ALERT – IRS ANNOUNCES INFLATION ADJUSTMENTS FOR 2025

Many amounts upon which federal taxes are based are adjusted annually to consider inflation. Recently the IRS released the inflation adjustments for 2025.

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Many of the dollar amounts upon which federal taxes are based must, by law, be adjusted to reflect the impact of inflation. Not adjusting those value-based provisions within the Internal Revenue Code (IRC) for inflation could cause strange results. For instance, each year many employees receive a cost-of-living adjustment (essentially an inflation adjustment) to their salary. If the income tax brackets were not also adjusted for inflation, over time the employee who receives only cost-of-living adjustments would be pushed into a higher marginal tax rate even though the real purchasing power of the employee's salary had not increased.

Inflation adjustments can be found in various pronouncements from the Internal Revenue Service (IRS). The adjustments discussed in this alert can be found in Notice 2024-80 and Revenue Procedure 2024-40. Both are available at www.irs.gov.

Following are selected inflation adjustments that could impact your tax calculations.

Income Tax

Income Tax Rates

The IRS has released tax rates for 2025. Table 1 shows the rates for certain individuals and estates and trusts. Rates other than those shown in this alert can be found in Section 2.01 of Rev. Proc. 2024-40.

Table 1
2025 Federal Income Tax Rates

For Married Individuals Filing Jointly	
If Taxable Income Is	The Marginal Tax Rate Is
Not over $23,850	10%
Over $23,850 through $96,950	12%
Over $96,950 through $206,700	22%
Over $206,700 through $394,600	24%
Over $394,600 through $501,050	32%
Over $501,050 through $751,600	35%
Over $751,600	37%
For Unmarried Individuals Other Than Heads of Households and Surviving Spouses	
If Taxable Income Is	The Marginal Tax Rate Is
Not over $11,925	10%
Over $11,925 through $48,475	12%
Over $48,475 through $103,350	22%
Over $103,350 through $197,300	24%
Over $197,300 through $250,525	32%
Over $250,525 through $626,350	35%
Over $626,350	37%
Estates and Trusts	
Not over $3,150	10%
Over $3,150 through $11,450	24%
Over $11,450 through $15,650	35%
Over $15,650	37%

Source: IRS

Capital Gain Tax Rates

The thresholds at which capital gain tax rates apply have also been adjusted for inflation. Table 2 lists the rates for certain individuals and estates and trusts.

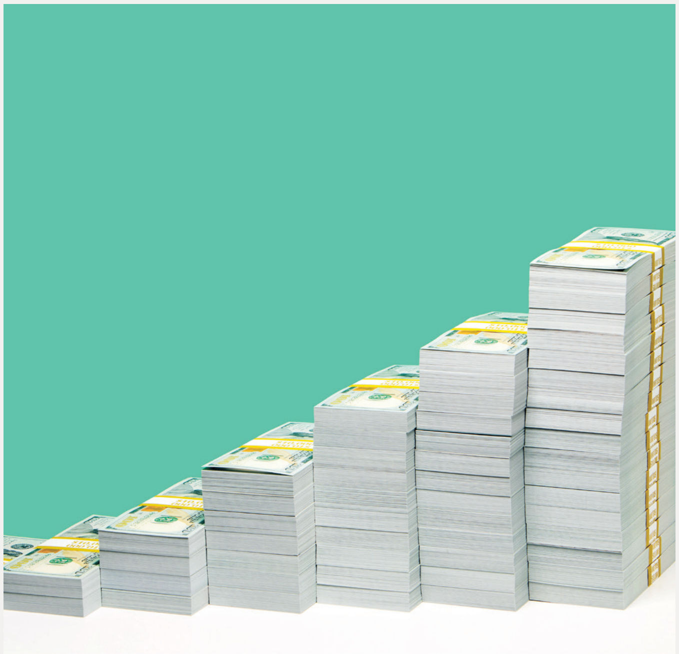
Rates other than those shown in this alert can be found in Section 2.03 of Rev. Proc. 2024-40.

