

# ***Supplement to J.K. Lasser's Small Business Taxes 2025***

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**THIS SUPPLEMENT REFLECTS CHANGES THROUGH FEBRUARY 1, 2025.**

This year's book, *J.K. Lasser's Small Business Taxes 2025*, covers the tax rules as they stood on October 1, 2024. The only tax legislation from Congress since then is the Federal Disaster Tax Relief Act of 2023, which was signed into law on December 12, 2024, plus the Employer Reporting Improvement Act of 2024 and the Paperwork Burden Reduction Act of 2024, both of which were signed into law on December 23, 2024. In addition, there have been IRS guidance and court decisions of note.

The changes in this Supplement are listed according to the chapters in which the subject matter appears. I've attempted to include an answer to every notation in the book that said "see the Supplement." Some information covered in this Supplement may apply to 2024 returns; some is only for 2025 and is included for purposes of figuring 2025 estimated taxes as well as planning ahead. For changes in 2025, only an overview is provided, with more details to come in the next edition of this book.

## ***Introduction***

***Forms and schedules.*** When this edition was published, final versions of all forms and schedules were not yet available. Find final versions of forms and schedules [here](#).

## ***Chapter 1—Business Organization***

***Self-employment tax on S corporation owner-employees?*** While there have been proposals to treat these individuals the same as partners for purposes of self-employment tax, there has been no legislation enacted on point.

***Beneficial ownership information (BOI) reporting.*** On December 23, 2024, a [federal appellate court](#) lifted a nationwide preliminary injunction on Beneficial Ownership Information (BOI) reporting. [FinCEN](#) then said the deadline for BOI action for reporting companies that were created or registered prior to January 1, 2024, would be January 13, 2025. Three days after the appellate court ruling, another panel in the same appellate court reinstated the injunction, and FinCEN reverted to voluntary submissions. On December 31, 2024, the DOJ filed an emergency application with the U.S. Supreme Court asking that the injunction be lifted while an appellate court determines whether the Corporate Transparency Act (CTA), which created BOI reporting, is constitutional. On January 23, 2025, the [Supreme Court issued a stay](#), effectively lifting the nationwide injunction, but there are other cases pending. What's more, a bill in Congress would repeal the CTA. In view of ongoing litigation, as of January 24, 2025 (after the Supreme Court ruling) FinCEN still says registration is voluntary. Continue to monitor developments.

## **Chapter 2—Tax Year and Accounting Method**

**Gross receipts test.** For 2025, the gross receipts test used to determine whether C corporations can use the cash method of accounting is \$31 million in average annual gross receipts in the 3 prior years. Businesses that qualify under this test for the first year must file for a change in accounting method; it’s an automatic change.

**Change in accounting method.** The IRS issued more guidance on making a change in accounting method for amortizing research expenses for tax years beginning after December 31, 2021, in [Rev. Proc. 2025-8](#) (but see the caution for Chapter 14 in this Supplement regarding potential legislation). The change in accounting method does not require filing Form 3115; it can be done with a statement in lieu of the form. The statement must include certain information laid out in [Rev. Proc. 2024-9](#).

## **Chapter 4—Income or Loss from Business Operations**

**Payments in digital assets.** This is not new; it’s a reminder that businesses must disclose on 2024 income tax returns whether they engaged in any digital asset transactions as follows:

- Sole proprietors: Page 1 of Form 1040 or 1040-SR
- Partnerships: Line 30, Schedule B of Form 1065
- S corporations: Line 16, Schedule B of Form 1120-S
- C corporations: Line 27 of Schedule K of Form 1120

**Marijuana businesses.** There has been no change on the designation of marijuana as a controlled substance for federal law, so income from marijuana activities must be reported, while deductions (other than the cost of goods sold) cannot be taken.

**Excess business losses.** Noncorporate taxpayers (e.g., owners of pass-through entities) are subject to a limit on the amount of losses claimed on the current return. An excess business loss is the amount by which the total deductions attributable to all of your trades or businesses exceed your total gross income and gains attributable to those trades or businesses plus a threshold amount adjusted for cost of living. For taxable years beginning in 2025, the threshold amounts are \$315,000 (or \$626,000 in the case of a joint return) (up from \$305,000 and \$610,000, respectively, in 2024).

**Basis shifting transactions of partnerships.** The IRS uses an “economic substance doctrine” to disallow benefits in sales involving related-party partnerships where this generates disparity between inside basis and outside basis that results in increased depreciation deductions and/or reduces gain. A new form—[Form 7217](#)—is used to report all distributions of property that a partner receives from a partnership. A partner receiving a distribution of property from a partnership in a non-liquidating or liquidating distribution uses the form to report the basis of the distributed property.

Final regulations issued in January 2025 designate certain partnership related party-basis shifting transactions as transactions of interest (TOIs), which are subject to the rules for reportable transactions. There is a dollar threshold for these transactions. The threshold amount for a basis increase in a TOI in tax years before 2025 is \$25 million; it is \$10 million for tax years thereafter.

**Income earned abroad.** The earned income exclusion for 2025 is capped at \$130,000 (up from \$126,500 in 2024).

The foreign residency or physical presence test is treated as having been met if residency was interrupted in certain specified countries. The IRS has yet to announce waivers those countries, and applicable dates, for 2024. Typically, this is something the IRS does in March each year, so check if this is relevant to you.

