

2025 YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

It's been a significant year in tax legislation, led by the passing of H.R. 1 known as the *One Big Beautiful Bill Act* which the President signed into law on July 4, 2025. As a result, it's even more crucial to review year-end income tax planning strategies. The *OBBBA*, among other things, creates tax planning opportunities that should be considered to help reduce your tax bill in 2025 and 2026. As a result, we have included our 2025 year-end income tax planning letter to assist you with your planning. We've included selected traditional as well as new planning ideas for your consideration. If you have questions or want to discuss planning ideas not included in our letter, please contact our firm.

Caution! The IRS continues to release guidance on various important tax provisions. We closely monitor new tax legislation and IRS releases. Please contact our firm if you want an update on the latest tax legislation, IRS notifications, announcements, and guidance or **if you need additional information concerning any item discussed in this letter.**

Be Careful! We suggest you contact our firm before implementing any of the tax planning techniques discussed in this letter. You cannot properly evaluate a particular planning strategy without calculating your overall tax liability with and without that strategy. This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

SELECTED OBBBA CHANGES AFFECTING 2025 YEAR-END PLANNING

H.R. 1 otherwise known as the One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025, by President Trump. The *OBBBA* makes many of the **Tax Cuts And Jobs Act Of 2017 (TCJA)** provisions, that were set to expire at the end of 2025, **permanent and introduces new tax legislation** that should be considered as part of your individual income tax planning. The following are selected legislation changes affecting 2025 year-end income tax planning.

Increased Standard Deduction. Since 2018, when the standard deduction was basically doubled by the *TCJA*, fewer individuals have itemized their deductions. The *OBBBA* makes these higher standard deduction amounts **permanent and increases** the standard deduction for 2025 and indexes these amounts for inflation after 2025. The Standard Deduction amounts for **2025** are: **Joint Return – \$31,500; Single and Married Filing Separately – \$15,750; and Head-of-Household – \$23,625.** **Note!** There is an additional standard deduction for taxpayers who are disabled or blind of **\$1,600 each for joint filers (\$2,000 if single) for 2025.**

Increased Limitation On State And Local Tax Deductions (SALT). For 2018 through 2025, the *TCJA* limited the aggregate itemized deduction for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) to **\$10,000 (\$5,000 for married individuals filing separately)**. However, beginning with the **2025 tax year**, the *OBBBA* increases the SALT limitation from **\$10,000 to \$40,000 for 2025 and \$40,400 for 2026!** **Planning Alert!** One of the traditional planning tools used by itemizers who pay state estimated tax payments was to pay the 4th quarter estimate before year-end to allow an itemized deduction for that payment. With the new **\$40,000 cap**, many taxpayers could once again benefit from this simple but effective planning move if their itemized deductions exceed the standard deduction. **Note!** The SALT limitation is reduced in 2025 once your modified adjusted gross income (MAGI) exceeds **\$500,000 (\$250,000 if married filing separately)** and **will be \$10,000 for 2025 if your MAGI is more than \$600,000 (\$5,000 if MAGI is more than \$300,000 if married filing separately)**. The deduction will also not apply to those using the standard deduction.

Additional Deduction For Seniors. For years **2025-2028**, the *OBBBA* provides a new **\$6,000** deduction for individuals who are **at least age 65** by the end of the year. The deduction is for taxpayers with modified adjusted gross income (MAGI) of **\$75,000 or less (\$150,000 or less for joint filers)**. This **temporary** deduction is reduced (**but not below zero**) by **6% of modified adjusted gross income in excess** of the above threshold amounts. The deduction is **not allowed** for taxpayers with **MAGI of \$175,000 or more (\$250,000 or more for those filing a joint return)**. The deduction may be taken whether the taxpayer uses the **standard deduction or itemizes.** **Note!** Those individuals who qualify for the senior deduction **must include** their social security number on their tax return for the year the deduction is taken. If **married individuals** are each age **65 or older**, **each may qualify** for the **\$6,000 deduction**. In addition, married individuals **must file a joint return** to claim the deduction. **Planning Alert!** It's important to factor in this new deduction to determine if 2025 estimates/withholding should be modified before the end of 2025.

