

Please read this entire letter as it also contains important tax filings dates and other information you need to know even if you do not plan to use the online Intuit Link portal.

This letter includes important tax changes and updates you need to be aware of and my written privacy policy. Of course, you can skip over the sections which refer to the process of accessing and using the Intuit link portal, if you do not plan to use it.

The portal does however give you the ability to answer the questionnaire and accept my letter of arrangement electronically without having to also upload your tax documents

As always, you have the option to bring your tax documents to our appointment or mail your tax documents to my office or drop off your tax documents at my office. The office is open for drop-off and pick-up, Monday through Friday 8:30 AM to 5:00 PM

### **Appointments:**

Although I no longer have a dedicated specific office room, my office address and suite location have not changed. I will meet with you in person upon your request at my same office location in San Ramon, however, I have limited availability for in-person appointments, I am not able to offer in-person evening and weekend appointments at my San Ramon office. If you need an evening or weekend appointment, see below for virtual options. Please do not bring children or friends to your in-person tax appointment, I do not have space for them in my office. If you feel sick or have a cough do not come to your appointment. I can easily reschedule for any illness that may arise.

### **VIRTUAL APOINTEMENTS**

In addition, I offer telephone and Video appointments, such as Zoom/Teams/facetime daily including evenings and weekends. If you would like to meet with me in-person or virtually once you have all or substantially all your information, email or telephone me to arrange an appointment. (925) 277-3424 or [cynthia@cpacyndi.com](mailto:cynthia@cpacyndi.com)

Please do not request an appointment with me through text message or send tax documents or questions through text message. I usually do not see text messages while I am working, driving or at another appointment and most likely will not respond to a text. Emailing me is the quickest way to connect with me.

In my continuing effort to maintain a paperless office, I do not mail paper organizer packets as I did many years ago. Upon your request, I will email you a pdf copy of my questionnaire and annual letter of arrangement for no additional charge or you can download my annual questionnaire, letter of arrangement and a blank organizer packet directly from my website: [cpacyndi.com](http://cpacyndi.com).

If you request me to prepare and mail you a "paper" organizer packet, I can do so via U.S. mail, however there will be a \$25 handling fee to do this, send me an email or telephone me to request this option.

**As always, you can provide any worksheets you generally like to prepare on your own or email the worksheet or bring the worksheet to my office.**

Since many states (including California) do not automatically conform to most federal tax laws, I need to apply two different sets of tax rules to prepare your federal and state tax returns. It may be more tax advantageous for you to take the standard deduction for federal filing and itemize deductions for state filings. I will use the deduction that generates the greatest tax savings for you.

**IMPORTANT DATES FOR 2025 TAX RETURNS.**

The IRS start date for 2025 simple individual tax return e-filings is January 26, 2026.

The last day I am available for an in-person office (San Ramon) appointment to make the April 15 filing date is Friday March 20, 2026, and for virtual appointments is Tuesday March 24 (For nonextended tax filings) see dates below for extended tax returns. March 30 is the last day I will finalize 2025 nonextended (due 4/15) individual and C corporation income tax returns and submit them to you for review and signing. April 13 is the last day I will transmit nonextended tax return e-files. Therefore, this is the last date for me to receive your signed e-file authorization and payment of my fee to meet the April 15 filing date.

March 10 is the last day I will finalize 2025 nonextended pass-through entity (Partnerships (LLC) and S corporations) tax returns to meet the March 16, 2026, filing deadlines. The extended due date for these types of tax returns is September 15, 2026. The last day to provide all of your entity tax information to me to meet the extended due date is August 15, 2026, after that date, I cannot guarantee I will meet the filing deadline for you.

**2025 Extensions:**

If you have not received your completed tax returns from me for electronic signing by March 30, and your tax returns are in process by me, I will automatically extend your tax returns regardless of the date you submitted your information to me. However, I do not automatically file extensions for tax returns NOT in process. Therefore, if you have not submitted any of your information to me and would like me to file an extension on your behalf, you must notify me directly by April 10th, via email or phone call to discuss.