**Merchant income on credit card transactions.** The IRS added yet another transition year for reporting. The threshold for 2024 transactions reporting in 2025 is \$5,000, regardless of the number of transactions (not new), but for 2025 transactions reported in 2026, the threshold will be \$2,500. The \$600 threshold, regardless of the number of transactions, is postponed until 2026 transactions reported in 2027. Note: There continues to be pushback on this threshold and Congress could change it at any time.

## **Chapter 5—Capital Gains and Losses**

**Taxable income breakpoints for capital gain rates in 2025.** Owners of pass-through entities who are individuals pay tax on their share of capital gains. The following table (an update to Table 5.1 in the book) shows the break points for capital gain rates for 2025; this Table does *not* apply to 2024 returns.

Rate	Married filing jointly (and surviving spouse)	Head of household	Single	Married filing separately
0%	Up to \$96,700	Up to \$64,750	Up to \$48,350	Up to \$48,350
15%	\$96,700 - \$600,000	\$64,750 - \$566,700	\$48,350 - \$533,400	\$47,025 - \$300,000
20%	Over \$600,000	Over \$566,700	Over \$533,400	Over \$300,000

## **Chapter 6—Gains and Losses from Sales of Business Property**

**QOZBs.** There have been no developments on whether cannabis businesses can be Qualified Opportunity Zone Businesses (QOZBs).

## **Chapter 7—Employee Compensation**

**DoL's 6-factor rule for determining worker classification.** There have been no decisions in lawsuits challenging this 2024 rule. A new Administration, however, may revert to the 2021 rule, so monitor developments.

**Adoption assistance.** For planning purposes, the dollar limit on the exclusion for employer assistance for adoption costs is \$17,280 for 2025 (up from \$16,810 in 2024).

**Flexible spending accounts (FSAs) for medical expenses and dependent care expenses.** For planning purposes, the maximum elective deferral for health FSAs in 2025 is \$3,300 (up from \$3,200 in 2024). The maximum carryover permitted from unused 2025 health FSAs to 2026 is capped at \$660; the carryover applies only if the plan adopts it and does

not use a grace period. Dependent care FSAs can allow a grace period but cannot have a carryover for unused 2025 amounts to 2026. For health FSAs or dependent care FSAs with a grace period, unused expenses from 2025 must be spent by March 15, 2026 (or within 2½ months after the end of the 2025 plan year for a fiscal-year plan).

***Employee use of company car.*** For planning purposes, in valuing employee use of a company car in 2025 or for purposes of reimbursements under accountable plans, the IRS standard mileage rate is 70¢ per mile (up from 67¢ per mile in 2024).

The fixed and variable rate allowance (FAVR) in 2025 is limited to vehicles with a fair market value not exceeding \$61,200 for cars, trucks, and vans (down from the limit in 2024 of \$62,000).

Car and truck values taken into account by employers using the cents-per-mile valuation rule or the fleet valuation rule for valuing personal use of a company vehicle in 2025 are capped at \$61,200.

***Qualified transportation fringe benefits.*** Employers cannot deduct these fringe benefits, but if they choose to provide the benefits or arrange for employees to pay for these costs on a pre-tax basis, employees can exclude up to \$325 per month for free parking, transit passes, and van pooling for 2025 (up from \$300 per month in 2024).

***Leave-based donation programs.*** Despite numerous federal disasters in 2024, the IRS did not designate any of them for special treatment under leave-based donation programs. This means that employees are taxed on their contributions to the programs. As yet, the IRS has not authorized special treatment in light of the California wildfires that began on January 7, 2025, but it could happen during 2025, so monitor developments.

***Frequent flyer miles.*** The IRS has not made changes to the rule that allows the personal use of frequent flyer miles generated by business flights to be a tax-free fringe benefit.

***Employment-related tax credits.*** For purposes of FUTA, the only credit reduction states for 2024 are California and New York (see details in Chapter 30 of this supplement).

***Employee retention credit (ERC).*** Congress did not end the ability to apply for a refund for quarters not yet closed by the statute of limitations. But the IRS has taken further action:

- Those who erroneously claimed the ERC and received a credit or refund had been able to avoid an audit, plus interest and penalties, if they used the Employee Retention Credit Voluntary Disclosure Program. The program ran through November 22, 2024, but was extended for third-party payers (e.g., payroll companies) through December 31, 2024.
- In December 2024, the IRS Commissioner said that there were 500,000 to 600,000 refund claims to be issued in 2025.
- The Treasury Inspector General of Tax Administration reported that there were \$2 billion in erroneous ERC claims.

## ***Chapter 8—Travel, Meals, and Gift Expenses***

**Business travel per diem rates.** The standard federal per diem rate set by the General Services Administration (GSA) for travel starting October 1, 2024, through September 30, 2025, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is \$178 per day (\$111 for lodging and \$689 for M&IE). There are 296 locations that have a per diem rate exceeding the standard rate for all or part of the year. These rates can be found at the [GSA](#).

The high-low substantiation rates set by the IRS for areas within CONUS for the period October 1, 2024, through September 30, 2025, are \$319 for travel to high-cost localities and \$225 for travel to all other areas within CONUS. Of these rates, the meal portion is \$86 for high-cost areas and \$74 for all other areas within CONUS. The list of high-cost areas has been changed (see [Notice 2024-68](#) for details).