Car Loan Interest Deduction. The *OBBBA* introduced a new deduction, for tax years **2025 through 2028**, of up to **\$10,000 for interest paid** on loans used to purchase **new, qualified passenger vehicles** for personal use. The deduction is available to those using the **standard deduction as well as those who itemize**. The debt must be incurred **after 2024** for the purchase of and must be secured by a first lien on a **qualified passenger vehicle**. The deduction is **completely phased out** when **MAGI is \$249,001 or greater** for joint filers or **\$149,001 or greater** for others. A “qualified passenger vehicle” generally includes a car, minivan, van, SUV, pickup truck, or motorcycle that is **new**, the **final assembly** of which occurs in the **United States** and serves as **collateral** for the loan. **Planning Alert!** Please provide us with the details of any new automobile purchases in 2025 so we can determine if the interest paid on the loan to purchase the vehicle qualifies for this new deduction.

Qualified Overtime Pay Deduction. Another new provision of the *OBBBA* for tax years **2025 through 2028**, is an **annual deduction of up to \$12,500 (\$25,000 if filing jointly) for qualified overtime pay** received. “Qualified overtime pay” is overtime paid under the **Fair Labor Standards Act of 1938 (FLSA)** to individuals **in excess** of their regular rate under the FLSA. That means only the premium portion of overtime (for example, the “half” in “time-and-a-half”) qualifies for the deduction. In order to take the deduction, taxpayer’s **qualified overtime pay** must be **included on Form W-2, or Form 1099-NEC** if not an employee. Taxpayers must include their social security number on their income tax return to deduct the qualified overtime pay. The deduction is available to **those using the standard deduction as well as those who itemize**. However, the deduction is **not allowed for married individuals who do not file a joint**

return. The deduction is **reduced once MAGI exceeds \$300,000** for those **filing joint returns (\$150,000 for others)** and **no deduction** is allowed once **MAGI reaches \$550,000** for those **filing joint returns (\$275,000 for others)**. **Planning Alert!** Form W-2 and Forms 1099 have not been modified for 2025 to accommodate reporting overtime. For 2025, the IRS says employers can select a “reasonable method” to separate and identify the premium portion of overtime that qualifies under the FLSA definition and provide that to employees (for claiming the deduction).

Qualified Tips Deduction. For tax years **2025 through 2028**, the *OBBBA* creates a deduction of **up to \$25,000 of qualified tips** received during the year in occupations listed by the IRS as **customarily and regularly** receiving tips before 2025. The deduction is available to **those using the standard deduction** as well as **those who itemize**. The tips must be reported on a **Form W-2, Form 1099**, or other specified statement furnished to the individual or reported directly by the individual on **Form 4137**. Married taxpayers must file a **joint return** to claim the deduction. The deduction is **reduced once MAGI exceeds \$300,000 for those filing joint returns (\$150,000 for others)** and **no deduction** is allowed **once MAGI reaches \$550,000 for those filing joint returns (\$400,000 for others)**. **Note!** The IRS has published a list of occupations that **customarily and regularly** received tips before 2025 and can be found by searching on the web for “REG-110032-25.” Once at the Federal Register website, scroll down until you find table A.

Enhanced Child Tax Credit. The *TCJA* increased the Child Tax Credit for **each qualifying child** to \$2,000 for tax years 2018 through 2025. In addition, the *TCJA* allowed up to \$1,700 of the child credit to be refundable. The *OBBBA* makes the child tax credit **permanent** and, beginning in **2025, increases** the credit to **\$2,200 per qualifying child**. The maximum **refundable credit** amount for 2025 **remains at \$1,700** and will continue to be **indexed** in the future.

Adoption Credit Refundable Up To \$5,000. The Federal Adoption Credit, which was created to help with the expenses of adopting a child, is **\$17,280** beginning with 2025. The *OBBBA* changed the credit beginning with 2025 so that up to **\$5,000** of the credit is refundable. **Planning!** Any unused amount of the refundable portion of the credit may **NOT** be carried forward.

Expansion Of 529 Plan Benefits. The *OBBBA* expands the types of expenses that may be distributed tax free from a 529 plan. Effective for **distributions** from 529 plans **after July 4, 2025, qualified postsecondary credentialing** expenses are added to the definition of qualified higher education expenses (QHEEs). In addition, the *OBBBA* expands the definition of **education expenses** that may be paid **tax free from a 529 plan** for elementary or secondary school education **for amounts paid after July 4, 2025. Note!** If you would like more information on what **qualifies as QHEEs** and what expenses are now included in the definition of **education expenses** for a 529 plan, **please contact us** and we will be happy to provide you with the details. **Planning!** The annual \$10,000 limit on 529 plan payments for elementary or secondary education for each beneficiary is increased to **\$20,000 for payments after 2025**.