Table 2
2025 Capital Gain Tax Rates

Taxpayer Type	0% Rate Applies if Taxable Income is Less Than or Equal to	15% Rate Applies if Taxable Income is Less Than or Equal to
Married Individuals Filing Jointly or Surviving Spouse	$96,700	$600,050
Married Individuals Filing Separately	$48,350	$300,000
Heads of Households	$64,750	$566,700
All Other Individuals (Other than Married Individuals Filing Separately)	$48,350	$533,400
Estates and Trusts	$3,250	$15,900

Source: IRS

A 20% capital gain tax rate applies if taxable income is greater than the taxable income cap shown in the foregoing table for which a 15% rate applies.



Tax on Net Investment Income

A taxpayer is subject to a tax on net investment income when such taxpayer's modified adjusted gross income exceeds a certain threshold. The threshold amount for individuals is not indexed for inflation. Table 3 lists the threshold amounts for 2025.

Table 3
2025 Threshold Amounts on Net Investment Income

Taxpayer Type	Threshold Amount (MAGI)
Married Individuals Filing Jointly or Surviving Spouse	$250,000
All Other Individuals Except Married Filing Separately	$200,000
Married Filing Separately	$125,000
Estates and Trusts	$13,450

Source: IRS

Additional Medicare Wage Tax

Taxpayers (other than estates and trusts) are subject to an additional 0.9% Medicare tax on wages (and self-employment income) that exceed a certain threshold. The thresholds are not adjusted for inflation. For 2025, the thresholds are listed in Table 4.

Table 4
2025 Medicare Wage Tax

Taxpayer Type	Threshold Amount (MAGI)
Married Individuals Filing Jointly or Surviving Spouse	$250,000
All Other Individuals Except Married Filing Separately	$200,000
Married Filing Separately	$125,000

Source: IRS

Standard Deduction

When determining taxable income, taxpayers may elect to itemize deductions or take the standard deduction. The standard deduction amount is indexed for inflation. For 2025, the standard deduction amount can be found in Table 5.

Table 5
2025 Standard Deduction Amounts

Taxpayer Type	Standard Deduction
Married Individuals Filing Jointly or Surviving Spouse	$30,000
Heads of Households	$22,500
Unmarried Individuals Other than Surviving Spouses and Heads of Households	$15,000
Married Individuals Filing Separately	$15,000

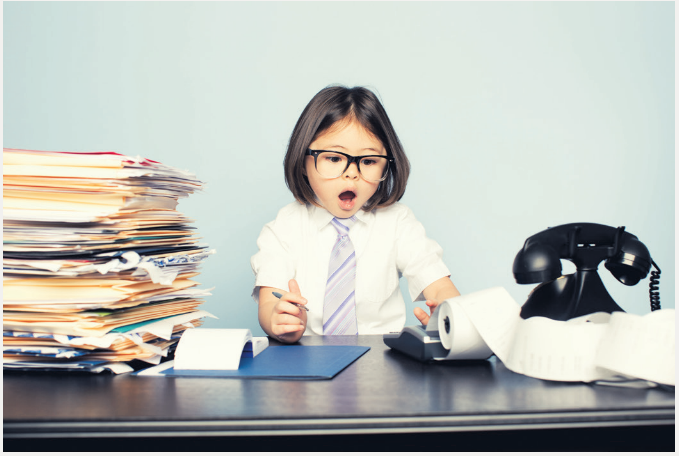
Source: IRS

For 2025, the standard deduction amount for an individual who may be claimed as a dependent cannot exceed the greater of $1,350, or the sum of $450 and the individual's earned income.

For 2025, the additional standard deduction amount for the aged or the blind is $1,600. The additional standard deduction amount is increased to $2,000 if the individual is also unmarried and not a surviving spouse.

Unearned Income of Minor Children (colloquially known as the Kiddie Tax)

Parents may elect to include a minor child's income on their own federal income tax return (and not file a separate return for the child) if certain conditions are met, including that the child had income only from interest and dividends for the



tax year. For 2025, a parent may make this election if the child has gross income between $1,350 (the child's standard deduction amount as adjusted for 2025) and $13,500. Above that threshold, the child must file a separate return.

Also, the threshold for taxing a child's net unearned income at the parent's rates (the Kiddie Tax) is twice the child's standard deduction amount or $2,700.

Tax Credits

Certain tax credits such as the adoption credit, the child tax credit, the earned income credit and others have phase out amounts and other tests dependent upon income thresholds. The inflation adjustments for these thresholds can be found in Section 2.04 *et. seq.* of Rev. Proc. 2024-40.