## **Chapter 9—Car and Truck Expenses**

**Section 179 deduction and bonus depreciation.** For 2025, the first-year expense allowance (Section 179 deduction) applies to equipment purchases (e.g., new vehicles) up to \$1,250,000 (up from \$1,220,000 in 2024). This dollar limit phases out dollar for dollar when purchases of Section 179 property for 2025 exceed \$3,130,000. As a result of the phase-out, no expensing deduction can be claimed in 2025 if equipment purchases are \$4,380,000 million or more. Note: Congress may change this limit for 2025, so monitor developments.

Heavy SUVs are not subject to the annual dollar limits on depreciation, but the first-year expense deduction is limited to \$31,300 in 2025 (up from \$30,500 in 2024).

**Standard mileage rate.** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving: for 2025 it is 70¢ per mile (up from 67¢ per mile for 2024).

Those who own their vehicles and use the standard mileage rate for 2025 must reduce the vehicle's basis by 33¢ per mile (up from 30¢ in 2024).

**Dollar limits on depreciation.** The dollar limits on the deduction for depreciation of business vehicles placed in service in 2025 are not yet available.

**Inclusion amounts.** If the actual expense method is used to deduct the cost of business driving and the vehicle is leased, the total annual lease payment is deductible. But if the vehicle is first leased in 2025 and its value is more than a set amount, you must reduce the deduction for lease payments by an inclusion amount. The inclusion amounts for these leased vehicles have not yet been announced. Inclusion amounts for vehicles first leased in years prior to 2025 may be found in IRS Publication 463.

**Clean vehicles credits.** The maximum potential credit in 2025 for the purchase of a new clean vehicle that is not a commercial clean vehicle of \$7,500, which is unchanged from 2024, is the sum of 2 amounts: the critical mineral amount (\$3,750) and the battery component amount (\$3,750). To claim the critical mineral portion of the credit, a vehicle's battery must have at least a certain percentage of its critical minerals that were extracted or processed in the United States or in a country with which the United States

has a free trade agreement, or that were recycled in North America. The minimum percentage for 2025 is 60% (it was 50% in 2024). For vehicles acquired after 2024, no applicable critical minerals in the vehicle's battery may come from a foreign entity of concern (FEOC). To claim the battery component portion of the credit, at least a certain percentage of an electric vehicle battery's component parts must be manufactured or assembled in North America. The minimum percentage in 2025 is 60% (the same as in 2024). All this information should be provided to the purchaser by the vehicle's manufacturer.

The credit in 2025 for a commercial clean vehicle is limited to 15% of its basis or the incremental cost. The credit is capped at \$7,500 for those weighing under 14,000 pounds, and \$40,000 for all other vehicles. This is unchanged from 2024. What is "incremental cost"? Proposed regulations issued in January 2025 explain you can rely on a manufacturer's written cost determination or calculate the incremental cost of a qualifying clean vehicle versus an internal combustion engine (ICE) vehicle based on the differing costs of the vehicle powertrains. The proposed regulations also make it clear that no credit can be taken for a vehicle that was previously allowed a credit.

## ***Chapter 10—Repairs, Maintenance, and Energy Improvements***

***Energy-efficient commercial buildings deduction.*** In 2025, the deduction is \$0.58 increased (but not above \$1.16) by \$0.02 for each percentage point by which the total annual energy and power costs for the buildings are certified to be reduced by a percentage greater than 25%. The applicable dollar value used to determine the increased deduction amount for property is \$2.90 increased (but not above \$5.81) by \$0.11 for each percentage point by which the total annual energy and power costs for the building are certified to be reduced by a percentage greater than 25%. In both instances, the higher dollar limit applies when [wage and apprenticeship \(W&A\) rules](#) are met.

There are 4 steps in calculating the basic deduction. The following is from the [Congressional Research Service](#) and reflect 2025 limits:

*Step 1.* If the business meets prevailing wage and registered apprenticeship (W&A) requirements for the workers installing the energy-efficient equipment, and if the equipment reduces "total annual energy and power costs for the building" at least 25% relative to a reference building, the EECBD is set at a minimum value of \$2.90 per square foot. The EECBD then increases by 12¢ for every additional percentage point of energy savings above 25%, with a maximum deduction of \$5.81 (achieved when energy and power costs are reduced 49.25% or more).

### **Example**

In 2025, if a business owner reduces the building's energy costs by 30%, the deduction per square foot would be:  $\$2.90 + [(30-25) \times \$0.12] = \$3.50$  per square foot. If this amount were applied to a building of 30,000 square feet, the total deduction would be \$105,000. Businesses not meeting W&A requirements qualify for deductions ranging from \$0.58 to \$1.16 per square foot.

*Step 2.* Any EECBD deductions from the previous 3 years are subtracted from the total deduction calculated in step 1.

### **Example**

Same as the example above. If the business had claimed an EECBD of \$27,000 2 years beforehand, its current EECBD would be reduced from \$105,000 to \$78,000.

*Step 3.* The business subtracts the amount calculated in step 2 from its total costs for installing the energy-efficiency equipment. It divides this remaining amount by 39. This is the total amount the business may deduct in years 2-39 following the installation of the equipment.