Beginning on April 1 and through April 15, 2026, I will only be preparing and electronically filing 2025 federal and state extensions and preparing 2026 estimated tax calculations for extended tax returns based on information you have provided to me.

Since the extension request to October 15 is for filing and not paying, I will be working up your tax liability figures to be sure you have sufficient income tax withholding and/or estimated taxes paid in to cover your 2025 tax liabilities. If you do not have enough taxes paid to cover your 2025 tax liabilities, I will email you a voucher to use to pay your balance due, unless you have previously requested to pay your balances by direct debit (auto withdrawal from your bank), then no voucher is needed. If you have not previously requested and now realize you prefer to pay your extension balances due as a direct debit from your bank, you must notify me before I have submitted the electronic extension. You cannot use this option once I have submitted your electronic extension file.

**2025 Extended tax returns with 2026 estimated tax due.**

If you generally pay quarterly estimated taxes, I will email you the estimated tax vouchers showing the amounts due for 2026 at the same time as I email you 2025 extension vouchers showing amounts due (if applicable). If you have requested to pay your 2026 estimated tax amounts using direct debit

directly from your bank account, I won't be able to submit this request to the IRS until the extended tax returns are completed. The IRS does not allow direct debit of 2026 estimated tax payments when filing an extension. This option to pay estimated tax via direct debit is only available with the filing of the completed final version of your 2025 tax return.

However, if you don't want to hassle with remembering to go online or mail in a check on each due date of the estimates before your 2025 tax returns are finalized, a work around for this issue is for you to increase the balance due amount for your extension (being paid via direct debit from your bank), by the additional amounts needed to cover your first, second, and third 2026 estimated tax due, with the intention of applying those extra payments made with your extension payment to your 2026 estimated tax upon filing of the completed 2025 tax returns. Let me know if you would like me to use this option.

**I file all extension forms electronically and I mail if needed, and there is no signing or other action required of you for me filing this form.** The extension is valid until October 15, and I will begin working on extended tax returns once I return from my break in mid-May 2026.

Extending your tax returns allows me more time to thoroughly review your documents and better prepare complete and accurate tax returns on your behalf. There is no penalty for filing an extension. There is no additional risk of an audit. This simply allows us more time to meet the next filing deadline.

The last day to provide ALL of your 2025 information to me to meet the extended deadline of October 15 is Monday September 15, after that date, I cannot guarantee I will meet the filing deadline, and you may be subject to late filing penalties and interest. If you are unsure of what to provide, refer to my questionnaire or send me an email.

**Note:** I will be out of town during the following dates in 2026 and thus unavailable: Thursday April 16 through Sunday May 17, Friday June 12 through Monday June 15, Friday July 24 through Monday July 27, and Thursday September 10 through Monday September 14. Please plan accordingly.

### **IMPORTANT INCOME TAX TOPICS:**

#### **Tax rule changes effective in years 2025 or in 2026: Reminders of current rules.**

Reminder: **The IRS will never email or telephone** you regarding your tax returns. If the IRS has questions or makes changes to your tax filings, the IRS will send you a letter in the mail notifying you of their questions or changes. Unfortunately, most of the IRS notices (letters) are automatically generated from their computer system and can be incorrect or challenging to decipher.

I encourage you to create an online IRS and CA FTB account. An online account will allow you to easily look up your tax information, estimated tax payment information, account transcripts and other types of tax information. In addition, if you are concerned about tax filing identity theft, you may apply to receive an annual personal identification number (PIN) from the IRS to use for filing your tax return. However, be aware once you request a PIN, going forward, the IRS will annually send you a new PIN, you (I) will not be able to file your tax returns each year without the annual PIN.

