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CPAs & ADVISORS

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Year-End, Year-Round Tax Planning Guide 2025

The end of the year is a key time to make tax-smart moves. Planning now can help reduce your federal and state income taxes and set you up for success for the year ahead. Talk to your tax advisor early and be sure to get professional guidance before acting on any ideas in this guide.

2025 TAX BRACKETS

The following federal tax rates apply to taxable income for tax year 2025 (for tax returns to be filed in the spring of 2026):

Tax rate	Single filer	Married filing jointly or qualifying widow(er)	Married filing separately	Head of household
10%	$0–$11,925	$0–$23,850	$0–$11,925	$0–$17,000
12%	$11,926–$48,475	$23,851–$96,950	$11,926–$48,475	$17,001–$64,850
22%	$48,476–$103,350	$96,951–$206,700	$48,476–$103,350	$64,851–$103,350
24%	$103,351–$197,300	$206,701–$394,600	$103,351–$197,300	$103,351–$197,300
32%	$197,301–$250,525	$394,601–$501,050	$197,301–$250,525	$197,301–$250,500
35%	$250,526–$626,350	$501,051–$751,600	$250,526–$375,800	$250,501–$626,350
37%	$626,351 or more	$751,601 or more	$375,801 or more	$626,351 or more

Strategies for Individual Taxpayers

REVIEW LIFE EVENTS & LAW CHANGES

Start your year-end planning by reviewing any major life changes that may impact your tax situation, including:

- A change in your marital status
- A move
- A job change
- A new business
- Retirement
- A change in dependents

Any of these life events can open new tax opportunities or require adjustments to your strategy. Also, keep an eye on recent tax law changes that might affect deductions, credits, or filing thresholds.

Your marginal rate. Tax brackets help determine how much tax you'll owe based on your income. But not all of your income is taxed at the same rate. Instead, your income is taxed in layers, starting at the lowest rate and increasing as you earn more. This means the first portion of your income is taxed at 10%, the next portion at 12%, and so on. Understanding where you fall helps you and your advisor make smarter choices about timing income, deductions, and other moves. For example, if you're in a higher bracket this year and expect to be in a lower bracket next year, you might delay income like a bonus or speed up deductions like charitable giving.

Standard deduction vs. itemized deductions. You can reduce your taxable income by claiming the standard deduction (a fixed dollar amount that is adjusted annually) or by itemizing deductions. While itemized deductions can result in a lower tax liability depending on your situation, they require detailed records and receipts to substantiate each deduction. For tax year 2025, the standard deduction is as follows:

Single & married filing separately
$15,750 (previously $14,600)

Heads of household
$23,625 (previously $21,900)

Married filing jointly
$31,500 (previously $29,200)

There is an additional standard deduction for persons aged 65 and over or blind:

Single & head of household
$2,000 or **$3,200** if taxpayer is both 65 or over and blind

Married filing jointly & surviving spouses
$1,600 or **$3,200** if taxpayer is both 65 or over and blind

As the standard deduction increases, more people are opting not to itemize. But you may still benefit by bunching deductions in certain years to exceed the threshold.

Some deductions such as charitable donations and medical expenses depend on your adjusted gross income (AGI). The higher your AGI, the harder it can be to qualify or deduct the full amount. That's why lowering your AGI through retirement contributions or other above-the-line deductions can have a ripple effect across your tax return.

There are two methods for taxpayers to choose from, and a tax advisor can help identify the most beneficial route to reduce overall tax liability.

ITEMIZE TO MAXIMIZE: STRATEGIES FOR THOSE WHO ITEMIZE DEDUCTIONS

These are organized by frequency, starting with the most commonly used deductions.

Mortgage interest deduction. You can deduct home mortgage interest on loans up to $750,000 for your primary home or a second home. The higher $1 million limit still applies if the loan originated before December 16, 2017.

Interest on home equity debt is deductible only if the loan is used to buy, build, or substantially improve the home, and the home must secure the debt. Certain home improvements, including energy-efficiency and medical improvements, might qualify for deductions or credits, so keep careful records and consult your tax advisor.

State and local tax deduction. The deduction for state and local taxes (SALT), including income or sales tax and property tax on a personal residence, is capped at $40,000 per return. This limit does not apply to taxes incurred in a trade or business. If you own a pass-through business such as an S corporation, partnership, or LLC, some states offer a workaround: per IRS Notice 2020-75, you can elect to have the business, rather than you personally, pay state taxes, which may allow you to bypass the SALT cap. Consult your tax advisor to determine whether your state offers this election and if it makes sense for your situation.

Timing strategies may also be helpful. Ask your employer to withhold more tax from your remaining 2025 paychecks. Alternatively, make your January estimated state and local income tax payment before year-end and pay enough to cover any projected balance due. Caveat: To obtain a benefit from a state income tax payment, you must itemize rather than use the standard deduction in 2025. Remember, these strategies only help if you itemize and stay within the $40,000 SALT cap.

See page 16 for details on changes to the SALT deduction made by the One Big Beautiful Bill Act.

Charitable contributions. To maximize the benefit, consider grouping several years' worth into one tax year (bunching) to exceed the standard deduction threshold. There are various ways, including donor-advised funds (DAFs) and qualified charitable distributions (QCDs), to plan charitable giving for tax benefit. In addition, you may consider donating the required minimum distribution (RMD) from your IRA to a qualified charity. Tax laws and regulations are always evolving, so it's crucial to consult with your tax advisor to tailor your charitable giving strategy to your specific financial situation.

If you mail your check or charge your donation to your credit card by year-end, it will count as a 2025 contribution. Caveat: The tax savings from charitable contributions may be affected by an interplay with the 20% of qualified business income (QBI) deduction (see page 11 for more on this deduction). It is particularly important to do the math in planning charitable contributions.

Page 16 provides an update on changes to the rules governing charitable donation deductions made by the One Big Beautiful Bill Act.

Medical expenses. In 2025, you can deduct unreimbursed medical expenses that exceed 7.5% of your AGI. This rule applies regardless of the taxpayer's age. But keep in mind that medical is just one of the components of itemized deductions, the sum of which must exceed the standard deduction to yield any tax savings.