Clean Vehicle Credits Terminated For Vehicles Purchased After 9/30/25! The New Clean Vehicle Credit of **up to \$7,500** and the Previously Owned Clean Vehicle Credit of **up to \$4,000** were **terminated** by the *OBBBA* for vehicles **acquired after September 30, 2025. Planning Alert!** If you purchased a new or previously owned clean vehicle after September 30, 2025, and planned on taking the clean vehicle credit on your 2025 tax return, **please contact us** as soon as possible. We may need to adjust your estimated payments and/or withholding in order to cover the loss of this credit.

No Credits For Energy Efficient Home Improvements After 2025. The *OBBBA* **repeals the Energy Efficient Home Improvement Credit** for property placed in service **after 2025**. Therefore, if you planned on purchasing energy efficient insulation, doors, windows, skylights or energy efficient heat pumps, air conditioners, furnaces, water heaters, or boilers for your residence in the near future, you should consider purchasing and placing the items in service (making sure the items are ready and available for use) **before 2026**. The *OBBBA* also **repeals the Residential Clean Energy Credit** for expenditures made **after 2025**. The IRS says that an expenditure with respect to an item is treated as made when the original installation of the item is completed. Therefore, if you planned on purchasing solar panels, solar water heaters, geothermal heat pump property, etc., in the near future, you should consider **purchasing and installing the items before 2026**, so you qualify for the **30% credit**.

Gain Exclusion Rules For Qualified Small Business Stock Enhanced After July 4, 2025. The *OBBBA* made changes to the gain exclusion rules for Qualified Small Business Stock (QSBS). For QSBS **acquired after July 4, 2025**, the gain **exclusion is 50%** for stock held for **three years**, **75%** for stock held for **four**

years, and 100% for stock held for five or more years. For stock acquired **after February 17, 2009, and on or before July 4, 2025**, there was **no gain exclusion** if the stock were held for **less than 5 years**. Also, the **cumulative limit** on excludable gain from a single issuer **is increased from \$10 million to \$15 million** (adjusted for inflation after 2026) for stock acquired **after July 4, 2025**. For stock issued **after July 4, 2025**, the **aggregate gross asset** limitation is **increased from \$50 million to \$75 million** (adjusted for inflation after 2026). **Planning Alert!** Please contact us if you have questions about Qualified Small Business Stock or if you've sold any Qualified Small Business Stock during 2025. We want to make sure you're able to take advantage of the new gain exclusions if you qualify.

INDIVIDUAL PLANNING WITH TRADITIONAL YEAR-END TAX PLANNING STRATEGIES AS AFFECTED BY THE OBBBA

Each year, we discuss several traditional year-end tax planning strategies to help reduce taxable income. One of those is to reduce taxable income in the current year by deferring taxable income into later years and accelerating deductions into the current year. This strategy is beneficial when your income tax rate in the coming year (2026) is expected to be the same or lower than the current year (2025). Consequently, in the following discussion we include traditional year-end tax planning strategies that would allow you to accelerate your deductions into 2025, while deferring your income into 2026. **Planning Alert!** For individuals who expect their 2025 income tax rate to be much lower than their 2026 income tax rate, the opposite strategy might be more advantageous. As a result, individuals who have a significant drop in income during 2025 may decide it's better to accelerate income into 2025 (to be taxed at lower rates), while deferring deductions into 2026 (to be taken against expected higher rates). **Caution!** Before accelerating or deferring income or deductions, the effects of the acceleration or deferral on the new benefits provided in the *OBBBA* first effective in 2025 as well as the *OBBBA* provisions first effective in 2026 must be considered. The *OBBBA* makes year-end income tax planning much more complicated since many of the beneficial provisions in the *OBBBA* are reduced as your modified adjusted gross income (MAGI) exceeds certain thresholds. We're happy to assist you in deciding if deferring or accelerating income will benefit you.

Watch Out For OBBBA Changes To The Alternative Minimum Tax. When deciding if income or deductions should be deferred to 2026, the alternative minimum tax (AMT) must be considered since this is the tax you will pay if the AMT exceeds the regular income tax. Beginning in 2026, the *OBBBA* reduces the amount of alternative minimum taxable income (AMTI) at which the AMT exemption amounts will be phased out and increases the rate of the phase out.

