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James V Sadrianna PA - April 2025 Newsletter

Table of Contents

If you are unable to get a REAL ID by the deadline, you can still fly using a passport or other TSA-acceptable document.

REAL ID Deadline Fast Approaching

After years of numerous delays, the REAL ID enforcement deadline is scheduled for May 7, 2025.[1]

What is a REAL ID?

A REAL ID is a type of enhanced identification card that is signified by a star marking in the upper top portion of the card. The REAL ID Act, passed by Congress in 2005, set minimum security standards for state-issued driver's licenses and identification cards. Everyone who is at least 18 years old will need a REAL ID-compliant driver's license or identification card or another form of identification that is accepted by the Transportation Security Administration (TSA) for domestic air travel and to enter certain federal facilities.

Other TSA-acceptable documents are active passports, passport cards, or Global Entry cards. While standard driver's licenses will no longer be a valid identification for TSA purposes, enhanced driver's licenses from certain states are TSA-acceptable alternatives.

Although the TSA has announced that federal agencies are allowed to phase in their enforcement of the REAL ID requirement, travelers who don't have a REAL ID by the May 7 deadline will face additional screening measures and possible delays at airport security checkpoints. You can visit the TSA website at tsa.gov for updates and information.

Finally, when traveling internationally, you will still need your passport for identification purposes, including travel to Canada or Mexico.

How do you get a REAL ID?

The U.S. Department of Homeland Security (DHS) oversees the enforcement and implementation of the REAL ID Act, but each state's driver's licensing agency has its own process for issuing REAL ID-compliant licenses/identification cards.

In order to obtain a REAL ID, you will need to provide documentation that shows your:

- Full legal name, date of birth, proof of lawful presence (e.g., U.S. passport, birth certificate)
- Social Security number (some states may not require physical documentation of your Social Security number)
- Two proofs of address of principal residence (e.g., driver's license, utility bill)

If you have had a name change (e.g., marriage, divorce, or court order), you will also need to bring in documentation that demonstrates proof of your name change. States may impose additional requirements, so be sure to contact your state's driver's licensing agency for more information.

1) U.S. Department of Homeland Security, 2025

New Tariffs Drive Market Volatility

There is an adage that the market doesn't like surprises, and part of the market reaction was due to the unusual approach.

At 4:00 p.m. on April 2, 2025, President Trump announced sweeping tariffs on imported goods that were significantly larger and different in structure than expected. The announcement was carefully timed to coincide with the close of the New York Stock Exchange to avoid immediate market volatility. But over the next two days, the S&P 500 — generally considered representative of the U.S. stock market — plunged by 10.5%. The Dow Jones Industrial Average lost 9.3%, and the tech-heavy NASDAQ index dropped 11.4%.[1] The two-day rout erased $6.6 trillion in market value, the largest two-day shareholder loss in U.S. history.[2]

Market volatility continued on Monday, April 7, with prices swinging widely throughout the day, but the final results were more moderate. The S&P 500 dropped slightly by 0.23%, the NASDAQ was up slightly by 0.10%, and the Dow fell 0.91%.[3]

Obviously, a quick market drop is cause for concern, but it's important not to overreact and to maintain a steady eye on long-term goals. It may be helpful to consider the causes of the current market volatility along with a longer-term view of market trends.

A surprising approach

The tariffs announced on April 2 were promised as a program of "reciprocal tariffs," which are traditionally defined as matching the tariffs other countries levy on U.S. goods and theoretically leveling the playing field. Determining reciprocal tariffs typically requires exhaustive analysis of a complex web of global trade rules on tens of thousands of products. Investors hoped for a moderate, measured program, and it's notable that the S&P 500 actually rose steadily in the three trading days before the announcement.[4]

The tariffs the president announced took investors by surprise. They were not reciprocal tariffs by the traditional definition but rather based on the trade deficit in goods between the United States and a given country. Trade in services, in which the United States often has a surplus, was not considered.