By bunching medical expenses in a single tax year, you can potentially exceed the threshold and claim a higher medical expense deduction. It's important to plan your bunching strategy carefully, taking into account your projected medical expenses and other deductible costs over several years. Consult your tax professional to evaluate the best approach for your specific situation.

Donated appreciated securities. Donating long-held appreciated securities lets you deduct the full fair market value and avoid capital gains tax.

Mortgage points. You may deduct mortgage "points" (prepaid interest) in full in the year you purchase or build your main home if the home serves as collateral for the loan. The payment of points must be typical for the area where the transaction takes place, and the amount paid should not exceed what is usually charged. The points may also be deducted over the life of the loan.

Investment interest deduction. If you borrow money to buy taxable investments such as stocks, mutual funds, or margin securities, you may be able to deduct the interest you pay on that loan. This deduction is limited to your net investment income for the year. Interest that exceeds your net investment income generally can be carried forward to future years. However, the rules around what qualifies as investment income and how this deduction interacts with other expenses can be complex, so talk to your advisor to ensure you're maximizing the benefit.

UNIVERSAL TAX SAVERS: DEDUCTIONS & MOVES

These are eligibility-based tactics, focusing on what you can claim, whether you itemize or take the standard deduction. Think of them as the building blocks of a smarter tax plan, available to everyone at any life stage.

Above-the-line deductions. These deductions reduce your AGI and are available to all taxpayers.

- Traditional IRA contributions
- Health savings account (HSA) contributions (see below)
- Student loan interest (up to $2,500)
- Educator expenses (up to $300)
- Early withdrawal penalties of savings
- Alimony (pre-2019 agreements)
- Self-employed: health insurance, SE tax, retirement plans

Health accounts. Here are key details to keep in mind for 2025.

- **Health savings account (HSA).** HSAs offer tax-advantaged savings to those with high deductible health plans.

TYPE OF PLAN UNDER	INDIVIDUAL	FAMILY
Maximum Contribution	$4,300	$8,550
Minimum Deductible	$1,650	$3,300
Max Out-of-Pocket Limit	$8,300	$16,600

Out-of-pocket expenses include deductibles, co-pays, and co-insurance, but not premiums.

- **Flexible spending account (FSA).** Use your funds before year-end or risk forfeiting them. Up to $600 may carry over to 2026.

Retirement contributions. Max out your 401(k), 403(b), SIMPLE plan, or IRA to reduce your taxable income. Contributions may be pre-tax or Roth, depending on your plan. Traditional IRAs may be deductible based on income and plan participation.

The 2025 limits are shown below. Note, however, that employer plans may not permit employees who have reached age 50 to contribute the higher amount indicated. Additional contribution limits could apply.

TYPE OF PLAN UNDER	UP TO AGE 50	AGE 50 OR OLDER
401(k), 403(b), 457, SEP*	$23,500	$31,000
SIMPLE IRA	$16,500	$20,000
Traditional/Roth IRA**	$7,000	$8,000

**Only SEP plans established before 1997 may allow employees to make pretax contributions.*

***IRA contributions may not exceed earned income.*

IRA contributions. You may make an IRA contribution for the 2025 tax year as late as the April 2026 tax filing deadline for your federal income tax return. There are no income restrictions on making tax-deductible contributions to a traditional IRA unless you or your spouse actively participates in an employer-sponsored retirement plan. With active plan participation, the 2025 deduction gradually phases out once AGI exceeds:

- $79,000 for single/head of household
- $126,000 for married filing jointlyy
- $10,000 for married filing separately

Roth IRA and conversions. With a Roth IRA, contributions aren't tax-deductible and won't be taxed on withdrawal. You also may withdraw account earnings tax-free after you've had a Roth IRA for at least five tax years and reached age 59½ (or in certain other circumstances).

Your eligibility to make Roth IRA contributions hinges on your income. In 2025, the allowable Roth IRA contribution phases out as AGI rises from $150,000 to $165,000 for unmarried filers, $236,000 to $246,000 for joint filers, and $0 to $10,000 for married persons filing separately.

If a Roth IRA is attractive to you but your income is too high to make a contribution, you may be in a position to convert a traditional IRA to a Roth IRA. There are no income restrictions on conversions. Consider any such conversion carefully, however. A Roth conversion is a taxable event that may trigger a large tax bill.

- Assuming you want to move forward with a Roth IRA conversion, you may save taxes by completing the transaction during a year in which you expect to be in a relatively low tax bracket (because, for example, you have a large loss or your income from other sources is lower than usual).
- Converting when the market value of your IRA investments has fallen can save you tax dollars.
- Consider spreading the conversion over several tax years to prevent the extra conversion income from pushing you into a higher bracket.

Required minimum distributions (RMDs). The SECURE Act increased the age for taking RMDs to 73 beginning in 2023. The additional excise tax for failure to take an RMD is a steep 25% of the amount you should have withdrawn.

Your first RMD will typically be due by April 1 of the year after you reach age 73, and another RMD will be due by December 31 of that same year. RMDs for subsequent years must be taken by year-end. (You typically can delay distributions from your employer's retirement plan until retirement if you are not a 5% owner of the company. Check with your plan administrator for information on your plan's rules.)

- Weigh the tax deferral benefit of waiting until right before the April 1 deadline to take your first RMD against the potential for being pushed into a higher tax bracket by taking two RMDs in one year.
- Consider state tax issues, particularly if you anticipate moving to a state with a significantly different tax rate structure.

Cryptocurrency. It is essential to keep detailed records of all cryptocurrency transactions, including dates, amounts, and values in U.S. dollars, to accurately report them on your tax returns. Here are some common scenarios to consider.

- **Capital gains and losses.** Cryptocurrency is treated as property for tax purposes. When you sell or exchange cryptocurrency, it can trigger a short-term or long-term capital gain or loss, depending on whether you held the cryptocurrency for one year or longer.
- **Cryptocurrency as payment.** If you receive cryptocurrency as payment for goods or services, its fair market value at the time of receipt should be included in your gross income for tax purposes.
- **Mining and income.** Cryptocurrency mining, where you earn cryptocurrency as a reward for validating transactions on the blockchain, is generally considered income and is taxable. The fair market value of the cryptocurrency earned at the time of mining should be included in your gross income.

