a demand for payment notice. The responsible person has the right to appeal to the IRS Independent Office of Appeals (Rev. Proc. 2005-34 sets out the appeal procedures) or to the federal courts.

Tax-exempt organization. See *Penalties on Penalties* on Page 19-2 for when an unpaid volunteer member of a board of trustees or directors of an exempt organization is not subject to the 100% penalty.

PAYROLL TAX CREDIT FOR RESEARCH ACTIVITIES

The income tax credit under IRC Sec. 41 for increasing research and development (R&D) activities can be a very valuable credit. To further help start-ups that may have little to no taxable income benefit from the credit, qualified small businesses may use some or all of the credit as a payroll tax credit.

A qualified small business (QSB) can elect to apply up to \$250,000 of the research credit against its portion of social security taxes (for example, the 6.2% paid by the employer on each employee's FICA wages). Additionally, a QSB may use an additional \$250,000 in qualifying research expenses to offset the 1.45% employer portion of Medicare taxes [IRC Sec. 41(h)(4)(B)(i)(II)].

Law Change Alert: The 2025 Act provides that for tax years beginning January 1, 2025, certain domestic research and experimental (R&E) expenditures may be deducted immediately in the tax year incurred rather than being capitalized and amortized over a 60-month period (IRC Sec. 174A). Small businesses with average annual gross receipts of \$31 million or less may apply this rule retroactively to tax years beginning after December 31, 2021. Thus, a qualifying small business under the Section 41 rules may be able to deduct some research expenses not used for the Section 41 research credit as a current year expense.

Qualified small business (QSB). A QSB is generally a corporation (including an S corporation) or partnership with (1) gross receipts for the current tax year of less than \$5 million and (2) no gross receipts for any tax year preceding the five-tax-year period ending with the current tax year [IRC Sec. 41(h)(3)(A)]. The five-tax-year period includes a predecessor business.

Other business entities (such as a sole proprietorship) can be a QSB, but the aggregate gross receipts received from *all* trades or businesses carried on by the person must be taken into account. Organizations that are exempt from income tax under IRC Sec. 501 can't be QSBs.

Calculating gross receipts. For determining QSB eligibility for the payroll tax credit, *gross receipts* are calculated under the rules of IRC Sec. 448(c)(3) (eligibility to use the cash method of accounting) rather than IRC Sec. 41(c)(6). In other words, the way taxpayers compute gross receipts for general research credit purposes doesn't apply here. Under IRC Sec. 448(c)(3), gross receipts must be reduced by returns and allowances made during the year and must be annualized for any short tax years. In addition, the aggregate gross receipts of all members of a controlled group must be taken into account because such members are treated as a single taxpayer.

What qualifies as R&D expenses. R&D encompasses a variety of industries and activities. To be considered qualified research, activities must meet certain requirements listed in IRC Sec. 41(d)(1). For further discussion of research and experimental costs and the research credit, see Tab 11 in the *Depreciation Quickfinder® Handbook*.

Electing to take the credit against payroll taxes. Once the amount of the Section 41 research credit is determined for a tax year, a QSB can elect to use a portion of the calculated credit as a QSB payroll tax credit, instead of an income tax credit, by completing Section D of Form 6765.

The QSB payroll tax credit is treated as a research credit only for Section 280C purposes. The total amount of the research credit reduces the employer's research expenses claimed on its income tax return (whether the credit is claimed on the income tax return as a research credit or against payroll taxes). However, the payroll taxes

offset by the research credit are deductible as a business expense for income tax purposes under IRC Sec. 162 [IRC Sec. 3111(f)(4)]. **How to claim the research credit against payroll taxes.** Each quarter a completed Form 8974 (Qualified Small Business Payroll Tax Credit for Increasing Research Activities) must be filed with the employer's Form 941 to claim some (or all) of the research credit against payroll taxes. Annual filers attach Form 8974 to their annual return (Form 944 or Form 943).

Form 941 filers. For employers that file Form 941, the credit is claimed on the Form 941 filed for the first calendar quarter that begins after the QSB's federal income tax return is filed for the tax year in which the election is made on Form 6765. If the credit can't be used completely in that quarter, it can be carried over to succeeding quarters and allowed as a payroll tax credit.