Specifically, the tariff was calculated based on the ratio of the country's 2024 goods trade deficit with the United States to the total value of its goods exports to the United States, multiplied by one half. Thus, if Country A sold $200 billion in goods to the United States and bought $100 billion in U.S. goods, the deficit was $100 billion, and the tariff was calculated as $100B/$200B = 50% x ½ = 25% tariff. Nearly all countries were assessed a minimum 10% tariff, regardless of the balance of trade, but Canada and Mexico, which already have substantial tariffs due to previous actions, are exempt from the new round. Other exceptions include Russia and North Korea, which are under trade sanctions.[5]

The Trump administration maintains that this calculation will close trade deficits, but most economists believe that such deficits are not necessarily bad or the result of unfair trading practices — and the calculation resulted in unexpectedly high new tariffs.[6] The European Union, which provides almost one-fifth of U.S. imports, was assessed a 20% tariff, while China was assessed 34% on top of the recent 20% boost and other tariffs already in place. Other important sources of imports with high new tariffs include Vietnam (46%), Taiwan (32%), India (27%), South Korea (26%), and Japan (24%).[7] Tariffs on most countries are now higher than the tariffs they charge for U.S. goods, and even countries that buy more U.S. goods than they sell, such as Australia and Argentina, will still pay the 10% minimum tariff.[8–9]

Concerns and potential revenue

There is an adage that the market doesn't like surprises, and part of the market reaction was due to the unusual approach, with an untried calculation, higher-than-expected tariffs on many trading partners, and a minimum tariff on nearly every country of the world. But there is also a fundamental concern that these tariffs, on top of previously levied tariffs, will increase consumer prices to a level that seriously slows consumer spending, the driving force of the U.S. economic engine. Higher import prices can also hurt U.S. companies that depend on imported materials and parts, while retaliatory tariffs and other economic sanctions could hurt U.S. companies that export goods and/or do business abroad.

On the other hand, the Trump administration's stated goals are to stimulate U.S. manufacturing, address unfairness in international trade, and increase U.S. revenue, which could be used to decrease other taxes. Trump economic advisor Peter Navarro estimated that the tariffs could raise more than $6 trillion over ten years. This estimate is likely on the high end, because it assumes that tariffs, trade, and consumer behavior will not change. But revenue approaching that level could pay for extending the 2017 tax cuts, which are scheduled to expire at the end of 2025 and could decrease revenue by about $4.5 trillion over the next ten years if extended.[10]

Moreover, the tariffs as announced may be intended in part as a starting point for negotiations. President Trump and Vietnam's leader, To Lam, have already begun discussions, with Lam offering to reduce his country's tariffs on U.S. goods to 0% in return for reduction of the U.S. tariffs. It's likely that there will be negotiations with many key U.S. trading partners as the tariff program evolves.[11]

Investing for the long term

Although it is impossible to predict the market, you can probably expect volatility for some time. The NASDAQ Index officially entered a bear market — a loss of at least 20% from a previous high — at the end of trading on April 4, while the S&P 500 Index — down more than 17% from its recent high — is approaching bear territory.[12–13] While any substantial decline can be worrisome for investors, it's important to remember that markets are cyclical. Regardless of the reasons for a downturn, the market has always bounced back. Here are some other considerations that may help provide perspective:

- After a down year in 2022, the S&P 500 gained 24.23% in 2023 and 23.31% in 2024, the largest two-year increase since 1998.[14–15] Although 2025 has been rocky, the index set an all-time record on February 19, 2025, *after* the initial round of tariffs was announced.[16] So the current market turmoil is coming after a period of unusual strength. While it may be disturbing to watch the value of your investments decline, the current drop is from a high level, and the current value of your portfolio might be similar to what it was at a time when the value seemed satisfying.
- The losses you see in your investment account are only paper losses until you sell. Panic selling locks in those losses. Historically, some of the best days of stock market performance have followed some of the worst days. No one can predict market direction, and pulling out of the market due to an emotional reaction can lead to missing gains on the way back up.
- A down market can offer buying opportunities, but no one knows when the market has reached bottom, so — as with selling — purchasing decisions should be made rationally based on a long-term strategy.
- Since 1928, the S&P 500 Index (including an earlier version) has returned an annual average of about 10%, but annual returns have varied widely.[17] Over 97 years, there have been 65 positive years, 30 negative years, and two flat years.[18]
- During this same period, there have been 24 S&P 500 bull markets (not counting the current bull) and 23 bear markets. The average bull market lasted 1,102 days and had a positive return of 121.4%. The average bear market lasted 340 days and had a negative return of -36.8%.[19] Put simply, bulls have lasted longer than bears, and bull gains have substantially eclipsed bear losses.

