PacificCPE

COURSE

31051C

Individual Income Tax: Income Part 1

Stay current with the latest tax law changes affecting individual returns. This course covers key 2025 and 2026 updates, SECURE 2.0 Act provisions, filing information, filing status options, dependent rules, and estimated tax requirements. It also addresses wages, salaries, tip income, interest, dividends, and other distributions. Whether you're onboarding new staff or refreshing your own knowledge, this course builds a solid foundation for preparing accurate individual income tax returns.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall important tax changes to be used for 2025 tax returns.
- Recognize the length of the automatic extension provided by filing Form 4868.
- Recognize the various filing statuses and who is eligible to use them.
- Recall the various requirements for a qualifying relative.
- Identify the purpose of estimated taxes.
- Recall what types of compensation are included as income for tax *purposes.*
- Recognize what tips should be included in income for tax *purposes.*
- Recall the proper tax treatment for various types of interest.
- Identify the proper treatment of various types of dividends.

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INTRODUCTION

Chapter Objective

After completing this chapter, you should be able to:

- Recall important tax changes to be used for 2025 tax returns.

Note

Many of the changes/provisions affecting 2025 are the result of the passage of the One Big Beautiful Bill Act (OBBBA) signed July 4, 2025 and the Tax Cuts and Jobs Act of 2017 (TCJA), in addition to the usual inflation adjustments. The OBBBA made permanent most of the temporary provisions of the TCJA. These changes are summarized here and also noted throughout the course.

This course is a general overview of federal income tax laws for individuals filing 2025 tax returns. The course begins with the rules for filing a tax return. It explains who must file a return, which tax forms to use, when the return is due, and other general information. It will help identify which filing status your clients qualify for and whether the income they are receiving is taxable. The course goes on to explain the standard deduction, the kinds of expenses they may be able to deduct, and the various kinds of credits they may be able to take to reduce their tax.

Throughout the course are examples showing how the tax law applies in typical situations. Sample forms and schedules show how to report certain items on tax returns. Also, throughout the course are flowcharts and tables that present tax information in an easy-to-understand manner.

We start with a section on important tax changes.

I. IMPORTANT TAX PROVISIONS FOR 2025

Individual Tax Rates

These rates remain the same at 0%, 10%, 12%, 22%, 24% 32%, 35%, and 37%.

Medical Bills

Medical expenses can be deducted in 2025 for medical expenses exceeding 7.5 percent of adjusted gross income.

Standard Mileage Rate

For 2025, the standard mileage rate for business use of a vehicle is increased to 70.0 cents per mile.

II. NEW TAX LAW CHANGES FOR 2025 TAX RETURNS

Most of the changes in the One Big Beautiful Bill Act take effect on January 1, 2026, but some are retroactive and could impact 2025 tax returns. The major component of the OBBBA was to make permanent most of the temporary provisions of the TCJA. Many of the changes have certain requirements, such as adjusted gross income limits, and some of the changes are temporary. Changes that might affect most 2025 tax returns include the following.

Additional Senior Deduction

The OBBBA temporarily adds a senior deduction of $6,000 for each qualifying individual for both itemizers and non-itemizers. The deduction phases out when modified adjusted gross income exceeds $75,000 ($150,000 for joint filers), and is available from 2025 through 2028.

Increased State and Local Tax (SALT) Itemized Deduction

The OBBBA temporarily increases the cap on the itemized deduction for state and local taxes (SALT) from $10,000 to $40,000 for 2025, and increases the cap by one percent each year from that level through 2029, subject to a phaseout for taxpayers with incomes above $500,000. After December 31, 2029, the cap is scheduled to be reduced to a flat $10,000 thereafter.

Increase in the Standard Deduction

The OBBBA makes the standard deduction increase permanent with an enhancement. Starting in 2025, the deduction increases to $31,500 for joint filers, $23,625 for head of household, and $15,750 for all other filers, and is adjusted for inflation thereafter.