*Step 4.* The business then adds the amounts in steps 2 and 3. This is the total amount that the business may deduct the year when the equipment is installed (year 1).

#### **Example**

Same as the example above. If the business described in steps 1-4 had made an energy-efficiency investment of \$390,000, its annual deductions would be calculated as follows: Year 1 = \$78,000 +  $[(\$390,000 - \$78,000) / 39] = \$86,000$  Years 2-39 =  $(\$390,000 - \$78,000) / 39 = \$8,000$  The business will deduct \$390,000 regardless of whether it claims the EECBD. But the EECBD increases the first-year deduction from \$10,000 to \$86,000 while lowering subsequent years' deductions from \$10,000 to \$8,000, in effect moving up the timeline for the deductions.

**Alternative EECBD.** Businesses can claim an alternative deduction for retrofitting existing commercial buildings. The alternative deduction is calculated according to the same 4-step formula described above with these key differences:

- The alternative deduction is based on reductions in energy *use*, whereas the standard EECBD deduction is based on *reductions in energy costs*.
- The building's energy use is measured relative to its own use from one year beforehand, not in comparison to a reference building. Installations of qualifying equipment must be part of a qualified retrofit plan that reduces the building's energy use by 25% or more after accounting for fluctuations caused by the weather. The retrofitted building must have been placed in service 5 years or more "before the establishment of the qualified retrofit plan with respect to such building."

## **Chapter 13—Taxes and Interest**

**State and local income taxes.** While there were various proposals in Congress to eliminate, raise, or otherwise alter SALT cap, nothing has been enacted as yet. Monitor developments.

Check for state Pass-Through Entity Tax (PTET) options; rules differ by location. Also note that 10 of the 36 states with PTETs are set to expire at the end of 2025. If the SALT cap continues unchanged after 2025, monitor PTETs, especially in these 10 states.

**Self-employment tax.** The Social Security wage base limit, which applies for self-employment taxes, is \$176,100 in 2025 (up from \$168,600 in 2024). The tax rate for the Social Security portion of self-employment tax is unchanged 12.4% on net earnings up to this dollar limit. The tax rate for the Medicare portion of self-employment tax is unchanged 2.9% on all net earnings. The tax deduction is limited to one-half of the self-employment tax.

For those with net earnings over the applicable threshold amount of \$200,000 for singles and \$250,000 for joint filers (these dollar limits are not adjusted annually for inflation), there is also a Medicare surtax of 0.9% on excess earnings. This applies only to the so-called employee portion, so it is *not* deductible.

**Employment taxes—FICA.** The wage base limit for the Social Security portion of FICA in 2025 is \$176,100 (up from \$168,600 in 2024). The rate for the employee’s Social Security portion of FICA is unchanged at 6.2%.

**Employment taxes—FUTA tax.** Non-credit reduction states pay a net FUTA rate in 2024 of 0.6%. For purposes of FUTA in 2024 are credit reduction states and their net FUTA rate is:

<i>State</i>	<i>Net FUTA rate</i>
California	1.5%
New York	1.5%

**Interest expense payments.** “Small businesses” are automatically exempt from the net interest expense limit. For 2025, these are businesses with average annual gross receipts for the 3 prior years not exceeding \$31 million (up from \$30 million in 2024).

**Income Verification Express Service (IVES).** The IRS has a way to expedite loans you are seeking by allowing you to authorize lenders to obtain your tax information through IVES at <https://www.irs.gov/individuals/income-verification-express-service>. You can enable banks and other lenders to access your tax records (e.g., transcript of a tax return). Authorization can be done through your Business Tax Account at <https://www.irs.gov/businesses/business-tax-account>.

## **Chapter 14—First-Year Expensing, Depreciation, Amortization, and Depletion**

**First-year expensing.** The expensing limit for 2025 is \$1,250,000 (up from \$1,220,000 in 2024). The limit phases out when purchases for 2025 exceed \$3,130,000. Thus, no expensing can be used in 2025 if purchases for the year are \$4,350,000 million or more. There are proposals to increase these limits, so monitor developments

**Bonus depreciation.** Bonus depreciation, which was 60% in 2024, is set to decline to 40% in 2025, and 20% in 2026. (There is an additional year for property with long production periods.) As yet, Congress has not acted to revert to the 100% limit, but monitor developments; this could be retroactive to 2024.

**Research and experimentation costs.** The deduction for R&E costs after 2021 must be amortized over 5 years. See automatic change in accounting method updates in Chapter 2. As yet, despite proposals to refer to pre-2022 expensing rules for R&E costs, Congress has not acted, but monitor developments; this could be retroactive to 2024.



