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 call our firm.

Caution! The IRS continues to release guidance on various important tax provisions. We closely monitor new tax legislation and IRS releases. Please call 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 call 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.**

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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. However, the increased standard deduction amounts were scheduled to be reduced after 2025. The *OBBBA* makes these higher standard deduction amounts **permanent.** In addition, the *OBBBA* **increases** the standard deduction for 2025 and indexes these amounts for inflation after 2025. The Standard Deduction amounts for **2025** are increased as follows: **Joint Return – from $30,000 to $31,500; Single and Married Filing Separately – from $15,000 to $15,750; and Head-of-Household – from $22,500 to $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). **Remember!** Deductions continue to be allowed for state, local, and foreign property taxes, and sales taxes paid or incurred in operating the taxpayer's trade or business (e.g., Schedule C, Schedule E, or Schedule F) or in connection with the taxpayer's production of income. This limitation is generally known as the state and local tax (SALT) deduction limitation. The SALT deduction limitation has especially affected taxpayers who live in states with an income tax, real estate taxes, and personal property taxes. 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! Note!** The limitation is half of these amounts for married individuals filing separate returns. For **2027 through 2029** these SALT deduction limitations will **increase by 1% of the previous year's amount.** The deduction limitation is **reduced by 30%** of the excess of the taxpayer's modified adjusted gross income (MAGI) over **$500,000 ($250,000** for married individuals filing separate returns) **for 2025; $505,000 ($252,500) for 2026.** These MAGI thresholds will also be **increased by 1% of the previous year's amount for 2027 through 2029.** The deduction for any year will not be reduced below **$10,000 ($5,000)** and the SALT deduction limitation will revert to **$10,000 ($5,000) after 2029. 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. Since the passage of the $10,000 cap, this planning technique has not been as important for a large number of taxpayers. However, 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 individuals who are **at least age 65** by the end of the year, the *OBBBA* provides a new deduction. For years **2025-2028** the **deduction is $6,000** 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.

<u>Car Loan Interest Deduction.</u> The *OBBBA* introduced a new deduction, for tax years 2025 through 2028, 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.** 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. The deduction is **limited to $10,000** for any taxable year. The car loan interest deduction (after applying the $10,000 limitation) is **reduced (but not below zero) by $200** for each **$1,000** (or portion thereof) by which the taxpayer's **modified adjusted gross income** (MAGI) for the tax year **exceeds $100,000 ($200,000 for married individuals filing a joint return).** The deduction is **completely phased out** when **MAGI is $249,001 or greater** for joint filers or **$149,001 or greater** for others. **<u>Note!</u> Used or imported** passenger vehicles and vehicles that do not otherwise qualify (for example campers, all-terrain vehicles, and trailers) **cannot benefit** from the deduction. The OBBBA requires those **making loans** for vehicles qualifying for the deduction, to **report the amount of interest** qualifying for the deduction to the borrower if the **interest paid is at least $600.**

<u>Update!</u> On October 21, the IRS issued guidelines for lenders to meet their reporting obligation for 2025. In **Notice 2025-57** the IRS says lenders will have met their reporting obligation if they provide the borrower with a statement showing the amount of interest received from the borrower in 2025. The IRS also says lenders can provide this information in almost any format as long as the information is correct. Examples of permissible reporting methods include reporting on **monthly or annual statements** and providing the **information online** to the borrower. **<u>Note!</u>** If you don't receive an official interest statement from your lender for interest paid on a qualified passenger vehicle in 2025, be sure to review your monthly and/or annual statements received through the mail or available online. **<u>Planning Alert!</u>** 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.

<u>Qualified Overtime Pay Deduction.</u> 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 **reduced by $100 for every $1,000 of modified adjusted gross income over $300,000** for those filing joint returns and **$150,000 for others.** The allowable overtime pay deduction **phases out completely** when the taxpayer's MAGI for the year **reaches $550,000 for joint filers ($275,000 for others).** 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. <u>Planning Alert!</u>** 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). **<u>Note!</u>** FICA and FUTA taxes still apply to overtime pay.

<u>Qualified Tips Deduction.</u> 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. "Qualified tips"** are voluntary cash or charged tips received from customers or through tip sharing. Taxpayers must include their **social security number** on their income tax return to take the deduction. The **$25,000 deduction is reduced by $100 for each $1,000** the taxpayer's modified adjusted gross income (MAGI) exceeds **$150,000 ($300,000 for taxpayers filing a joint return).** The deduction for tips **phases out completely** when the taxpayer's **MAGI reaches $400,000 ($550,000 for those filing a joint return).** Married taxpayers must file a **joint return** to claim the deduction. **<u>Note!</u>** The IRS has published a list of occupations that

"customarily and regularly" received tips before 2025. The list 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.

