

# September 2025 Newsletter



**\* Reminder to all Clients that have Extensions- if you have not submitted your tax documents-we need to have those as soon as possible. Thank You**

## Important Reminders

West Chester:

Monday – Thursday 8:30- 5:00pm, Friday 8:30am- 4:00pm (The office is closed from Noon – 1pm for lunch daily)

Hamilton:

Monday- Thursday 8:00am- 5:00pm, Friday 8:00am- 4:00pm

Oxford: By Appointment Only

## **Upcoming dates:**

**September 1-** Labor Day - \*Note the offices will be closed in observance of the holiday

**September 15** - Filing deadline for 2024 calendar-year S corporation and partnership tax returns on extension

Due date for 3rd quarter installment of 2025 estimated income tax for individuals, calendar-year corporations, and calendar-year trusts & estates

Ohio Estimated School District Tax Payment

Ohio Fiduciary Estimated Income Tax Payment

Ohio Individual Estimated Income Tax Payment

Ohio Pass-Through Entity Composite Estimated Income Tax Payment

Ohio State-Administered Municipal Net Profit Tax Estimated Payment

**September 30-** Filing deadline for extended Trust Tax Returns

**October 15** - Filing deadline for extended 2024 individual and C corporation tax returns

As the dust settles on the July tax bill and the IRS starts to figure out how to implement tax-free tips and overtime, the rest of us need to move into the planning phase of the tax year. To help keep tax planning top of mind is an article about common tax myths. Each of them reinforces the need to periodically review your tax situation to be as efficient as possible.

As always, should you have any questions please call. And feel free to forward this information to someone who could use it!

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## Common Tax Questions

### *What everyone is wondering*

Here are several of the most common tax questions and their answers. But like most things, there can be exceptions, so if in doubt always ask for help.

- **What happens to a loan if it's forgiven?** The IRS generally considers the canceled amount as taxable income, unless an exception applies. This means you may have to report the forgiven debt on your tax return and pay income taxes on it. Lenders typically issue a Form 1099-C for canceled debts, which you must include on your tax return.
- **Does my child need to report cash earned from a lemonade stand?** Yes, the cash your child earned for helping a neighbor is taxable. The IRS doesn't care if it came from mowing lawns, babysitting, or lemonade stands, earned income is earned income. Your child may not end up owing any income taxes, though, thanks to the single taxpayer standard deduction of \$15,000 in 2025. But they'll still be on the hook for Social Security and Medicare taxes if their net profit is more than \$400.
- **Are my rewards earned on a credit card taxable?** Taxation of any extras you earn with a credit card – including miles, discounts, even cash back – are not taxable if you had to pay to get them. Other rewards that you receive, for example a reward for signing up for a card or for referring to a new cardholder, are considered taxable income per the IRS.
- **Does my employer contribution count towards the 401(k) limit?** Your employer's matching contributions do not count toward your maximum contribution limit, which for this year is \$23,500. If you're 50 or older, you can sock away an additional \$7,500 (for a total of \$31,000) this year.
- **What happens to loans from my retirement account if I change jobs?** When you switch jobs, you must pay back any loans borrowed from your employer-sponsored retirement account within a short amount of time. If the loan isn't paid back, the outstanding balance is considered a distribution that is subject to income taxes and an early withdrawal penalty.
- **Do I really need to report gifts given to people?** Yes, but only if you give more than \$19,000 (\$38,000 if married) in 2025 to anyone. It must be reported to the IRS on a gift tax return. That's because the IRS keeps track of gifts you're allowed to make over the course of your lifetime, which in 2025 is \$13,990,000 (\$27,980,000 if married). Only after reaching this lifetime dollar will you need to actually make a gift tax payment.
- **Do I have to report a loss?** You may think the IRS isn't interested in losses you incur, such as when you sell a stock at a loss or if your business loses money. The reality is that you should always report losses on your tax return because you can use them to offset income under certain conditions. In addition, most losses can be carried forward to future years to offset income.

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## Tip and Overtime Tax Breaks Require Your Attention

### *Best advice? Be prepared NOW!*

Two new major tax changes, No Tax on Tips & No Tax on Overtime, are introduced in the One Big Beautiful Bill Act (OBBBA) passed on July 4, 2025. Here's what you need to know about these two tax breaks, along with questions that still need answered before filing your 2025 tax return.

