

TAX NEWS

SPRING 2025

Dear Client,

Another tax season is in the books, and we are all looking forward to our summer vacations and renewal time. We were pleased to see everyone during this tax filing season, and will continue to provide year-round tax and advisory services.

In this issue we address several issues including the ABLE account, business expenses, the importance of direct deposit, and teacher benefits.

The ABLE Savings Account is designed to help those with disabilities provide for eligible living expenses. These accounts have been instrumental in helping families provide extra resources without endangering their disability status.

A comprehensive listing of allowable business expenses has been compiled for our small business clients. It is important that all businesses maintain a good set of books to support the income and deductions claimed on the tax return. The IRS can assess a penalty for understatement of tax due if there is not adequate books and records to support the business tax filing.

While many of you already support direct deposit of your federal and state refunds, it now has been formalized. The White House issued an executive order to cease, in most cases, issuing paper checks for tax refunds.

And for our teachers out there, do not forget the ability to claim out of pocket expenses for supplies and ongoing education required for your classroom.

There have been many changes within the IRS and other agencies who provide services to taxpayers. And while we strive to resolve issues as quickly as possible, we are limited to the available staffing at these various agencies. There is a continual request for patience from the federal and state agencies. It is hard when you are waiting for a refund or resolution of a tax situation. Be assured we are doing everything possible, on our end, to provide the documents and information necessary to settle your tax issues.

Our office is available to help you year-round with advisory services, tax representation, bookkeeping, payroll, and tax preparation. Do not hesitate to call if you have any questions or concerns.

Benefits of Able Savings Accounts

Achieving a Better Life Experience (ABLE) Act is a federal law that allows states to create tax-advantaged savings programs for eligible people. Its goal is to ease financial strains faced by individuals with disabilities by making this tax-free saving accounts available to cover qualified disability expenses. People with disabilities and their families can use Achieving a Better Life Experience accounts to help pay for qualified disability-related expenses. ABLE accounts are savings accounts that do not affect eligibility for government assistance programs.

A person who has a disability that began before age 26 (changing to age 46 in 2026) may open an ABLE account at any age. In addition to age of onset of disability, the person needs to meet the severity of disability requirement in one of two ways: 1) receiving SSI or SSDI (Social Security Disability Insurance) or 2) possessing signed documentation by a licensed physician stating that the individual's disability meets the "marked and severe" functional limitations standard stated in the ABLE statute. It does not matter if the person is working or can work.

A person who has not received SSI or SSDI since before age 26 could ask their doctor to sign a Disability Certification indicating that the disability began before age 26. Alternatively, SSA maintains a list

of "compassionate allowance conditions" which are so severe that they are deemed to meet the requirements without a physician's diagnosis provided the condition was present before age 26. Each qualified ABLE program determines what is needed to establish eligibility to open an ABLE account.

ABLE contributions, similar to gifts, are not tax deductible on federal returns. However, distributions — including earnings — are tax-free to the beneficiary if the taxpayer pays for a qualified disability expense.

ABLE options expanded in 2017: The Tax Cuts and Jobs Act (TCJA) of 2017 enhanced ABLE accounts in three key ways.

1. Contribution amounts were increased, and special rules added for the increased contribution limit.
2. ABLE account designated beneficiaries were allowed to claim the retirement Saver's Credit for the contributions to the account.
3. Rollovers in limited amounts were allowed from an ABLE account designated beneficiary's 529 qualified tuition program to that person's ABLE account or family member.

Here's a closer look at how these ABLE options can help disabled individuals.

Contribution limit increase: The contribution limit for the 2025 tax year is \$19,000. To count for this year, the money must be put into the ABLE account by December 31.

However, certain employed ABLE account beneficiaries may contribute more. This additional contribution amount generally is allowed when an account beneficiary is working, but neither they nor their employer are making certain retirement plan contributions. For 2025, the additional ABLE contribution is the account beneficiary's annual compensation up to a maximum of \$15,650 if the person lives in the continental United States, \$19,550 for those living in Alaska, and \$17,990 for residents of Hawaii.

Saver's Credit bonus: The Saver's Credit is a way to boost tax-advantaged retirement savings. It is available to lower- and middle-income earners who contribute to certain retirement accounts.

The Saver's Credit is worth up to \$1,000. Since it is tax credit, it reduces any tax owed dollar-for-dollar up to the one grand max. Note, however, that the credit is nonrefundable. So, if you owe less than \$1,000 the Saver's Credit will zero out that tax debt, but you cannot get the excess credit as a refund.

ABLE account designated beneficiaries may be eligible to claim the Saver's Credit

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for a percentage of their contributions. This applies to account designated beneficiaries who —

- Are at least 18 years old at the close of the taxable year;
- Are not a dependent or a full-time student; and
- Meet the income requirements.