## **Chapter 16—Retirement Plans**

**Contribution limits.** Various limits have been increased for 2025. The following applies to 2025 (not to 2024 returns):

- *401(k) plan elective deferrals:* \$23,500, plus \$7,500 for those who are age 50 and older by December 31, 2025 (the limits were \$23,000 and \$7,500 respectively in 2024). For those age 60, 61, 62, or 63 in 2025, the catch-up limit is \$11,250.
- *Savings incentive match plan for employees (SIMPLE) elective deferrals:* \$16,500, plus \$3,500 for those who are age 50 and older by December 31, 2024 (the limits were \$16,000 and \$3,500 respectively in 2023). For employees in companies with 25 or fewer employees or more than 25 but not more than 100 and that makes a 4% matching contribution or a 3% nonelective contribution, the basic limitation is \$17,600, with a catch-up contribution of \$3,850. For 2025, there is an even higher catch-up limit for those age 60, 61, 62, and 63 in 2025: \$5,250 in addition to the basic limit of \$16,500 or \$17,600, whichever is applicable.
- *Defined contribution plans (profit-sharing plans and simplified employee pension plans [SEPs]):* the limit is \$70,000 (up from \$69,000 in 2024).
- *Defined benefit (pension) plans:* the limit is \$280,000 (up from \$275,000 in 2024).
- *Starter 401(k)s:* The elective deferral limit remains at \$6,000, with a permissible catch-up amount of \$1,000 for those 50 and older by the end of 2025 (unchanged from 2024).
- *Compensation taken into account in figuring contributions and benefits:* the limit is \$350,000 (up from \$345,000 in 2024).
- *IRAs and Roth IRAs:* the contribution limits for 2025 remain at \$7,000, plus \$1,000 for those age 50 or older by December 31, 2025. The adjusted gross income limits for making deductible contributions for those who are active participants in qualified retirement plans as well as limits for contributing to Roth IRAs have been increased slightly.

**Auto enrollment for 401(k) in 2025.** If your plan was established on or after December 29, 2022, you must begin to automatically enroll eligible participants in 2025 unless an exception applies. Auto-enrollment means an employee's salary reduction contribution must be at least 3% to start off in 2025, but no more than 10%. Whatever the initial percentage, it increases one percentage point each year until it is 10%, but not more than 15%. Employees can reduce these percentages or opt out from making contributions.

The [IRS makes it clear](#) that establishment means the adoption date, and not the effective date, of the plan is controlling. So, according to [Q&A 1](#), if a plan was adopted on October 3, 2022, but became effective on January 1, 2023, it is *not* subject to auto-enrollment.

There are exceptions to auto-enrollment:

- Plans in existence before December 29, 2022.

- SIMPLE-401(k)s
- Businesses that normally employ 10 or fewer employees. Once the employer passes the 10-employee threshold, auto-enrollment applies starting in the following year.
- An employer in business for less than 3 years. But once 3 years have passed, auto-enrollment applies.

The IRS has not made it clear whether the tax credit for small businesses that implement auto-enrollment because they have to do so will be able to claim it. Expect clarification on this before 2025 returns have to be filed.

*Note:* The mandate that catch-up contributions for highly-compensated employees be made to a designated Roth account was supposed to take effect in 2024, but has been delayed until 2026 (Notice 2023-62). [Proposed regulations](#) issued in January 2025 provide guidance on rules for these catch-up contributions.

**Offering crypto investments in 401(k) plans.** According to the a [GAO report](#), digital assets account for less than 1% of 401(k) investments (e.g., crypto asset funds).

**PBGC premiums.** For planning purposes, in 2025 the flat-rate premium for each participant is \$106 (up from \$101 in 2024). The variable rate premium for underfunded plans in 2025 is \$52 per \$1,000 of unfunded benefits per employee (the same as in 2024), with a cap in 2025 of \$717 per participant (up from \$686 in 2024).

**Plan amendments.** The IRS usually publishes a list each year of required amendments for individually-designed retirement plans. The list includes updates to pre-approved defined benefit plans (see Notice 2024-82). Check the [2024 Required Amendments List](#). The deadline for these amendments generally is no later than December 31, 2026. If you use a prototype plan, which is one provided to you by the financial firm with which you maintain your plan, you will automatically receive documents reflecting plan amendments; you do not have to do anything other than retain the revised documents in your records.

## **Chapter 17—Casualty and Theft Losses**

**Disaster losses.** Find a list of all federal disaster areas for 2024 from [FEMA](#). Designated disasters in 2025 will also be listed by FEMA.

The Federal Disaster Tax Relief Act of 2023, which was signed into law on December 12, 2024, mainly impacts individuals by enabling non-itemizers to deduct their unreimbursed losses in a federal disaster occurring on or after January 1, 2020, and January 11, 2025 (if declared by February 9, 2025) as an additional standard deduction amount without regard to the 10%-of-AGI threshold and to exclude payments received with respect to specific disasters (e.g., East Palestine Train Derailment). Businesses can continue to deduct their unreimbursed losses as a business expense. Reimbursement from FEMA reduces the amount of the loss.

## **Chapter 18—Home Office Deduction**

**Simplified method.** The IRS has not made any change to the dollar amount of the simplified method for the home office deduction. For 2024 (and for 2025 unless this changes), it is \$5 per square foot up to 300 square feet for a home office (maximum deduction of \$1,500).

**Hobby activity in a home office?** The home office deduction is limited to a business, and not a hobby activity. If space is used to conduct both a business and a hobby, no home office deduction can be claimed.

## **Chapter 19—Medical Expenses**

**Small employer health care credit.** Small employers can take this tax credit only if average annual payroll is below a set amount. This amount has been adjusted for inflation so that the full credit applies if the average annual payroll in 2025 is \$33,300 (up from \$32,400 in 2024).