Cryptocurrency transactions may have various tax implications and can be complex. Therefore, it's crucial that you avoid potential penalties and issues by working with your tax advisors.

Tax payments. Paying enough income tax during the year is essential if you want to avoid an underpayment of estimated tax penalty. Generally, the federal income tax withheld from your pay and/or your quarterly estimated tax payments for 2025 should be at least equal to the lower of (1) 90% of your 2025 tax liability or (2) 100% of your 2024 tax liability (110% if your AGI for the prior year exceeded $150,000). However, if the tax shown on your 2025 return (after withholding tax is paid) is less than $1,000, an underpayment penalty won't apply.

- When you are checking your tax payments, be sure to consider any potential liability you may have for the 0.9% additional Medicare tax discussed on page 10.
- If you missed an estimated payment earlier this year or didn't pay enough, consider having more income tax withheld from your or your spouse's paychecks before year-end. Because the IRS applies withheld tax pro rata over the full tax year, this strategy can be helpful in reducing previous underpayments of estimated tax.

Ultimately, you want to avoid both underpaying and overpaying taxes, as overpaying amounts to offering an interest-free loan to the government. Working with your tax advisors to calculate the estimated payments and informing them when your circumstances change throughout the year is the best strategy.

TIMING MATTERS

These are timing-based strategies that focus on the when and why of tax planning. They help you shift income or deductions across tax years to maximize savings and are especially powerful at year-end.

Timing income and deductions. Timing plays a significant role in year-end tax planning. Typically, you'll want to look for ways to delay the taxation of income until a later tax year and accelerate deductible expenses into the current tax year. Such strategies can lower this year's taxable income and the amount of income taxes currently due.

However, if you expect to be in a higher tax bracket next year, consider doing the reverse: move taxable income into this year and push deductible expenses into next year, when the deductions can potentially save you more tax dollars. Before implementing this plan, though, consider the time value of money. By paying taxes earlier, you give up the opportunity to invest those funds in the interim. However, it's always best to consult with your tax advisor to determine the best strategy before making a decision.

Here are some potential ways to defer taxable income:

- Increase pretax salary deferrals to an employer's 401(k), 403(b), governmental 457, or SIMPLE retirement plan. You'll find the 2025 deferral limits in the table on page 5.
- Ask if you can receive a year-end bonus or commission payment shortly after year-end.

Large year-end payments like state taxes can trigger the Alternative Minimum Tax (AMT). See page 10 for more details on AMT.

YOUR INVESTMENTS

For tax purposes, not all income is taxed equally. Capital gains and qualified dividends, for instance, are taxed differently—and often more favorably—than ordinary income. Following are some planning strategies you can use to secure more favorable tax treatment for your investment income.

Consider capital gains on home sales. If you sell your primary residence at a profit, you may be subject to capital gains tax on the profit. However, there are exclusions available. For example, if you've owned and used the home as your primary residence for at least two out of the five years before the sale, then up to $250,000 of the profit is tax-free if you're single, or up to $500,000 is tax-free if you're married and filing jointly. In addition to federal taxes, many states also impose taxes on the sale of real estate, but the same amount of exclusion can be applied as well.

In some situations, you may still be eligible for a partial tax-free treatment of your home sale profit, even if you haven't met the standard two-out-of-five-years ownership and residency tests. A reduced exclusion may be available if you sell your house due to:

- a change of employment,
- a change of health, or
- other unforeseen circumstances, such as divorce or multiple births resulting from a single pregnancy.

If you sell your home at a loss, you may not be able to deduct the loss from your taxable income, as personal losses on the sale of personal-use property are generally not tax-deductible.

There are many other factors to consider, including depreciation recapture for rental property, a 1031 Exchange to defer capital gains taxes, and additional Medicare tax for high-income taxpayers. This makes it essential to consult with your tax professional to determine the best tax strategy for your specific situation.

INCOME RANGES FOR LONG-TERM CAPITAL GAIN RATES			
	0%	15%	20%
Single	Up to $48,350	$48,351-$533,400	$533,401 and over
Married Filing Jointly	Up to $96,700	$96,701-$600,050	$600,051 and over
Head of Household	Up to $64,750	$64,751-$566,700	$566,701 and over
Married Filing Separately	Up to $48,350	$48,351-$300,000	$300,001 and over
Short-term capital gains are taxed at ordinary income tax rates, which are			as high as 37%

Certain higher-income taxpayers are also subject to the additional 3.8% net investment income tax. Capital losses are generally deductible in full against capital gains, and any capital losses in excess of capital gains may offset up to $3,000 of ordinary income ($1,500 if you are married filing separately).

You may carry forward any excess capital losses you aren't able to deduct for use in later years, subject to the same limitation.

- If you have incurred capital losses in 2025, it may be a good time to take profits on appreciated investments you no longer want to hold. But be sure to weigh all relevant factors before you make any investment decisions. In certain circumstances, taxpayers may want to consider the rule that when the taxpayer passes away, assets usually take on a basis equal to fair market value, so the heir may have little or no gain for tax purposes.