Alternative Minimum Tax

Taxpayers may limit the amount subject to income tax by using deductions, exemptions, losses and tax credits. It is possible to use those items to produce a federal income tax of zero dollars. The alternative minimum tax (AMT) is a separate way of calculating income tax by adding back some of those items (known as tax preference items) to calculate a different base amount on which tax is calculated (alternative minimum taxable income or AMTI). Although the details are beyond the scope of this alert, a taxpayer's AMT is the amount by which AMT exceeds regular federal income tax. A certain amount of AMTI is exempt from the AMT; this amount is adjusted annually for inflation (Table 6). AMT exemption amounts are phased out or reduced 25% for each dollar of AMTI over certain threshold amounts. These thresholds are also adjusted for inflation (Table 7, page 5). The AMT rate is 26% for taxpayers below and 28% for taxpayers above a threshold amount (Table 8, page 5).

Table 6
2025 AMT Exemption Amounts

Taxpayer Type	Exemption Amount (AMTI)
Married Individuals Filing Jointly or Surviving Spouse	$137,000
Unmarried Individual (other than Surviving Spouses)	$88,100
Married Filing Separately	$68,500
Estates and Trusts	$30,700

Source: IRS

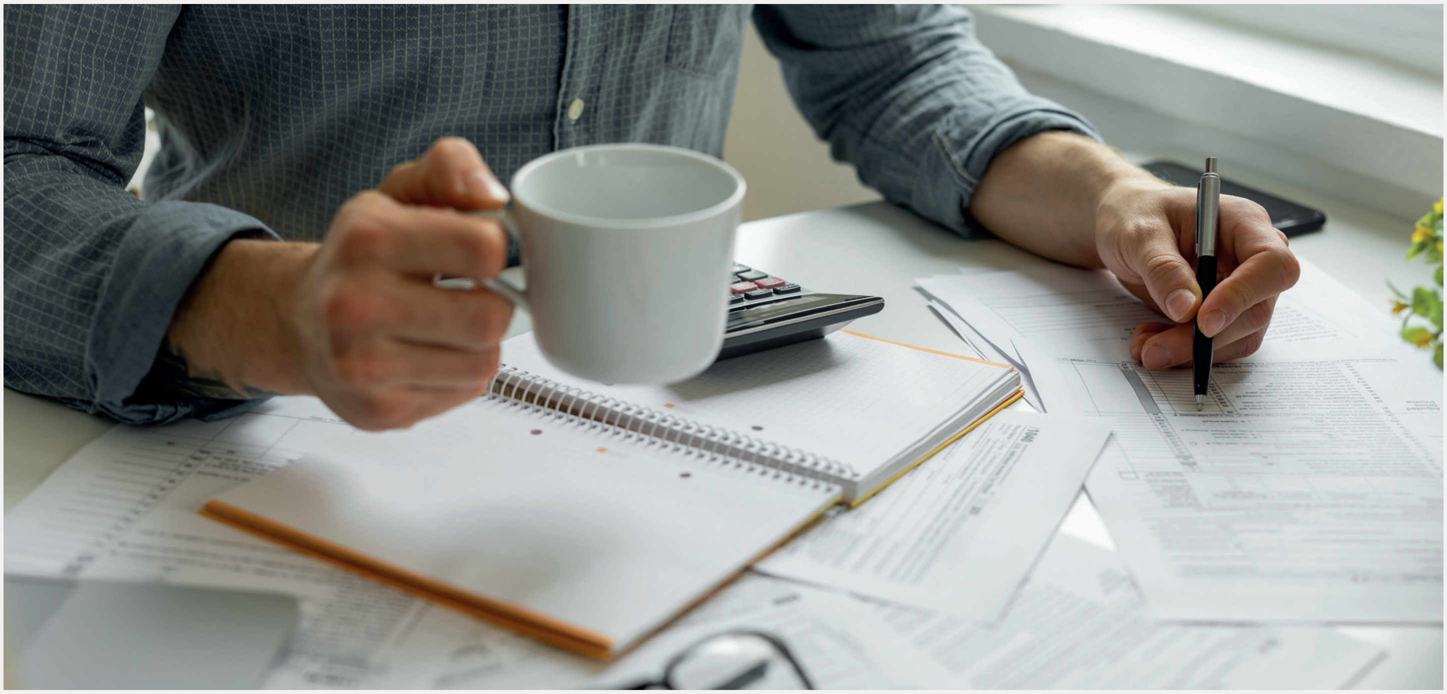


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Table 7
2025 AMTI Exemption Phaseout Amounts