The first \$250,000 of the credit is applied against the employer's share of social security tax (the 6.2% portion of FICA tax). An additional \$250,000 of the credit can be applied against the employer's portion of Medicare tax (the 1.45% of FICA tax). Any credit amount not used in a quarter can be carried forward to the next quarter. Once an employer has determined how the credit will affect its payroll tax liability, the amount of future payroll tax deposits made by the employer can be adjusted to take the credit into account.

Forms 944 and 943 filers. Employers filing Form 944 or 943 claim the credit on the annual Form 944 or 943 that includes the first quarter beginning after the date on which the business files its income tax return reflecting the election (Notice 2017-23). If the credit can't be fully used on the first annual Form 944 or Form 943 after the income tax return is filed, the unused amount can be carried forward to the following year. The amount of the employer's social security and Medicare tax that can be used when determining the credit amount allowed on Form 944 or Form 943 is limited to the tax for the quarters after the quarter in which the employer's federal income tax return making the election was filed. Any unused credit is carried forward to the next period until the remaining credit for that income tax year reaches zero.

OTHER PAYROLL TAX ISSUES

Earned Income Credit Notification

Employers must notify employees who worked for them at any time during the year and from whom no income tax was withheld that they may be eligible for the Section 32 earned income credit (EIC) [Reg. 31.6051-1(h)]. Employers are also encouraged to notify any other employees who may be eligible.

This can be accomplished in several ways (IRS Pub. 15):

- Copy B of the Form W-2 with the required EIC information on the back;
- Substitute Form W-2 with EIC information on the back;
- IRS Notice 797 [Possible Federal Tax Refund Due to the Earned Income Credit (EIC)]; or
- Company-written notice that contains the required information.

The IRS has created online tools to determine eligibility, calculate the EIC, and meet preparer due diligence requirements—see www.eitc.irs.gov (and click on “Tax Preparer Toolkit”).

Payroll Taxes on Tips

Generally, all tip income received by an employee is subject to federal income tax. However, if tips total less than \$20 in a month from any one employer, those tips are not subject to FICA and are not required to be reported to the employer [IRC Sec. 3121(a)(12)(B)].

Tips reported to the employer are subject to both employer's and employee's share of FICA including the 0.9% additional Medicare tax. Certain tips that are not reported to the employer are also subject to FICA tax, including:

- Tips of \$20 or more in a month that employee reports on Form 4137 (Social Security and Medicare Tax on Unreported Tip Income).
- Form W-2 allocated tips that employee reports on Form 4137.
- Tips reported later as a result of IRS audit.

Law Change Alert: For tax years 2025–2028, the 2025 Act allows individuals who receive qualified tip income to deduct a certain amount of the income from AGI on their personal income tax return (IRC Sec. 224). A maximum of \$25,000 of qualified tip income can be deducted by each eligible taxpayer who receives cash tips in an occupation where tipping was customary before January 1, 2025. All tip income must continue to be reported for payroll tax purposes for tax year 2025. **Note: For tax year 2025, employers and payors are not required to separately report qualified tips on Forms W-2, 1099-NEC, 1099-MISC, or 1099-K. Employees and independent contractors will need to use reasonable methods to determine and substantiate their qualified tip amounts for the deduction (Notice 2025-69).** The IRS will issue guidance regarding changes in tip income reporting for tax years 2026–2028. See *Circular 230 on Page 25-3* and *Regular and Customary Tipped Occupations as of December 31, 2024* on Page 25-13.

IRS guidance. Rev. Rul. 2012-18 provides employers guidance on how and when to pay employment taxes on unreported tips and clarifies that service charges cannot be treated as tip income.

A *tip* is generally an amount a customer pays freely with the unrestricted right to determine the amount. A *service charge* generally is an amount that the business states will be added to a bill due to certain factors. For example, if a restaurant adds a 20% gratuity when serving eight or more people, that is considered a service charge, not a tip. The service charge must be treated as regular wages for the server, not as tip income.

Proposed service industry tip compliance agreement program.

Currently, employers with employees who receive tip income can participate in one of three tip-reporting programs: Tip Reporting Alternative Commitment (TRAC), Tip Rate Determination Agreement (TRDA), or the Employer-Designed Tip Reporting (EmTRAC). In early 2023, the IRS issued a proposed revenue procedure (Notice 2023-13), that if finalized, will establish the Service Industry Tip Compliance Agreement (SITCA), a voluntary tip reporting program that will replace the three current programs. The IRS requested comments on the proposal and expects to issue final guidance as a revenue procedure. Final guidance had not been issued when this Handbook was published.