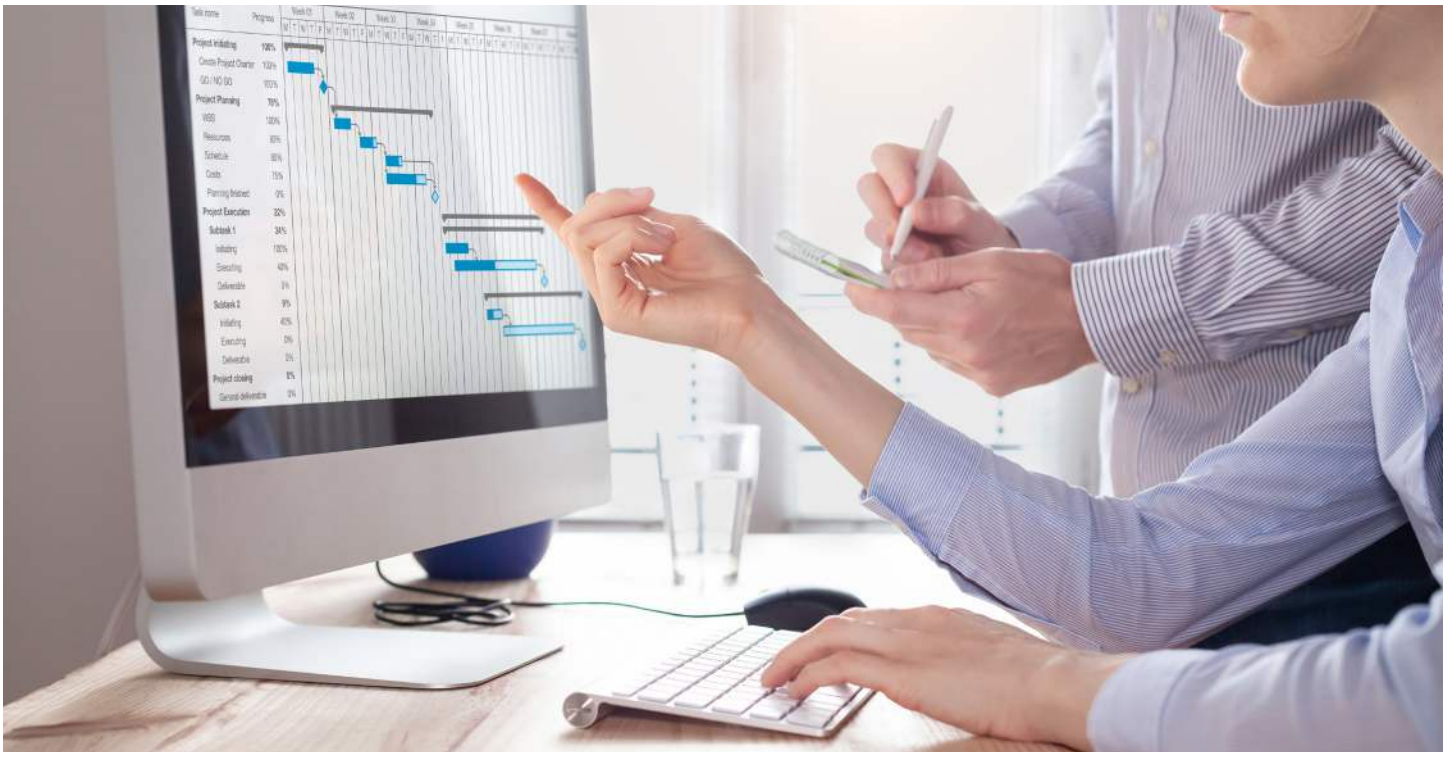
Leverage capital gains offset opportunities. Strategic sale of your home or investments may offer deductions if you're itemizing, especially when pairing with charitable giving or loss harvesting.

Avoid wash sales. Exercise caution before selling securities to realize a tax loss with the thought of buying back in shortly afterward. Under the tax law's wash-sale rules, no capital loss deduction is allowed in the year of the sale if you buy substantially identical securities within 30 days of the sale. Instead, the disallowed loss becomes part of your cost basis in the newly acquired securities. This delays the tax benefit from the capital loss until you sell the replacement securities.

- To avoid a wash sale and take advantage of a tax loss on a stock you still want to own, consider doubling up on your position by buying additional shares at least 31 days in advance of your planned sale. Then sell your original securities at a loss. But pay attention to any dividend payments during the wash-sale period. If they are reinvested in additional shares, you may lose your ability to deduct part of your original loss.
- Alternatively, you could sell the securities on which you have a paper loss and replace them with shares of another company in the same industry having similar prospects.

Donate appreciated securities. When you contribute appreciated securities that you've held for more than one year to a qualified charitable organization, you may deduct the full fair market value of the donated securities as an itemized deduction (subject to certain restrictions and limitations).

- Making a charitable gift of appreciated securities can help you avoid the capital gains tax that might otherwise be due if you sold the securities first and then donated the sale proceeds.



Monitor fund distributions. Many mutual funds make taxable distributions of capital gains to investors during the last couple of months of the year. All investors as of the date of record set by the fund for the distribution receive their proportionate share of the capital gains.

- If you are considering buying into a fund near year-end, check to see if the fund anticipates making a capital gain distribution. To avoid receiving additional taxable income this year, consider waiting to invest until after the record date for the distribution.

Minimize net investment income tax. If your modified AGI is high enough for the 3.8% net investment income tax to be a factor, you will want to consider strategies to lessen your exposure to the tax. The tax is calculated by multiplying 3.8% by the lesser of: (1) your net investment income or (2) the excess of your modified AGI over the relevant threshold for your filing status. As mentioned earlier, the modified AGI thresholds are $250,000 (married filing jointly), $125,000 (married filing separately), and $200,000 (single/head of household).

Net investment income can include income from interest, dividends, annuities, royalties, rents, net capital gain, and passive trade or business activities. It does not include any amount that is subject to self-employment tax, amounts distributed from retirement plans, exempt interest on state and local bonds, or gain on the sale of a principal residence to the extent the gain is excludable from income.

- Increasing the number of hours you participate in an entity's affairs to meet the tax law's material participation standards can convert passive income into active income that is not subject to the 3.8% net investment income tax.
- Consider structuring a sale of appreciated real estate held as an investment as an installment sale. With an installment sale, you spread your gain and the taxes on that gain over more than one year. (The installment sale method cannot be used for sales of publicly traded securities or for certain sales to related parties, and it is not available to dealers.)

BEYOND THE DEDUCTION: CREDITS, THRESHOLDS, AND SURCHARGES

These strategies are based on your income, not your filing method, and are organized to lead with benefits before diving into potential tax add-ons.

Education credits. These may help offset higher education costs.

- American Opportunity Tax Credit (AOTC): Up to $2,500/year per eligible student. Begins phasing out at $80,000 AGI (single) or $160,000 (joint). Taxpayers with modified AGI above $90,000 for single filers and $180,000 for joint filers cannot claim the credit.
- Lifetime Learning Credit: Up to $2,000 total per return. Same phase-out thresholds as AOTC.

Both credits apply to similar expenses, but they cannot be claimed at the same time, so speak with your tax advisor to determine what is best for your unique situation.