Section 529 rollovers and transfers:

Families may roll over funds from a 529 education plan, a state-created, tax-advantaged account that covers a variety of educational expenses, to an ABLE account. The ABLE account must be for

the same beneficiary as the 529 account, or for a member of the same family as the 529 account holder. Rollovers from a Section 529 plan do count toward the annual contribution limit.

For example, the \$19,000 annual contribution limit for 2025 would be met by parents contributing \$10,000 to their child's ABLE account and rolling over \$9,000 from a 529 plan to the same ABLE account.

What can funds in an ABLE account be used for? ABLE account funds may be used for qualified disability expenses (QDEs), which may include any expense related to the beneficiary because of living a life with a disability. Examples of these expenses may include education or other expenses which help improve

health, independence and/or quality of life. Examples of qualified disability expenses categories include, but are not limited to:

- Education
- Housing
- Transportation
- Employment training and support
- Assistive Technology and related services
- Health
- Prevention and wellness
- Financial management and administrative services
- Legal fees
- Expenses for oversight and monitoring
- Funeral and burial expenses
- Basic living expenses like food

The Big List of Tax Deductions for Small Businesses

For our small business clients, we are providing you a helpful reference list for some of the most common small business tax deductions. This will cover A LOT of the expenses you're going to have for your business and get you in the right mindset for other allowable expenses.

Tax law is full of all sorts of exceptions and caveats to rules, which is one of the reasons no one knows what they can and cannot expense. But most of the time, if you are buying something specifically for your business, the chances are that it is deductible.

All of these expenses will be 100% deductible unless we note otherwise.

1. Advertising
2. Bad debts
3. Bank charges
4. Business meals
5. Cleaning and janitorial expenses
6. Computer expenses
7. Contract labor
8. Credit and collection costs
9. Dues and subscriptions
10. Employee benefit programs
11. Equipment purchases
12. Insurance
13. Interest
14. Inventory and Cost of Goods Sold
15. Legal and professional expenses
16. Office supplies
17. Postage and delivery
18. Printing
19. Research & Development (R&D)
20. Rent
21. Repairs and maintenance
22. Retirement plan contributions
23. Salaries and wages
24. Security
25. Start-up and Organizational Costs
26. Taxes and licenses
27. Telephone and utilities
28. Tools
29. Training and continuing education
30. Travel
31. Uniforms and laundry
32. Vehicle expenses

Advertising

Marketing and advertising are one of the most important tools for growing a new business and sustaining that growth as the business matures. Most advertising expenses are 100% deductible.

In general, expenses incurred to generate new business will be deductible. But there are two significant exceptions:

1. Gifts. Business gifts are only deductible up to \$25. This may seem like an unreasonably small amount — and it is. This limit was instituted back in 1962 and has not been adjusted since. Adjusted for inflation, that \$25 back in 1962 would be worth over \$200 today.
2. Entertainment. Client entertainment was 50% deductible up until the Tax Cuts and Jobs Act was passed. Since that legislation went into effect in 2018, entertainment can no longer be deducted.

Bad Debts

If a client does not pay you, you do not have to pay tax on that bad debt. But the way you deduct this will depend on what basis of accounting you use.

If your business is on an accrual basis, you count income when it is earned, and expenses are recognized when they are incurred. So, the income will show up on their books for many businesses as soon as they generate an invoice.

If a client does not pay, that never received income needs to be written off. This will often be done by writing off the invoice and showing a bad debt expense on your Income Statement for the amount not received.

But if your business is on a cash basis, income is not recognized until received, and expenses are not shown until paid. This is an area of confusion for many clients on a cash basis. The revenue is lost, and it intuitively feels like it should be able to be written off. Unfortunately, the IRS would consider this double-dipping.

From their perspective, your “write-off” was not counting the unpaid amount as revenue in the first place.

Bank Charges

You always want to have separate bank accounts and credit cards for your business.

Business Meals

Historically, most meals have only been 50% deductible. Certain employee meals (such as at a company picnic) are 100% deductible. But meals such as taking a client out to lunch are limited to the 50% limitation.

Cleaning and Janitorial Expenses

Office cleaning and other janitorial expenses related to keeping your office space tidy are deductible. If you move to a new office, the costs of cleaning your old office upon move-out and your new office for moving in would both be deductible.

Computer Expenses

Most businesses are increasingly technology-driven, and the expenses associated will be deductible.

Contract Labor

Before a business can afford to hire actual employees, they'll usually start by using freelancers or other contractors on a temporary basis. The amount you pay to these independent contractors is fully tax-deductible.

If the contractor is paid over \$600 for the year (and is not taxed as a corporation), you will be required to issue them a 1099-NEC form and file a copy with the IRS. These are due by January 31st of the following year, so a best practice is always to get the contractor to fill out a W-9 before you start working with them.