**Qualified small employer health reimbursement arrangements (QSEHRAs).** These reimbursement plans are a way for small employers to help employees pay for the cost of health coverage. For 2025, reimbursements to employees are capped at \$6,350 for self-only coverage and \$12,800 for family coverage (up from \$6,150 and \$12,450, respectively, in 2024).

**Health savings accounts (HSAs).** The contribution limit to HSAs for 2025 increases to \$4,300 for self-only coverage; the limit for family coverage increases to \$8,550 (up from \$4,150 and \$8,300, respectively, in 2024). Those who are age 55 or older by the end of 2025 and not on Medicare can add another \$1,000 for the year (this additional contribution limit is unchanged and married persons must have separate accounts to each use the additional limit).

To contribute to a health savings account, the person must be covered by a high-deductible health plan (HDHP). For 2025, this means that the plan has a minimum deductible of \$1,650 for self-only coverage and \$3,300 for family coverage. The cap on annual out-of-pocket expenses (deductibles, co-payments, and other amounts but not premiums) cannot exceed \$8,300 for self-only coverage and \$16,600 for family coverage.

There is a proposal to expand HSAs by increasing contribution limits, decoupling them from HDHPs, and allowing those on Medicare to make contributions, so monitor developments.

**Flexible spending arrangements (FSAs).** The maximum amount that employees can add to a health FSA in 2025 is \$3,300 (up from \$3,200 in 2024). The carryover from 2025 to 2026 is limited to \$660 (up from the 2024 carryover amount of \$640 to 2025).

## **Chapter 20—Deductions for Farmers**

**Cannabis businesses.** Federal law has not changed the treatment of cannabis businesses for tax purposes. This is so even though half of the states have legalized the use of pot for medical and/or recreational purposes.

## **Chapter 21—Qualified Business Income Deduction**

**Taxable income.** Just to be clear, taxable income for individuals who are owners of pass-through entities means taxable income figured the usual way on Form 1040 or 1040-SR reduced by net capital gains.

**Taxable income threshold for 2025.** The taxable income thresholds for the QBI deduction are:

<b>Filing status</b>	<b>Threshold amount</b>	<b>Phase-in range amount</b>
Married filing jointly	\$394,600	\$494,600
All other filers	\$197,300	\$247,300

**Changes to the QBI deduction.** This deduction is scheduled to expire at the end of 2025. At present, there are suggestions to let this happen, extend the current rules, extend them but with changes (e.g., eliminate REIT dividends from the QBI computation), or make the current rules permanent. What happens to the QBI deduction after 2025 will be addressed in *J.K. Lasser's Small Business Taxes 2026*.

## **Chapter 22—Miscellaneous Business Deductions**

**Charitable contribution deductions.** A charitable contribution deduction for a conservation easement is disallowed for partnerships and S corporations if the contribution amount exceeds 2.5 times the sum of each partner's or S corporation's shareholder's relevant basis, although there are some exceptions. Final regulations, which are effective on October 8, 2024, require reporting for partners and S corporation shareholders receiving a distributive share or pro rata share of a noncash charitable contribution made by partnership or S corporation, without regard to whether the contribution is a qualified conservation easement; this is done on Form 8283.

**Personal education incentives for 2025: Student loan interest.** The 2025 modified adjusted gross income range over which the deduction limit up to \$2,500 of interest is phased out is \$170,000 to \$180,000 on a joint return; for singles it is \$85,000 to \$100,000.

**Legal and professional fees.** If you win a dispute with the IRS in which the government was not substantially justified, you may be able to recover costs up to a set dollar amount. For 2025, the dollar amount is \$250 per hour (up from \$240 in 2024).

**Meal costs for day care providers.** For 2025, the rates for standard meals and snack rates in all localities have increased. They are:

Breakfast:

- States other than Alaska and Hawaii: \$1.66
- Alaska: \$2.66
- Hawaii: \$2.14

Lunch and dinner:

- States other than Alaska and Hawaii: \$3.15
- Alaska: \$5.10
- Hawaii: \$4.09

Snacks:

- States other than Alaska and Hawaii: \$0.93
- Alaska: \$1.52
- Hawaii: \$1.22

## **Chapter 23—Roundup of Tax Credits**

**Employer credit for FICA on tips.** A legislative proposal to extend the credit to industries other than the food and beverage industry, such as beauty and nail salons, has not been enacted. Will it be reconsidered in 2025?

**Credits set to expire at the end of 2025:**

- Family and medical leave credit
- New markets credit
- Work opportunity credit

## **Chapter 29—Alternative Minimum Tax**

**Exemption amounts.** The AMT exemption amounts for 2025 are:

<i>Filing status</i>	<i>2025 exemption</i>
Married filing jointly/surviving spouse	\$137,000
Single/head of household	\$88,100
Married filing separately	\$68,500

**Exemption phase-out.** The exemption amounts for 2025 start to phase out when alternative minimum taxable income (AMTI) exceeds \$1,252,700 for married filing jointly and surviving spouses and \$626,350 for other filers.

## **Chapter 30—Other Taxes**

**State income taxes.** Check for tax changes that may affect 2024 business tax returns. Looking ahead, according to the [Tax Foundation](#), 39 states have notable tax changes for 2025, with 3 cutting the corporate income tax rate and 2 states implementing first-year expensing provisions. Check with state tax departments in all locations in which you do business to learn if there have been any tax changes impacting your business.