**Reminder Estimated tax payments.**

To avoid an underpayment of estimated tax penalty, you must meet the “safe harbor” of either paying (through withholdings and/or estimated tax payments) the lower of (1.) at least 90% of the liability for the current year or (2.) 100% of the tax shown on the return for the preceding taxable year; and the 100% prior-year tax safe harbor is increased to 110% of prior year liability, if the taxpayer’s prior-year adjusted gross income (AGI) exceeds \$150,000(MFJ) or \$75,000 for married filing separate.

However, California state tax rules do not allow the prior-year safe harbor to be used by individuals with an AGI of \$1 million (\$500,000 for married filing separately) or more, which means these individuals must pay 90% of their current-year tax to avoid an estimated tax underpayment penalty. The IRS and CA FTB are sending out penalty notices to anyone who does not meet these safe harbors.

**There is a first-time penalty abatement request procedure**, therefore ask me about this if you receive an underpayment penalty notice.

**Individual Income tax topics.**

**Itemized deduction phaseout for taxpayers in the 37% tax bracket: Starting in 2026**, itemized deductions for taxpayers in the top 37% tax bracket will have to reduce specific itemized deduction by a phase-out calculation based on AGI and total itemized deductions. It is very important for us to evaluate strategies to bring your AGI below this threshold for those of you in the 37% bracket. California is still using the pre-2017 law of reducing itemized deductions by 6% of the excess federal AGI over a threshold amount or 80% of the itemized deductions otherwise allowable.

**Reminder: charitable contribution substantiation requirements and new rules for 2026:**

One of the conditions for deducting a charitable donation is that you, the donor, must meet the substantiation requirements. These requirements vary depending on the size of the contribution, but for all contributions of \$250 or more, the requirement is that the donor receive a “Contemporaneous Written Acknowledgement” from the recipient organization. This written acknowledgement must include: (1.) the amount of cash and a description of any property other than cash donated. Cash includes checks and credit card transactions. (2). Whether the recipient organization provided any goods or services for the contribution (The written receipt must include a statement that no goods or services were received in connection with the donation). (3.) A description and good faith estimate of the value of any goods or services provided, or if such goods or services consist solely of tangible religious benefits. In addition, you **MUST** receive this written acknowledgement before the earlier of (1) the date the tax return claiming the charitable deduction is filed or (2) the due date of filing that tax return.

The substantiation rules also apply to direct transfers from retirement account to charity. The standard mileage rate when you drive for charity work is 14 cents per mile.

Beginning in 2026, charitable contribution deduction of cash (check, credit card; not property) will be allowed as a tax deduction for non-itemizers vs standard deduction (Standard deductions: \$15,750 SGL+\$2,000 for 65+ years, \$31,500 MFJ + \$1,600 for each 65+ years) for donations of up to \$1,000 (\$2,000 for married filing jointly). In addition, for those who do itemize (not taking standard deduction),

an otherwise deductible charitable donation must be reduced by 0.5% of adjusted gross income (AGI) for the current tax year. Disallowed donations are carried forward 5 years to use in a subsequent year.

The total allowable donation deduction cannot exceed 60% of your adjusted gross income.

**Reminder: Temporary Federal Home Mortgage Interest limitation rules were made permanent; California Home Mortgage Interest tax rules stay at pre-2017 debt level.**

The deduction allowed for home mortgage interest is only allowed for interest paid on debt incurred of up to \$750,000 of combined **acquisition/improvement** debt on a primary residence and for a second residence (this does not apply to rental investment property which has no acquisition debt limit). However, if you incurred your mortgage debt balance before 12/15/1997, your deduction for interest is allowed for balances of up to \$1million of acquisition/improvement debt, refinancing of that does not disqualify you for the \$1million debt balance. Note: for either debt limit of \$750,000 or \$1million, all of the debt needs to be for the purchase or improvement of the home, there is no federal deduction for interest incurred on home equity debt. Any interest incurred on debt above these limits is not tax deductible, unless the debt balance can be “traced” to being used in a business or investment and if so, it is no longer considered home mortgage interest, and may be deductible as business or investment interest, subject to those limitations.