### How much you can deduct

- **No Tax on Tips.** You can deduct up to \$25,000 in qualified tips from your federal taxable income. The deduction phases out above \$150,000 (\$300,000 for joint filers).
- **No Tax on Overtime.** Up to \$12,500 in qualified overtime pay can be deducted from your taxable income (\$25,000 for those filing jointly). The deduction also phases out over \$150,000 (\$300,000 for joint filers).

### Who qualifies

Obvious jobs such as servers and bartenders will likely qualify to deduct their tips. But there are plenty of other occupations who frequently or occasionally receives tips. The IRS is mandated to provide a more detailed list of what tips will qualify. Until this is done, there will be some uncertainty.

Regarding overtime, the tax bill uses the Department of Labor's definition of working beyond 40 hours in a single workweek for non-exempt employees. The deduction only applies to the overtime portion of the pay (the one-half of time-and-a-half). But there's still some gray areas. For example, what happens if a worker is compensated via a bonus or comp time instead of an hourly wage?

### Reporting is key

Employers are required to separately report qualified tips and qualified overtime on an employee's Form W-2 or a contractor's Form 1099. The problem is that 1099s do not currently have a spot to report tips (the W-2 currently has a box for *allocated tips*), while both W-2s and 1099s don't have a spot to report overtime.

There's also withholding questions. While there's a tax break for tips and overtime up to a certain dollar amount, this only applies to federal income taxes. Tips and overtime are still subject to other taxes, including Social Security, Medicare, and state income taxes. Employers will have to distinguish between income that's fully taxable, and income that's only subject to Social Security, Medicare, and other taxes.

### 2025 is a transition year

The OBBBA addresses some of this uncertainty by allowing 2025 to be a transition year before the tax-free income must be reported on reformatted W-2s and 1099s. And it's a good thing because the 2025 format is already approved and been provided to printers and software companies.

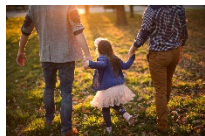
### More details to come

The IRS is mandated within the OBBBA to come up with what it will accept as proof of your 2025 earnings. Until that guidance is published you should:

- Immediately **compile your overtime and tip income** from the beginning of the year.
- **Retain any documentation** that can prove the amount you are going to claim.
- **Review your pay stubs** to see if tip and overtime income is tracked separately from your normal earnings. If so, you may have what you need. If not, contact your employer immediately and ask what they are planning to do to provide proper documentation.

The IRS says it will publish more guidance by mid- to late October. So stay tuned as these and other questions will hopefully be answered long before you must file your 2025 tax return.

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## What the New Tax Bill Means for Parents

### *Deductions, credits and more*

The One Big Beautiful Bill Act of 2025 (OBBBA) contains several tax breaks for parents. Here's a summary of what's in the bill for families, including planning tips to make the most of each tax break.

- **Parents get a permanent increase to the child tax credit.** The child tax credit increases to \$2,200 (up from \$2,000) and is now permanent. The refundable portion stays at \$1,700, with future adjustments tied to inflation.

**Planning Tip:** *If your adjusted gross income will approach \$200,000 (single) or \$400,000 (married), look for ways to reduce your income to avoid phasing out the credit. Strategies like contributing more to retirement accounts, health savings accounts, or flexible spending accounts can help keep you below the limit and maintain your eligibility for the full credit.*

- **Student loan cancellation is tax-free.** Forgiveness of student loans due to death or permanent disability is now permanently excluded from taxable income.

**Planning Tip:** *Review disability paperwork for accuracy and ensure it is completed and submitted through the appropriate loan service office or the Department of Education's Total and Permanent Disability discharge process. If you're a parent borrower (such as with a PLUS loan), consider including this tax benefit in your estate or disability planning discussions.*

- **Adoption tax credit.** \$5,000 of the \$17,280 adoption tax credit in 2025 is now refundable, even for families with little or no income tax liability.

**Planning Tip:** *To take full advantage of the non-refundable portion of the credit (up to \$12,280), you'll need to have a tax liability. Consider delaying certain deductions or, if possible, shifting taxable income into the year you claim the credit so you can take advantage of the non-refundable portion of the credit. But remember that the credit starts to phase out at \$259,190 of income.*

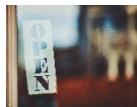
- **Trump accounts.** Each child born between January 1, 2025, and December 31, 2028, will receive a \$1,000 tax-advantaged investment account at birth. Parents, grandparents, and qualified organizations can contribute up to \$5,000 per year, until the year before the child turns 18. Funds can be withdrawn starting the year the child turns 18.

