

2025 YEAR-END LETTER

Office Announcements

Robin Kline has joined our tax team as a Tax Associate. Robin was previously a Tax Manager for Brown, Dakes and Wannall.

Gayle Moseley will return to handle our tax season front desk.

Please visit our website [www.abramsontax.com] for full bios and pics of all our staff, including returning team members Eddie, Tara, Caramai, and Nick.

Identity Theft

Unless you have initiated contact, do not give any personal information over the phone, through the mail, or on the internet. If you have been a victim of tax-related identity theft, the IRS will issue you a different Identity Protection PIN [PIN] annually that we will need for your tax filing. Here is a link to retrieve your PIN: <https://www.irs.gov/identity-theft-fraud-scams/retrieve-your-ip-pin>.

USPS Issues, "Washed-Out Checks", & E-Payments

There continues to be rash of mail theft where thieves "white-out" the payees and amounts. Please use permanent ink on all checks and mail from the post office.

We encourage you to consider using an electronic payment method wherever possible. To that end, we can schedule electronic funds withdrawal (EFW) for your payments when e-filing your tax returns and extensions. Alternatively, the IRS, states, and DC have online tax portals where you can make electronic payments [in addition to viewing account balances and retrieving tax notices].

Regardless of your payment method, we also recommend receiving tax refunds by direct deposit.

For both direct deposit and EFW through our tax software, please make sure to enter your complete banking details in our tax organizer and drop off or use our secure upload link.

Reminders & Important Due Dates!

Tax Submission Deadlines

By early January, we will send out 2025 Engagement Agreements and Tax Organizers. Please note that, **for individual tax returns, if we do not receive your completed Tax Organizer and related tax documents by Friday Feb. 20, 2026, your returns will be placed on extension.** If your returns are to be placed on extension, we will need to receive a completed extension worksheet with related documents by Mar. 13, 2026. **Businesses should submit their accounting records by Monday Feb. 9, 2026.**

Payments to Independent Contractors

Business owners and landlords who pay any non-corporate contractors \$600 or more during 2025 must file Form 1099[s] by Feb. 2, 2026. **Our 1099 deadline: Jan. 10, 2026.**

Payments For Housekeeping & Child/Health Care

Unless hired through an agency, such providers are classified as employees. In 2025, if you have paid any such worker \$2,800 or more in total wages, you must file Form W2 by February 2, 2026. **Our W2 deadline: Jan. 10, 2026.**

Unemployment Tax Form Requirements

DC: An employer becomes liable when they pay at least \$500 in a quarter and remains liable for all wages paid in subsequent quarters until they become inactive.

MD: Wages of \$1,000 or more to any employee during any quarter of the current or preceding calendar year.

VA: Wages of \$1,000 or more to any employee per quarter.

Foreign Bank Account Report [FBAR]

If you have foreign financial accounts that exceed \$10,000 in aggregate at any time in 2025, an FBAR is due Apr. 15, 2026.

Some US Tax Updates & Ideas

Standard & Itemized Deductions

For 2025, the standard deduction is \$15,750/\$31,500 [Single/Joint] but more folks may now be able to itemize due to the increase in the allowed deduction for state and local taxes [SALT] which was raised from \$10,000 to \$40,000. Note: Unfortunately, this additional \$30,000 allowance is phased out between income levels of \$500,000 to \$600,000. [If not at that level, consider making your DC/state Q4 estimated tax payment by Dec. 31].

Beginning in 2026, charitable cash donations will be deductible up to \$1,000/\$2,000 [Single/Joint] even if claiming the standard deduction. [Consider deferring last minute 2025 cash contributions until 2026.]

Another possible deduction even for non-itemizers is for car loan interest paid on US-assembled vehicles purchased new after Dec. 31, 2024. The loan must be secured by the vehicle and be for personal use. The maximum annual cap is \$10,000 but phases out when income exceeds \$100,000/\$200,000 [single/Joint]. This is set to expire in 2028.

Threshold for 0% Federal Rate on Long-Term Capital Gains

If your taxable income is less than the following amounts, there is no tax on your long-term capital gains:

Married Filing Joint: \$96,700/\$98,900 [2025/2026]
Single: \$48,350/\$49,450 [2025/2026]

2025 Standard Mileage Rates

For business and rental activities, the mileage rate is 70 cents per mile. For medical and charitable purposes, the rate is 21 cents and 14 cents per mile, respectively.

Relief for Tips and Overtime Pay

If reported on a Form W-2, 1099, or similar statement, taxpayers can deduct up to \$25,000 in tip wages and up to \$12,500 in qualified overtime pay. The deduction phases out when income exceeds \$150,000/\$300,000 [Single/Joint].

529 Plans

The definition of "eligible educational expenses" is now expanded to include books, tutoring, testing fees, job training, and credentialing programs. The 2025 limit for K-12 expenses is \$10,000, but increases to \$20,000 in 2026.

