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# 2025 Year-End Tax Update

Breaking the trend of enacting new tax legislation just weeks before the new year, the federal tax legislation for 2026 was enacted earlier this year. With it, the uncertainty and urgency of strategic year-end decisions have dissipated. We can look ahead with a better understanding of the ever-evolving tax landscape and ensure we align your goals with strategic tax planning.

## Year-End Update: Key Changes Impacting Current & Next Filing Season

### A. THE INDIVIDUAL TAX RATES UNDER THE TAX CUTS AND JOBS ACT (TCJA) HAVE NOW BEEN MADE PERMANENT (INCLUDING ESTATES & TRUSTS)

Beginning January 1, 2026, H.R. 1 has made the TCJA individual income tax rates permanent. There is a caveat, however, as only the 10%, 12%, and 22% **rate brackets** are subject to inflation adjustments. The rate brackets above the 22% rate will not be adjusted for inflation beyond the 2025 calendar year.

### B. DEDUCTION THRESHOLDS HAVE BEEN MADE PERMANENT AND NEW PROVISIONS WILL BEGIN TO LIMIT TAX BENEFITS

#### *INCREASED STANDARD DEDUCTION HAS NOW BEEN MADE PERMANENT*

Beginning January 1, 2025, H.R. 1 increased the standard deduction from $12,000 to $15,750 for single filers, $24,000 to $31,500 for joint filers, and from $18,000 to $23,625 for head of household.

#### *CHARITABLE CONTRIBUTION CHANGES AND "NEW" DEDUCTION FLOORS FOR CORPORATE AND INDIVIDUAL TAXPAYERS*

Beginning January 1, 2026, individual taxpayers who do not itemize are eligible to receive a deduction up to $1,000 for single filers and $2,000 for MFJ for certain qualified charitable contributions. Contributions to donor-advised funds are not eligible for this deduction.

For individual taxpayers who itemize deductions, effective January 1, 2026, individuals can deduct qualified charitable contributions that exceed 0.5% of their adjusted gross income. For example, a couple with an AGI of $450,000 and who itemize their deductions can deduct qualified charitable donations over $2,250. With this

new AGI floor, if the previously mentioned couple made qualified charitable donations of $2,000, they would not be able to take a charitable contribution deduction, because the amount did not exceed the new 0.5% AGI floor.

For corporate taxpayers, effective January 1, 2026, charitable contributions are required to exceed 1% of taxable income before any deduction is allowed, effectively establishing a floor. At the same time, the prior 10% ceiling remains, so deductible corporate gifts must now fall between 1% and 10% of taxable income.

### *NEW INCREASED STATE AND LOCAL TAX CAP FOR CERTAIN TAXPAYERS*

H.R. 1 increased the SALT deductibility cap from $10,000 to $40,000 for taxable years beginning in 2025 and ending before 2030. The threshold will increase 1% each year beginning in 2026 through 2029. The higher threshold is subject to a 30% phaseout once modified adjusted gross income (MAGI) exceeds $500,000 in 2025 (the MAGI threshold increases 1% beginning in 2026 through 2029).

### *LIMIT OF TAX BENEFIT OF ITEMIZED DEDUCTIONS FOR CERTAIN TAXPAYERS*

Beginning with the 2026 tax year, taxpayers who itemize deductions that offset their adjusted gross income to arrive at “taxable income” provide a tax benefit of 37% - your marginal rate – as they decrease income eligible for taxation within that rate bracket. The new law, however, will now limit the tax benefit of itemized deductions for those taxpayers who have a marginal tax rate of 37% to an overall cap of 35%.

### *LIMITITATIONS OF MISCELLANEOUS ITEMIZED DEDUCTIONS AND MORTGAGE INTEREST EXPENSES HAVE BEEN MADE PERMANENT*

H.R. 1 made the provisions of the TCJA permanent – miscellaneous itemized deductions subject to the 2% floor of AGI are permanently disallowed, as are mortgage interest deductions for acquisition indebtedness above $750,000.

## C. CERTAIN RESEARCH AND EXPERIMENTAL EXPENDITURES ARE NOW AGAIN DEDUCTIBLE

The One Big Beautiful Bill Act delivered a major change for businesses that invest in research, product development, software creation, or process improvement. Beginning with tax years starting after December 31, 2024, companies may once again fully expense domestic research and experimental (R&E) expenditures in the year they are incurred. This largely reverses the 2022–2024 requirement under the Tax Cuts and Jobs Act (TCJA), which required taxpayers to capitalize and amortize domestic R&E costs over 5 years and foreign R&E over 15 years. Under the new rules, domestic R&E may be immediately deducted, while foreign research activities must still be capitalized and amortized over 15 years.

This provision also provides relief for taxpayers who were required to amortize R&E costs during the 2022–2024 period.

- Businesses that still have unamortized domestic R&E from those years may take advantage of two transition options. They can either deduct the entire remaining unamortized amount in the first taxable year beginning after December 31, 2024 (typically the 2025 tax year), or elect to spread that remaining deduction across 2025 and 2026. This “catch-up” deduction can significantly reduce taxable income over the transition period.