**Planning Tip:** *There are still many unanswered questions about this new account and its related tax break. There are also other, and potentially better, options to save for your child, including Roth IRAs. So while we wait for more clarification, consider using alternative tax-free or tax-advantaged accounts for your child.*

- **529 Education Plans.** The annual limit for K–12 tuition withdrawals double to \$20,000 per student beginning in 2026. These funds can now also cover books, tutoring, online materials, home school costs, and educational therapies for children with disabilities. 529s can also be used for post-secondary teaching certifications and trade programs.

**Planning Tip:** *While contributions to a 529 plan aren't deductible on your federal tax return, you can front-load up to five years' worth of the annual gift tax exclusion into a single year. The 2025 exclusion is \$19,000, so you can contribute up to \$95,000 (5 x \$19,000) to a 529 plan per beneficiary (up to \$190,000 if married).*

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## New Tax Law Lightens Compliance for Small Businesses

The One Big Beautiful Bill Act of 2025 (OBBBA) expands several business tax benefits while easing certain compliance obligations. Here's a summary of the key provisions affecting small businesses.

- **Form 1099.** The reporting threshold for Form 1099-NEC and 1099-MISC moves from \$600 to \$2,000 after December 31, 2025. This threshold is to be indexed for inflation starting in 2027.

***Tax Planning Tips:** Be prepared to update your accounting software to track vendor payments against the \$2,000 threshold. This avoids unnecessary 1099 preparation and aligns with the new requirement. And while the reporting threshold is now higher, it's still a good idea to collect W-9 forms from all vendors and contractors before issuing payments. This ensures you're prepared in case payments exceed the threshold.*

- **Form 1099-K.** The \$600 reporting threshold scheduled to go into effect in 2026 is rolled back to the old threshold of \$20,000, along with the dual requirement of 200 or more transactions.

***Tax Planning Tips:** Don't rely solely on receiving a 1099-K to report income. Many businesses won't meet the new reporting threshold but are still legally required to report every dollar earned. If your transaction count is high, however, be aware of how quickly you might approach the 200-transaction mark. Also consider labeling business and personal accounts separately on platforms like Venmo and PayPal. Mixing funds could cause reporting errors, especially as platforms enhance their 1099-K tracking capabilities.*

- **Qualified Business Income (QBI) deduction.** The QBI deduction of 20% is now permanent. There's also a minimum deduction of \$400 for taxpayers who have at least \$1,000 of qualified business income.

***Tax Planning Tip:** Most independent contractors and gig workers who receive Form 1099 are eligible for the QBI deduction. However, if your business is classified as an Specified Service Trade or Business (businesses in health, law, accounting, financial services and others) this tax break begins to phase out when your income exceeds \$197,300 (single) or \$394,600 (married) in 2025.*

- **Section 179 deduction and bonus depreciation.** Businesses can use the Section 179 deduction to write off up to \$2.5 million of qualifying property in 2025, up from \$1.25 million under the previous law. If you'd rather use bonus depreciation, the ability to write off 100% of qualified property is reinstated as of January 19, 2025 through the end of 2029.

***Tax Planning Tips:** Businesses can often use both Section 179 and bonus deductions in the same year. Section 179 is generally applied first, followed by bonus depreciation for any remaining balance. But remember, this deduction only relates to the timing of the deduction, not the total amount of the deduction.*

These are some of the new tax bill's provisions that will affect most businesses across the U.S. Please call to discuss these and other provisions from the new tax bill that may affect your business.

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## The Self-Employed Pricing Trap (And How To Escape It)

If you're self-employed, there's a good chance the rates you charge for your services are too low. Maybe you started out charging less to gain experience or attract clients, then never adjusted.

This is the self-employed pricing trap: a cycle of undervaluing your work, attracting price-sensitive clients, and feeling stuck when it's time to raise your rates. It's a common challenge, but one you can overcome.

### Why Self-Employed Workers Undercharge

Several factors make it easy to undercharge your services:

- **Lack of clear benchmarks.** Without a set salary range or standard pricing guide, self-employed professionals aren't sure what to charge and usually decide on a lower amount.
- **Fear of losing work.** Raising rates can feel risky. Many worry that higher prices will drive clients away, especially when winning consistent work feels uncertain.
- **The *Grateful to Be Here* mindset.** There's a tendency to equate opportunity with obligation, feeling like you should accept whatever rate is offered just to stay busy or build goodwill.

These patterns are understandable, but they can quietly undermine your business if left unaddressed.