Update! The American Institute of Certified Public Accountants (AICPA) has requested additional guidance from the IRS and Treasury on reporting and substantiation requirements for **both the qualified tips and overtime pay** deductions. The AICPA is concerned for employers and their employees because the IRS stated it will not update reporting forms for 2025. Currently, neither Form W-2, nor Form 1099-NEC provide fields to report qualified tips and qualified overtime compensation.

Enhanced Child Tax Credit. The Child Tax Credit is an important tool for taxpayers with qualifying children to help reduce their tax liability and part of it can be refundable (i.e., paid out even if you owe little or no tax). 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 credit will also be **adjusted for inflation** after 2025. 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. The *OBBBA* also stipulates that the refundable credit will be **adjusted for inflation** after 2025. **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). Qualified postsecondary credentialing expenses include: **tuition, fees, books, supplies and equipment needed** for the enrollment or attendance of a designated beneficiary in a recognized **postsecondary credential program** or any **other expense incurred in connection with such enrollment or attendance** if such expense would be considered a QHEE in connection with enrollment or attendance at an **eligible education institution; fees for testing,** if the testing is required **to obtain or maintain** a recognized postsecondary credential; and **fees for continuing education** if it is required **to maintain** a recognized postsecondary credential.

Beginning in 2018, the *TCJA* allowed 529 plans to pay **up to $10,000** per year of **qualified tuition** in connection with the enrollment or attendance of the designated beneficiary at a **public, private, or religious elementary or secondary school.** 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** to include: **tuition; curriculum and curricular materials; books or instructional materials; online education materials; tuition for tutoring or educational classes** outside of the home, but only if the tutor is **not related to the student** and is a **licensed teacher,** has taught at an **eligible educational institution, or is a subject matter expert; fees for nationally standardized achievement tests, an advanced placement examination, or any examinations related to college or university admission; fees for dual enrollment in an institute of higher education; and educational therapies for students with disabilities provided by a licensed or accredited practitioner or provider, including occupational, behavioral, physical, and speech-language therapies. 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, which was introduced as part of the *2022 Inflation Reduction Act (IRA)*, allowed taxpayers a **credit of up to $7,500** if they purchased a **new electric vehicle** that qualified as a "new clean vehicle" **before January 1, 2033.** In addition, the IRA provided a Previously Owned Clean Vehicle Credit **of up to $4,000** if an individual purchased a **used electric vehicle** that qualified as a "previously owned clean vehicle" **before January 1, 2033. Alert!** The *OBBBA* **terminated these credits,** and **no credits are allowed** 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. If you installed energy efficient insulation, doors, windows, skylights or energy efficient heat pumps, air conditioners, furnaces, water heaters, or boilers in your residence during 2025 you may qualify for an **Energy Efficient Home Improvement Credit of up to $3,200** if certain energy efficient standards are met. However, the *OBBBA* **repeals the Energy Efficient Home Improvement Credit** for property placed in service **after 2025.** Therefore, if you plan on purchasing these items 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.**

Also, you may be eligible for a **Residential Clean Energy Credit of 30%** of the cost of solar panels, solar water heaters, geothermal heat pump property, and wind turbines installed during 2025. However, the *OBBBA* **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 plan on purchasing these items in the near future, you should consider **purchasing and installing the items before 2026,** so you qualify for the 30% credit. In the case of an expenditure made in connection with the **construction or reconstruction of a structure,** the IRS says the expenditure will be treated as made when the **original use of the constructed or reconstructed structure by the taxpayer begins.** If such construction or reconstruction is completed and taxpayer's original use of the structure begins after December 31, 2025, the IRS says that the property does not qualify for the 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.** Previously, stock was not QSBS qualifying for gain exclusion if the **aggregate gross assets of the corporation** after the issuance of the stock **exceeded $50 million.** For stock issued **after July 4, 2025,** the **aggregate gross asset** limitation is **increased to $75 million** (adjusted for inflation after 2026). These changes significantly expand the benefits of qualified small business stock. **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 (discussed above) as well as the *OBBBA* provisions first effective in 2026 (discussed in this segment) must be considered. The *OBBBA* makes year-end income tax planning much more complicated since many of the beneficial provisions in *OBBBA* are reduced as your modified adjusted gross income (MAGI) exceeds certain thresholds. We will gladly assist you with 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. It's likely that more individuals will be subject to the AMT in 2026 because of changes made to the AMT calculation by the *OBBBA*. 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. For example, for those filing **joint returns in 2025**, the **$137,000 AMT exemption** amount is reduced by **25% of the AMTI in excess of $1,252,700.** In **2026**, the **$140,200 indexed exemption** amount for those filing **joint returns** will be **reduced by 50% of the AMTI in excess of $1,000,000.**

