



A Summary of Key Changes for Tax Year 2025

More than 60 provisions that impact your 2025 returns that you file in 2026

The Internal Revenue Service released its annual inflation adjustments for tax year 2025. The details, outlined in **Revenue Procedure 2024-40**, cover over 60 provisions that will affect taxpayers when filing their 2025 returns in 2026.

Key Adjustments for Tax Year 2025

These changes will apply to income tax returns filed during the 2026 tax season. Highlights include adjustments to standard deductions, marginal tax rates, and various credits and exclusions.

1. Standard Deductions

- **Single filers and married individuals filing separately:** \$15,000 (up by \$400 from 2024).
- **Married couples filing jointly:** \$30,000 (up by \$800).
- **Heads of household:** \$22,500 (up by \$600).

2. Marginal Tax Rates

- **Top rate of 37%:** Applies to income over \$626,350 (or \$751,600 for married couples filing jointly).
- **35%:** Over \$250,525 (\$501,050 for joint filers).
- **32%:** Over \$197,300 (\$394,600 for joint filers).
- **24%:** Over \$103,350 (\$206,700 for joint filers).
- **22%:** Over \$48,475 (\$96,950 for joint filers).

- **12%:** Over \$11,925 (\$23,850 for joint filers).
- **10%:** \$11,925 or less (\$23,850 or less for joint filers).

3. Alternative Minimum Tax (AMT) Exemption

- **Unmarried individuals:** \$88,100 (phases out at \$626,350).
- **Married couples filing jointly:** \$137,000 (phases out at \$1,252,700).
- **Married individuals filing separately:** \$68,650.

4. Earned Income Tax Credit (EITC)

- Maximum EITC for families with three or more children: **\$8,046** (up from \$7,830 in 2024).
- Additional tables in the Revenue Procedure outline income thresholds and phase-out limits for other family sizes.

5. Qualified Transportation Fringe Benefit

- Monthly limit: **\$325** (up from \$315 in 2024).

6. Health Flexible Spending Arrangements (FSA)

- Employee contribution limit: **\$3,300** (up from \$3,200).

- Maximum carryover amount: **\$660** (up from \$640).

7. Medical Savings Accounts (MSAs)

- **Self-only coverage:**
 - Minimum deductible: **\$2,850** (up by \$50).
 - Maximum deductible: **\$4,300** (up by \$150).
 - Out-of-pocket limit: **\$5,700** (up from \$5,550).
- **Family coverage:**
 - Minimum deductible: **\$5,700** (up from \$5,550).
 - Maximum deductible: **\$8,550** (up by \$200).
 - Out-of-pocket limit: **\$10,500** (up from \$10,200).

8. Foreign Earned Income Exclusion

- Increased to **\$130,000** (up from \$126,500).

9. Estate Tax Exemption

- Basic exclusion amount: **\$13,990,000** (up from \$13,610,000).

10. Gift Tax Annual Exclusion

- Raised to **\$19,000** (up from \$18,000).

11. Adoption Credit

- Maximum credit: **\$17,280** (up from \$16,810) for the adoption of a child with special needs or qualified adoption expenses.

Items Unchanged for Tax Year 2025

- **Personal Exemptions:** Remain at **\$0**, consistent with provisions from the Tax Cuts and Jobs Act (TCJA) of 2017.
- **Itemized Deduction Limits:** No limitation on itemized deductions, also in line with the TCJA of 2017.
- **Lifetime Learning Credit:**
 - Phase-out starts at **\$80,000** of modified adjusted gross income for single filers and **\$160,000** for joint filers.
 - This credit remains unchanged since it is not indexed for inflation under current tax laws.

These updates reflect the IRS's effort to adjust thresholds and deductions in response to inflation, ensuring taxpayers experience a smoother filing process in the upcoming 2026 tax season. For further details, consult **Revenue Procedure 2024-40**.

Your Financial Advisor

Your financial advisor plays a crucial role in keeping you informed about IRS updates by monitoring annual tax law changes and explaining how they impact your personal financial situation. They stay ahead of adjustments to deductions, tax brackets, credits, and exemptions – such as the Earned Income Tax Credit or foreign income exclusions – ensuring you maximize benefits and avoid potential tax pitfalls.

Additionally, your advisor can alert you to unchanged provisions, like personal exemption rules or the phase-out limits for certain credits, helping you stay compliant and make strategic financial decisions. With their guidance, you can proactively adjust your budget, investments, and retirement planning to align with new tax regulations and optimize your financial outcomes.