California tax rules follow the pre-2017 home mortgage interest limitation rules, meaning that mortgage, on indebtedness of up to \$1 million (not \$750,000) plus \$100,000 of equity debt, regardless of when the loan was incurred is tax deductible.

**State and Local Tax (SALT) deduction increased for certain taxpayers:** The current \$10,000 limit on the SALT deduction is temporarily raised to \$40,000 starting in 2025(adjusted for inflation) and ending after 2029(unless Congress makes it permanent). The \$40,000 deduction is reduced gradually for those earning above a certain threshold and completely reduced back to \$10,000 for those with AGI exceeding \$500,000(adjusted annually for inflation).

California still allows the full deduction for real estate and personal property taxes paid.

**Limit deductible gambling(wagering) losses:** Starting in 2026 you will no longer be able to deduct 100% of gambling losses up to your gambling winnings. You will only be able to deduct 90% of your losses up to your winning, essentially requiring you to pay tax on 10% of your gambling winnings even if you lost 100% of the wins.

**California taxpayers are subject to the “individual responsibility” penalty.** Unlike federal law which removed the penalty for not having health insurance, California still imposes a monthly individual shared responsibility penalty against California taxpayers who fail to maintain continue health care coverage throughout the year (unless the individual qualified for one of the exemptions).

**Deduction for Seniors:** Although previous tax act(TCJA) eliminated the personal exemption deduction back in 2018, for most of us, the OBBB act added a temporary deduction beginning in 2026 and through 2028 that allows an additional exemption for certain seniors, age 65 and older of \$6,000

each and whose modified adjusted gross income is less than \$75,000 for single and \$150,000 for married. No deduction is allowed for married seniors who file separately.

**Annual gift tax exclusion** for 2025 and 2026 is \$19,000. The unified estate(deceased) and gift tax exemption for 2025 is \$13.99million and \$15million for 2026.

**Employer Dependent care exclusion** amount from taxable wages increased from \$5,000 to \$7,500 effective 1-1-2026,

**Trump savings accounts for minor children:**

Trump savings accounts are a new type of individual retirement account that can be established for the exclusive benefit of an eligible child. There is no tax deduction for funding a Trump account, however these accounts grow tax deferred. Parents or legal guardians can open these accounts on behalf of a child, although contributions to Trump Accounts cannot be made before July 4, 2026, filing the form 4547 with your 2025 tax filings will make sure the child's account will be ready by the July funding date. In addition, the federal government, under a pilot program, will make a one-time \$1,000 contribution for a child meeting the requirements. The person claiming the child as a dependent is the only person that can make the election to receive the \$1,000 from the government's pilot program. Requirements for child: Birth date window born between January 1, 2025, and December 31,2028, be a U.S. citizen and have a valid social security number. NOTE: Children born before 1-1-25, who are under age 18 at the end of the year, are fully eligible for Trump accounts with all the features except the \$1,000 government contribution. Beginning in 2026, employers can contribute up to \$2,500 to a Trump account on behalf of their employee or employee's dependent and exclude from employee's income if made pursuant to a separate written Trump account contribution plan. Additional contributions can be made to the Trump accounts annually up to \$5,000(indexed annually). The initial Trump account will be held in one or more financial institutions chosen by the Treasury Department. Although once a Trump account is established, the responsible party may make a qualified rollover contribution (partial rollovers are not allowed) into another Trump account maintained by a bank or other qualified nonbank authorized to maintain IRA accounts, only one Trump account can be funded for an individual at any given time.