### The Escape Plan: Raising Your Rates With Confidence

- **Do the math.** Calculate what you need to earn annually, factoring in expenses, taxes, and non-billable time. From there, work backwards to a sustainable hourly or project rate.
- **Conduct a competitive review.** Know who your competition is, and what they charge. Consider what you do that is unique to your product or service. If you discover you're already charging more, then you'll need to defend why your pricing is supported by your point of difference.
- **Communicate clearly.** If you raise your rates and present it with hesitant, uncertain language, customers will pick up on it. Instead, consider approaching your rate change as a natural step in your business growth. Because it is. You've gained experience, improved your skills, and that progression deserves to be reflected in your pricing.
- **Set boundaries for existing clients.** It's okay to keep legacy clients at old rates for a while but put an expiration date on it. For example, you can say, *As a thank-you for being an early supporter, I'm offering you your current rate until [specific date], after which I'll be adjusting to reflect my updated services.* Or offer a private sale at a specified time for long-standing customers. This allows them time to adjust while keeping your business moving forward.
- **Charge for the outcome, not the time.** If you are a service or contractor business, consider moving away from hourly rates and toward value-based pricing where possible. Customers care less about how long something takes you to do and more about what it does for them.
- **Practice saying it out loud.** Literally. While getting ready in the morning. In front of the mirror. The more comfortable you are stating your price, the more credible it will sound.

When you finally raise your rates, something interesting happens: You get better customers. Not always immediately, but over time the ones who respect your value stick around. The ones who were looking for cheap labor vanish. Even more importantly, your pricing begins to align with your experience and goals. You move from reactive decisions to more intentional, confident ones.



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## From Sole Proprietor to S-Corp: Consider a Switch

As a freelancer or contractor, at some point you may wish to incorporate and be taxed as an S corporation. Here's a closer look at the process of becoming an S corporation and when switching might make sense for you.

### The main benefits of S corporations

- **Self-employment tax savings.** As a sole proprietor, you're required to pay a 15.3% self-employment tax (which includes Social Security and Medicare) on your entire income. However, with an S corporation, you can split your income into two parts: a reasonable salary (which is subject to Social Security and Medicare taxes) and distributions (which are subject to income taxes but not Social Security and Medicare taxes).
- **Pass-through taxation.** Similar to sole proprietorships, S corporations are considered pass-through entities. This means that the business itself doesn't pay income taxes. Instead, profits and losses pass through the business to the owner's personal tax return. Profits of a C corporation, on the other hand, are taxed twice – once at the entity level, and again on the owner's tax return.
- **Legal protection.** If there is a risk of possible legal action, an S corporation can potentially help protect your personal assets from your business assets. For example, this can be especially helpful if you are in the contractor trade and the customer makes a claim against the fulfillment of your contract.

While transitioning from a sole proprietor to an S corporation can certainly result in significant tax savings, there are a few trade-offs to consider.

### Trade-offs to consider

Most of the trade-offs are centered around administrative requirements and potential costs. These include:

- **Running payroll.** Even if you're the only employee, you'll need to set up payroll and withhold taxes. Many business owners use a payroll service to handle this.
- **Separate tax filing.** Your business will now need to file a Form 1120-S tax return with a March 15th due date in addition to your personal tax return.
- **Accountants or bookkeepers are typically used.** Most S corporation owners work with professionals to handle bookkeeping and tax filings.
- **Reasonable salary requirement.** The IRS expects owners to pay themselves a fair market wage. Underpaying yourself to avoid taxes can lead to penalties.
- **State-level requirements.** Some states have minimum franchise taxes or annual fees for corporations and LLCs, regardless of income.

### When it makes sense to switch

Switching to an S Corp generally becomes worth considering when your net income (after expenses) is in the range of \$75,000 to \$100,000 or more per year.

Here's an example:

*Assume you earn \$120,000 in net income as a consultant.*

- *As a sole proprietor, you'd pay self-employment tax on the full amount, about \$18,000.*
- *As an S Corp, if you pay yourself a reasonable salary of \$60,000, you'd only pay payroll taxes on that amount, roughly \$9,200. The remaining \$60,000 in profit would be subject to income taxes but not payroll taxes.*

*That's a potential tax savings of nearly \$9,000 per year.*

Switching from a sole proprietor to S corp can offer real tax advantages, but it's not a one-size-fits-all solution. It's usually best practice to review your situation once per year to ensure your business is organized properly.

*This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us at 513.868.8600.*

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## The Truth Behind Common Tax Myths

Tax myths can spread quickly, leading to costly mistakes or missed opportunities. Here are several common tax myths along with best practices to help you stay grounded.