Child and dependent care credit (CDCC). The CDCC allows eligible taxpayers to claim a credit for a portion of the expenses incurred for child and dependent care. It is designed to help working individuals and families offset the cost of care for dependents, such as children or disabled adult dependents. For dependent care, there is a $1,050 maximum credit for one dependent, and a $2,100 maximum credit for two or more dependents. The credit is non-refundable, which means it can reduce your tax liability but cannot result in a refund if the credit exceeds the tax you owed.

To claim the CDCC, you must have incurred expenses for the care of qualifying individuals so that you (and your spouse if filing jointly) could work or look for work. Qualifying expenses generally include costs related to:

- Child care for children under the age of 13
- Care for disabled dependents of any age who are incapable of self-care

There is no income restriction on the CDCC, but the maximum credit you can claim is generally 50% of qualifying expenses. Maximum allowable expenses are $3,000 for one qualifying individual or $6,000 for two or more qualifying individuals.

Social Security taxability. If you are a Social Security recipient, monitor your year-end transactions carefully. When provisional income exceeds specified levels (see table below), a portion of Social Security retirement benefits becomes taxable (state rules may vary.) For this purpose, provisional income is defined as modified AGI, which includes otherwise tax-exempt municipal bond interest, plus half of your Social Security benefits.

- If realizing additional income in 2025 would trigger additional tax on your Social Security benefits, consider whether you're able to defer the income until early 2026.

To learn about changes to taxation of Social Security benefits made by the One Big Beautiful Bill Act, see page 16.

WILL YOUR SOCIAL SECURITY BENEFITS BE TAXABLE?

UP TO THIS PERCENTAGE OF YOUR BENEFITS WILL BE TAXED

On a Joint Return* If your provisional income is:		On a Single or Head-of-Household Return If your provisional income is:
$32,000 or less	0%	$25,000 or less
Between $32,000 and $44,000	50%	Between $25,000 and $34,000
Over $44,000	85%	Over $34,000

**The provisional income threshold is zero for married persons filing separately who do not live apart from their spouses for the entire year.*

Additional 0.9% Medicare tax. Applies to earned income over:

- $200,000 (single/head of household)
- $250,000 (married filing jointly)
- $125,000 (married filing separately)

Net investment income tax. The 3.8% net investment income tax is another ACA provision that is still with us. This tax affects higher-income investors with modified AGI over $200,000 (single/head of household), $250,000 (married filing jointly) or $125,000 (married filing separately). See page 9 for more details regarding the net investment income tax and some tips for lessening your exposure to it.

Alternative minimum tax (AMT). The basic purpose of the AMT system is to ensure that taxpayers who use various deductions, credits, and exclusions to reduce their regular tax liability still pay a minimum amount of tax. The discussion on page 16 shows the AMT rates and exemption amounts. A tax projection can tell you whether you are likely to owe the AMT for 2025. If you are, there may be strategies you and your tax advisor can consider to mitigate the impact of the tax.

Before accelerating state and local tax payments, check to make sure that doing so will not create an AMT problem. Also consider that additional year-end payments of state and local taxes may not translate into additional deductions, because in 2025 the maximum deduction for the sum of the state income tax and residential property tax on the residence (or state income tax plus sales tax) is limited to $40,000.

Other potential AMT triggers include:

- The exercise of incentive stock options
- Significant amounts of tax-exempt interest from private activity municipal bonds
- Investment interest deduction

Refer to page 16 for details on changes to the AMT made by the One Big Beautiful Bill Act.

The AMT still remains a factor for certain high-income taxpayers, so you should consult with your tax advisor to consider various scenarios.

Opportunities for Business Owners

There are a number of opportunities for businesses to reduce their 2025 taxes by making certain financial moves before the end of the year. The following are a few to consider, but you should seek the advice of your tax professional for the full list to better understand the tax implications that are specific to your business.

A Note about Qualified Business Income

Qualified business income (QBI) is the net amount of money earned or lost from any qualified trade or business.

A qualified trade or business is any kind of business, except for a few specific situations.

1. *Businesses set up as C corporations do not qualify.*

2. *If the principal works as an employee and not a business owner, the business does not qualify.*

3. *Specified service trades or businesses (SSTBs) are businesses that provide services in fields like health, law, accounting, and other select areas. If your business mainly relies on the reputation or skill of its employees or owners, it might also fall under this category. However, these restrictions don't apply if your income is below a certain level, and they apply incrementally when you earn more but remain within a specific income range. If your income is too high, no deduction is allowed for SSTBs.*

KNOW YOUR BUSINESS STRUCTURE & TAX BASICS

The structure of your business determines how your business income is taxed.

Pass-Through Entities

These include sole proprietorships, partnerships, S corporations, LLCs, and LLPs. Through the Tax Cuts and Jobs Act (TCJA), owners of pass-through entities are eligible for a deduction for qualified business income (QBI). Eligible businesses can deduct up to 20% of QBI from their taxable income.

For specified service trades or businesses (SSTBs), the pass-through deduction is only available if income is below the annual threshold, which is adjusted for inflation each year. For 2025, the threshold is $394,600 for married individuals filing jointly and $197,300 for single individuals. The QBI deduction was intended to provide some level of parity between the tax treatment of C corporations and pass-through entities.

Page 16 provides details on changes to the QBI deduction made by the One Big Beautiful Bill Act.

Other Important Provisions for Pass-Throughs

- **Individual business loss limitation.** Losses exceeding $313,000 ($626,000 for married filing jointly) are not currently deductible but carried forward as part of net operating loss carryover, limited to 80% of taxable income.
- **Net operating losses (NOLs).** NOLs must be carried forward and cannot be carried back to recover prior taxes.
- **Business-related membership dues.** Deductibility of business-related membership dues may be limited or eliminated.
- **Easier accounting for small businesses.** The Tax Cuts and Jobs Act made it easier for small businesses with gross receipts under $31 million to stay on the cash method of accounting and avoid certain inventory costs and uniform capitalization rules.

C CORPORATIONS

All C corporations, regardless of their income, are taxed at a flat rate of 21%.

Corporate income is potentially subject to two layers of income tax—once at the corporate level and again if distributed to shareholders as dividends. Corporate earnings paid out as reasonable compensation are included in taxable income but are deductible by the corporation. Thus, they are taxable only once—to the owner.