__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. "Qualified farmland property"** is; **1)** real property located in the U.S. that has either been used by the taxpayer as a farm for farming purposes, **or** that has been leased by the taxpayer to a qualified farmer for farming purposes during substantially all of the 10-year period ending on the date of the qualified sale or exchange, __**and**__ **2)** is subject to a covenant or other legally enforceable restriction that prohibits the use of the property other than as a farm for farming purposes for 10-years after the date of the sale or exchange. **A "qualified farmer"** is an individual actively engaged in farming within the meaning of section 1001(b) and (c) of the **Food Security Act of 1986.** For individuals, events such as death or failure to make the tax payments on time accelerate the otherwise deferred payments. __**Note!**__ This provision may apply to owners of S corporations or partnerships and to Corporations, trusts, and estates as well as to individuals.

__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 (i.e., below-the-line 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 (and tax credits) that phase out as your adjusted gross income (or modified adjusted gross income) increases (e.g., Certain IRA Contributions, Education Credits, Adoption Credit, Child Credits, Deduction For Seniors, SALT Deduction, Car Loan Interest Deduction, Overtime Pay Deduction, Qualified Tips Deduction, etc.); **3)** Potentially reducing your modified adjusted gross income below the income thresholds for the 3.8% Net Investment Income Tax (i.e., **3.8% NIIT** only applies if MAGI **exceeds $250,000 if married filing jointly; $200,000 if single); 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 (i.e., individuals reporting Qualified Business Income will generally find it much easier to qualify for the **20% Deduction** if their 2025 taxable income does **not exceed $394,600** if filing a joint return or **$197,300** if filing single).

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 (e.g., Visa, MasterCard, Discover, American Express). __**Caution!**__ If you **post-date** the check to 2026 or if your check is **rejected,** no payment has been made in 2025 even if the check is delivered in 2025.

__Planning Alert!__ The IRS says that prepayments of expenses applicable to periods **beyond 12 months** after the payments are not deductible in 2025. If you think that you could benefit from accelerating **above-the-line** deductions into 2025, consider the following:

- **Possible Above-The-Line Deductions.** **Above-the-line** deductions include Military Moving Expenses; Qualifying Alimony Payments (if the divorce or separation instrument was **executed before 2019);** Deductions for IRA or Health Savings Account (HSA) Contributions; and Student Loan Interest.

  Planning Alert! There have been changes to the above-the-line deductions for Moving Expenses, and Alimony Payments, as follows:

  - **Moving Expenses.** Historically, the deduction for qualified **business-related moving expenses** was an above-the-line deduction. However, for **2018 through 2025,** the deduction for **moving expenses** has been **suspended for most individuals** under the *TCJA*. Generally, active members of the Armed Forces who move pursuant to a military order because of a permanent change of station may still deduct un-reimbursed qualified moving expenses as above-the-line deductions and may exclude the employer reimbursements of those moving expenses from income.

    Update! The *OBBBA* makes the *TCJA* change **permanent.** Therefore, the provision **will not expire after 2025.** In addition, for tax years beginning **after 2025,** the special rules applicable to an active-duty **member of the Armed Forces** also apply to an employee or new appointee of the **intelligence community** (as defined in the National Security Act of 1947 (50 USC 3003)) if the move is pursuant to a **change in assignment** requiring relocation. **Planning Alert!** For 2025, an **Armed Forces Member** may use the standard rate of **21 cents per mile** to determine the deduction for automobile expenses related to a qualified move.

  - **Alimony Payments.** Historically, an individual making qualified alimony payments was allowed an above-the-line deduction for the payments and the recipient of the payments was required to include the payments in income. However, effective for "Divorce or Separation Instruments" **executed after 2018,** the deduction for alimony payments **has been repealed** altogether. The good news is that these alimony payments are no longer taxable to the recipient. Alimony paid under a divorce instrument **executed before 2019** will generally be **grandfathered** under the previous rules. **Planning Alert!** If you are currently paying or receiving alimony pursuant to a divorce or separation instrument **executed before 2019,** the tax treatment of the alimony payments **does not change.** If your alimony payments were deductible before 2019, they should continue to be deductible (and includible in the recipient's income). **Caution!** Form 1040, Schedule 1 requires individuals who receive taxable alimony to disclose the **Date Of Original Divorce Or Separation Agreement,** and the amount received. Individuals who **deduct** the alimony are required to list the amount paid, the social security number of the recipient and the **Date Of Original Divorce Or Separation Agreement.**