The SITCA program would be a voluntary tip reporting program between the IRS and employers in the service industry (excluding the gaming industry) that is designed to enhance tax compliance using agreements instead of traditional audit techniques. The new program will take advantage of advancements in point-of-sale systems, time and attendance systems, and electronic settlement methods. It should decrease taxpayer's administrative burdens and provide more transparency and certainty to taxpayers.

In-home Care Payments Subject to Employment Taxes

Certain in-home care payments to service providers, whether related or not, are considered payments for services and taxable for both income and FICA/FUTA tax purposes. However, in Notice 2014-7, the IRS noted that certain in-home care payments to service providers, including parents who receive payments from the Medicaid waiver program for the care of their child, are treated as difficulty-of-care payments under IRC Sec. 131 and therefore not taxable for federal income tax purposes. However, the Notice did not address the FICA or FUTA tax treatment of these in-home care payments. The IRS concluded in a CCA that these payments are still generally subject to FICA and FUTA tax unless an exception applies (CCA 202243009).

IRS Scrutiny of the Employee Retention Tax Credit (ERTC)

The Employee Retention Tax Credit (ERTC) was a payroll tax credit available during 2020 and 2021 to aid businesses during the COVID pandemic. The ERTC turned into somewhat of an administrative nightmare for the IRS because of the “tsunami” of ERTC claims submitted.

What's New



Tab 25 Topics

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INFLATION-ADJUSTED AMOUNTS

For a summary of inflation-adjusted amounts for 2025 (plus 2026 and 2024 and prior years), see the *Quick Facts Data Sheet* on Page 3-1.

TAX LEGISLATION HISTORY

The following table identifies selected tax legislation enacted beginning in 2021 that may impact 2025 and later tax returns.

Name of Act	Public Law Number	Date of Enactment
Consolidated Appropriations Act, 2021	PL 116-260	12/27/20
American Rescue Plan Act of 2021	PL 117-2	3/11/21
Inflation Reduction Act of 2022	PL 117-169	8/16/22
Consolidated Appropriations Act, 2023	PL 117-328	12/29/22
The 2025 Act, formerly known as the One Big Beautiful Bill (OB BB)	PL 119-21	07/4/25

RECENT LEGISLATION

The 2025 Act

On July 4, 2025, President Trump signed into law P.L. 119-21—The 2025 Act, formerly referred to as the One Big Beautiful Bill (OB BB). The Act made most of the 2017 Tax Cuts and Jobs Act tax cuts permanent. The 2025 Act introduced new tax breaks for workers, as well as ending some energy-related credits. The legislation permanently lowered individual tax rates, expanded the standard deduction, increased the child tax credit, and raised the estate tax exclusion. It also solidified business tax breaks, like 100% bonus depreciation, the 20% qualified business income deduction and permanent expensing of R&D costs. The state and local tax deduction cap was increased to \$40,000 through 2029 (subject to certain AGI levels) and then reverts to \$10,000 in 2030. The law provided new relief for tip income, overtime pay, a deduction for Seniors, and car loan interest. Additional measures included a new \$1,000 “Trump account” for children born between 2025 and 2028, higher international tax rates, and benefits for the oil, gas, and real estate industries.

There are several provisions in the 2025 Act that affect topics which are presented in this *Handbook* for 2025. See *The 2025 Act [formerly referred to as the One Big Beautiful Bill (OB BB)] Changes to Tax Provisions Affecting 2025* on Page 25-5. Many of the changes made by this legislation are effective over a span of years. For prospective changes, see *The 2025 Act [formerly referred to as the One Big Beautiful Bill (OB BB)] Changes to Tax Provisions Affecting 2026 and Beyond* on Page 25-8 which summarizes the provisions affecting future Replacement Page 1/2026

tax years. For planning ideas around some of the provisions in the 2025 Act, see *Research and Development Costs* on Page 24-24 *Research And Experimental Expenditures Under The 2025 Act* on Page P-21 of the *Small Business Quickfinder™ Handbook*, and *Choosing Between Section 179 and Bonus Depreciation* on Page P-6 of the *Small Business Quickfinder™ Handbook*. Additional information on provisions affecting cost recovery methods can be found in Tab 13 of the *Depreciation Quickfinder® Handbook*.