It May Be Beneficial To Postpone Sale Of Certain Farmland Until 2026. The *OBBBA* allows a deferral of gains from the sale of certain farmland. For sales or exchanges in **tax years beginning after July 4, 2025 (i.e., after 2025 for calendar-year taxpayers), to a qualified farmer**, a taxpayer may elect to **pay taxes on gains** from the sale or exchange of **qualified farmland property in equal installments over 4 years**. **Planning Alert!** Please contact us if you would like more details.

Benefits Of Above-The-Line Deductions. As we mentioned earlier, traditional year-end planning includes accelerating deductible expenses into the current tax year. So-called **"above-the-line"** deductions reduce both your **adjusted gross income** and your **modified adjusted gross income**, while **itemized** deductions do **not reduce** either adjusted gross income or modified adjusted gross income. Deductions that reduce your adjusted gross income (or modified adjusted gross income) **can generate multiple tax benefits** by: **1) Reducing your taxable income** and allowing you to be taxed in a lower tax bracket; **2) Potentially freeing up other deductions** (including the Deduction For Seniors, SALT Deduction, Car Loan Interest Deduction, Overtime Pay Deduction, Qualified Tips Deduction) and tax credits that phase out as your adjusted gross income (or modified adjusted gross income) increases; **3) Potentially reducing your modified adjusted gross income below the income thresholds** for the 3.8% Net Investment Income Tax; **4) Possibly reducing your household income to a level that allows you to qualify for a refundable Premium Tax Credit** for health insurance purchased on a government Exchange, **or 5) As we discuss later, potentially reducing your taxable income to a level that could maximize your 20% Deduction.** **Planning Alert!** As a cash method taxpayer, you can generally accelerate a 2026 deduction into 2025 by "paying" the deductible item in 2025. "Payment" typically occurs in 2025 if, **before the end of 2025: 1) A check is delivered to the post office, 2) Your electronic payment is debited to your account, or 3) An item is charged on a third-party credit card.**

- Possible **above-the-line** deductions include: **1) Military Moving Expenses** that are available to active members of the Armed Forces and, after 2025 per the *OBBBA*, an employee or new appointee of the **intelligence community** if the move is pursuant to a **change in assignment** requiring relocation; **2) Qualifying Alimony Payments** (if the divorce or separation instrument was **executed before 2019**); **3) Health Savings Account (HSA) Contributions** with a maximum deduction for a self-only coverage plan of **\$4,300** and **\$8,550** for a family coverage plan. In addition, taxpayers **at least 55** by the close of 2025, can add **\$1,000 (\$5,300 & \$9,550)**; and **4) Student Loan Interest** with a possible deduction of up to **\$2,500 of interest paid** on a qualified student loan during 2025.

Benefits Of Itemized Deductions. Although **itemized** deductions (i.e., below-the-line deductions) do **not** reduce your adjusted gross income or modified adjusted gross income, they still may provide valuable tax savings if your itemized deductions exceed your standard deduction.

- Possible itemized deductions include: **1) Medical Expenses** that, for 2025, exceed 7.5% of your adjusted gross income (AGI). **Planning Alert!** If you paid medical expenses for a child, parent, etc. who you are unable to claim as a dependent due to their 2025 gross income, it may be possible to deduct those expenses as paid for your medical dependent; **2) State And Local Taxes** paid during the tax year. As we mentioned previously, beginning with the 2025 tax year, the *OBBBA* increases the maximum possible state and local tax (SALT) limitation from \$10,000 to \$40,000 for 2025 and \$40,400 for 2026. **Planning Alert!** Most states have enacted legislation allowing partnerships and S corporations to elect to pay state and local income taxes on the partnership's or S Corporation's income. If this election is made, the state and local taxes paid by the partnership or S Corporation are deductible by the entity and reduce the income flowing through to the partners or shareholders; **3) Home Mortgage Interest Deduction** is limited to the interest paid on up to \$750,000 (\$375,000 if married filing separately) of acquisition indebtedness incurred after December 15, 2017, which was reduced under the *TCJA* from \$1,000,000 to \$750,000 (\$375,000 if married filing separately) through 2025. This *TCJA* limitation was made permanent by the *OBBBA*. **Planning Alert!** Home equity loans (e.g., HELOCs) can be "acquisition indebtedness" if used to acquire, construct, or substantially improve a qualified residence; **4) Charitable Contributions** paid in cash or charged on a credit card in 2025 increase your itemized deductions. A charitable contribution deduction is allowed for 2025 if the check is mailed on or before December 31, 2025, or the contribution is made by a credit card charge in 2025. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay the note or pledge. **Planning Alert!** Starting in 2018 (with no sunset date), a charitable contribution deduction is not allowed for contributions made to colleges and universities in exchange for the contributor's right to purchase tickets or seating at an athletic event. **Update!** The *OBBBA* makes several changes to the rules for deducting charitable contributions beginning in 2026. Please contact us if you would like more details; **5) Casualty Loss Deductions** for years 2018 through 2025 are generally suspended under the *TCJA* for personal casualty losses and theft losses. However, personal casualty losses attributable to Federally declared disasters continue to be deductible. For tax years beginning after 2025, the *OBBBA* makes this provision for taking a personal casualty loss permanent and adds certain state-declared disasters as qualifying disasters in addition to Federally declared disasters; and **6) Un-Reimbursed Employee Business Expenses** incurred from 2018 through 2025, are not deductible as a miscellaneous itemized deduction under the *TCJA*. **Update!** The *OBBBA* makes the suspension of the deduction for miscellaneous itemized deductions permanent. Therefore, the deduction for miscellaneous itemized deductions and the corresponding 2% of AGI limitation will not be reinstated in 2026 and Un-Reimbursed Employee Business Expenses will not be deductible. However, beginning with the 2026 tax year, the *OBBBA* provides that qualified educator expenses in excess of the above-the-line deduction limitation (e.g., \$300 for 2025) are deductible as an itemized deduction if the educator itemizes deductions.