A new form, number 4547 is where you make the election to establish an initial Trump account for the child. You also use this same form to make the election for the child to receive the \$1,000 one-time contribution from the U.S. Treasury. This form can be filed concurrently with the authorized individual's 2025 income tax return which is the fastest and easiest way to establish the account, although the form can be filed at any time. Although a Trump account is a type of traditional IRA, during the growth period, a Trump account is subject to special rules that don't apply to other IRAs. The growth period for a Trump account starts on the date the Trump account is established and ends on December 31st of the year before the calendar year in which the child turns age 18. During the growth period, special rules apply, including: (1.) A Trump account can only be invested in eligible investments; (2.) A Trump account has a separate contribution limit from other IRAs; (3.) No deduction is allowed by an individual for any contribution to a Trump account; (4.) A Trump account generally restricts distributions from the account; and after the growth period, most of the special rules no longer apply and the rules governing traditional IRAs generally apply. Trump accounts have no restrictions on use after age 18, however distributions are taxable.

Given these contributions are not deductible and the earnings on the accounts as well as the \$1,000 original gov't contribution are fully taxable when withdrawn, 529 education savings accounts may still be more advantageous because the earnings are tax free provided the distributions are used for qualified education expenses.

**Education savings accounts:**

529 Education savings account plans that have unused balances and held for at least 15 years, can be rolled over to Roth-IRA accounts with limitations, although the state of California does not follow this rule and thus any earnings included in the rollover are taxable on your California tax return.

529 saving account plans can be used for K-12 education limited to \$10,000 annually and beginning in 2026, this is increased to \$20,000 annually. In addition, 529 funds can be used to repay student loan balances up to \$10,000 per lifetime per student. Qualified education expenses have been expanded to cover credential program expenses. OBBB Act expanded the definition of qualified expenses that can be paid for elementary and secondary school expenses. California does not follow this rule.

**New K-12 Education Tax Incentives:**

Beginning in 2027, there is a new tax credit of up to \$1,700 for cash contributions to qualifying scholarship granting organizations that provide scholarships for children to attend public, private, or religious schools in the granting organization's state. If you make one of these contributions and thus receive the tax credit, you may not also take a deduction for a charitable donation. Although a tax **credit** is usually **more tax advantageous** than a **tax deduction**.

In addition, the recipient of the scholarship received the funds cash free assuming they are spending the funds on qualified K-12 educational expenses.

**Reminder: Roth-IRA conversions.**

A common question I get asked is, can I benefit from the "backdoor" Roth conversion strategy. This strategy allows individuals who would otherwise not be able to make a Roth-IRA contribution, due to income restrictions (AGI joint filers with \$246K+ and single filers with \$165K+ cannot contribute to a Roth-IRA) to fund a Roth-IRA by doing a conversion "backdoor" contribution. These individuals will make a non-deductible contribution to a traditional non-deductible IRA and then convert the traditional non-deductible IRA to a Roth IRA. If this was the only traditional IRA the individual has, the conversion would be tax free. However, because of the traditional IRA aggregation rules, the value of ALL existing IRA accounts (including SEPs, SIMPLE-IRAs and 401K rollovers to IRAs) are added to the value of any nondeductible IRA accounts, in computing the taxable amount of the traditional IRA conversion to a Roth-IRA, the "backdoor" conversion doesn't work most of the time. . If you have significant values in IRA rollovers from previous employers and/or inherited IRAs, and SEP IRAs, most of the rollovers will be taxable.

This strategy of the "backdoor" conversion works best for individuals with no or limited current IRA accounts. If you would like to discuss the tax implications of doing an IRA to ROTH-IRA conversion, please reach out to me. If you have a low earnings year, it might be a good time to do a Roth conversion even though the "backdoor" strategy won't work for you, however if you are on Medicare,

your premiums can increase by adding the conversion income to your adjusted gross income which is used to determine your Income-related monthly adjustment amount (IRMAA) payment.