Owner's compensation will be taxed at rates as high as 37%, plus additional Medicare tax and Social Security tax (FICA) if the owner hasn't reached the FICA limit. Owners may also be subject to the additional 0.9% Medicare tax discussed on page 10.

Planning Notes for C Corporations

- If you expect your closely held C corporation to have a profitable year, consider whether it makes business as well as tax sense to pay bonuses or make a tax-deductible profit-sharing contribution this year to minimize corporate taxable income.
- Bear in mind that the IRS can assess a 20% accumulated earnings tax penalty on corporations that accumulate excessive earnings and profits. Generally, a corporation can accumulate up to $250,000 of earnings ($150,000 in the case of certain service corporations) without penalty.
- If your corporation has a reasonable business purpose for accumulating additional earnings, document why the additional money is needed in the corporate minutes. Possible reasons include the purchase of new equipment or the construction of new facilities.

TIMING STRATEGIES FOR BUSINESSES

The tax accounting method your business uses will determine when income must be recognized and expenses are deductible for tax purposes.

- **Cash method.** Report income when it is actually or constructively received, and generally deduct expenses when payments are disbursed.
- **Accrual method.** Report income in the year the right to the income becomes fixed and the income amount can be determined with reasonable accuracy. Deductions are taken when all events have occurred creating the liability and when the amounts can be determined with reasonable accuracy.

Timing moves to consider:

- If your business uses the cash method, you might defer income by delaying billing notices to your customers so the payment won't be received until early next year.
- As an accrual method taxpayer, you might defer income by delaying the shipment of products or provision of services until the beginning of your 2026 tax year.
- Look for opportunities to defer certain advance payments received for services and the sale of goods. (Requirements apply.)
- Time bonus payments:
  - As a cash method business, your company may want to pay bonuses before the end of the year to gain a 2025 deduction for the expense.
  - For an accrual method business, a 2025 deduction will be available for bonus payments made to unrelated employees if paid within two and one-half months after year-end, provided the liability to pay the bonuses is both fixed and determinable by the end of the tax year.

Business bad debts. These represent another potential deduction your business should consider if you extend credit to customers. A deduction is available for any debt that is wholly or partially "worthless," assuming your company has already included the amount in income. However, businesses that use the cash method of accounting can't write off uncollectible amounts as bad debts because they don't recognize sales revenue until it is received.

- Review accounts receivable reports before year-end to identify uncollectible accounts that may be written off as bad debts.

Remember that tax-saving strategies can be complex, and the best approach depends on your specific business circumstances. Consult with a qualified tax advisor or CPA to develop a personalized tax plan tailored to your business structure and financial goals.

ASSET PURCHASES & DEPRECIATION

Provisions of the Protecting Americans from Tax Hikes (PATH) Act regarding depreciation and expensing have made it possible for businesses to approach planning for purchases of machinery, equipment, and other fixed assets with more certainty regarding the tax results. Several significant tax breaks are potentially available.

Use Section 179 expensing. A popular provision among small businesses, the Sec. 179 election allows businesses to expense a portion of eligible asset purchases in the year the assets are placed in service, instead of depreciating the assets over several years. The expense election is reduced (dollar for dollar) once qualifying asset purchases exceed the investment ceiling.

Eligible Sec. 179 property includes:

- New and used machinery, equipment, vehicles, and other tangible non-real estate property
- Computer software purchased off the shelf
- Qualified restaurant property, retail improvements, and leasehold improvements

For 2025, the expensing election limit is $2.5 million, and the investment ceiling is $4 million. These amounts are indexed annually for inflation. Additionally, the election is limited to taxable income from an active trade or business.

See page 16 for more details on changes to Sec. 179 expensing made by the One Big Beautiful Bill Act.

Deduct bonus depreciation. Bonus depreciation allows your business to take an immediate write-off of 100% of an asset's cost in 2025. This applies to new and used property placed in service on or after January 19, 2025.

Only certain types of depreciable property qualify, including tangible property with a recovery period of 20 years or fewer under the Modified Accelerated Cost Recovery System (MACRS).

MACRS DEPRECIATION ASSET CLASSES

PROPERTY CLASS	ASSETS INCLUDED
3-year	Tractor units for over-the-road use
5-year	Automobiles, trucks, computers, peripheral equipment
7-year	Office furniture and fixtures, farm machinery and equipment
10-year	Vessels, barges, tugs
15-year	Qualified improvement property
20-year	Farm buildings (other than certain single-purpose structures)
Residential Rental Property (27.5-year)	Apartment buildings, single-family rental properties
Nonresidential Real Property (39-year)	Office buildings, stores, warehouses

The lists of property included in each class aren't all-inclusive.

- Bonus depreciation isn't limited to taxable income, so it can contribute to or create a net operating loss (NOL). However, NOLs can no longer be carried back but only carried forward. An 80% limitation applies to losses arising in tax years beginning after December 31, 2017.
- If your business intends to elect Sec. 179 expensing and bonus depreciation for only some of its asset acquisitions and regular depreciation for others, consider using the Sec. 179 election for the assets with the longest lives.

For details on changes to bonus depreciation made by the One Big Beautiful Bill Act, see page 16.

Expense lower cost purchases. In addition to the Sec. 179 and bonus depreciation elections, consider the de minimis safe harbor election for lower-cost asset purchases if certain requirements are met. Businesses without an applicable financial statement can generally expense items costing $2,500 or less per invoice or item.

Deduct business meals. Business meals are 50% deductible for federal income tax purposes and some states that conform to federal rules. Business entertainment expenses, however, are not tax-deductible. You should track business meals and entertainment expenses separately in your accounting system, and note that business meals will become 0% deductible in 2026.

S CORPORATION STRATEGIES

If your business is organized as an S corporation, you and your individual shareholders will pay taxes on your proportionate share of corporate income at individual rates as high as 37% (see individual tax brackets on page 2). Therefore, steps taken to lower your business income before year-end can help reduce your income tax burden. As noted earlier, Subchapter S corporations may be able to take advantage of the 20% qualified business income (QBI) deduction.