NO TAX ON TIPS AND OVERTIME

As part of the sweeping changes enacted by the 2025 Act, two new deductions—No Tax on Tips and No Tax on Overtime—were created to potentially reduce taxpayers’ federal income tax burden. These provisions limit the taxability of certain earned tips and overtime payments.

Employers and other payors reporting qualified tips and/or overtime pay are required to file information returns with the IRS or SSA and furnish statements to taxpayers showing the amount of qualified tips and qualified overtime compensation paid during the year. The IRS will provide transition relief for tax year 2025 for taxpayers claiming these deductions and for employers and other payors subject to the new reporting requirements. See [Notice 2025-69](#).

This discussion will explore the definitions, eligibility, deduction limits, and reporting challenges for 2025 and 2026.

No Tax on Tips

Effective for tax years 2025 through 2028, employees and self-employed individuals may deduct *qualified tips* received in occupations listed by the IRS as customarily and regularly receiving tips as of December 31, 2024. These amounts must be reported on Forms W-2, 1099, or any other specified statement furnished to the individual, or reported directly by the individual on Form 4137. Unreported tips are not eligible for the deduction. **Note:** For tax year 2025, employers and payors are not required to separately report qualified tips on Forms W-2, 1099-NEC, 1099-MISC, or 1099-K. Employees and independent contractors will need to use reasonable methods to determine and substantiate their qualified tip amounts for the deduction ([Notice 2025-69](#)).

The annual deduction is capped at \$25,000 per tax return and limited to the amount of tip income received. Married taxpayers must file jointly to claim the deduction.

Self-employed individuals may deduct more than their net income (before applying this deduction) from the trade or business in which the tips were earned. The deduction phases out for taxpayers with MAGI over \$150,000 (\$300,000 for joint filers). It is available for both itemizing and non-itemizing taxpayers. A Social Security number must be reported on the return to claim the deduction.

Qualified tips. *Qualified tips* must be received from customers or, in the case of employees, through a mandatory or voluntary tip-sharing arrangement, such as a tip pool. The amount must be paid voluntarily by the customer, not subject to negotiation, and without consequence for nonpayment. To be considered a *qualified tip*, it must be received in a job that traditionally and customarily receives tips as of December 31, 2024.

Proposed regulations (REG-110032-25) define qualified and non-qualified tips. *Qualified tips* must be paid in cash or an equivalent medium, such as check, credit card, debit card, gift card, tangible or intangible tokens readily exchangeable for a fixed cash amount, or other electronic/mobile payment methods denominated in cash. This excludes tips paid in the form of event tickets, meals, services, or digital assets.

Qualified tips don’t include certain service charges. For example, if a restaurant imposes an automatic 18% service charge for large parties and distributes that amount to restaurant staff, the

distributed amounts are not *qualified tips* if the customer can't modify or decline the charge. Employers should consider allowing customers to adjust automatic gratuities to accommodate this rule.

Amounts received for illegal activity, prostitution services, or pornographic activity are not *qualified tips*. For example, an unlicensed bartender is not eligible for the deduction since serving alcohol without a license is illegal.

Eligible occupations

Proposed regulations also provide a list of occupations that customarily and regularly received tips as of December 31, 2024, for purposes of the No Tax on Tips deduction [Prop. Reg. 1.224-1(f)(1), Table 1].

The list includes the Treasury Tipped Occupation Code (TTOC), which is a three-digit code along with descriptions for the occupations listed within the proposed regulations. The proposed regulations group the occupations into eight categories:

- 100s—Beverage and Food Service
- 200s—Entertainment and Events
- 300s—Hospitality and Guest Services
- 400s—Home Services
- 500s—Personal Services
- 600s—Personal Appearance and Wellness
- 700s—Recreation and Instruction
- 800s—Transportation and Delivery

Self-employed individuals in a Specified Service Trade or Business (SSTB) under IRC Sec. 199A are not eligible for the deduction. Employees whose employer is a SSTB are also excluded. These include professional service businesses, such as lawyers, accountants, doctors, brokers, investment advisers, consultants, athletes and performing artists. Additionally, highly compensated employees that receive income in excess of \$350,000 for 2025 are not eligible for the deduction.

For the list, see *Regular and Customary Tipped Occupations as of December 31, 2024 on Page 25-13*.