  - **Contributions To A Health Savings Account (HSA).** If you are covered under a high-deductible health plan during 2025, you may be eligible for an above-the-line deduction for contributions to an HSA. The maximum deduction for a self-only coverage plan is **$4,300** and **$8,550** for a family coverage plan. In addition, if you are **at least 55** by the close of 2025, you can add **$1,000 ($5,300 & $9,550). Caution!** Distributions from your HSA must be used for **qualified medical expenses,** or they will be taxed and hit with a **20% penalty** if you are not at least **age 65 or disabled.**

  - **Student Loan Interest Deduction.** You may be able to deduct up to **$2,500 of interest paid** on a qualified student loan during 2025. The deduction is allowed to taxpayers who, according to the loan agreement, have a **legal obligation to make the interest payments.** The $2,500 maximum deduction is **phased out between $170,000 and $200,000** of modified adjusted gross income if filing a joint return **($85,000 and $100,000 if filing single). Caution!** The deduction is not allowed to: **1)** A taxpayer filing as married filing separately, or **2)** A taxpayer who may be claimed as a dependent on someone else's tax return.

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. For 2025, the Standard Deduction is: **Joint Return - $31,500; Single - $15,750;** and **Head-of-Household - $23,625.** The following are ideas for planning with itemized deductions:

- **Medical Expense Deductions.** If you think your itemized deductions this year could likely exceed your standard deduction of **$31,500 if filing jointly ($15,750 if single),** but you do not expect your itemized deductions to exceed your standard deduction next year, you could save taxes in the long run by accelerating elective medical expenses (e.g., braces, new eyeglasses, etc.) into 2025. **Note!** For 2025, you are allowed to take an itemized deduction for medical expenses only to the extent your aggregate **medical expenses 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".** Please contact us so we can determine if those expenses can be reported as medical expenses on your return.

- **$10,000 Cap On State And Local Taxes.** As we mentioned previously, 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!** The limitation is half of these amounts for married individuals filing separate returns. The deduction limitation is **reduced by 30%** of the excess of the taxpayer's modified adjusted gross income (MAGI) over **$500,000 ($250,000** for married individuals filing separate returns) **for 2025; $505,000 ($252,500) for 2026. Note!** The deduction for any year will not be reduced below **$10,000 ($5,000)** and the SALT deduction limitation will revert to **$10,000 ($5,000) after 2029.**

  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. This treatment may be beneficial to owners who have state and local taxes above the new SALT deduction amount discussed above. If the **entity pays** the state and local income taxes on its income, the **owner does not pay tax on the same income.** States either give the partners or S corporation **shareholders a state credit or deduction** on their personal returns for the state and local tax paid on income reported by the entity. Please **contact us** if you would like to know more about your state's law allowing state and local taxes to be paid by the partnership or S corporation. If your **state and local taxes for 2025 are greater** than the **deduction limitation for 2025** consider **deferring payments in excess** of the limit until **2026,** if the **deferred amounts** and the **payments during 2026 do not exceed the SALT limitation. Property taxes and fourth quarter state estimated tax payments** are usually good candidates for deferral. **Caution!** If a **late payment penalty** will be incurred if payment is **deferred into 2026,** this penalty must be considered in determining if deferral is beneficial.

- **Home Mortgage Interest Deduction.** Under the *TCJA* the amount of home acquisition indebtedness for which interest was deductible was reduced **from $1,000,000 to $750,000 ($375,000** if married filing separately) for acquisition indebtedness incurred **after December 15, 2017, and before 2026.** The $1,000,000 cap remains for acquisition indebtedness incurred **on or before December 15, 2017. Note!** Subject to limited exceptions, the **refinancing of acquisition indebtedness** is deemed to have been incurred on the date of the **original indebtedness.** So, if a taxpayer incurred acquisition indebtedness **on or before December 15, 2017,** the refinancing of that indebtedness **after December 15, 2017,** will still be entitled to the **$1,000,000 cap** (to the extent of the outstanding balance of the original acquisition indebtedness on the date of the refinancing). **Update!** The *OBBBA* makes the **$750,000 cap** for acquisition indebtedness incurred after **December 15, 2017, permanent.** Therefore, the $750,000 qualified residence indebtedness limitation **will not revert to $1,000,000 in 2026.**

  Planning! Home acquisition indebtedness for which interest on the debt is deductible up to the above limits includes indebtedness secured by your principal residence or a second home where the proceeds of the **debt is used to buy, build or substantially improve that residence.** Home equity loans (e.g., HELOCs) can be "acquisition indebtedness" if used to acquire, construct, or substantially improve a qualified residence. A "Qualified Residence" includes a house, condominium, mobile home, boat, or house trailer that contains sleeping, cooking, and toilet facilities.