Taxpayer Type	Threshold Phase-out Amount (AMTI)	Complete Phase-out Amount (AMTI)
Married Individuals Filing Jointly or Surviving Spouse	$1,252,700	$1,800,700
Unmarried Individuals Other than Surviving Spouses	$626,350	$978,750
Married Individuals Filing Separately	$626,350	$900,350
Estates and Trusts	$102,500	$225,300

Source: IRS

Table 8
2025 AMTI Threshold over which the 28% AMT Rate Applies

Taxpayer Type	Threshold Amount (AMTI)
All Taxpayers Other than Married Filing Separately	$239,100
Married Filing Separately	$119,550

Source: IRS

Qualified Business Income (QBI); IRC Section 199A

Owners of passthrough entities, such as partnerships and S corporations, may receive a deduction of up to 20% of qualified business income (QBI) from qualifying pass-through entities. For taxpayers with taxable income below a threshold amount the full 20% deduction is available. Above that taxable income threshold amount, the deduction phases out. For taxpayers above the maximum taxable income threshold amount engaged in a specified trade or business (SSTB) the QBI deduction is eliminated. For taxpayers above the maximum taxable income threshold amount and not engaged in an SSTB, other rules apply to determine the amount of the QBI deduction. The threshold amounts are indexed for inflation (Table 9).

Table 9
2025 QBI Deduction Thresholds

Taxpayer Type	Threshold Amount	Phase-in/ Phase-out Amount
Married Individuals Filing Jointly	$394,600	$494,600
Married Individuals Filing Separately	$197,300	$247,300
All Other Returns	$197,300	$247,300

Source: IRS

Federal Estate, Gift and Generation-Skipping Transfer Taxes

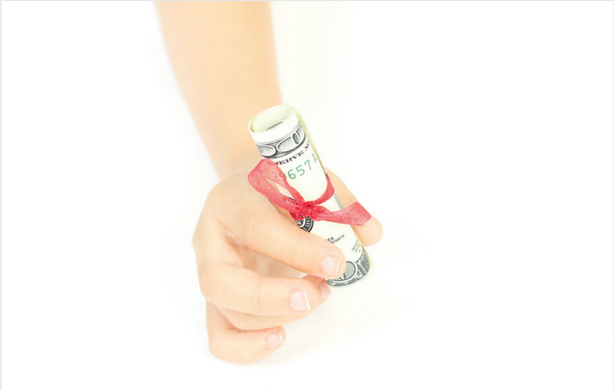
For 2025, the basic exclusion amount for estate and gift taxes will be $13,990,000

For 2025, the aggregate decrease in the value of qualified real property resulting from a special use valuation election will be $1,420,000.

For 2025, the annual exclusion amount for gifts will be $19,000. For gifts to non-citizen spouses, for 2025, the annual exclusion amount will be $190,000.

For 2025, the GST exemption will be $13,990,000.

For 2025, a U.S. person must report foreign gifts received from certain foreign persons if the aggregate value of gifts received in the taxable year exceeds $20,116.

