

**Premium
Quickfinder[®] Handbook
(2025 Tax Year)**

Post-publication Updates

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. To update your *Handbook*, you can make the same changes in your *Handbook* or print the revised page and paste over the original page.

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.

- 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	
250,001 – 500,000	x 6.9%	minus 3,250.00 = Tax		
	500,001 and over	x 6.99%	minus 3,700.00 = 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	
500,001 – 1,000,000	x 6.9%	minus 6,500.00 = Tax		
	1,000,001 and over	x 6.99%	minus 7,400.00 = 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	
400,001 – 800,000		x 6.9%	minus 5,200.00 = Tax	
800,001 and over		x 6.99%	minus 5,920.00 = 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 ×	0.00%	minus	\$	0.00 = Tax
		2,001 –	5,000 ×	2.20	minus	44.00 = Tax	
		5,001 –	10,000 ×	3.90	minus	129.00 = Tax	
		10,001 –	20,000 ×	4.80	minus	219.00 = Tax	
		20,001 –	25,000 ×	5.20	minus	299.00 = Tax	
		25,001 –	60,000 ×	5.55	minus	387.50 = Tax	
		60,001 and over	× 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.

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.

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.

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 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
	Plan minimum deductible	1,700	1,650	1,600	1,500
	Plan out-of-pocket limit	8,500	8,300	8,050	7,500
Family coverage:	Contribution limit	8,750	8,550	8,300	7,750
	Plan minimum deductible	3,400	3,300	3,200	3,000
	Plan out-of-pocket limit	17,000	16,600	16,100	15,000
	Additional contribution limit—age 55 or older	1,000	1,000	1,000	1,000
Long-term care insurance—deduction limits:					
	Age 40 and under	\$ 500	\$ 480	\$ 470	\$ 480
	Age 41 – 50	930	900	880	890
	Age 51 – 60	1,860	1,800	1,760	1,790
	Age 61 – 70	4,960	4,810	4,710	4,770
	Age 71 and older	6,200	6,020	5,880	5,960
Long-term care—excludible per diem		\$ 430	\$ 420	\$ 410	\$ 420
Medical savings accounts (MSAs):					
Self-only coverage:	Plan minimum deductible	\$ 2,900	\$ 2,850	\$ 2,800	\$ 2,650
	Plan maximum deductible	4,400	4,300	4,150	3,950
	Plan out-of-pocket limit	5,850	5,700	5,550	5,300
Family coverage:	Plan minimum deductible	5,850	5,700	5,550	5,300
	Plan maximum deductible	8,750	8,550	8,350	7,900
	Plan out-of-pocket limit	10,700	10,500	10,200	9,650
Health flexible spending arrangement—contribution limit		\$ 3,400	\$ 3,300	\$ 3,200	\$ 3,050
Advance payment of health insurance premium tax credit—repayment limit:³					
	Household income < 200% of federal poverty line (FPL)	N/A	\$ 750	\$ 750	\$ 700
	Household income ≥ 200% of FPL, but < 300%	N/A	1,950	1,900	1,800
	Household income ≥ 300% of FPL, but < 400%	N/A	3,250	3,150	3,000
Qualified small employer HRA reimbursement limits:					
	Employee only	\$ 6,450	\$ 6,350	\$ 6,150	\$ 5,850
	Employee and family	13,100	12,800	12,450	11,800
Small employer health insurance credit—average wage limit		\$ 34,100	\$ 33,300	\$ 32,400	\$ 30,700
Education Tax Incentives					
Education savings accounts (ESAs) phase-out begins at AGI of:					
	MFJ	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000
	Single, HOH, QSS, or MFS	95,000	95,000	95,000	95,000
American opportunity credit—maximum credit (per student)		\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Lifetime learning credit (LLC)—maximum credit (per return)		\$ 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
	LLC	160,000	160,000	160,000	160,000
Single, HOH, or QSS:	American opportunity	80,000	80,000	80,000	80,000
	LLC	80,000	80,000	80,000	80,000
MFS		Not Allowed	Not Allowed	Not Allowed	Not Allowed
Student loan interest deduction limit		\$ 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
	Single, HOH, or QSS	85,000	85,000	80,000	75,000
	MFS	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>					

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

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 taxpayers 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.

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

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

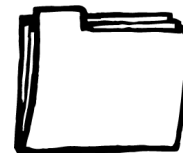


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SOCIAL SECURITY BENEFITS

- 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 border="0"> <tr> <td colspan="2">% of Full Benefits if Worker Receives Benefits at Age 62</td> </tr> <tr> <td>Worker</td> <td>Spouse</td> </tr> <tr> <td>1943–1954</td> <td>75.00%</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> </table>	% of Full Benefits if Worker Receives Benefits at Age 62		Worker	Spouse	1943–1954	75.00%	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 border="0"> <tr> <td>Full Retirement Age</td> <td>Worker Born</td> </tr> <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> </table>	Full Retirement Age	Worker Born	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 border="0"> <tr> <td>Worker Born</td> <td>Increase in Benefits Each Year After FRA</td> </tr> <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> </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.

