



Coleman & Associates

Fully Integrated Tax, Accounting & Financial Services

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In This Issue

- Tip and Overtime Tax Breaks Require Your Attention
- What the New Tax Bill Means for Parents
- New Tax Law Changes for Small Businesses

Important Dates:

September 15

- Filing deadline for 2024 calendar-year S corporation and partnership tax returns on extension
- Due date for 3rd quarter installment of 2025 estimated income tax for individuals, calendar-year corporations, and calendar-year trusts & estates

The One Big Beautiful Bill Act (OBBBA) passage does a lot to make expiring tax laws more permanent for 2026 and beyond. But it also makes substantial changes to the 2025 tax landscape.

This month's newsletter covers some of the major changes impacting your taxes for this year.

As always, should you have any questions please call. And feel free to forward this information to someone who could use it!

Tip and Overtime Tax Breaks Require Your Attention

Two new major tax changes, No Tax on Tips & No Tax on Overtime, are introduced in the One Big Beautiful Bill Act (OBBBA) passed on July 4, 2025. Here's what you need to know about these two tax breaks, along with questions that still need answered before filing your 2025 tax return.

How much you can deduct

- **No Tax on Tips.** You can deduct up to \$25,000 in qualified tips from your federal taxable income. The deduction phases out above \$150,000 (\$300,000 for joint filers).
- **No Tax on Overtime.** Up to \$12,500 in qualified overtime pay can be deducted from your federal taxable income (\$25,000 for those filing jointly). The deduction also phases out over \$150,000 (\$300,000 for joint filers).

Who qualifies

Obvious jobs such as servers and bartenders will likely qualify to deduct their tips. But there are plenty of other occupations who frequently or occasionally receives tips. The IRS is mandated to provide a more detailed list of what tips will qualify. Until this is done, there will be some uncertainty.

Regarding overtime, the tax bill uses the Department of Labor's definition of working beyond 40 hours in a single workweek for non-exempt employees. The deduction only applies to the overtime portion of the pay (the one-half of time-and-a-half). But there's still some gray areas. For example, what happens if a worker is compensated via a bonus or comp time instead of an hourly wage?

Reporting is key

Employers are required to separately report qualified tips and qualified overtime on an employee's Form W-2 or a contractor's Form 1099. The problem is that 1099s do not currently have a spot to report tips (the W-2 currently has a box for *allocated tips*), while both W-2s and 1099s don't have a spot to report overtime.

There's also withholding questions. While there's a tax break for tips and overtime up to a certain dollar amount, this only applies to federal income taxes. Tips and overtime are still subject to other taxes, including Social Security, Medicare, and state income taxes. Employers will have to distinguish between income that's fully taxable, and income that's only subject to Social Security, Medicare, and other taxes.

2025 is a transition year

The OBBBA addresses some of this uncertainty by allowing 2025 to be a transition year before the tax-free income must be reported on reformatted W-2s and 1099s. And it's a good thing because the 2025 format is already approved and been provided to printers and software companies.

More details to come

The IRS is mandated within the OBBBA to come up with what it will accept as proof of your 2025 earnings. Until that guidance is published you should:

- ✓ Immediately compile your overtime and tip income from the beginning of the year.
- ✓ Retain any documentation that can prove the amount you are going to claim.
- ✓ Review your pay stubs to see if tip and overtime income is tracked separately from your normal earnings. If so, you may have what you need. If not, contact your employer immediately and ask what they are planning to do to provide proper documentation.

The IRS says it will publish more guidance by mid- to late October. So, stay tuned as these and other questions will hopefully be answered long before you must file your 2025 tax return.

What the New Tax Bill Means for Parents

Deductions, credits and more

The One Big Beautiful Bill Act of 2025 (OBBBA) contains a number of tax breaks for parents. Here's a summary of what's in the bill for families, including planning tips to make the most of each tax break.

- ❖ **Parents get a permanent increase to the child tax credit.** The child tax credit increases to \$2,200 (up from \$2,000) and is now permanent. The refundable portion stays at \$1,700, with future adjustments tied to inflation.
- ❖ **Student loan cancellation is tax-free.** Forgiveness of student loans due to death or permanent disability is now permanently excluded from taxable income.
- ❖ **Adoption tax credit.** \$5,000 of the \$17,280 adoption tax credit in 2025 is now refundable, even for families with little or no income tax liability.
- ❖ **Trump accounts.** Each child born between January 1, 2025, and December 31, 2028, will receive a \$1,000 tax-advantaged investment account at birth. Parents, grandparents, and qualified organizations can contribute up to \$5,000 per year, until the year before the child turns 18. Funds can be withdrawn starting the year the child turns 18.

There are still many unanswered questions about this new account and its related tax break. There are also other, and potentially better, options to save for your child, including Roth IRAs. So while we wait for more clarification, consider using alternative tax-free or tax-advantaged accounts for your child.

- ❖ **529 Education Plans.** The annual limit for K–12 tuition withdrawals doubles to \$20,000 per student. These funds can now also cover books, tutoring, online materials, home school costs, and educational therapies for children with disabilities. 529s can also be used for post-secondary teaching certifications and trade programs.

New Tax Law Changes for Small Businesses

The One Big Beautiful Bill Act of 2025 (OBBBA) expands several business tax benefits while easing certain compliance obligations. Here's a summary of the key provisions affecting small businesses.

- **Form 1099.** The \$600 reporting threshold for Form 1099-NEC and other 1099s is increased to \$2,000, with this threshold to be indexed for inflation starting in 2027.
- **Form 1099-K.** The \$600 reporting threshold scheduled to go into effect in 2026 is rolled back to the old threshold of \$20,000, along with the dual requirement of 200 or more transactions.

- **Qualified Business Income (QBI) deduction.** The QBI deduction of 20% is now permanent. There's also a minimum deduction of \$400 for taxpayers who have at least \$1,000 of qualified business income.

Most independent contractors and gig workers who receive Form 1099 are eligible for the QBI deduction. However, if your business is classified as an Specified Service Trade or Business (businesses in health, law, accounting, financial services and others) this tax break begins to phase out when your income exceeds \$197,300 (single) or \$394,600 (married) in 2025.

- **Section 179 deduction and bonus depreciation.** Businesses can use the Section 179 deduction to write off up to \$2.5 million of qualifying property in 2025, up from \$1.25 million under the previous law. If you'd rather use bonus depreciation, the ability to write off 100% of qualified property is reinstated as of January 19, 2025 through the end of 2029.

These are some of the new tax bill's provisions that will affect most businesses across the U.S. Please call to discuss these and other provisions from the new tax bill that may affect your business.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.

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