Postponing Taxable Income May Save Taxes. Generally, deferring taxable income from 2025 to 2026 may reduce your income taxes, if your effective income tax rate for 2026 will be lower than your effective income tax rate for 2025. Moreover, deferring income from 2025 to 2026 may provide you with the same tax benefits listed previously when you accelerate AGI deductions into 2025 (i.e., Freeing up other deductions and tax credits that phase out as your adjusted gross income or modified adjusted gross income increases; Reducing your modified adjusted gross income below the income thresholds for the 3.8% Net Investment Income Tax; Reducing your household income to a level that allows a refundable Premium Tax Credit; or, Reducing your taxable income to a level that maximizes the 20% Deduction). **Planning Alert!** If, after considering all factors, you believe deferring taxable income into 2026 will save you taxes, consider the following:

- **Planning For Tax Rates.** The deferral of income could cause your 2025 taxable income to fall below the thresholds for the highest **37% tax bracket (i.e., \$751,601 for joint returns; \$626,351 if single)**. If you have income subject to the 3.8% Net Investment Income Tax and the income deferral reduces your 2025 adjusted gross income below the thresholds for the 3.8% NIIT, you may avoid this additional 3.8% tax on your investment income. In addition, if you reduce your modified adjusted gross income below the Net Investment Income Tax thresholds, you may avoid the **additional Medicare tax of 0.9%** on your wages and/or self-employment income. **Note!** If you are a self-employed individual using the cash method of accounting, consider delaying year-end billings to defer income until 2026. **Planning Alert!** Remember, if you receive the check in 2025, waiting until 2026 to make the deposit **does not defer the income**.

INDIVIDUAL PLANNING WITH INVESTMENT INCOME

Planning With The 3.8% Net Investment Income Tax (3.8% NIIT). The **3.8% Net Investment Income Tax (3.8% NIIT)** applies to the Net Investment Income of higher-income individuals. This tax applies to individuals with modified adjusted gross income exceeding the following **thresholds: \$250,000 for married filing jointly; \$200,000 if single; and \$125,000 if married filing separately**. The 3.8% NIIT is imposed upon the **lesser of** an individual's: **1)** Modified adjusted gross income in excess of the **threshold**, or **2)** Net investment income. The 3.8% NIIT not only applies to traditional types of investment income (i.e., interest, dividends, annuities, royalties, and capital gains), it also applies to business income that is taxed to a passive owner (as discussed in more detail below) unless the passive income is subject to S/E taxes. If you believe the 3.8% NIIT may apply to you, consider the following planning techniques:

- **Pick Investments That Generate Income Exempt From The 3.8% NIIT.** The following types of income are **not subject** to the 3.8% NIIT: **tax-exempt bond interest; gain on the sale of a principal residence** otherwise excluded from income under the home-sale exclusion rules (i.e., up to \$250,000 on a single return, up to \$500,000 on a joint return); and **distributions from qualified retirement plans** (e.g., 401(k) plans, IRAs, 403(b) annuities, etc.). **Planning Alert!** Although taxable distributions from qualified retirement plans are exempt from the 3.8% NIIT, the taxable distributions will increase your modified adjusted gross income. Therefore, to the extent the taxable distributions cause your modified adjusted gross income to exceed the thresholds for the 3.8% NIIT, the distributions could cause your other net investment income (e.g., dividends, interest, capital gains, rents, passive income) to be hit with the 3.8% NIIT.
- **Roth IRAs (Including Roth IRA Conversions).** **Tax-free distributions from a Roth IRA** are exempt from the 3.8% NIIT, and do not increase your modified adjusted gross income (and thus will not increase your exposure to the 3.8% tax). However, if you are considering converting a traditional IRA into a Roth, the income triggered in the year of conversion would increase your modified adjusted gross income and, therefore, may increase your exposure to the 3.8% NIIT on your net investment income. **Planning Alert!** If you want a Roth conversion to be **effective for 2025**, you must transfer the amount from the regular IRA to the Roth IRA **no later than December 31, 2025**. **Caution!** Please contact us if you need help in deciding whether to convert to a Roth IRA.
- **Tax-Deferred Investments.** The 3.8% NIIT does not apply to earnings generated by a **tax-deferred annuity (TDA)** contract until the **income is distributed**. Thus, after first considering the economics, investing in a TDA in your higher-income years may allow you to **defer the annuity income** until later years when your modified adjusted gross income is below the 3.8% NIIT thresholds.
- **Passive Income.** "Net Investment Income" for purposes of the 3.8% NIIT generally includes net income from a business activity if you are a passive owner (unless the income constitutes self-employment income that is subject to the 2.9% Medicare tax). You will generally be deemed a "passive" owner if you do not "materially participate" in the business as determined under the traditional passive activity loss rules. **Note!** If you need help understanding the passive activity rules, **please contact our firm**.

Planning With Capital Gains And Losses. Generally, net capital gains (both short-term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual filing a joint return with taxable income for 2025 of **\$600,051 or more (\$533,401 or more if single)** paying Federal income tax on net long-term capital gains at a **23.8% rate** (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). In addition, an individual's net short-term capital gains could be taxed as **high as 40.8%** (i.e., 37% plus 3.8%), for Federal income tax purposes. Consequently, traditional planning strategies involving the timing of your

year-end sales of stocks, bonds, or other securities continue to be as important as ever. **Planning Alert!** Always consider the **economics of a sale or exchange first!** The following are effective planning techniques to consider for sales of capital assets.

- **Capital Gains And Dividends Zero Percent Tax Rate.** For individuals filing a **joint return** with 2025 taxable income of **less than \$96,701 (less than \$48,351 if single)**, their long-term capital gains and qualified dividends are taxed at a **zero percent rate**. **Planning Alert!** If you believe your 2025 taxable income will be less than \$96,701 (less than \$48,351 if single), **please contact us** and we will help you determine whether you can take advantage of this zero percent tax rate for long-term capital gains and qualified dividends. **Note!** The zero percent rate is particularly important to lower-income retirees who rely largely on investment portfolios that generate dividends and long-term capital gains.
- **Timing Your Capital Gains And Losses.** If the value of some of your investments is less than your cost, it may be a good time to harvest some capital losses. For example, if you have already recognized capital gains in 2025, consider selling securities **prior to January 1, 2026**, that would trigger capital losses. These losses will be deductible on your 2025 return to the extent of your recognized capital gains, plus \$3,000. **Tax Tip!** These losses may have the added benefit of reducing your income and allowing you to qualify for other tax breaks. **Caution!** If, within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the **wash sale rules**. **Planning Alert!** To avoid the wash sale rules, consider buying shares of a different company in the same sector.
- **Planning With Capital Loss Carryforwards.** If you have substantial capital loss carryforwards coming into 2025, consider selling enough **appreciated securities** before the end of 2025 to **decrease your net capital loss to \$3,000**. All else being equal, you should sell the **short-term gain** (held for 12 months or less) securities first. This will **allow your net capital loss** (in excess of \$3,000) to offset your **short-term capital gain**, while preserving favorable **long-term capital gain treatment for later years**. **Planning Alert!** Your net short-term capital gains can be used to free up a deduction for any investment interest you have incurred (e.g., interest you have paid on your margin account). If you **eliminate your short-term capital gains** by recognizing your short-term capital losses, you may be restricting your ability to **deduct your investment interest**.