No Tax on Overtime

Effective for 2025 through 2028, individuals who receive qualified overtime compensation may deduct the portion of the pay that exceeds their regular rate (such as the "half" portion of "time-and-a-half" compensation) required by the Fair Labor Standards Act (FLSA). **It does not include additional state law or collectively bargained overtime (Notice 2025-69).** This compensation must be reported on Forms W-2, 1099, or any other specified statement furnished to the individual.

The maximum annual deduction is \$12,500 (\$25,000 for joint filers), which phases out for taxpayers with MAGI over \$150,000 (\$300,000 for joint filers). As with the No Tax on Tips deduction, it is available for both itemizing and non-itemizing taxpayers, a Social Security number is required, and married taxpayers must file jointly to claim the deduction.

Reporting Requirements

Employers must continue to report all wages, tips, and overtime pay (including the premium portion of overtime) on employees' Forms W-2. Federal income tax withholding, Social Security, and Medicare employment taxes must still be withheld on tips and overtime wages as required.

However, due to the new deductions, employers' Forms W-2s and 1099s will need to distinguish the amount of qualified tips, the occupation of the tip recipient, and separately identify the amount of qualified overtime premium pay.

For additional information, see *Reporting Overtime Wages on Form W-2 on Page 23-7* and *Reporting Tip Income on Form W-2 on Page 23-8*.

2025 transition relief. The IRS has announced no changes to individual information returns or withholding tables for 2025. Forms

W-2, 1099, 941, and other payroll forms will remain unchanged for the 2025 tax year. Employers and payroll providers should continue using current procedures for reporting and withholding.

Note: For tax year 2025, employers and payors are not required to separately report qualified overtime on Forms W-2, 1099-NEC, 1099-MISC, or 1099-K. Employees and independent contractors will need to use reasonable methods to determine and substantiate their qualified tip amounts for the deduction (Notice 2025-69).

Employees who wish to adjust their income tax withholding to reflect these deductions must submit a revised 2025 Form W-4. For 2025, this adjustment must be calculated manually using the Deductions Worksheet and entering the result in Step 4(b) of the 2025 Form W-4. As of the date of this publication, the IRS tax withholding estimator (TWE) has not been updated to reflect certain provisions of the 2025 Act. Employee who update their withholding for the remainder of 2025 should be encouraged to revisit and update their withholding at the beginning of 2026.

Schedule 1-A. The IRS has released a draft of new Form 1040, Schedule 1-A (Additional Deductions) for 2025. This form includes Parts I-VI, with Parts II-V covering deductions under the 2025 Act, including No Tax on Tips and No Tax on Overtime. Part I calculates the taxpayer's MAGI to determine their eligibility for the additional deductions. The total additional deductions from Schedule 1-A are entered on Form 1040 or 1040-SR, line 13b, or on Form 1040-NR, line 13c. The four additional deductions reported on Schedule 1-A are set to expire after 2028. Presumably, this form will ease the IRS's burden by using one form for all of the additional deductions. As with all draft IRS forms, Schedule 1-A is subject to change.

2026 W-2 changes. The IRS has released draft Forms W-2 and W-4 for 2026. The draft forms and instructions include provisions for reporting tip and overtime payments that qualify for the deductions. The new statutory requirement to report cash tips and the individual's occupation on certain Forms 1099 and on Form W-2 will apply to 2026 Forms W-2 due on February 1, 2027, for calendar year 2026.

The draft 2026 Form W-2 contains several changes to accommodate employer reporting under the new requirements.

Box 12 has three new codes:

TA—Employer contributions to Trump account

TP—Total amount of qualified tips

TT—Total amount of qualified overtime compensation

Box 14 has been split into 14a and 14b:

14a—Other (same as previous Box 14)

14b—Treasury tipped occupation code

The draft instructions to Form W-4 include a new section in Step 4(b) of the Deductions Worksheet for the tip and overtime deduction. The IRS has indicated that it will modify the 2026 withholding formula to reflect these new deductions.

Although there are no changes to the 2025 Form W-2, tax professionals should familiarize themselves with the draft 2026 changes. Doing so will help clients prepare and identify necessary steps to comply with the 2026 reporting requirements.

Action Items

Compliance with the 2025 Act provisions will affect your client's payroll operations, employee benefits, and tax reporting obligations. To help clients navigate these changes smoothly, consider advising them to take the following actions:

- **Update payroll systems.** Assist clients in adjusting withholding tables and tax calculations for 2026 and beyond. Help implement new W-2 reporting fields for tips and overtime