Past performance is not a guarantee of future results, but the clear message in these statistics is that it pays to be patient and stick to your long-term strategy. This is true during any period of market volatility, but the current situation — primarily driven by the reciprocal tariff regimen — is still so new and subject to change, it may be unwise to place too much emphasis on the initial market reaction. Even if the president maintains the current trade policy, the U.S. economy and the U.S. stock market have proven time and time again to be resilient and adaptable to changing economic conditions.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. The S&P 500 Index is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Actual results will vary.

1, 3–4, 13, 16) Yahoo Finance, April 7, 2025

2) Morningstar, April 4, 2025

5, 7, 9) *The New York Times,* April 4, 2025

6, 8) *The Wall Street Journal,* April 7, 2025

10) CNBC, April 2, 2025

11) *The New York Times,* April 6, 2025

12) Reuters, April 4, 2025

14) S&P Global Indices, 2025

15) MarketWatch, December 31, 2024

17) Investopedia, December 26, 2024

18) www.macrotrends.net, 2025

19) Yardeni Research, January 21, 2024

The situation is fluid, and the full impact will depend on how the tariff program plays out — how much is intended as a negotiating tool and how much turns into long-term policy.

Tariffs: How They Work and Potential Economic Effects

On February 1, 2025, President Trump authorized an additional 25% tariff on all goods entering the United States from Canada and Mexico (except for a lower 10% tariff on energy resources from Canada) and an additional 10% tariff on all goods from China. Nine days later, Trump authorized a 25% tariff on steel and aluminum, effective March 12, which strengthened and elevated tariffs levied by the first Trump administration in 2018.[1] These were the opening salvos in what promises to be a period of aggressive moves that is likely to shake up the global trade environment.

A tariff is a tax on a particular class of imported goods or services that is typically designed to help protect domestic industries from foreign competition. However, the Trump administration is also using tariffs as leverage for other goals. The tariffs on Mexico and Canada — our two largest trading partners — were suspended for a month after both countries promised major initiatives to secure their U.S. borders against the flow of fentanyl and illegal immigrants.[2] Despite these efforts, the tariffs went into effect on March 4. Canada quickly retaliated with 25% tariffs on about $100 billion of U.S. goods, while Mexico promised to announce retaliation measures on March 9.[3]

On the other hand, China — which exports some of the chemicals used to manufacture fentanyl — immediately responded to the February 1 action by raising its tariffs on selected U.S. exports by 10% to 15%.[4] Trump added another 10% tariff on all Chinese goods, which also went into effect on March 4, and China shot back with new 10%–15% tariffs on U.S. agricultural goods as well as restrictions on certain U.S. companies.[5]

Background

Although the U.S. Constitution specifically grants Congress the power to levy tariffs (also called duties), Congress has delegated much of that authority to the President over the last 90 years. This has led to numerous trade agreements that have created a low-tariff, rules-based global trading structure, with tariffs applied on selected products. Over the past 70 years, tariffs have seldom accounted for more than 2% of federal revenue and were just 1.57% in FY 2024. Prior to the recent actions, about 70% of all foreign goods entered the United States duty-free.[6]

Who pays for tariffs?

Tariffs are collected by U.S. Customs and Border Protection at U.S. ports of entry. The tariff is paid by the U.S. company or individual who imports the goods. Put simply, if a U.S. company imports $1 million of foreign steel with a 25% tariff, that steel costs the company an additional $250,000 for a total of $1.25 million.

The U.S. company might then absorb all or part of the additional cost or pass it to consumers who buy products made from the steel. Alternately, the foreign steel exporter might lower its prices in order to maintain access to the U.S. market, in which case the U.S. company would still pay the 25% tariff, but the total price would not rise by the full 25% over the pre-tariff price.

The other factor in this equation, which is the traditional purpose of tariffs, is that the U.S. importer might buy steel from a U.S. manufacturer, thus avoiding the extra tax. The questions then are: 1) Will the U.S. manufacturer raise its price because it no longer has to compete with cheaper foreign imports? 2) Will there be enough U.S.-manufactured steel to meet demand?