Forty-four states have a corporate income tax and 2 have a gross receipts tax. The top average corporate tax rate in 2025 is 6.5%. The [Tax Foundation's map](#) shows rates in each state with a corporate income tax.

**Employment and self-employment taxes.** The 2025 wage base limit for the Social Security tax portion of FICA and self-employment tax is \$176,100 (up from \$168,600 in 2024).

While the IRS had promised proposed regulations adopting a functional analysis inquiry to be used in determining when limited partners and limited liability company members would be subject to self-employment tax, they have not yet been issued. The IRS's Priority Guidance Plan for Q4 2024 still lists forthcoming guidance for Sec. 1402(a)(13), which is the exception from self-employment tax for limited partners.

In one case in December 2024, several limited partners in a private equity firm were treated by the Tax Court as general partners for purposes of self-employment tax because of their functions in the firm.

***Special rules for tips.*** The proposed Service Industry Tip Compliance Agreement (SITCA) program, which the IRS proposed in 2023 to replace the Tip Rate Determination Agreement (TRDA) program, the Tip Reporting Alternative Commitment (TRAC) program, and the Employer Designed TRAC (EmTRAC) program has not yet been implemented. (It's still referred to as "proposed" on the IRS website as of January 2025) If your business is in an industry where tipping is usual (other than gaming), continue to monitor developments on this proposed program. The tip reporting program for gaming is the Gaming Industry Tip Compliance Agreement (GITCA) program.

***Franchise taxes.*** Check for changes in state franchises taxes effective in 2025.

***Sales taxes.*** A number of states have changed sales tax rules for 2025. Check with your state finance/revenue/tax division.

Congress has not yet enacted proposals that would simplify sales taxes for online sellers on sales to out-of-state customers.

***Excise taxes.*** The patient-centered outreach institute (PCORI) fee, which applies to certain health policies and self-insured health plans, is \$3.47 per covered life beginning October 1, 2024, through September 2025.

***Charging taxes to a credit card.*** The IRS proposed regulations that would enable taxpayers to charge taxes via a credit or debit card directly with the IRS so they wouldn't have to go through a card service provider have not been finalized as yet.

## ***Chapter 31—Filing Tax Returns, Paying Taxes, and Making Refund Claims***

***Estimated taxes.*** While there have been proposals to change the due dates of these taxes, Congress has yet to take any action on the matter.

***Credit card charges.*** As yet, the IRS does not accept credit card payments for taxes. Proposed regulations would allow it, but they have not been finalized. Taxpayers must use an IRS-authorized credit card processor to pay taxes by credit card; there's a convenience fee charged by the processor.

***Business tax accounts (BTAs).*** The IRS lets sole proprietors, partners (including limited partners), S corporation shareholders, and C corporations set up a [Business Tax Account](#) that can be used to see the business tax balance due, view business tax transcripts, and

more. C and S corporations can use a Business Tax Account by authorizing a Designated Official (DO) to access the BTA on behalf of the entity.

## ***Chapter 32—Retirement and Succession Planning***

### ***2025 limits on earnings for those working while receiving Social Security benefits.***

There is no limit on those who have attained full retirement age. For those who receive benefits and are under full retirement age, the earnings limit in 2025 is \$1,950 per month (\$23,400 for the year). If earnings exceed this limit, then benefits are reduced by \$1 for each \$2 of excess earnings. For those who reach full retirement age in 2025, the earnings limit is \$5,180 per month (\$62,160 for the year). If earnings for the months prior to attaining full retirement age exceed the limit, benefits are reduced by \$1 for each \$3 of excess earnings.

## ***Chapter 34—Handling Audits with the IRS***

***Audits in general.*** An [executive order](#) in January 2025 creating a hiring freeze at the IRS could mean that audit rates will go down. As yet, there is no information about the impact of the hiring freeze on audits.

***New audit team.*** In October 2024, the IRS launched a new pass-through field operations unit through its Large Business and International (LB&I) division to conduct audits of pass-through entities of every size and form (not just large pass-throughs). As the IRS reported, “revenue agents in pass-through field operations will be assembled into geographically based teams that are responsible for primary exams of pass-through entity returns. LB&I will be responsible for starting pass-through exams, regardless of entity size. SB/SE will continue to examine pass-through entities as part of a related exam of a tax return.”

## ***Appendix A—Information Returns***

***Health plans.*** Two measures, signed into law on December 23, 2024, affect the filing of Forms 1095-C for applicable large employers and 1095-B for businesses with self-insured plans. Applicable to 2024 forms filed in 2025, employers do not have to furnish these forms unless employees request them. To rely on this reduced burden, you must:

- Provide clear, conspicuous, and accessible notice to applicable individuals of their right to request a form, and
- You provide the form by the later of January 31 of the year following the 1095 reporting year, or 30 days after receiving a request.

Also, under the new law, you may obtain an extension of 90 days to respond to IRS Letter 226-J about a notice of proposed assessment related to failing to file the forms. There is a 6-year statute of limitations for collecting penalty assessments.

***Large cash transactions.*** For purposes of reporting cash transactions over \$10,000, proposed regulations would treat payments in digital assets as cash and subject to this reporting rule. The IRS said digital assets treated as cash would not require information



reporting until final regulations are issued. To date, the IRS has yet to finalize these regulations.