### **Myth: Moving into a higher tax bracket means you'll take home less money**

**Reality:** The U.S. tax system is progressive, meaning your income is taxed in layers. There are currently 7 different layers, with tax rates ranging from 10% to 37%. When you enter a higher tax bracket, only the portion of income above the bracket threshold gets taxed at the higher rate, not your entire income.

**Best Practice:** *Know your marginal tax rate! This is the tax rate of the next dollar you earn. By understanding this you can do your own calculations on the impact of any additional income you earn.*

### **Myth: Getting a tax refund means you did something right.**

**Reality:** A tax refund means you overpaid your taxes. It's your money, coming back to you – without interest. Getting a big refund might feel great, but from a cash flow perspective, you're better off adjusting your withholding so you keep more of your paycheck each month.

**Best Practice:** *Review last year's tax return, then update the numbers to reflect your situation for the current year. Factor in the latest changes such as tax-free tips, tax-free overtime, and increased standard deductions, including the new \$6,000 deduction for seniors. Once you've made these adjustments, revisit your paycheck withholdings to make sure they're on track.*

### **Myth: You can deduct all your expenses if you're self-employed.**

**Reality:** Not quite. While being self-employed certainly opens up more deduction opportunities, not every expense qualifies. Only ordinary and necessary business expenses can be deducted. That family trip overseas doesn't qualify unless it was genuinely work-related (and even then, only parts of it might qualify).

**Best Practice:** *Set up a dedicated business bank account to handle all income and expenses related to your work. Then establish a regular schedule to transfer funds into your personal account for all Non-Business spending. And don't commingle funds with your personal expenses. The IRS may be quick to throw out ALL expenses if they see this occurring.*

### **Myth: You don't have to report income if you didn't receive a Form 1099.**

**Reality:** If you earn money, the IRS expects to hear about it, regardless of whether you received a Form 1099. Many people assume that if a client or gig platform doesn't send you a 1099, then that income doesn't need to be reported on your tax return. But that's not how it works. The tax code requires you to report all income, no matter how it's documented – or if it's not documented at all.

**Best Practice:** *Keep a list of past 1099s to help you remember which clients or platforms have paid you before, and to double-check if you earned income from them again this year*

Please call if you have any questions about your tax situation.



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## Beyond Your Credit Score: What Really Reflects Your Financial Health

A credit score is often treated like a financial grade. It's the number people look at when you are applying for a loan, renting an apartment, or even getting a job. But while it's important in certain situations, it doesn't tell the full story of your financial health. In fact, it misses some of the most important pieces.

### What a credit score really measures

Your credit score is primarily designed to help lenders assess how likely you are to repay borrowed money. It looks at factors like your payment history, credit utilization, length of credit history, types of credit, and recent credit inquiries. In other words, it's a tool for measuring how you manage debt, not how you manage money overall.

You can have an excellent credit score and still struggle financially. You can also have a lower credit score and be in a strong financial position because you avoid using credit altogether.

### What really matters for financial health

If your goal is long-term financial stability and peace of mind, there are more meaningful metrics than your credit score. Here's what you should pay attention to:

- **Cash flow mastery.** This is the foundation of your finances. Are you consistently spending less than you earn? Positive cash flow gives you the flexibility to save, invest, and plan for the future. Even if your income isn't high, managing it wisely can make a big difference.
- **Emergency readiness.** An emergency fund helps protect you from unexpected events such as a job loss, medical expenses, and home repairs. Having three to six months of living expenses saved can prevent you from going into debt during a crisis.
- **Debt load and structure.** How much you owe, and what kind of debt it is, plays a major role in your financial health. High-interest consumer debt, such as credit card balances, can be a major drain. On the other hand, low-interest, long-term debt (like a mortgage or student loan) may be more manageable.
- **Savings and investments.** Building wealth takes time and consistency. Regular saving, even in small amounts, can have a big impact. A credit score doesn't measure this, but your future self will.
- **Financial knowledge.** Understanding how your money works is essential, such as knowing how interest compounds, how taxes affect your income, and knowing how to set financial goals. You don't need to be an expert, but increasing your financial literacy over time helps you make smarter decisions and avoid costly mistakes.
- **Confidence around money.** Financial health isn't just about numbers. It's also about how you feel. You might have a great credit score but still feel anxious every time you check your bank account. Feeling stable and secure is a sign that your financial system is working for you.

Your credit score is just one small piece of the puzzle. It matters when you're borrowing money, but it's not a full measure of how well you're doing financially. Treat it like a tool – useful in the right context, but not the final word.

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