Note! Mortgage insurance premiums paid or accrued for **qualified mortgage insurance** in connection with acquisition indebtedness for a qualified residence were deductible **as qualified residence interest** (home mortgage interest) if paid or accrued **before 2022.** The deduction was **reduced by 10% for each $1,000** or portion thereof by which the taxpayer's adjusted gross income **exceeded $100,000 ($500 and $50,000 respectively** for a married individual filing a separate return). The *OBBBA* **reinstates** the deduction for **qualified mortgage insurance premiums** for tax years beginning **after 2025.**

- **Charitable Contributions.** If you think your itemized deductions this year could likely exceed your standard deduction of **$31,500 if filing jointly ($15,750 if single)** and you want to **accelerate your charitable deduction** into 2025, please note that 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. In addition, if you are considering a **significant 2025 contribution** to a qualified charity (e.g., church, synagogue, or college), it will generally save you taxes if you contribute **appreciated long-term capital gain property,** rather than selling the property and contributing the cash proceeds to the charity. By contributing **capital gain property held more than one year** (e.g., appreciated stock, real estate, Bitcoin, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. If instead you intend to use **loss stocks, etc.** to fund a charitable contribution, you should **sell the stock first and then contribute the cash proceeds.** This will allow you to deduct the capital loss from the sale, while preserving your charitable contribution deduction. **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** (prior law allowed the taxpayer to deduct 80% as a charitable contribution).

  Update! The *OBBBA* makes several changes to the rules for deducting charitable contributions that should factor into your year-end planning.

  - **The 60% Of AGI Limitation For Cash Contributions Is Made Permanent.** The *TCJA* increased the AGI limitation on charitable contributions made in cash to public charities **from 50% of AGI to 60% of AGI from 2018 through 2025.** The *OBBBA* makes the 60% of AGI limitation under *TCJA* **permanent for cash contributions to public charities.** Therefore, the AGI limitation **will not revert to 50% of AGI after 2025.**

  - **Charitable Contribution Deduction For Nonitemizers After 2025.** For tax years beginning **after 2025,** the *OBBBA* allows a taxpayer that uses the standard deduction to deduct **up to $1,000 ($2,000 for those filing a joint return)** of **qualified charitable contributions** made during the tax year. The deduction is **NOT** an above-the-line deduction and is deducted when calculating **taxable income.** In other words, the deduction is similar to an **additional standard deduction. Note!** A **qualified charitable contribution** is a charitable contribution **made in cash** that would otherwise be allowed as an **itemized deduction contributed to churches, nonprofit educational institutions, nonprofit medical institutions, public charities,** or any other organization described in Code Section 170(b)(1)(A). The contribution **cannot be made** to a **supporting organization** under Code Section 509(a)(3) or a new or existing **donor advised fund.**

  - **New 0.5% Floor After 2025 For Charitable Contribution Deductions For Individuals Who Itemize.** For tax years **beginning after 2025,** the *OBBBA* provides that an individual taxpayer's charitable contribution deductions are **reduced by 0.5%** of the taxpayer's **contribution base** (generally a taxpayer's AGI). For example, if for 2026 you itemize deductions and your AGI is $200,000, the first $1,000 (0.5% of $200,000) of your charitable donations would **not be deductible.** Only amounts above that amount would qualify for the deduction. The 0.5% reduction does not apply if you use the standard deduction. **Contributions disallowed** due to the 0.5% floor can be **carried forward to future years,** subject to the contribution limitations in those years. **Planning Alert!** You can eliminate the 0.5% reduction for contributions by making charitable **contributions in 2025** that you would **otherwise make in 2026.** However, other factors must be considered, including your tax rates for 2025 and 2026 and any charitable contribution carryovers. **Note!** A decision should not be made without calculating your income tax for 2025 and 2026 with and without the contribution.

- **Casualty Loss Deductions. From 2018 through 2025,** the *TCJA* **generally suspended** the deduction for **personal casualty losses and theft losses.** However, personal casualty losses attributable to **Federally declared disasters** continued to be deductible.

  Update! 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. The *OBBBA,* as modified by the *Filing Relief For Disasters Act,* provides that **the IRS** (after consultation with the administrator of FEMA) **may, upon the written request** of the Governor of a State (or the Mayor, in the case of the District of Columbia), **apply the rules for Federally declared disasters to a qualified State declared disaster.** Previously, the IRS had to wait until there was a Federal disaster declaration to grant relief.