**AMT may rear its ugly head again starting in 2026;**

We haven't seen federal alternative minimum tax (AMT) come up in the last few years as often as it did before the passage of the Tax Cuts and Jobs Act (TCJA) in 2017. Given all the limitations on previously allowed tax items for regular tax that are not deductible for AMT, such as the limitation for previously unlimited amount allowed in deducting state and local taxes(an AMT adjustment item), the removal of the ability to deduct unreimbursed employee business expenses such as travel and mileage(another AMT adjustment item) and the current limitation on deducting interest for home equity loans(also an AMT adjustment item), coupled with more companies using RSU's not subject to AMT, rather than ISO's(an AMT adjustment) as compensation benefits to their employees, all these AMT adjustments, factored in a lot less taxpayers getting hit with this add on tax. However, the OBBB Act increased the phase out percentage for the AMT exemption based on taxpayers AGI (AGI \$500K SGL and \$1million MFJ) AGI above these amounts phase out rate goes from 25% to 50%. If you exercise ISO's although they are not subject to regular income tax, they are subject to AMT, and you may need some tax planning before you exercise your ISOs.

Since the tax deduction for unreimbursed employee business mileage has been permanently eliminated, employers can reimburse employees for business mileage under an **accountable plan**. The reimbursement is tax deductible for the business owner and because the reimbursement is given under an accountable plan, the reimbursement is not taxable to the employee. The reimbursement policy can merely state it will use the IRS standard mileage rate in effect when the mileage is incurred.

The 2025 standard mileage rate for business mileage was 70 cents per mile, and the 2026 standard mileage rate for business mileage is 72.5 cents per mile.

**2025 and 2026 Retirement contributions for employees, employer and self-employed.**

2025 Maximum 401(k) limits are \$70,000 for participants aged 50 and older and include both the employer contribution portion and the employee deferral portion of \$23,500 plus \$7,500 age 50+ for a total deferral of \$31,000.

Increases to \$72,000 in 2026 which includes the employee deferral of \$24,500 plus \$8,000 for participants age 50+ for a total deferral of \$32,500.

Additional catch-up contributions for ages 60-63 with employer retirement plans. Beginning in 2025, employees who are ages 60 through 63 during the taxable year and who are participants in employer sponsored plans (solo 401K included) have an increased catch-up contribution of \$3,750.

This includes the regular deferral amount of \$23,500 + \$11,250 (\$7,500+\$3,750) = \$34,750

If you are age 50 through 59 or age 64+, your deferral amount would only be \$31,000 (\$23,500+\$7,500) therefore ages 60-63 get an extra deferral contribution of \$3,750 for 2025 and \$3,250 for 2026. Your maximum deferral contribution for 2026 if you are 60 through 63 is \$35,750 (\$24,500+\$8,000+\$3,250).

**IRA maximum contribution** for 2025 is \$7,000 + \$1,000 for age 50+ and for 2026 increases to \$7,500 + \$1,100 for age 50+ for a total of \$8,600. These IRA contribution amounts apply to both traditional IRA and Roth-IRAs.

**Deduction for tip income:** Starting in 2025 and through 2029, there is a deduction for up to \$25,000 for qualified tip income received in traditionally tipped occupations and that are reported to the IRS on a W2 or 1099. The deduction only applies for AGI of under \$150k for single and \$300K for MFJ. If you are self-employed, your deduction for tips is only allowed if your revenue exceeds your expenses.

**Deduction for overtime pay:** Starting in 2025 through 2029, employees can take a tax deduction on their tax returns for a portion of their overtime pay of up to \$12,500. This deduction only applies for AGI over \$150K single and \$300K MFJ.