Mortgage Interest Deduction

The mortgage interest deduction, set by the TCJA, was set to expire at the end of 2025. The OBBBA made this provision permanent.

- For all homeowners with existing mortgages at December 17, 2017 that were taken out to buy a home, there is no change to the prior mortgage interest deduction.

- For homeowners with new mortgages after December 17, 2017 on a first or second home, the home mortgage interest deduction is available for up to $750,000 of mortgage debt.

No Tax on Tips

The OBBBA temporarily makes up to $25,000 of tip income deducible for individuals in traditionally and customarily tipped industries for tax years 2025 through 2028. The deduction phases out by $100 for every $1,000 of modified adjusted gross income that exceeds $150,000 ($300,000 for joint filers).

No Tax on Overtime

The OBBBA temporarily makes up to $12,500 ($25,000 for joint filers) of the premium portion of overtime compensation deductible for itemizers and non-itemizers for tax years 2025 through 2028. The deduction phases out by $100 for every $1,000 of modified adjusted gross income that exceeds $150,000 ($300,000 for joint filers).

Deduction for Interest Payments on Certain Vehicles

The OBBBA temporarily makes auto loan interest deductible for itemizers and non-itemizers for new autos with final assembly in the United States for tax years 2025 through 2028. The deduction is limited to $10,000, and phases out at a 20 percent rate when modified adjusted gross income exceeds $100,000 for single filers and $200,000 for joint filers.

Increased Child Tax Credit

The OBBBA makes the child tax credit provisions of the TCJA permanent, and increases the maximum from $2,000 to $2,200 for 2025 (adjusted for inflation thereafter).

Section 179 Expensing

The OBBBA increases the maximum Section 179 deduction limit to $2.5 million for property placed in service in taxable years beginning after December 31, 2024. The phaseout threshold is raised to $4 million, fully phasing out at $6.5 million. Both the deduction limit and phaseout threshold will be indexed annually for inflation. The Section 179 deduction is limited to the taxpayer’s taxable income and cannot create a net loss. Unused deductions can be carried forward.

Section 179 applies to property eligible for bonus depreciation, and also includes items not covered by bonus depreciation, such as certain building systems.

Partially Refundable Adoption Credit

Effective in 2025, the OBBBA enhances the adoption credit to include a refundable portion of up to $5,000. This refundable amount will be adjusted for inflation annually. The refundable portion is not eligible for carryforward to subsequent years.

Trump Savings Account

The OBBBA creates a new tax-deferred investment account for children called a "Trump account." Contributions to a Trump account are limited to $5,000 annually (indexed for inflation) of after-tax dollars. In addition, under a newborn pilot program, the federal government will contribute $1,000 per child for U.S. citizens born between January 1, 2025 and December 31, 2028.

Electric Vehicle Credits

The OBBBA accelerates the termination of the electric vehicle credits from vehicles acquired after 2032 to vehicles acquired after September 30, 2025.

Bonus Depreciation

The OBBBA permanently reinstates 100% bonus depreciation for qualified property placed in service after January 19, 2025. This reverses the previous phase-down schedule. It applies to both new and used qualified property. Bonus depreciation has no limit based on taxable income and can be used to create a net operating loss (NOL). It applies automatically unless a taxpayer elects out.

A transition election is available for property acquired before January 20, 2025, and placed in service after that date. Taxpayers may elect to apply a 40% or 60% bonus depreciation in certain cases, and special rules apply for qualified production property.

Additional Business Tax Provisions

In addition, the OBBBA does the following:

- Permanently restores immediate expensing for domestic research and development (R&D) expenses. Small businesses with gross receipts of $31 million or less can retroactively expense R&D back to after December 31, 2021. All other domestic R&D between December 21, 2021 and January 1, 2025 can accelerate remaining deductions over a one- or two-year period.
- Permanently reinstates the EBITDA-based limitation on business net interest deductions.
- Permanently restores 100 percent bonus depreciation for short-lived investments.