  Special Rules For Disasters Declared Between January 1, 2020, And September 2, 2025. The *OBBBA* provides special rules for Federally declared disasters where the disaster was declared **between January 1, 2020, and September 2, 2025,** and the incident period begins after **December 27, 2019, and before September 2, 2025.** For these disasters, the subtraction applicable to each disaster is **$500 (rather than $100)** and the **10% AGI limitation does not apply.**

- **Un-Reimbursed Employee Business Expenses.** Starting in **2018 and through 2025,** the *TCJA* provided that un-reimbursed employee business expenses are **not deductible** as a miscellaneous itemized deduction. For example, you **may not deduct** any of the following business expenses you incur as an employee, even if the expenses are necessary for your work: **Automobile expenses** (including auto mileage, vehicle depreciation); **Costs of travel, Transportation, Lodging and meals; Union dues and expenses; Work clothes and uniforms;** Otherwise qualifying **home office expenses; Dues** to a chamber of commerce; **Professional dues; Work-Related education expenses; Job search** expenses; **Licenses and regulatory fees; Malpractice insurance premiums; Subscriptions** to professional journals and trade magazines; and **Tools and supplies** used in your work.

- **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 the above expenses will not be deductible. However, **beginning with the 2026** tax year, the *OBBBA* allows an itemized deduction for **certain qualified educator expenses.** 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 **after 2025** if the educator itemizes deductions. Eligible educators are **kindergarten through grade 12, teachers, instructors, counselors, coaches, principals, or aides** who work in a school for at **least 900 hours** during a school year. Eligible educator expenses include **books, supplies, computer equipment, and supplementary materials** used by eligible educators.

  Planning Alert! In general, employee business expenses reimbursed under an employer's qualified **Accountable Reimbursement Arrangement are deductible by the employer** (subject to the limit on business meals), and the reimbursements are **not taxable to the employee.** However, reimbursements under an arrangement that is **not a qualified accountable reimbursement arrangement** generally must be treated as compensation and included in the employee's W-2. In addition, the employer would get no offsetting deduction for the business expense. **Note!** Generally, for an employer to have a qualified **Accountable Reimbursement Arrangement: 1)** The employer must maintain a reimbursement arrangement that requires the employee to **substantiate covered**

expenses; 2) The reimbursement arrangement must require the **return of amounts paid to the employee in excess** of the amounts substantiated; and **3)** There must be a **business connection** between the reimbursement (or advance) and the business expenses.

- **Food And Beverage Expenses.** The *TCJA* generally repealed business deductions with respect to entertainment, amusement, or recreation activities after 2017. Fortunately, the IRS says that businesses can generally deduct 50% of the cost of meals (i.e., food and beverages) with a business associate (e.g., a current or potential business customer, client, supplier, employee, agent, partner, professional advisor). The IRS also says that businesses can deduct 50% of the cost of food and beverages provided during a nondeductible entertainment activity with a business associate provided the **food and beverages are purchased separately** from **the entertainment, or** the cost of the **food and beverages is stated separately** from the cost of the entertainment on one or more bills, invoices, or receipts. **Planning Alert!** If an employer reimburses an employee's deductible business food and beverage expense **under an Accountable Reimbursement Arrangement,** the employer could deduct 50% of the reimbursement. This same rule applies if you are employed by your own S corporation. However, as discussed previously, an employee who is **not reimbursed by the employer** for the business meal **would get no deduction** because un-reimbursed employee business expenses are not currently deductible.

- **Be Careful If You Are Working For Your Own S Corporation.** If you operate your business as an S corporation and you also work for your S corporation as its employee, then it is particularly important that you have your S corporation (i.e., your employer) reimburse all your employee business expenses under an accountable plan. Under this arrangement, the reimbursement will be deductible by your S corporation, the deduction from the reimbursement will pass through to you as the S corporation shareholder, and your S corporation/employer will be able to exclude the reimbursement from your W-2 wages. **Please contact our firm** if you need assistance. We can help you establish a qualifying Accountable Reimbursement Arrangement with your employer.

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 (3.8% NIIT) and the income deferral reduces your 2025 modified adjusted gross income below the thresholds for the 3.8% NIIT (i.e., **$250,000 for married filing joint, $125,000 for married filing separate, and $200,000 for all others),** 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 above, you may not be subject to the **additional Medicare tax of 0.9%** on your wages and/or self-employment income. **Caution!** If your W-2 wages and/or self-employment income for 2025 are greater than $250,000 for married filing joint, $125,000 for married filing separate, and $200,000 for all others, it may be necessary, especially if you have multiple employers during 2025, to adjust your withholding for the additional Medicare tax before year-end. If you are self-employed, you may need to adjust your final federal estimate, in January 2026, for the additional Medicare tax.