Credit and Collection Costs

Costs associated with accepting payment from customers will be deductible. This could include credit card processing

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fees, fees your bank charges you to initiate ACH drafts, and other expenses charged by third-party payment processors.

Dues and Subscriptions

Dues and subscription fees paid to professional organizations are 100% deductible. Dues to civic organizations such as a Rotary club are also fully deductible. Under new tax laws, country clubs or dues for organizations that are more recreational in nature are not deductible unless they are shown as taxable compensation on the corresponding employee's W-2.

Employee Benefit Programs

Health, dental, and vision insurance paid for employees are fully deductible.

There are also some additional perks for structuring employee compensation this way.

While wages paid to an employee are subject to payroll tax (and are fully taxable to the employee), many employee benefit programs are not.

Equipment Purchases and Depreciation

Equipment purchased for the business will generally be able to be expensed...either in the year of purchase or over time.

Home Office Deduction

The home office deduction is one of the most frequent questions we get asked by new business owners. The issue becomes that there are many caveats with and limitations to the home office deduction. You cannot benefit from it if your business is already at a loss, it needs to be your primary place of business, and the use of the space has to be regular and exclusive to the business.

Insurance

Most insurance premiums you pay for your business are deductible. These might include:

- General liability coverage
- Professional liability insurance such as E&O (errors and commissions) insurance or malpractice insurance
- Auto insurance if you are not taking the standard mileage rate. Workers compensation insurance
- Property and casualty insurance
- Health, vision, and dental insurance. See the Employee Benefits section for more details.

Life insurance premiums may or may not be deductible depending on the beneficiary and the type of policy. Term life insurance policies for paid employees will generally be deductible if the business is not a beneficiary on the policy.

Interest

Interest paid on business purchases will generally be deductible. This includes interest paid on:

- Business lines of credit (LOC)
- Auto loans
- Business credit cards
- Equipment loans
- Mortgages in the business's name

Inventory / Cost of Goods Sold (COGS)

If you are a retailer, manufacturer, or otherwise have any sort of inventory you purchase or produce, the costs associated with creating or acquiring that inventory are tax-deductible. But much like equipment purchases, we may need to look at the circumstances for your business.

Legal and Professional Expenses

Expenses paid to your attorneys, tax preparer, and other professionals related to the business are tax-deductible. If these expenses are associated with the start-up of a new business, there may be limitations.

Office Supplies

Supplies used to keep your office running like paper, pens, ink, tape, staplers, scissors — those many tiny miscellaneous expenses are deductible. These are also items that it can be easy to forget about it. If you pay cash (which we do not recommend) or are out buying groceries at Wal-Mart and pick up a pack of pens while you're there, it's easy to forget about those expenses.

Postage and Delivery

Postage and delivery fees associated with running your business are deductible. For most businesses, this will just be a line-item expense for postage, but if you are an eCommerce business or another business where you are shipping products to customers, it can be a good idea to include that as part of your COGS so that you are more appropriately tracking your profit margins.

Printing

Printing costs will typically be deductible. This would include printing for more external use such as brochures, pamphlets, business cards, and printing for internal use such as company manuals.

Research & Development (R&D)

Research and Development costs are deductions (reductions in your taxable income), but in some cases, they may even qualify for tax credits (dollar for dollar offsets against your tax bill).

Rent

The rent paid for your office is tax-deductible. You are also able to deduct amounts paid on equipment rentals.

Repairs and Maintenance

Repairs you have to your office space and equipment you own are deductible. This may be especially relevant as Triple Net Leases (NNN) increase in popularity and tenants are on the hook for building upkeep.

Retirement Plan Contributions

The costs of creating and administering a retirement plan such as a SEP, SIMPLE, or 401(k) for your employees are tax-deductible. Any employer contributions you make on their behalf will also be deductible to you and can be a nice incentive for employee morale and retention.

Salaries and Wages

Wages and bonuses paid to your employees — including PTO — are deductible. This includes W-2 wages (wages run through actual payroll and subject to payroll tax) paid to the business owner but does not include owner draws/shareholder distributions. Shareholder distributions (where you are simply cutting yourself a check or transferring money to your personal bank account) are considered you taking equity out of your company and are not business expenses.

Security

Cameras, smart locks, and other physical security measures you put in place to protect your place of business are tax-deductible — as are subscriptions that may be associated with them. In addition, the cost of cybersecurity is also likely deductible.

You can even deduct the cost of a guard dog, which is one of the very few instances where pet expenses are allowed. Although it's probably good to clarify that even if you take your teacup Chihuahua to the office every day and they bark a lot, that is not a guard dog from the IRS's perspective.