**Merchant transactions.** For purposes of Form 1099-K, the threshold for processors to report merchant transactions by credit card, debit card, or electronic transfer made for 2024 transactions is \$5,000 without regard to the number of transactions. The threshold for transactions in 2025 is \$2,500. Starting in 2026, the threshold will be \$600 without regard to the number of transactions unless Congress makes a change.

**Digital asset transactions.** Brokers in the securities industry must file information returns and furnish payee statements reporting gross proceeds and in certain circumstances adjusted basis on sales of digital assets effected for customers beginning for sales on or after January 1, 2025. But, in light of final regulations issued on December 30, 2024, this requirement has been extended this for [2 years](#) for “DeFi brokers.” DeFi brokers are those providing services that enable digital asset transactions through decentralized platforms.

## **Appendix B—Tax Penalties**

Penalties on 2024 returns required to be filed in 2025 are listed in Appendix A on page 581 of this book. The following penalties apply to 2025 returns required to be filed in 2026:

**Failure to file a tax return.** The penalty is the lesser of \$525 or 100% of the amount required to be shown on the return.

**Failure of a partnership to file a return.** The penalty is \$255. The penalty is per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of partners during any part of the year.

The penalty for a failure to furnish a Schedule K-1 is \$340 for each failure, up to a maximum of \$4,098,500 (\$1,366,000 for businesses with average annual gross receipts in the 3 most recent years of \$5 million or less). The penalty is increased to \$660 per failure, or, if greater, 10% of the aggregate amount of items required to be reported, if the failure is due to intentional disregard of the reporting requirement; there is no maximum annual limit.

**Failure of an S corporation to file a return.** The penalty is \$255. The penalty is per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of shareholders during any part of the year.

The penalty for a failure to furnish a Schedule K-1 is \$340 for each failure, up to a maximum of \$4,098,500 (\$1,366,000 for businesses with average annual gross receipts in the 3 most recent years of \$5 million or less). The penalty is increased to \$630 per failure, or, if greater, 10% of the aggregate amount of items required to be reported, if the failure is due to intentional disregard; there is no annual cap.

**First-time abatement program.** The National Taxpayer Advocate had suggested that



the IRS make the first-time abatement program automatic. The IRS has yet to act on this suggestion.

**Section 530 relief.** If you've been treating a worker as an independent contractor but the IRS reclassifies the worker as an employee, you may obtain relief from back employment taxes, interest, and penalties using Section 530 relief. The IRS has made it clear that this relief covers only worker classification and not the characterization of payments as wages or something else.

There are various factors indicating a worker is being treated as an employee, such as issuing a W-2 to the worker and the employer filing a quarterly employer tax return. The IRS added another factor: contracting with a third-party to perform employer acts.

## ***Appendix C—Dollar Limits and Amounts Adjusted for Inflation***

**Items Adjusted Annually for Inflation.** The following adjustments apply for 2025 (and do not factor into the preparation of 2024 returns).

***Adoption assistance***—excludable employer-provided adoption assistance for employees (\$17,280 for 2025).

***Cash method of accounting***—the gross receipts test for eligibility of C corporations and partnerships with C corporation partners to use the cash method of accounting is average annual gross receipts in the 3 prior years not exceeding a set amount (\$31 million in 2025).

***Energy-efficient commercial buildings.*** The deduction for 2025 is up to \$5.81 per square foot, depending on energy reduction and whether the wage and apprenticeship requirements are met.

***Excess business losses for noncorporate taxpayers***—the threshold used in determining whether an owner of a pass-through entity has such losses is capped on their personal returns at a set amount (\$626,000 for joint filers and \$313,000 for other filers in 2025).

***First-year expensing (Sec. 179 deduction)***—the dollar limit on the deduction, as well as the phase-out threshold on property placed in service for 2025 are \$1,250,000 and \$3,130,000, respectively.

***Foreign earned income exclusion***—the amount of wages or self-employment income earned abroad eligible for the exclusion is limited (\$130,000 in 2025).

***Medical flexible spending accounts (FSAs)***—the most that employees can add annually on a pretax basis is capped at \$3,300 for 2025.

***Qualified business income deduction***—the taxable income limit for the 20% deduction before application of a formula is required (and a phase-out for owners in specified service trades or businesses) is \$394,600 on joint returns and \$197,300 for other filers in 2025.

***Small employer health insurance credit***—the amount of average compensation, originally fixed at \$25,000, is \$33,300 for 2025.

***Social Security wage base***—the amount that is used to figure the Social Security portion of FICA and self-employment tax (\$176,100 for 2025).

***Transportation fringe benefits***—the amount excludable for free parking, and the aggregate amount excludable for transit passes or van pooling is \$325 per month in 2025.

**Items set by the IRS.** The following adjustments apply for 2025 (and do not factor into the preparation of 2024 returns):

***Deemed depreciation for business vehicles***—if the deduction for expenses for business use of a personal vehicle owned by the taxpayer is figured using the IRS's standard mileage allowance, then the basis of the vehicle is reduced by a set amount per mile (e.g., 33¢ per mile in 2025).

***Mileage allowance***—the rate per mile used to determine the deduction for business use of a personal vehicle instead of deducting the actual costs is 70¢ per mile in 2025.