INDIVIDUAL PLANNING WITH RECENT CHANGES TO IRAS AND QUALIFIED RETIREMENT PLANS

10-Year Required Minimum Distribution Rule For Retirement Plans Of Individuals Dying After 2019.

The IRS has issued regulations interpreting the required minimum distribution (RMD) rules for retirement plans (including qualified retirement plans, §403(b) annuity contracts, IRAs, and §457 deferred compensation plans) as modified by *SECURE Act 1.0* and *2.0*. The regulations provide a 10-year distribution rule for plan beneficiaries who are not “eligible designated beneficiaries” of retirement plans where the owner of the retirement account dies on or after the account owner’s required beginning date (currently the April 1st following the year the account owner reaches age 73). An **Eligible Designated Beneficiary** is a surviving spouse, a disabled or chronically ill individual, an individual who is not more than 10 years younger than the account owner, or a child of the account owner who has not reached age 21. The 10-year rule requires distributions to begin in the calendar year **following the calendar year of the account owner’s death and requires the entire account balance to be distributed by the end of the 10th calendar year following the calendar year of the account owner’s death**. This new 10-year rule was to be effective for retirement account beneficiaries of **individuals dying after 2019**. The IRS now says that designated beneficiaries of account owners in IRAs or defined contribution plans who were not “Eligible Designated Beneficiaries” and were subject to the 10-year rule will not be penalized for failing to take RMDs in 2021, 2022, 2023, or 2024 where the account owner died in 2020, 2021, 2022, or 2023 on or after reaching the account owner’s required beginning date. **Planning Alert!** The regulations **do not require** distributions that were not made in 2021, 2022, 2023, or 2024 to be made in 2025. However, the distribution that is otherwise **required for 2025 is required to be made in 2025** to avoid the failure to distribute penalty. In addition, **any balance remaining in the plan for the beneficiary in the 10th calendar year following the calendar year of the account owner’s death must be distributed to the beneficiary in that 10th year to avoid penalties**.

MISCELLANEOUS INDIVIDUAL PLANNING CONSIDERATIONS

Contribute The Maximum Amount To Your Traditional IRA. As your income rises and your marginal tax rate increases, deductible IRA contributions generally become more valuable. As you evaluate how much you should contribute to your IRA, consider the following. If you are married, even if your spouse has no earnings, you can generally deduct, in the aggregate, up to **\$14,000 (\$16,000 if you are both at least age 50 by the end of the year)** for contributions to you and your spouse's traditional IRAs. You and your spouse must have **combined earned income** at least **equal to the total contributions**. However, no more than **\$7,000 (\$8,000 if at least age 50)** may be contributed to either your IRA account or your spouse's IRA account for 2025. If you are an active participant in your employer's retirement plan during 2025, your **IRA deduction is reduced** ratably as your adjusted gross income increases from **\$126,000 to \$146,000** on a joint return (**\$79,000 to \$89,000** on a single return). However, if you file a joint return with your spouse and your **spouse is an active participant** in his or her employer's plan and you are **not an active participant** in a plan, your IRA deduction is reduced as the adjusted gross income on your joint return goes from **\$236,000 to \$246,000. Caution!** Every dollar you contribute to a **deductible IRA reduces** your allowable contribution to a **nondeductible Roth IRA**. The sum of your contributions for the year to your Roth IRA and to your traditional IRA may not exceed the \$7,000/\$8,000 limits discussed above. For 2025, your ability to contribute to a **Roth IRA is phased out** ratably as your adjusted gross income **increases from \$236,000 to \$246,000** on a joint return or from **\$150,000 to \$165,000** if you are single. **Planning Alert!** Unlike the rule for traditional IRA contributions, the amount you may contribute to a **Roth IRA is reduced** if your adjusted gross income **falls within these phase-out ranges** regardless of whether you or your spouse is a participant in another retirement plan. In addition, contributions to a **Roth IRA are not deductible**.

Contribute The Maximum Amount To Your 401(k). Participants have until December 31st to contribute to their 401(k). For 2025, the maximum contribution amount is **\$23,500 (\$31,000 if at least 50 years old and \$34,750 if age 60-63)**. Contributions to your 401(k) will decrease your current year taxable income and add to your retirement savings.

Individuals 70½ Or Older By December 31st, Should Consider A Qualified Charitable Distribution (QCD). A Qualified Charitable Distribution (QCD) allows a donation to a charitable organization of **up to \$108,000** from a traditional IRA. These contributions are **excluded from income** and **count toward your RMD** for 2025. **Caution!** These contributions are **not deductible as itemized deductions**. However, if you normally take the standard deduction, a QCD could be even more beneficial since the distribution will be excluded from your income.