Lessons from round one

There have been numerous studies of the 2018-19 tariffs, which were not as restrictive as the new program but offer some possible answers to these questions. Almost all of the steel and aluminum tariff costs were passed directly to U.S. companies in the form of prices that rose by about 22% and 8% respectively. However, many foreign producers received exemptions from the tariffs, and U.S. steel and aluminum production — which represented more than two-thirds of the U.S. market before the tariffs — grew moderately to meet demand, rising by an annual average of $2.8 billion over the period from 2018 to 2021. Even so, companies that had depended on cheaper imported metal struggled, and overall production of goods that use steel and aluminum decreased by an annual average of $3.4 billion.[7]

U.S. importers also bore near the full cost of the broader tariffs on Chinese goods but generally passed only part of the costs to consumers.[8] However, a separate tariff on washing machines added $86 to the retail price of a washing machine and $92 to the price of a dryer, ultimately costing consumers over $1.5 billion.[9] Broadly, a 2024 analysis found that the 2018–19 tariffs (many continued by the Biden administration), combined with retaliatory tariffs by other countries, reduced U.S. gross domestic product by a little more than 0.2% and cost about 169,000 full-time jobs.[10]

Reciprocal tariffs and de minimis suspension

Trump has also ordered a study of reciprocal tariffs, which would set tariffs based dollar-for-dollar on the tariffs each country charges on U.S. goods, as well as nontariff trade barriers. As with most issues related to tariffs, there are differing opinions on this. At best, reciprocal tariffs could lead to negotiating lower tariffs and removing barriers that prevent U.S. businesses from operating in a foreign country. At worst, they could lead to a global trade war, with ever-increasing tariffs and barriers.[11]

Along with the 10% tariff on Chinese goods, Trump excluded China from the de minimis provision of U.S. customs law that exempts goods valued at less than $800. This would make cheap goods from Chinese online retailers, which are often shipped directly to consumers, subject to existing tariffs plus the new 10% tariff. The exclusion was suspended on February 7 to give the U.S. Postal Service and Customs and Border Protection time to develop a plan to collect the tariffs.[12] It's unclear how this change will affect consumer prices, but processing could slow delivery times.[13]

Inflation

Most economists believe that tariffs cause inflation, and President Trump admitted there might be short-term price increases. The potential for tariff-driven inflation is of particular concern in the current economy; two recent surveys show a significant decline in consumer confidence due to inflation fears.[14–15] The full economic impact will depend on how the tariff program plays out — how much is intended as a negotiating tool and how much turns into long-term policy. For now, it would be wise to maintain a steady course and keep an eye on further developments.

1) The White House, February 1 and 11, 2025

2) CBS News, February 3, 2025

3, 5) CNN Business, March 5, 2025

4) AP News, February 4, 2025

6) Congressional Research Service, January 31, 2025

7) U.S. International Trade Commission, May 2023

8) National Bureau of Economic Research, October 2019

9) University of Chicago, April 2019

10) Tax Foundation, February 13, 2025

11, 14) *The Wall Street Journal,* February 13, 2025

12) CNBC, February 7, 2025

13) AP News, February 5, 2025

15) CNN Business, February 25, 2025

The SSA has published a series of questions and answers about this new rule. View them at ssa.gov/identity-proofing.

New Social Security Identity Verification Rule: Are You Affected?

The Social Security Administration (SSA) has announced that effective April 14, some individuals who want to claim Social Security benefits or change their direct deposit account information will need to visit a local Social Security field office to prove their identity in person.

According to the SSA, stronger identity verification procedures are needed to prevent fraud. The new rule is already causing confusion, in part because of its hasty rollout, so here are answers to some common questions and links to official SSA information.

Who will need to visit a Social Security office to verify their identity?

This new rule only affects people who don't have or can't use their personal *my* Social Security account. If you already have a *my* Social Security account, you can continue to file new benefit claims, set up direct deposit, or make direct deposit changes online — you will not need to visit an office.

You must visit an office to verify your identity if you do not have a *my* Social Security account and you are:

- Applying for retirement, survivor, spousal, or dependent child benefits
- Changing direct deposit information for any type of benefit
- Receiving benefit payments by paper check and need to change your mailing address

You don't need to visit an office to verify your identity if you are applying for Medicare, Social Security disability benefits, or Supplemental Security Income (SSI) benefits — these are exempt from the new rule, and you can complete the process by phone.