There is now allowed a lifetime \$10,000 withdrawal to repay student loans of the beneficiary and for *each* of the beneficiary's siblings. Parents can also change the 529 plan beneficiary to themselves to use the funds to repay their own student loans.

Tax-Deferred Investment Accounts for Children

The US government will make an initial deposit of \$1,000 to a tax deferred savings account for eligible US citizen children born between 2025 and 2028. Parents, family members, or other individuals can make non-tax-deductible contributions up to \$5,000 per year. Contributions made by employers, capped at \$2,500 per year, will not be taxable.

Health Savings Account [HSA]

If offered by your employer, consider deductible contributions to HSAs where withdrawals are tax-free if used for qualified medical expenses. For eligibility, you must have a High-Deductible Health Plan. For 2026, the contribution limit \$4,400 for self-only and \$8,750 for family coverage. If 55 or older, you can contribute an additional \$1,000 "catch up" [per spouse, if married].

Medical Expense Reimbursement Plan [MERP]

Employers, including those self-employed, can adopt a MERP to benefit "key" employees. This results in a tax deduction for out-of-pocket medical expenses. MERPs can be used for medical reimbursements alongside a group health insurance plan or offered independently. Strict guidelines must be followed to comply with IRC Sec. 105. For further information, contact Hannah Fagan, benefit specialist at Potomac Companies [hfagan@potomacco.com]. Hannah's agency partners with BeniComp, one of the groups offering a fully insured, supplemental, group executive MERP policy.

Retirement Planning

Required Minimum Distributions [RMDs]

For non-inherited IRAs, RMDs must start at age 73. Your first RMD can be delayed until April 1 of the year you turn 74, but that will result in two distributions in year two. For owners of more than one IRA, the RMD can be made pro-rata from each account or all from one [or more] accounts. Balances from current employer-sponsored plans must also be counted in the RMD calculation if the employee owns more than five percent [5%] of the business.

Qualified Charitable Distributions [QCDs]

Consider making charitable contributions directly from your IRA if you claim the standard deduction or would benefit by having lower gross income [e.g., claiming medical expenses or deducting qualified business income]. Brokerage firms will make the QCDs for you, and many will now even issue checkbooks for you to make the QCDs directly.

IRA Contributions

IRA contributions can be made at any age. The eligible type is dependent on income and participation in pension plans.

The 2025 IRA contribution limit is \$7,000 and for those 50 and older, \$8,000. The deadline for both traditional and Roth IRAs is Apr. 15. Going on extension does not extend that due date, unlike for self-employed SEP and Solo 401k contributions which can be made up to Oct. 15 for extended returns. Keep in mind that there are income thresholds for Roths which completely phase out when income reaches \$165,000/\$246,000 [Single/Joint].

Back-Door Roth IRAs

If you are not eligible for a Roth, consider contributing to a non-deductible IRA followed by a Roth conversion. Beware, there will be a resulting tax on the conversion if you have pre-tax IRA assets.

Catch-Up Pension Plan Contributions

For 2025, taxpayers aged 60 to 63 can make enhanced "super catch-up" contributions of up to \$11,250 for 401, 403, and 457 pension plans and up to \$5,250 for SIMPLE plans. Starting in 2026, employees whose prior-year wages exceeded \$150,000 must make their catch-up contributions as Roth contributions.

Social Security

To receive a statement of earnings and/or an estimate of eligible benefits, contact Social Security Administration [SSA]: 800.772.1213; <https://secure.ssa.gov/RIL/SiView.action>.

The most common concern is whether to start claiming benefits at age 62 or to continue to let your benefits grow until age 66 or 70. Consider using a benefits analysis company such as Social Security Solutions, Inc. to help you determine the best strategy: <https://www.socialsecuritysolutions.com/>.

IRMMA is a surcharge for Medicare Parts B and D premiums for those with income above certain thresholds. The surcharge is based on income two years prior [The IRMAA surcharge for 2026 is based on 2024 income.] If you have a one-time extraordinary income event, consider notifying SSA.

DC Items

Taxation of Non-DC Muni Bonds

DC is now taxing interest earned on state municipal obligations. Bond interest from DC, US Territories, WMATA, and DCHFA obligations remain exempt.

Homestead & Senior Citizen Real Property Tax Relief

- 1) Please review your real property tax bills to confirm whether you are receiving the Homestead Deduction and/or the [age 65] Sr. Citizen Real Property Tax Relief. Both forms of tax relief apply only to primary residences and can be applied for using your MyTax DC portal.
- 2) The deadline to apply for the Senior Citizen Tax Relief for FY 10/1/25 to 9/30/2026 is Mar. 31, 2026. The qualifying income threshold has not been published [pr yr: \$159,750]. Your 2024 tax return income will be used.

