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2025 TAX UPDATE

Below are some selected federal and state tax law changes; please take some time to look over the changes that may impact you.

One Big Beautiful Bill Act (OBBA) and Other Tax Provisions Effective in 2025 (Generally, 2025 through 2028)

- **Income tax rates:**
 - The legislation makes permanent the seven rates created by the TCJA, with an initial inflation adjustment in 2026 for the first two brackets (10%, 12%).
 - The permanent brackets are: 10%, 12%, 22%, 24%, 32%, 35% and 37%.
- **Enhanced Deduction for Seniors:**
 - In addition to the standard deduction or itemized deduction, taxpayers sixty-five and older will be able to deduct an additional \$6,000.
 - Starts to decrease for taxpayers with a Modified Adjusted Gross Income (MAGI) over \$75,000 (single) / \$150,000 (joint).
 - Requires a Social Security number valid for work.
 - Not available for those using the Married Filing Separately status.
- **SALT Deduction Increase:**
 - For those itemizing deductions, prior to 2025, you were limited to a maximum deduction of \$10,000 for state and local income taxes, real estate taxes, and personal property taxes.
 - The OBBA raises the limit to \$40,000 for incomes under \$500,000 (\$250,000 for Married Filing Separately).
 - If your Modified Adjusted Gross Income (MAGI) is over \$500,000, then the limit is gradually reduced by 30% until it reaches \$10,000. This means that the maximum deduction is still \$10,000 for Income (MAGI) of \$600,000 or over.
 - The cap and income threshold will increase 1% annually.
- **OBBA Car Loan Interest Deduction:**
 - The deduction is limited to \$10,000 of qualified interest.
 - Vehicle must have a “final assembly” in the U.S.
 - Vehicle Identification Number (VIN) must be included on the tax return.
 - Phased out at 20% for Modified Adjusted Gross Income (MAGI) over \$100,000 (Single) / \$200,000 (Married Filing Jointly).
- **Repeal of Various Vehicle and Energy Credits:**
 - The bill permanently eliminates the following clean vehicle credits for vehicles acquired after September 30, 2025:
 - New Clean Vehicle Credit
 - Used Clean Vehicle Credit
 - Qualified Commercial Clean Vehicle Credit (for businesses)
 - The residential energy credits are generally terminated and will not be available for energy-efficient home improvements after 2025. This includes the Energy Efficiency Home Improvement Credit and the Residential Clean Energy Credit.

Provisions Effective in 2026 (Generally, 2026 through 2028)

- **Trump Child Savings Accounts (Trump Accounts, Child Savings, Child IRA accounts):**
 - This is a new type of savings account for children under the age of 18 created under the bill.
 - The contribution limit is \$5,000 per tax year (adjusted for inflation after 2027).
 - Employers may also contribute up to \$2,500 per year to an employee or dependent of an employee.
 - Trump savings accounts are tax-deferred, meaning earnings on the investments inside the account are not subject to tax until withdrawn. Preliminary guidance suggests that the income will be taxed similarly to capital gains when withdrawn.
 - Children cannot make withdrawals until they reach the age of 18.
 - Trump accounts will automatically be funded for babies born between 2025-2028.
 - The federal government will make a one-time \$1,000 contribution per child to a Trump Account for U.S. citizens born during this time.
 - The child must be a U.S. citizen to receive the funding.
 - An account will be automatically created by the federal government if an account is not previously created by the parents.

- **Charitable Deduction expanded to non-itemizers:**
 - Under the OBBB, taxpayers who claim the Standard Deduction, meaning they do not itemize their deductions, will be able also to claim a Charitable Deduction for cash contributions. This rule does not apply to property contributions made to a charity (it must be a monetary contribution).
 - The new deduction amounts are capped at:
 - \$1,000 (Single)
 - \$2,000 (Married Filing Jointly)
- **Charitable Deduction changes for itemizers:**
 - If you claim an itemized deduction for a charitable contribution, you will be required to reduce your deduction by 0.5% of your contribution base which is generally your adjusted gross income. This will effectively eliminate the charitable deduction for small donations.
- **Estate and Gift Tax Increased Exemption:**
 - The OBBB institutes a permanent and inflation adjusted exemption level of \$15 million beginning in 2026.

DISTRICT OF COLUMBIA EXPANSION OF TAX BASE

Effective January 1, 2025, interest on obligations of other states and their political subdivisions will be included in an individual's District gross income. Prior to 2025, the District exempted all state bond interest from District income. Starting in 2025, only interest earned on obligations of the District, a U.S. territory, the D.C. Water and Sewer Authority, the Washington Metropolitan Area Transit Authority (WMATA), and the D.C. Housing Finance Agency, remain exempt.

MARYLAND TAX INCREASES

Tax Increases

Maryland has historically subjected taxpayers to a progressive state-level tax with 5.75% as the highest tax rate applicable to Maryland taxable income of more than \$250,000 (\$300,000 for joint filers, surviving spouses, and heads of households). This is coupled with a flat county level tax that varies by county and ranges from 2.25% to 3.2% of Maryland taxable income.

Starting in 2025 and forward, two additional tax rate brackets are added to the state level tax. A new 6.25% tax bracket applies to Maryland taxable income of \$500,001 through \$1 million (\$600,001 through \$1.2 million for joint filers, heads of households and surviving spouses). In addition, a new 6.5% tax bracket applies to Maryland taxable income over \$1 million (\$1.2 million for joint filers, heads of households and surviving spouses). In addition, for purposes of the local-level tax, counties will now be authorized to impose a local-level tax of up to 3.3%, with the ability to change from a flat tax to a progressive tax if done in a revenue neutral manner.

In addition to the 2 new state tax rate brackets, the legislation makes changes to the standard and itemized deduction regimes. Most notable is a new restriction on itemized deductions available to taxpayers, which reduces the deduction for taxpayers that have more than \$200,000 of federal adjusted gross income taxpayers (\$100,000 if married filing separately). The provision requires that taxpayers reduce their itemized deductions by 7.5% of the excess threshold amount. The legislature, however, has increased the maximum standard deduction from \$5,600 to \$6,700 for joint filers, heads of household, and qualified surviving spouses (the increase is from \$2,800 to \$3,350 for other taxpayers). A meager increase given the curtailment of itemized deductions as noted above.

Maryland has also adopted a capital gains tax surcharge of 2%. This surcharge is applicable to all net capital gains as defined and determined by the IRS and recognized by individuals reporting federal adjusted gross income (AGI) of more than \$350,000. There are several exceptions to the surcharge. Capital gains from primary residences sold for less than \$1.5 million are exempt, along with assets held in a variety of retirement accounts. In addition, exemptions are available for livestock sales by farmers and ranchers, land sales subject to certain conservation easements, agricultural or forest preservation easements, sales of property used in a trade or business, the cost of which is deductible under IRC Sec. 179, and sales of affordable housing owned by nonprofits.