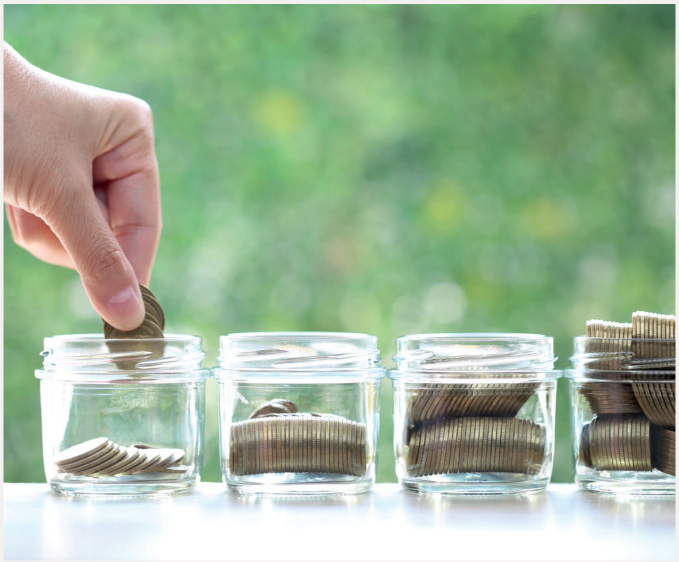


Retirement Plan Limits

Inflation adjustments for many qualified retirement plans and accounts are found in Notice 2024-80. Below are selected inflation adjustments. For specific inflation adjustments not included in this alert, refer to Notice 2024-80.

For 2025, the deductible amount for contributions to IRAs and Roth IRAs remains $7,000. For taxpayers aged 50 years and older, the $1,000 deductible catchup contribution also remains the same.

For 2025, basic deferral amounts for employer provided 401(k), 403(b) and certain 457 plans will increase to $23,500. For employees age 50 years and older, other than employees aged 60 through 63, the additional catchup contribution limit remains $7,500. The SECURE 2.0 Act of 2022 (SECURE 2.0) changed the catch up contribution limit for employees aged 60 through 63 with respect to 401(k), 403(b) and certain 457 plans. For employees in that age range, for 2025 the catchup contribution limit will be $11,250 (Pub. L. 117-328, 136 Stat. 4459, 5290, Division T, Title I, § 109(a)(1)). The overall limit for contributions to an employer provided 401(k) plan (which includes employer contributions) increases to $70,000. For 2025, the limitation for determining whether a catch up contribution to an applicable employer plan must be designated a Roth contribution remains $145,000.



For 2025, the contribution limit to SEP IRAs increases to $70,000.

For 2025, the contribution limit to SIMPLE plans increases to $16,500. For employees age 50 years and older, other than employees aged 60 through 63, the additional catchup contribution limit remains $3,500. For certain SIMPLE plans (see, SECURE 2.0 §§ 116 and 117; Notice 2024-2) the contribution limit is $17,600, and the additional catchup contribution limit for employees age 50 years and older, other than employees aged 60 through 63, remains $3,850. For employees aged 60 through 63, for 2025, the additional catchup contribution limit for SIMPLE plans is $5,250 (see, SECURE 2.0 § 109(a)(2)).

For taxpayers who are covered by an employer plan, the ability to make deductible contributions to a traditional IRA phases out at certain levels of adjusted gross income (AGI) (Table 10).

Table 10
2025 Deductible IRA Contribution Thresholds for Taxpayers Covered by Employer Plans

Taxpayer Type	Threshold Phase-out Amount (AGI)	Complete Phase-out Amount (AGI)
Married Individuals Filing Jointly; Covered Spouse Contributing	$126,000	$146,000
Married Individuals Filing Jointly; Non-covered Spouse Contributing	$236,000	$246,000
Unmarried Individuals; Heads of Households	$79,000	$89,000
Married Individuals Filing Separately	$0	$10,000

Source: IRS

Taxpayers are prohibited from contributing to a Roth IRA if their AGI exceeds certain thresholds (Table 11).

Table 11
2025 Roth IRA Contribution AGI Thresholds

Taxpayer Type	Threshold Phase-out Amount (AGI)	Complete Phase-out Amount (AGI)
Married Individuals Filing Jointly	$236,000	$246,000
Unmarried Individuals; Heads of Households	$150,000	$165,000
Married Individuals Filing Separately	$0	$10,000

Source: IRS

For 2025, the maximum amount allowed as a qualified charitable distribution (QCD) from an IRA is $108,000.

For 2025, the maximum amount eligible for the one time election to treat a distribution from an IRA to a qualified split interest trust as a QCD is $54,000.

For 2025, the penalty free withdrawal limit from certain qualified plans and IRAs for victims of domestic abuse increases to $10,300.

Plan for Inflation Adjustments

Annual adjustments for inflation can impact your tax and retirement planning for the year 2025. Your PNC Private Bank® team can help you plan for inflation-adjusted amounts throughout the year. If you would like to adjust your plans to take account of inflation adjustments or just check their impact on your current plan, please contact any member of your PNC Private Bank team.

For more information, please contact your PNC Private Bank® advisor.

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