Start-up and Organizational Costs

The IRS allows you to deduct up to \$5,000 in business start-up costs and \$5,000 in organization costs. It is worth noting that this is only if your start-up or organizational costs do not exceed \$50,000. If they exceed \$50,000, this \$5,000 begins to be reduced, and the remaining will need to be amortized over time.

Taxes and Licenses

Many of the taxes paid are tax-deductible:

- Business licenses and annual LLC/corporation fees — including the initial fees to set up your LLC, S-Corp, or C-Corp
- The employer portion of payroll taxes
- Real estate taxes on business property
- Personal property taxes on business property
- Sales, excise, and use taxes

Telephone and Utilities

A business telephone along with the utilities at your office are tax-deductible. That's pretty straightforward.

Many business owners do not realize that they can also expense the business percentage of their cell phone and home internet bill.

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THE BIG LIST OF TAX DEDUCTIONS FOR SMALL BUSINESSES

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Tools

Small tools you purchase for the business are fully deductible. For larger tools, these would need to be depreciated over time like other assets.

Training and Continuing Education

Training or continuing education that allows you to continue performing your current profession is deductible. Other types of training are more difficult to determine. Training that is preparing you for a new career generally will not be deductible, although it may qualify as an education expense.

Travel Expenses

Travel expenses are often legitimate and deductible, although some business owners abuse them. The IRS states that

“[t]ravel expenses are the ordinary and necessary expenses of traveling away from home for your business, profession, or job. You cannot deduct expenses that are lavish or extravagant or that are for personal purposes.

Uniforms and Laundry

The cost of uniforms and as well as the laundry services for those uniforms will generally be deductible. The key here, however, is what qualifies as a uniform.

To qualify as a work clothing:

- Your job must require that clothing
- The clothing cannot be suitable for everyday wear

Scrubs worn by medical staff or clothes with company logos on them are not suitable for everyday wear. But even though many jobs require a particular type of clothing such as suits or other dress wear, since they can be worn in other settings, they cannot be deducted.

Vehicle Expenses

There are generally two options when it comes to vehicle expenses:

- Taking the standard mileage rate. In 2025 the standard mileage rate is .70 cents per mile driven for business.
- Deducting actual expenses. This would be all of the costs associated with operating the vehicle. Gas, repairs, maintenance, insurance, taxes and registration fees, and depreciating the purchase price of the vehicle itself. If the vehicle is used 100% for business, 100% of these costs can be deducted. If used for personal and business, you can only deduct these costs multiplied by the percentage of business use.

Checks to Make Payment to or Service Refunds Will Generally Bar the Use of Paper

“**M**odernizing Payments To and From America’s Bank Account”, an Executive Order issued by the White House on March 25, 2025, mandates a significant shift away from paper-based payments by the Federal Government.

Effective September 30, 2025, the Secretary of the Treasury is directed to cease issuing paper checks for all Federal disbursements, including tax refunds. Similarly, the order states that all payments made to the Federal Government, including taxes, shall be processed electronically as soon as practicable and to the extent permitted by law. This transition

aims to reduce costs, delays, and the risks of fraud associated with paper checks. The reliance on paper checks has historically led to a higher incidence of loss, theft, undeliverability, or alteration compared to electronic funds transfers (EFTs).

Exceptions to the Paper Check Phase-Out:

While the order strongly pushes for electronic transactions, it acknowledges that certain exceptions are necessary. The Secretary of the Treasury is tasked with reviewing and revising procedures for granting limited exceptions where electronic payment and collection methods

are not feasible. These exceptions include situations for:

- i. individuals without access to banking services or electronic payment systems;
- ii. certain emergency payments where electronic disbursement would cause undue hardship;
- iii. national security- or law enforcement-related activities where non-EFT transactions are necessary or desirable;
- iv. other circumstances as determined by the Secretary of the Treasury, as reflected in regulations or other guidance.

The Educator Expenses Deduction Can Help Offset Out-of-Pocket Classroom Costs

The Educator Expense Deduction lets eligible teachers and administrators deduct part of the cost of technology, supplies and training from their taxes. They can claim this deduction only for expenses that were not reimbursed by their employer, a grant or other sources.

Who is an eligible educator

The taxpayer must be a kindergarten through grade 12 teacher, instructor, counselor, principal or aide. They must also work at least 900 hours a school year in a school that provides elementary or

secondary education as determined under state law.

Things to know about this deduction

Educators can deduct up to \$300 of certain trade or business expenses that weren’t reimbursed. If two married educators are filing a joint return, the limit rises to \$600. These taxpayers cannot deduct more than \$300 each.

Qualified expenses are amounts the taxpayer paid themselves during the tax year.

Some of the expenses an educator can deduct include:

- Professional development course fees.
- Books and supplies.
- Computer equipment, including related software and services.
- Other equipment and materials used in the classroom.
- COVID-19 protective items to stop the spread of the disease in the classroom.