If you're already receiving benefits and don't need to change direct deposit information, you will not have to contact the SSA either online or in person to verify your identity. According to the SSA, "People will continue to receive their benefits and on schedule to the bank account information in Social Security's records without needing to prove identity."[1] There's also no need to visit an office to verify your identity if you are not yet receiving benefits.

The SSA also announced that requests for direct deposit changes (whether made online or in person) will be processed within one business day. Prior to this, online direct deposit changes were held for 30 days.

What if you don't have a *my* Social Security account?

You can create an account at any time on the SSA website, ssa.gov/myaccount. A *my* Social Security account is free and gives you online access to SSA tools and services. For example, you can request a replacement Social Security card, view your Social Security statement that includes your earnings record and future benefit estimates, apply for new benefits and set up direct deposit, or manage your current benefits and change your direct deposit instructions.

To start the sign-up process, you will be prompted to create an account with one of two credential service providers, Login.gov or ID.me. These services meet the U.S. government's identity proofing and authentication requirements and help the SSA securely verify your identity online, so you won't need to prove your identity at an SSA office. You can also use your existing Login.gov or ID.me credentials if you have already signed up with one of these providers elsewhere.

If you're unable or unwilling to create a *my* Social Security account, you can call the SSA and start a benefits claim; however, if you're filing an application for retirement, survivor, spousal, or dependent child benefits, your request can't be completed until your identity is verified in person. You may also start a direct deposit change by phone and then visit an office to complete the identity verification step. You can find your local SSA office by using the Social Security Office Locator at ssa.gov.

In order to complete your transaction in one step, the SSA recommends scheduling an in-person appointment by calling the SSA at (800) 772-1213. However, you may face delays. According to SSA data (through February), only 44% of benefit claim appointments are scheduled within 28 days, and the average time you'll wait on hold to speak to a representative (in English) is 1 hour and 28 minutes, though you can request a callback (74% of callers do).[2] These wait times will vary, but are likely to get worse as the influx of calls increases and the SSA experiences staffing cuts.

What if your Social Security account was created before September 18, 2021?

Last July, the SSA announced that anyone who created a *my* Social Security account with a username and password before September 18, 2021, would need to begin using either Login.gov or ID.me in order to continue to access a *my* Social Security account. If you haven't already completed the transition, you can find instructions at ssa.gov/myaccount.

How can you help protect yourself against scams?

Scammers may take advantage of confusion over this new rule by posing as SSA representatives and asking individuals to verify their identity to continue receiving benefits. Be extremely careful if you receive an unsolicited call, text, email, or social media message claiming to be from the SSA or the Office of the Inspector General.

Although SSA representatives may occasionally contact beneficiaries by phone for legitimate business purposes, they will never contact you by text message or social media. Representatives will never threaten you, pressure you to take immediate action (including sharing personal information), ask you to send money, or say they need to suspend your Social Security number. Familiarize yourself with signs of a Social Security-related scam by visiting ssa.gov/scam.

1–2) SSA.gov, 2025

Many 2017 Tax Act Changes Scheduled to Expire After 2025

The Tax Cuts and Jobs Act was signed into law in December 2017. The Act made extensive changes that affected both individuals and businesses. Most provisions were effective for 2018. Many individual tax provisions are scheduled to sunset and revert to pre-existing law after 2025 unless Congress acts. Some key provisions of the Act scheduled to sunset are discussed below. Comparisons below are generally for 2025 and 2026 as currently scheduled if Congress does not act.

Individual income tax rates

2025. There are seven regular income tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

2026. There would be seven regular income tax brackets: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.

Personal exemptions, standard deduction, and itemized deductions

2025. Personal (and dependency) exemptions are not available.

You can generally choose to take the standard deduction or to itemize deductions. Additional standard deduction amounts are available if you are blind or age 65 or older. Standard deduction amounts are fairly high.

Many itemized deductions are eliminated or restricted, but the overall limitation on itemized deductions based on the amount of your adjusted gross income does not apply.

- The deduction for state and local taxes is limited to $10,000 ($5,000 if married filing separately).
- The deduction for mortgage interest is available, but the maximum benefit is reduced for some individuals, and interest on home equity loans is deductible only if used for certain purposes.
- The deduction for personal casualty losses is eliminated unless the loss is incurred in a federally declared disaster.