It is your responsibility to notify DC of any changes in eligibility, which can also be done on your MyTax DC portal.

DC Domestic Worker Employment Rights Act

Household employers and those hiring domestic contractors are now required to have a work agreement in place clarifying pay, duties, leave, etc. For more info: <https://gtm.com/household/washington-dc-domestic-worker-protections/>.

MD Businesses: Annual Report Filing Fee Waiver Opportunity

MD employers may be eligible for a waiver of the \$300 annual report fee if they:

1. Enroll employees into the MD-sponsored retirement savings program MarylandSaves, or
2. Offer another qualified retirement plan

Businesses already participating in the MarylandSaves program that have begun sending employee payroll contributions do not need to take any further action to qualify for the waiver. For other businesses, a **waiver request must be submitted by December 31, 2025** to be in effect for tax year 2026. To file and claim the waiver, visit <https://www.marylandsaves.org/claim-fee-waiver/> For more information on the MarylandSaves program, visit <https://marylandsaves.com/>.

DC Metro Area Residential Rental Owner Registration Requirements

DC: (1) Obtain a business license; (2) Register with DC Consumer and Regulatory Affairs (DCRA); and (3) Meet the District's housing code compliance standards [<https://dcra.dc.gov/service/dc-housing-code-standards>]. You must also register online with DC Tax and Revenue [Form 500], file an annual personal property return, and submit an unincorporated business franchise tax return [if gross annual rent is greater than \$12,000].

Montgomery County, MD: (1) Obtain a rental license; (2) Pass a lead test if built before 1950; and (3) Designate a MD resident agent. Units occupied by relatives, or in Rockville, Takoma Park, or Gaithersburg are exempt <https://www.montgomerycountymd.gov/DHCA/housing/licensing/>.

Arlington County, VA: Obtain a business license: <https://taxes.arlingtonva.us/business/new-businesses/>.

Estate & Gift Planning

Tax Thresholds

The 2025 combined unified Federal estate and gift tax exemption amount is \$13,990,000 per individual. The DC estate exemption amount is \$4,873,200 and MD is \$5,000,000. VA does not have an estate tax.

The threshold for when a gift tax return must be filed is \$19,000 per donee for 2025 and 2026. Even though the excess above the reporting thresholds is a "taxable gift", there is no gift tax until one's "taxable gifts" exceed the combined exemption. Until that threshold is reached, the gift return merely tracks "taxable gifts" so they will be counted towards one's cumulative lifetime transfers. The threshold applies to total asset values at death PLUS lifetime "taxable gifts".

For lifetime gifts, the donee [gift recipient] takes the basis of the donor. For inheritances, the beneficiary gets a basis "step-up" to the date of death value. Surviving joint tenant account owners get a "step-up" for 50%.

Gifting Income-Producing and/or Appreciating Property

Such gifts can reduce or avoid estate tax by removing both the current value and post-transfer appreciation from the donor's estate. If gifted, the income of the asset can also be shifted to a family member in a lower tax bracket. Neither DC nor MD requires the inclusion of lifetime gifts in estate values.

Direct Payment of Tuition and Medical Expenses

Tuition and medical expenses paid directly to an educational institution or health care provider do not count towards the annual gift tax exclusion or the lifetime unified credit.

"Superfunding" a 529 Plan

Taxpayers are allowed to contribute to a beneficiary's 529 plan up to 5 years' worth of annual gift tax exclusions [\$95,000 for 2025 and 2026]. While a gift tax return would be required for the year of the contribution, no gift tax would be incurred, nor would the contribution count against your lifetime gift tax exemption.

Avoiding Probate & Living Trust Titling of Assets

The following are the most common ways to avoid probate: joint accounts with right of survivorship, transfer-on-death [TOD] designations, beneficiary designations [retirement plans and life insurance], and having assets titled in a living trust. We continue to see situations where someone has gone to the expense of creating a living trust - having as its main purpose, the avoidance of probate – but fails to re-title assets into said trust. Such assets will be subject to probate.

Advanced Directives, Living Wills, MOST, and MOLST Forms

Many jurisdictions have adopted standardized forms that can provide more specificity for life-sustaining treatments than Advanced Directives and Living Will Declarations. They are becoming a widely used complement for avoiding the possibility of unwanted resuscitation in the event of cardiac or respiratory arrest outside of a medical care facility. Where available, please download, complete the form, and have it signed by your physician. In DC, the form is named MOST [Medical Orders for Scope of Treatment] and in MD, MOLST [Medical Orders for Life-Sustaining Treatment].

Estate Documents

We recommend that you review your estate planning documents every three to five years, whenever there is a change in law, or if you experience a major life event. Hope you don't need them for a very long time!

HAPPY HOLIDAYS FROM ALL OF US AT ABRAMSON & ASSOCIATES, LLC!