Social Security Credits Needed for Coverage	General Rule	Special-Rule—Certain Nonprofit Employees
Note: The same number of credits is required regardless of retirement date.	Worker Born	Age on 1/1/84
	1929 or later	60 or over
	1928	59
	1927	58
	1925	57
	1926	55 or 56
	1924	
		Credits Needed
		60 or over
		59
		58
		57
		55 or 56
		6
		8
		12
		16
		20

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. 	Hospital stay: <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. Skilled nursing facility: <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)

Eligibility for Benefits [†]	Family Benefits (Worker Living)	Survivor Benefits (Worker Deceased)	Disability Benefits (Worker Disabled)																																											
<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 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>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>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 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>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>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>	<p style="text-align: center;">Credits Needed</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;"></th> <th style="width: 25%; text-align: center;">Worker Dies Before Age 62</th> <th style="width: 25%; text-align: center;">Worker Dies After Reaching Age 62</th> <th style="width: 25%;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Worker Born</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;">1929 or earlier</td> <td>One credit for each year after 1950 and before the year of death</td> <td>One credit for each year after 1950 and before reaching age 62.</td> <td></td> </tr> <tr> <td style="text-align: center;">After 1929</td> <td>One credit for each year after age 21 and before the year of death.</td> <td>One credit needed for each year after age 21 and before reaching age 62</td> <td></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>		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	One credit for each year after 1950 and before reaching age 62.		After 1929	One credit for each year after age 21 and before the year of death.	One credit needed for each year after age 21 and before reaching age 62		<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="width: 25%; text-align: left;">Disabled at Age:</th> <th style="width: 25%; text-align: center;">Credits Needed</th> <th style="width: 25%; text-align: center;">Disabled at Age:</th> <th style="width: 25%; text-align: center;">Credits Needed</th> </tr> </thead> <tbody> <tr> <td>31–42</td> <td style="text-align: center;">20</td> <td>52</td> <td style="text-align: center;">30</td> </tr> <tr> <td>44</td> <td style="text-align: center;">22</td> <td>54</td> <td style="text-align: center;">32</td> </tr> <tr> <td>46</td> <td style="text-align: center;">24</td> <td>56</td> <td style="text-align: center;">34</td> </tr> <tr> <td>48</td> <td style="text-align: center;">26</td> <td>58</td> <td style="text-align: center;">36</td> </tr> <tr> <td>50</td> <td style="text-align: center;">28</td> <td>60</td> <td style="text-align: center;">38</td> </tr> <tr> <td></td> <td></td> <td>62 or older</td> <td style="text-align: center;">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>																																														

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



Tab 15 Topics

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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.

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.

- 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.

Continued on the page 16-8

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.

Schedule UTP—Uncertain Tax Position Statement

A corporation must file Schedule UTP with Form 1120 if it (1) has assets equal to or exceeding \$10 million, (2) issued or is included

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.

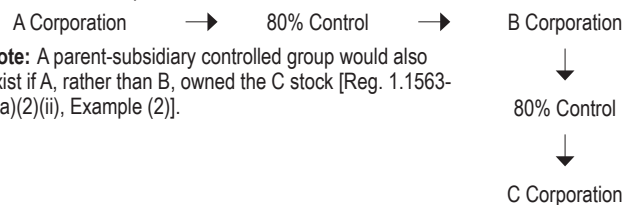
Consolidated returns. Corporations that are members of a parent-subsidary affiliated group, as defined in IRC Sec. 1504(a), may file a consolidated income tax return. The regulations under IRC Sec. 1502 outline the filing requirements for consolidated returns.

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.

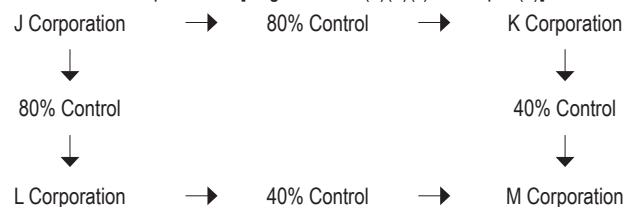
Control Structure of Parent-Subsidiary Group of Corporations

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



Note: A parent-subsidary 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-subsidary 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.

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.

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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Changes to Tax Provisions Affecting 2026 and Beyond	Page 25-8
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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