**Deduction for car loan interest:** There is a temporary deduction of up to \$10,000 for interest paid on loans to purchase new personal vehicles for U.S. assembled vehicles and secured by the loan. The deduction phases out with modified gross income above \$100K single and \$200K MFJ. The deduction for car loan interest requires you to report your vehicles VIN on your tax return. Lender who received interest on specified passenger vehicle loan payments of \$600 or more during the year, must provide you with a form 1098-VLI

**Foreign accounts and foreign income must be reported.** All taxpayers must report overseas assets owned by an individual as well as by a business. The penalties for failure to report continue to be harsh. Not all foreign holdings are reportable. If, for example, you hold a stock in a foreign company through a U.S. brokerage account, those holdings do not need to be reported separately. However, if you hold any other types of foreign assets, including bank accounts, securities accounts and retirement accounts, please let me know.

There is a new 1% excise tax on foreign transfers from a U.S. sender to recipients outside the U.S. with certain exemptions. This applies to transfer starting in 2026.

Green Energy credits are gone for 2026 with a few exceptions for commercial building, manufactured home, and developers which will end during 2026.

### **BUSINESS OWNERS TAX UPDATES**

**Reminder: Generally, a short-term rental is defined as a business,** and all businesses must file a personal property form BOE 571-STR for California properties. Unlike real property, business property generally is reappraised annually. Business owners must file a business property statement each year detailing costs of all supplies, equipment, and fixtures at each property location. Failing to do so could result in large penalties. The county assessor's office will often cross-check their filings against listings on platforms like Airbnb or VRBO. Penalties range from 10% for failing to timely file up to 75% for fraud or deliberate omission. The tax rate is usually a little more than 1% of the assessed value. BOE-571-STR form is usually sent to taxpayers by the county the property is in and must be submitted to the assessors electronically by May 7 to avoid penalties.

<https://www.caltax.com/files/cat/BOE-571-str.pdf>

**Shareholders of S corporations** be aware your corporation is required to **establish an accountable plan** in order to take deductions for shareholder paid expenses that are business-related, timely substantiated and returned by the employee. Unlike a partnership that allows these types of deductions to be taken on the individual partners tax returns, expenses paid by owners of S corporation can only deduct these expenses on the tax return of the corporation. In summary, the S corporation gets the deduction for the expenses paid by the shareholder and then reimburses the shareholder for the expenses incurred and this is done by having an accountable reimbursement plan in place.

**NOTE: Pass-through Entity Elective Tax.**

S corporation shareholders, partnership partners, and LLC members who wish to make the 2026 California pass-through entity elective tax (PTE) also known as the SALT workaround, must make their required PTE prepayment by June 15, 2026, and there are no exceptions. The required PTE prepayment is 50% of the 2025 PTE paid or if you did not make the PTE election for 2025 tax filings, the prepayment is \$1,000 exactly. Again, there are no exceptions to this date or required minimum payment amount, if you miss this prepayment, you will not be able to make the election for 2026. If your 2025 entity tax returns are extended, you may miss this deadline, therefore please reach out to me if this is your situation to allow me to make this calculation for you on time. Passthrough entity tax payments must be made separately from the entity's other estimated tax payments, using WebPay, form 3893, or by electronic funds withdrawal. An owner's estimated tax payments may not be applied to an entity's passthrough entity elective tax. Further, overpayments of the 2025 passthrough entity elective tax cannot be applied to the entity's required June 15, 2026, prepayment for the 2026 tax year.

Although the SALT limitations have increased for certain income levels, the PTE is still a great tax savings vehicle.

**1099 reporting for business owners:** You will generally submit a 1099-NEC or 1099-MISC when payments are made during the course of your business to an individual (who is not your employee) and certain business entities, you have paid at least \$600. Generally, most payments paid by your business for services for non-employees will go on form 1099-NEC, and payments for rents paid by your business will go on form 1099-MISC.

Although you do not generally report payments to corporations (you do report payments to partnerships, including LLCs-unless treated as a corporation), the payments made to attorneys or any other provider of legal services must be reported on Form 1099-MISC, even if the provider is an incorporated business.

1099-K reporting threshold went back from the \$600 threshold to \$20,000 threshold +200 transactions in a calendar year.