2026. In general, personal (and dependency) exemptions would be available for you, your spouse, and your dependents. Personal exemptions would be phased out for those with higher adjusted gross incomes.

You would generally be able to choose to take the standard deduction or to itemize deductions. Additional standard deduction amounts would be available if you are blind or age 65 or older. Standard deduction amounts would be much lower.

Itemized deductions would include deductions for: medical expenses, state and local taxes, home mortgage interest, investment interest, charitable gifts, casualty and theft losses, job expenses and certain miscellaneous deductions, and other miscellaneous deductions.

Many itemized deductions that were eliminated or restricted would be restored, but the overall limitation on itemized deductions based on the amount of your adjusted gross income would return.

- The deduction for state and local taxes would no longer be limited to $10,000 ($5,000 if married filing separately).
- The deduction for mortgage interest would still be available, but the maximum benefit would be increased for some individuals, and home equity loans could once again be used for any purpose.
- The deduction for personal casualty losses would be available without regard to whether the loss is incurred in a federally declared disaster.

Personal exemptions, standard deduction, itemized deductions

Personal and Dependency Exemptions (you, your spouse, and dependents)		
	2025	**2026**
Exemption	No personal exemption	Yes, $5,200 each (plus inflation adjustment for 2026)

In 2026, personal exemptions would generally be available in addition to either the standard deduction or itemized deductions.

Standard Deduction		
	2025	**2026**
Married filing jointly	$30,000	Cut by about one-half
Head of household	$22,500	Cut by about one-half
Single/married filing separately	$15,000	Cut by about one-half
Additional aged/blind		
Single/head of household	$2,000	About the same
All other filing statuses	$1,600	About the same

Itemized Deductions		
	2025	**2026**
State and local taxes	Yes, limited to $10,000 ($5,000 for married filing separately)	Yes, income (or sales) tax, real property tax, personal property tax
Home mortgage interest	Yes, limited to $750,000 ($100,000 for home equity loan, but only if used to buy, build, or substantially improve the taxpayer's home that secures the loan), one-half those amounts for married filing separately; the $1,000,000/$500,000 limit still applies to debt incurred before December 16, 2017	Yes, limited to $1,000,000 ($100,000 for home equity loan and can be used for any purpose), one-half those amounts for married filing separately
Charitable gifts	Yes, 50% of adjusted gross income limit raised to 60% for certain cash gifts	Yes
Casualty and theft losses	Federally declared disasters only	Yes
Job expenses and certain miscellaneous deductions	No	Yes

Child tax credit

2025. The maximum child tax credit is $2,000. A nonrefundable credit of $500 is available for qualifying dependents other than qualifying children. The maximum refundable amount of the credit is $1,700. The amount at which the credit begins to phase out is fairly high, and the earned income threshold is $2,500.

2026. The maximum child tax credit would be $1,000. The child tax credit would be phased out if modified adjusted gross income exceeds certain much lower amounts. If the credit exceeds the tax liability, the child tax credit would be refundable up to 15% of the amount of earned income in excess of $3,000 (the earned income threshold).

Child Tax Credit		
	2025	**2026**
Maximum credit	$2,000	$1,000
Non-child dependents	$500	N/A
Maximum refundable	$1,700	$1,000
Refundable earned income threshold	$2,500	$3,000
Credit phaseout threshold		
Single/head of household	$200,000	$75,000
Married filing jointly	$400,000	$110,000
Married filing separately	$200,000	$55,000

Alternative minimum tax (AMT)

2025. The alternative minimum tax exemptions and exemption phaseout thresholds are fairly high.

2026. The alternative minimum tax exemptions and exemption phaseout thresholds would be much lower. Many more taxpayers would be subject to the AMT.

Special provisions for business income of individuals

2025. An individual taxpayer can deduct 20% of domestic qualified business income (excludes compensation) from a partnership, S corporation, or sole proprietorship. The benefit of the deduction is phased out for specified service businesses with taxable income exceeding $197,300 ($394,000 for married filing jointly). The deduction is limited to the greater of (1) 50% of the W-2 wages of the taxpayer, or (2) the sum of (a) 25% of the W-2 wages of the taxpayer, plus (b) 2.5% of the unadjusted basis immediately after acquisition of all qualified property (certain depreciable property). This limit does not apply if taxable income does not exceed $197,300 ($394,000 for married filing jointly), and the limit is phased in for taxable income above those thresholds.