Review shareholder compensation. Although employee salaries and bonuses (and the related employment taxes) are generally deductible business expenses, it's usually best for S corporation shareholders/employees to draw only "reasonable" compensation from the company. This is because any additional nonwage distributions or corporate earnings escape Social Security, Medicare, and self-employment taxes.

- Review the amount you are taking as salary from your S corporation to make sure it is reasonable for the services you perform, but don't overpay yourself. If desired, the company can distribute additional earnings to you and any other shareholders free of employment taxes. Wages paid to yourself may also reduce the 20% QBI deduction.

Know your basis. Special tax planning may be required if your S corporation expects to generate a net operating loss for the year. Generally, a shareholder's loss deduction is limited to the shareholder's investment in the company, known as adjusted basis. This figure changes each year to account for:

- Distributions
- Capital contributions
- Loans and loan repayments
- The shareholder's allocated share of corporate income or loss

If you anticipate that your S corporation will show a loss this year, check to see if you have enough basis to deduct it. If not, you can increase your basis either by loaning the company money or making an additional capital contribution before year-end to potentially save on taxes by deducting the loss individually. Please keep in mind that excess business loss may apply.

ADDITIONAL PLANNING TIPS

Below are more strategies that can prove useful in lowering business taxes.

Deduct retirement plan contributions. Maximizing tax-deductible contributions to a qualified retirement plan for yourself and any eligible employees can lower your business taxes and help you accumulate funds for retirement. The table below shows the 2025 contribution limits for different types of retirement plans.

2025 RETIREMENT PLAN CONTRIBUTION LIMITS

Plan Type	Maximum Addition to a Plan Participant's Account
401(k)*	Lesser of $70,000 or 100% of compensation
Profit sharing	Lesser of $70,000 or 100% of compensation
SEP-IRA	Lesser of $70,000 or 25% of compensation
SIMPLE IRA	Up to $16,500 of employee salary deferrals plus employer contributions (3% match or 2% nonelective contributions)

**See page 5 for the applicable limits on employee salary deferrals.*

Some plans allow participants aged 50 and over to make additional catch-up contributions, which would not be subject to the limits set forth above. For example, the SIMPLE IRA contribution limit for participants aged 50 and over is $20,000 in 2025.

Deduct start-up expenditures. If you are involved in a new business venture in 2025, you may elect to deduct up to $5,000 of your business start-up expenditures, such as travel expenses incurred in lining up prospective distributors or supplies and advertising costs paid or incurred before the new business began operating. (Remaining costs are deductible over a 180-month period.) The $5,000 deduction is reduced by the amount your start-up costs exceed $50,000. To claim the deduction for 2025, your new business must be up and running by year-end.

Hire your child. If you're self-employed, you may deduct reasonable wages paid to your child as a business expense. The income will be taxed to your child, but the standard deduction can shield as much as $15,000 from tax in 2025. Any earnings over that amount will be taxed at your child's rate, which is probably much lower than yours.

- Wages you pay your child will be exempt from FICA taxes until your child turns 18, assuming your business is unincorporated. For incorporated businesses, wages are subject to payroll taxes.

Take credit. Eligible businesses can use tax credits to lower their tax liabilities. The table on the next page shows some of the tax credits available for 2025.

SEE IF YOUR BUSINESS QUALIFIES FOR TAX CREDITS

Employer-Provided Child Care

40% of expenses to buy, build, rehabilitate, or expand child care facilities, plus 10% of amounts paid for resource and referral services, up to $500,000 annually

FICA Tip

Credit for employer's share of FICA taxes on employee tips in excess of minimum wage requirements (food and beverage establishments only)

Small Employer Pension Plan Start-Up Costs

50% of administration and retirement-related education expenses for the first three years, up to $5,000 annually

Research

The R&D credit, doubled by the Inflation Reduction Act, increased from $250,000 to $500,000 for 2023 and beyond , and the maximum amount of R&D credit that can be used to offset payroll taxes is $500,000

Employer Wage Differential

20% of up to $20,000 in wage differential payments for employees called to active military service

Work Opportunity

Generally 40% of up to $6,000 of first-year wages paid to employees hired on or before December 31, 2025

Small Employer Health Insurance

Up to 50% of employer contributions for employee health insurance (available for two consecutive years only)

Disabled Access

50% of eligible access expenditures over $250, up to $10,250 (eligible small businesses only)

CLEAN VEHICLE TAX CREDIT

The Inflation Reduction Act of 2022 introduced new regulations governing a credit applicable to clean vehicle purchases made between 2023 and September 30, 2025. This credit is open to both individuals and businesses. The following eligibility criteria must be met to claim the credit:

1. The vehicle must be acquired for personal use, not resale purposes
2. The vehicle must primarily be used within the United States

Additionally, an individual's modified adjusted gross income (MAGI) may not exceed:

- For married couples filing jointly: $300,000
- For heads of household: $225,000
- For all other filers: $150,000

Changes to the clean vehicle tax credit made by the One Big Beautiful Bill Act are discussed on page 16.

The One Big Beautiful Bill Act Becomes Law

On July 4, President Donald Trump signed the One Big Beautiful Bill Act (OBBBA) into law. The legislation extends and makes permanent many of the provisions of the Tax Cuts and Jobs Act (TCJA) that were scheduled to expire at the end of 2025 while addressing other tax priorities of the Trump administration.

Following is a look at some of the key provisions of the legislation.

INDIVIDUAL INCOME TAXES

Income tax brackets made permanent. The individual income tax brackets (highlighted on page 2) that were enacted by the TCJA are now permanent. The 22% and 24% tax brackets, which cover income from approximately $100,000 to $400,000, are seen by many taxpayers as especially valuable.

Higher standard deduction retained. The TCJA's higher standard deduction has been retained and slightly increased to $15,750 for single filers, $23,625 for heads of household, and $31,500 for married couples filing jointly in 2025. Without the legislation, the standard deduction would have dropped drastically next year. Due to the higher standard deduction, less than 10% of taxpayers now itemize deductions on their federal income tax return.

SALT deduction increased. The deduction limit for state and local taxes (SALT) has been temporarily increased from $10,000 to $40,000 for taxpayers with modified adjusted gross income (MAGI) up to $500,000. This higher SALT cap is effective for tax year 2025 and expires at the end of 2029, adjusting each year for inflation. The deduction phases down to $10,000 for taxpayers with MAGI over $500,000.