To help ease the paperwork filing burden put on small business owners, the payment threshold for 1099 reporting has increased from \$600 to \$2,000 starting 1-1-26.

**CalSavers Mandate Is in Effect for All Eligible Employer.** CalSavers is California's retirement savings program designed for Californians who lack a way to save for retirement at their job. CalSavers requires California employers that do not sponsor a retirement plan to participate in CalSavers – an automatic enrollment individual retirement account (IRA) with no employer fees or fiduciary liability. Operating at no taxpayer expense, CalSavers is professionally managed by private sector financial firms with oversight from a public board chaired by the State Treasurer. If you already offer a retirement plan to your employee, you are NOT required to participate in CalSavers program or if the business owner and their spouses are the only employees of the business.

**Charitable deduction is limited for C corporations.**

Starting in 2026 charitable donations made by a corporation will only be deductible to the extent the total donations exceed 1% of the corporation's taxable income. In addition, as in previous years, there is a 10% taxable income ceiling on charitable deductions made by corporations, however for this 10% ceiling, any unused charitable deduction can be carried forward to subsequent years.

**Reminder: 100% bonus depreciation is made permanent.**

**Research and development costs can be deducted** in the year incurred rather than capitalized and deducted over 5 years

**The Qualified Business income deduction (QBI)** was made permanent and retains the 20% deduction rate.

**Deduction for business meals for employees** provided by the employer and for the convenience of the employer are no longer deductible, beginning in 2026.

**Limitation on deducting business interest expense.** Although generally a business can deduct interest paid or incurred in a taxable year, certain limitations as to the amount that can be deducted in the current year apply. The amount deductible as business interest expense in a taxable year cannot exceed the sum of the businesses interest income plus 30% of the adjusted taxable income for the taxable year. Generally, this limitation only applies to taxpayers with \$31 million in gross receipts. However, this interest expense deduction limit also applies to tax shelters. Unfortunately, the IRS defines a tax shelter for this rule, as **any non-C corporation** such as **an LLC partnership** where more than 35% of the losses flow through to limited partners, and thus, not eligible for the \$31million exemption. If your LLC or limited partnership incurs losses due to high interest expense, it may be at risk for this interest expense limitation. Real estate businesses which often incur losses due to mortgage interest expense and depreciation, can elect out of the interest expense limitation (which limits deductions for business interest) by making a **one-time, irrevocable election** to be treated as an "electing real property trade or business". This election allows the business to deduct 100% of its interest expense but requires using the **Alternative Depreciation System (ADS)** for specific assets, which results in slower depreciation and no bonus depreciation for those assets. Let me know if you would like to discuss this issue.

**In summary**, these are merely a few items that may impact your tax situation. If you have specific questions, please reach out to me. Please take care in preparing your documents and answering my questionnaire, so I can do the best possible job to find new tax benefits that are hidden in the law, and protect you from more aggressive audit programs, and larger penalties.

**Privacy Policy:**

Unless the law allows me otherwise (in very limited circumstances), I cannot disclose, without your signed permission, your tax return information to third parties for purposes other than for the purposes of preparing your tax return. (See my annual letter of arrangement). I am required to provide written notice of my privacy policy and the following sets forth my privacy policy. I do not disclose personal information about you to anyone except as required by law or instructed by you in writing. I restrict access to your personal information to my administrative personnel who need to handle your documents in the tax return preparation of photocopying, scanning, organizing and data entry functions. I maintain physical, electronic, and procedural safeguards that comply with federal regulations to guard your personal information.

I gather nonpublic personal information about you from information I receive from your tax preparation organizer applications both electronically and other documentation sources, which I will use in tax preparation and related services. I may also receive information about your transactions from outside sources such as your investment advisor, financial planner, or broker. I may from time-to-time need to access public records to clarify a figure provided or missing from the documentation you provided.

Regards,

*Cynthia A. Wilkinson*

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