Standard Mileage Rates Effective For 2025. The standard mileage deduction rate for your deductible **business miles** was increased to **70.0 cents per mile** effective January 1, 2025. The **charitable mileage rate is still 14.0 cents per mile** since it's not indexed and the rate for **medical and moving mileage is 21.0 cents per mile for 2025. Planning Alert!** Be sure to keep proper records of your mileage for use as a possible tax deduction.

Remember The 20% Deduction For Qualified Business Income. Don't forget the **20% Deduction** under **Section 199A (20% Deduction)** with respect to **Qualified Business Income, Qualified REIT Dividends, and Publicly Traded Partnership Income**. The 20% Deduction does not reduce your adjusted gross income or impact your calculation of self-employment tax. Instead, the deduction simply reduces your taxable income (regardless of whether you itemized deductions or claim the standard deduction). In other words, the 20% Deduction is allowed **in addition to** your itemized deductions or your standard deduction. **Note!** The 20% Deduction for Qualified Business Income was set to expire at the end of 2025. **Update!** The **OBBBA** makes the 20% QBI deduction **permanent**.

Consider Paying Qualified Education Expenses Early To Increase Education Tax Credits. If you pay educational expenses for 2025, you may be able to take advantage of either the **American Opportunity Tax Credit (AOTC)** or the **Lifetime Learning Credit**. The **\$2,500 AOTC** applies to qualified education expenses for the first four years of higher education for an eligible student. In addition, **up to \$1,000** of the AOTC is refundable. The **Lifetime Learning Credit** applies to payment of qualified tuition and related expenses for an eligible student attending a qualifying educational institution. This up to **\$2,000** credit applies to both undergraduate and graduate classes. **Note!** Both the AOTC and Lifetime Learning Credit begin phasing out at **\$80,000 of modified adjusted gross** income and are completely phased out when modified adjusted gross income reaches **\$90,000 (\$160,000 to \$180,000 for joint returns)**.

Planning Alert! Qualified education expenses paid for the first semester of the following year (2026 spring semester) before the end of 2025 qualify for the credit(s).

Gift And Estate Tax Planning. For 2025, a donor can **gift up to \$19,000** to each donee. It is not a taxable gift by the donor and gifts are not included in the recipient's income. Each individual has a unified credit sufficient to exclude up to **\$13,990,000** (for 2025) of assets from the gift tax or estate tax. **Planning Alert!** Using the annual gift tax exclusion (i.e. \$19,000 for 2025) is an effective tool to move assets out of your estate without creating any gift tax or using any of your unified credit amount. **Update!** The *OBBA* increases the value of the unified credit (i.e., the **exclusion amount**) to **\$15,000,000** for estates of individuals dying and gifts made **after 2025**. The **\$15,000,000** will be **indexed for inflation** for those dying and for gifts made **after 2026** with a base year of 2025.

Social Security Tax Wage Base. For 2025, wages and self-employment income subject to the 15.3% Social Security Tax is **\$176,100**, which is an increase from \$168,600 in 2024. The Social Security tax wage base for 2026 is scheduled to increase to **\$184,500**.

Consider Using The IRS Tax Withholding Estimator To Avoid Surprises. In order to avoid an unexpected tax liability and possible penalties and interest in 2026, it's a good idea to revisit your withholding and estimated tax payments before year-end. The IRS encourages taxpayers to use its Tax Withholding Estimator at <https://www.irs.gov/individuals/tax-withholding-estimator> to ensure they have the correct amount of taxes paid in before December 31st. **Remember!** It is especially important to review your withholding if you've had a job change, additional income stream, marriage, divorce, loss of a dependent or other significant events occur during 2025. **Note!** The estimator has not yet been updated to reflect the new provisions of the *One Big Beautiful Bill Act*. If you believe your tax liability has been affected because of a significant event, and you have questions, **please contact our firm** so we can discuss it.

FINAL COMMENTS

Please contact us if you are interested in a topic we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, please contact us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of promoting, marketing, or recommending to another party any transaction or matter addressed herein. The preceding information is intended as a general discussion of the subject addressed and is not intended as a formal tax opinion. The recipient should not rely on any information contained herein without performing his or her own research verifying the conclusions reached. The conclusions reached should not be relied upon without an independent, professional analysis of the facts and law applicable to the situation.