

2025 IRS TAX ADJUSTMENTS: WHAT YOU NEED TO KNOW

The IRS has released inflation adjustments for the 2025 tax year, bringing changes to tax brackets, deductions, and credits that may affect taxpayers across income levels. Here's a quick overview of the updates:

Income Tax Brackets

Tax brackets will shift higher to accommodate inflation, helping prevent "bracket creep." For example, the 37% top rate now applies to incomes over \$626,350 for individuals and \$751,600 for married couples filing jointly. Other rates are as follows:

- 10% for incomes up to \$11,925 (\$23,850 for married couples)
- 12% for incomes over \$11,925 (\$23,850 for married couples)
- 22% for incomes over \$48,475 (\$96,950 for married couples)
- 24% for incomes over \$103,350 (\$206,700 for married couples)
- 32% for incomes over \$197,300 (\$394,600 for married couples)
- 35% for incomes over \$250,525 (\$501,050 for married couples)

Standard Deduction Increases

For 2025, the standard deduction increases to \$15,000 for single filers and married individuals filing separately, \$30,000 for married couples filing jointly, and \$22,500 for heads of households. This adjustment provides taxpayers with additional income shielded from taxation.

Alternative Minimum Tax (AMT) Exemption Amounts

The AMT exemption for unmarried individuals rises to \$88,100, phasing out at \$626,350. For married couples filing jointly, the exemption is \$137,000, with the phaseout beginning at \$1,252,700.

Earned Income Tax Credits (EITC)

The maximum EITC for taxpayers with three or more qualifying children is \$8,046, up from \$7,830 in 2024. Adjustments for income thresholds and phaseouts are also in place for other

qualifying taxpayer categories.

Qualified Transportation and Health Benefits

Qualified Transportation Fringe Benefit: The monthly limit for qualified transportation and parking expenses increases to \$325.

Health Flexible Spending Arrangements (FSAs): The maximum contribution rises to \$3,300, with a maximum carryover of \$660.

Medical Savings Accounts (MSAs)

For individuals with self-only coverage, the minimum annual deductible increases to \$2,850, with a maximum of \$4,300. Out-of-pocket expenses for these plans rise to \$5,700. For family coverage, the deductible range is \$5,700 to \$8,550, and the out-of-pocket maximum is \$10,500.

Foreign Earned Income Exclusion

The foreign earned income exclusion will increase to \$130,000 for tax year 2025, up from \$126,500 in 2024.

Estate and Gift Tax Exemptions

Estate Tax: The estate tax exemption increases to \$13,990,000 for decedents passing in 2025, up from \$13,610,000 in 2024.

Gift Tax: The annual gift exclusion rises to \$19,000 in 2025.

Adoption Credit

The adoption credit for a child with special needs increases to \$17,280, reflecting higher allowable adoption expenses.

These adjustments aim to help taxpayers manage inflationary effects and offer greater tax savings for 2025. As always, consult our [O'Neil Cannon Tax Team](#) for advice on how these changes may impact your specific financial situation.