2026. There would be no deduction for qualified business income.

Estate, gift, and generation-skipping transfer tax

2025. The gift and estate tax basic exclusion amount and the generation-skipping transfer tax exemption are $13,990,000.

2026. These amounts would be reduced by about one-half.

Implementing benefit changes may take some time. The Social Security Administration will post updates on its site, [ssa.gov.](https://ssa.gov)

The Social Security Fairness Act Increases Benefits for Millions

Under the Social Security Fairness Act signed by President Biden on January 5, 2025, almost 3 million Americans will receive a boost to their Social Security benefits.[1] This bill, which had bipartisan support, restores full Social Security benefits to some public-sector employees, including teachers, law enforcement officers, firefighters, and others who have been affected by two provisions of current federal law — the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP).

Although the increased benefit amount for individuals will vary, the Congressional Budget Office (CBO) has estimated that eliminating the GPO will increase monthly benefits for 380,000 impacted spouses by $700 on average and by $1,190 on average for 390,000 impacted surviving spouses. Eliminating the WEP will increase monthly benefits for approximately 2.1 million impacted individuals by $360 on average.[2]

Those affected will be entitled to higher benefits starting in January 2025. Individuals who received benefits in 2024 will also be entitled to back payments equal to the difference between what they received in 2024 and what they would have received without a GPO or WEP reduction.

Some background

Both the GPO and the WEP were originally intended to equalize benefits for those who receive Social Security benefits based on a job where they contributed to Social Security through payroll taxes (covered employment) and a pension from a job where Social Security payroll taxes were not withheld (noncovered employment). For decades, advocates for reform have been trying to change or repeal these provisions, arguing that they are unfair and cause financial hardship.

Enacted in 1977, the GPO has affected spouses and surviving spouses who receive pensions from a federal, state, or local government or non-U.S. employer based on noncovered employment and who also qualify for Social Security benefits based on their spouses' work histories in covered employment. The GPO reduces Social Security spousal or widow(er) benefits by two-thirds of the amount of the pension. The reduction was intended to help ensure that the spousal and widow(er) benefits of those with covered or noncovered lifetime earnings would be about equal.

Enacted in 1983, the WEP has affected individuals who receive Social Security retirement or disability benefits based on their own covered employment (if fewer than 30 years) and a pension from noncovered employment. The Social Security benefit formula is progressive, meaning it replaces a greater share of career-average earnings for lower-paid workers than for higher-paid workers. The WEP was passed so that workers receiving pensions from noncovered employment would not receive higher benefits because the Social Security benefit formula did not count their noncovered earnings, making it appear as if they were lower-paid workers. A modified formula was implemented to figure benefits for those affected by the WEP, resulting in lower monthly Social Security benefits; the reduction was limited to half of the amount of the pension.

While advocates of the bill are cheering, opponents of the bill are concerned that repealing the GPO and the WEP will worsen the outlook for the combined Social Security trust funds. According to a CBO cost estimate, the depletion date for the combined Old-Age, Survivors, and Disability Insurance (OASDI) trust funds could be pushed forward about six months, potentially leading to a substantial reduction in Social Security benefits for all beneficiaries even sooner than expected, unless Congress acts to address the impending trust fund shortfall.[3]

What happens next?

If you're among those affected, be aware that implementing benefit changes may take some time, according to a message from the Social Security Administration:

"At this time, the Social Security Administration is evaluating the law and how to implement it. We will provide more information on our website, ssa.gov as soon as it is available. If you are already entitled, you do not need to take any action at this time except to verify that we have your current mailing address and direct deposit information. If you are receiving a public pension and are now interested in filing for benefits, you may file online at ssa.gov or schedule an appointment."[4]

The SSA notes that you can verify your current mailing address and direct deposit information online without calling or visiting a Social Security office by signing in to a personal *my* Social Security account or creating one on the SSA website.

1–3) Congressional Budget Office, September 2024

4) Social Security Administration, December 2024

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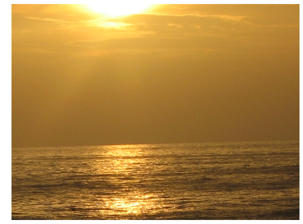

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