- **Deferring Self-Employment Income.** 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. **Note! Trusts and estates** are also subject to the **3.8% NIIT** on the **lesser of: 1)** The adjusted gross income of the trust or estate in excess of **$15,650 (for 2025)**, or **2)** The **undistributed net investment income** of the trust or estate. 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.). **Tax Tip!** Investments that generate tax-exempt income (e.g., tax exempt municipal bonds) potentially provide higher-income individuals with a double benefit: **1)** The interest will not be included in the individual's modified adjusted gross income, thus reducing the chance that the individual will exceed the income thresholds for the 3.8% NIIT, and **2)** The tax-exempt interest itself is exempt from the 3.8% NIIT as well as from Federal income taxes. **Planning Alert!** Although taxable distributions from qualified retirement plans (e.g., IRAs, 401(k) plans, etc.) 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 (e.g., $250,000 for joint returns; $200,000 for singles), 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). Therefore, these tax-favored features should be factored into any analysis of whether you should contribute to a Roth IRA. 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 (e.g., dividends, interest, capital gains). **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** (you do not have until the due date of your 2025 tax return). **Caution!** Whether you should convert your traditional IRA to a Roth IRA can be an exceedingly complicated issue, and the 3.8% NIIT is just one of many factors you should consider. **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. For example, under the passive activity loss rules, you may be a passive owner unless you spend **more than 500 hours** working in the business during the year **or meet one of the other material participation tests.** Furthermore, rental income is generally deemed to be passive income under the passive activity loss rules, regardless of how many hours you work in the rental activity.

Tax Tip! In certain situations, real estate rentals may not be treated as passive income and could also be exempt from the 3.8% NIIT. For example, if you are a "qualified real estate professional," or you lease property to a business in which you materially participate, the rental income may be exempt from the 3.8% NIIT. If you believe you may qualify for one of these rental real estate exemptions, or you otherwise believe you may have passive income from non-rental business activities, **please contact our firm.** We will gladly evaluate your situation to determine whether there are steps you could take before the end of this year to avoid passive income classification, and thus, reduce your exposure to the 3.8% NIIT.

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. The following are effective planning techniques to consider for sales of capital assets. **Planning Alert!** Always consider the **economics of a sale or exchange first!**

- **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.** Individuals who have historically been in higher tax brackets but are now expecting a significant drop in their 2025 taxable income, may find themselves in the zero percent tax bracket for long-term capital gains and qualified dividends for the first time. For example, a significant drop in taxable income in 2025 could have occurred because you are between jobs; or you recently retired; or you are expecting to report higher-than-normal business deductions in 2025. **Planning Alert!** If you are experiencing any of these situations, **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.

- **Lower-Income Retirees.** The zero percent rate for long-term capital gains and qualified dividends is particularly important to lower-income retirees who rely largely on investment portfolios that generate dividends and long-term capital gains. Furthermore, gifts of appreciated securities to lower-income individuals who then sell the securities could reduce the tax on all or part of the gain from as high as 23.8% to as low as zero percent. **Caution!** If the lower-income individual is subject to the kiddie tax, this planning technique will generally not work.

- **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, you should consider selling securities **prior to January 1, 2026,** that would trigger a capital loss. 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, such as the **1)** $2,500 American Opportunity Tax Credit, **2)** $2,200 Child Tax Credit, **3)** Adoption Credit of $17,280, **4)** 20% Deduction, **5)** Increased SALT deduction, **6)** Deduction for seniors, **7)** Car loan interest deduction, **8)** Overtime pay deduction, and **9)** Tips deduction.

  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** (although the disallowed loss will increase the basis of the acquired stock). **Planning Alert!** If you are afraid of missing an upswing in the market during this 61-day period, consider buying shares of a different company in the same sector. Also, there is **no wash sale rule for gains.** Thus, if you decide to sell stock at a gain to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

- **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.** Stocks that you think have reached their peak would be good candidates. 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 a10-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.** However, prior to the issuance of the regulations, many believed the 10-year rule required no distributions until the 10th calendar year following the year of the account owner's death. The IRS received hundreds of comments concerning the requirement in the regulations for distributions to begin in the calendar year following the year of the account owner's death. As a result, **the IRS provided relief from the 10-year rule for qualified 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 of the regulations. IRS says these beneficiaries **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. Also, making your deductible contribution to the plan as early as possible generally increases your retirement benefits. As you evaluate how much you should contribute to your IRA, consider the following limitations. 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.** **Planning Alert!** You have until **April 15, 2026,** to make a **2025 traditional IRA** contribution.