Child tax credit locked in and increased. Scheduled to expire at the end of this year, the nonrefundable child tax credit is now permanent. It was also raised from $2,000 to $2,200 per child in 2025 and will be indexed annually for inflation going forward. In addition, the legislation makes the $1,400 refundable child tax credit permanent.

Gift and estate tax exemption amounts made permanent and increased. The TCJA effectively doubled the lifetime gift and estate tax exemption, which will be $13.99 million in 2025 (or $27.98 million for couples filing jointly) and $15 million in 2026 (or $30 million for married couples filing jointly). The exemption will be adjusted annually for inflation going forward.

Alternative minimum tax (AMT) exemption amounts permanently extended and increased. The TCJA raised the AMT exemption amount and exemption phaseout threshold, which slashed the number of individuals who must pay the AMT. The increased exemption amount has been permanently extended, and the exemption phaseout threshold has reverted to $500,000 (or $1 million for married couples filing jointly) to keep more taxpayers from being ensnared in the AMT.

Personal exemption, miscellaneous itemized deductions, and deduction for moving expenses permanently eliminated. These were temporarily eliminated by the TCJA and have now been permanently removed from the tax code.

Green energy provisions scaled back. The legislation ends several green energy provisions earlier than originally scheduled. These include the tax credit for purchasing new or used clean vehicles, which must now be placed in service by September 30, 2025, and the residential clean energy credit and energy efficient home improvement credit, both of which now expire after December 31, 2025. The previous deadlines for these tax credits were December 31, 2032, and December 31, 2034, respectively.

NEW TAX BREAKS

The OBBBA includes several new tax breaks that President Trump campaigned on during the election, including the following:

No tax on overtime. The legislation provides a new temporary deduction of $12,500 for single taxpayers with MAGI up to $150,000 (or $25,000 for joint filers with MAGI up to $300,000) for qualified overtime compensation for tax years 2025–2028. The deduction is above the line, so it's available regardless of whether taxpayers itemize deductions or claim the standard deduction.

Note that the amount of qualified overtime compensation must be reported separately on Form W-2 or Form 1099 for the deduction to be allowed.

No tax on tips. A temporary above-the-line deduction of up to $25,000 is now available for qualified tips received by employees who work in occupations that customarily receive tips as part of their compensation. The deduction is available for tax years 2025–2028 and phases out once MAGI exceeds $150,000 for single taxpayers or $300,000 for married taxpayers filing jointly.

Note that the deduction is available for employees who receive

Form W-2 as well as independent contractors who receive Form 1099-K or Form 1099-NEC.

No tax on Social Security. A new $6,000 deduction per person has been introduced for seniors who are 65 years of age and over, in addition to the standard deduction and additional standard deduction for seniors. This deduction phases out once MAGI reaches $75,000 for single taxpayers or $150,0000 for married taxpayers filing jointly. It is available for tax years 2025–2028.

Deduction for car loan interest. Taxpayers may now deduct up to $10,000 for interest paid on the purchase of a qualified passenger vehicle for personal use. The deduction phases out once MAGI exceeds $100,000, or $200,00 for married taxpayers filing jointly.

Expansion of Sec. 529 plan withdrawals. The legislation allows tax-exempt withdrawals from these popular education savings plans for additional expenses related to enrollment or attendance at elementary or secondary schools, as well as qualified postsecondary credentialing expenses and certain certifications and licenses (such as HVAC work) beginning in 2026.

Creation of retirement accounts for minors. New tax-free retirement accounts called Trump accounts have been created for minors. Minors can contribute up to $5,000 annually (indexed for inflation after 2027) to these IRAs until the calendar year when they turn 18 and invest their savings in mutual funds and exchange-traded funds (ETFs).

Changes to charitable contribution deduction rules. Beginning in 2026, non-itemizers can deduct up to $1,000 (or $2,000 for married taxpayers filing jointly) for certain charitable contributions made during the tax year.

Also beginning in 2026, the legislation sets a new limit on charitable donation deductions for taxpayers who itemize deductions on Schedule A, reducing these by 0.5% of the taxpayer's MAGI. So, a taxpayer with $200,000 of MAGI would receive no deduction for the first $1,000 of charitable donations. To avoid this limit next year, consider accelerating charitable deductions into 2025.

BUSINESS INCOME TAXES

Qualified business income (QBI) deduction made permanent. The TCJA created a new deduction for pass-through entities such as S corporations and sole proprietors, which can deduct up to 20% of QBI from their taxable income. The OBBBA makes the Sec. 199A deduction permanent while introducing a new inflation-adjusted minimum deduction of $400 for taxpayers with at least $1,000 of QBI from one or more active trades or businesses they materially participate in.

Sec. 168 bonus depreciation permanently extended and Sec. 179 expensing increased. The legislation permanently extends the Sec. 168 additional first-year (or bonus) depreciation deduction. Businesses can now deduct 100% of the cost of property acquired and placed in service on or after January 1, 2025, during the first year. The OBBBA also increased the Sec. 179 expensing limit to $2.5 million.

Immediate deduction added for research and experimentation expenses. Businesses may now immediately deduct expenses for domestic research and experimentation incurred after December 31, 2024. Note that the research must be conducted in the United States. Businesses with annual gross receipts of $31 million or less can apply this change retroactively to tax years beginning after December 31, 2021.

Manufacturing tax credit expanded. The advanced manufacturing investment credit has increased from 25% to 35% for property placed in service after December 31, 2025. It also provides an additional 100% first-year depreciation deduction of the adjusted basis of qualified production property used in manufacturing.

Employer-provided child care credit increased. The legislation raises the amount of qualified child care expenses that are eligible for the Sec. 45F employer-provided child care credit from 25% to 40%. The credit limit also increased from $150,000 to $500,000 (or $600,000 for eligible small businesses), adjusted annually for inflation.

In addition, the following business tax breaks have been made permanent:

- Sec. 45S paid family and medical leave tax credit
- Sec. 45D new markets tax credit
- Opportunity zones
- Limitation on excess business losses of noncorporate taxpayers

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