- **Don't Forget The Saver's Credit.** The **Retirement Savings Contributions Credit** (Saver's Credit) is a credit of up to **$2,000** on a joint return **($1,000 on others).** The maximum amount of contributions to your IRAs, 401(k)s and similar retirement plans that can qualify for the credit is **$4,000** for married couples **($2,000 for others).** The credit phases out completely when AGI reaches **$79,001 for married filing jointly, $58,251 for head of household** and **$39,501 for all others.**

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% Deduction for QBI **permanent.** In addition, **beginning in 2026,** the *OBBBA* expands the phase-in range for the W-2 and qualified property limitation and the loss of the QBI deduction for specified service trade or business income. **For 2026,** the W-2 and qualified property limitation will phase in and the QBI deduction for SSTB income will phase out over a taxable income range of **$75,000 rather than $50,000 ($150,000 rather than $100,000 for joint returns).**

Note! Beginning with the 2026 tax year, the *OBBBA* provides a minimum deduction of **$400** for taxpayers who **materially participate** in one or more active trades or businesses and has **at least $1,000** of QBI. This $400 deduction and the $1,000 threshold will be **indexed for inflation.**

- **What Type Of Income Qualifies For The 20% Deduction?** Generally, the following types of income are eligible for the 20% Deduction: Qualified REIT Dividends, Qualified Publicly Traded Partnership Income, and Qualified Business Income. The rules for determining the 20% Deduction for Qualified REIT Dividends and Publicly Traded Partnership Income are relatively straightforward. However, the 20% Deduction for **Qualified Business Income** (QBI) is by far having the biggest impact on the greatest number of individual taxpayers and can be complicated.

- **Who May Qualify For The 20% Deduction For Qualified Business Income (QBI)?** Taxpayers who may qualify for the 20% Deduction generally include taxpayers who report **Qualified Business Income from a trade or business** such as: Individual owners of S corporations and partnerships; Sole Proprietors; Trusts and Estates; and Certain beneficiaries of trusts and estates.

  Based on taxable income (before the 20% Deduction), all or a portion of qualified business income from a so-called "Specified Service Trade or Business" **may not qualify** for the 20% Deduction. More specifically, if **taxable income for 2025** (before the 20% Deduction) is **$197,300 or below ($394,600 or below** if married **filing jointly), all the qualified business income** from a **Specified Service Trade or Business (SSTB)** is eligible for the 20% Deduction. However, if for 2025 **taxable income** is **$247,300 or more ($494,600 or more** if married **filing jointly), none** of your SSTB income qualifies for the 20% Deduction. **Caution!** If, for 2025, your **taxable income is between $197,300 and $247,300** (between **$394,600 and $494,600** if married filing jointly), only **a portion** of your SSTB income will be eligible for the 20% Deduction. **Note!** A **Specified Service Trade or Business (SSTB)** is generally defined as: **1)** a trade or business activity involved in the performance of services in the field of: **health; law; accounting; actuarial science; performing arts; consulting; athletics; financial services; or brokerage services; 2)** a trade or business involving the **receipt of fees for celebrity-type endorsements, appearance fees, and fees for using a person's image, likeness, name,** etc.; and **3)** any trade or business involving the **services of investing and investment management, trading, or dealing in securities, partnership interests, or commodities. An SSTB does not include** the performance of **architectural or engineering** services.

  For owners of businesses that are not SSTBs, if **taxable income for 2025** (before the 20% Deduction) is **$197,300 or below ($394,600 or below** if married **filing jointly), all** the qualified business income) is eligible for the 20% Deduction. However, if for **2025, taxable income is $247,300 or more ($494,600 or more** if married **filing jointly),** the amount of the deduction is limited based on the W-2 wages paid by the business and the qualified property owned by the business. If you own an interest in a business as a sole proprietor, an S corporation shareholder, or a partner in a partnership, you are a very good candidate for the 20% Deduction. If you want more information on the 20% Deduction, **please contact our firm** and we will be glad to provide you with more details.

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. In addition, classes to **improve or gain job skills and professional degree classes may** qualify for the Lifetime Learning Credit. **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 *OBBBA* 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.

Trust And Estate Distributions. If you are the trustee of certain trusts or executor of an estate, don't forget about the **65-day rule** for distributions. Basically, **distributions made** within the **first 65 days of the New Year** from certain trust and estates can be treated as **paid and deducted in the prior year.** For example, a fiduciary **can wait until 2026** to decide if **distributions should be made** and **treated as paid in 2025.** The election is made annually on the trust's or estate's Form 1041. Once the election has been made, **it is irrevocable.** **Planning Alert!** If a fiduciary makes this election, the fiduciary can **decide how much of the distributions made in the first 65 days of 2026 will be treated as 2025 distributions.**

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 have had a job change, additional income stream, marriage, divorce, loss of a dependent or other significant events occur during 2025. **Alert! 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 call 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.

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