- Alternatively, certain small businesses (those meeting a gross-receipts threshold of $31

million or less) may instead elect to apply the new expensing rules retroactively and amend prior-year returns to fully expense their domestic R&E for 2022–2024. This option may be beneficial if it creates refunds or offsets prior-year tax liabilities.

These relief options provide planning flexibility for 2025 and future years, allowing businesses to choose the approach that best aligns with their past and projected tax positions.

## D. ELECTRONIC PAYMENT MANDATE

Earlier this year, the President ordered the Secretary of the Treasury to shift away from paper-based payments by the federal government (via a March 25th Executive Order).

> "Effective September 30, 2025, the Secretary of the Treasury is directed to cease issuing paper checks for all Federal disbursements, including tax refunds. The order also states that all payments made to the Federal Government, including taxes, shall be processed electronically as soon as practicable and to the extent permitted by law."

On Sept. 23rd, the IRS issued guidance that stated "beginning Sept. 30th tax refund checks for individual taxpayers will be phased out" and that additional e-payment "guidance for 2025 returns" will be published before the 2026 filing season begins.

Draft instructions for the upcoming 2025 Form 1040 state "Electronic payments and direct deposit. If you have access to U.S. banking services or electronic payments systems, you should use direct deposit for any refunds. The IRS recommends paying electronically whenever possible. Options to pay electronically include using your bank account with Direct Pay, your debit or credit card, your digital wallet, or your online account. Go to IRS.gov/ Payments to see all your payment options."

Clients should ensure they are able to make and receive payments electronically for next, and all future, filing seasons. While the IRS is still accepting payment by check, they strongly recommend payment electronically. See IRS.gov/modernpayments for more information.

## E. FORM 1099 REPORTING RULES UPDATES

Third-party settlement organizations are not required to file Forms 1099-K unless the gross amount of reportable payment transactions to a payee exceeds $20,000 and the number of transactions exceeds 200.

For tax year 2026, the reporting threshold for both 1099-NEC and 1099-MISC will be increased to $2,000.

Relating to digital asset activity, new reporting rules will be in place for brokers (e.g. exchanges, custodial wallet providers, digital-asset kiosks, payment processors for crypto, etc.) for tax year 2026. Brokers will be required to complete and issue Form 1099-DA, which will report gross proceeds and cost basis information for covered securities.

Please note that these reporting thresholds do not affect the actual tax law for reporting income on your tax return. All income, no matter the amount, is taxable unless it is excluded by law, regardless of receiving a Form 1099-K, 1099-NEC, 1099-MISC, or 1099-DA.

## F. ENERGY TAX CREDITS END AFTER DECEMBER 31, 2025

H.R. 1 (The One Big Beautiful Bill Act) has ended the Energy Efficient Home Improvement Credit and Residential Clean Energy Credit for any property placed in service or expenditures made after December 31, 2025.

The credit is still available for expenditures made in 2025. The Energy Efficient Home Improvement Credit is 30% of the taxpayer's qualified expenses, which can include doors, windows, and other energy efficient property. The Residential Clean Energy Credit is also equal to 30% of qualified expenses paid during the year for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, qualified geothermal heat pump property, and qualified battery storage technology. Restrictions and limitations do apply to both credits, so please review eligibility when discussing with your advisor.

The Clean Vehicle Credit allows a maximum credit of $7,500 for qualified clean vehicles (with income limitations) acquired and placed in service on or before September 30, 2025. The credit is available to individuals and their businesses. Vehicles are not limited to passenger automobiles. They also include, for example, vans, sport utility vehicles, and pickup trucks.

The New Energy Efficient Home Credit for eligible contractors who build or substantially reconstruct qualified, new-energy homes may claim a tax credit up to $5,000 per home until June 30, 2026, and then the credit is eliminated.

# Strategically Plan the Timing of Additional Income or Deductions in 2025

Various provisions of H.R. 1 ("One Big Beautiful Bill Act") have different effective dates – some provisions begin Jan. 1, 2025, while others Jan. 1, 2026. With this in mind, we recommend utilizing the traditional strategies of accelerating deductions in 2025 and deferring income into 2026. However, individual circumstances may warrant the acceleration of income into 2025 (versus deferring to 2026) or deferring deductions into 2026 which may generate a lower aggregate tax burden.

## A. LOOK FOR SITUATIONS WHERE GENERATING INCOME IN 2025 WILL RESULT IN NO ADDITIONAL TAX OR WILL BE SUBJECTED TO A LOWER MARGINAL RATE THAN IT WOULD BE IN 2026.

- Realize capital gains:
  - If you have excess (non-deductible) capital losses; or
  - If your long-term gains will be subject to the 0% rate.
- Realizing passive income where you have blocked passive activity losses.
- Generating additional investment income if there is an accumulation of disallowed investment

interest expense deductions.

- Converting pre-tax retirement accounts into a Roth account. We generally recommend converting pre-tax accounts into a Roth if the effective rate is 25% or lower as we believe rates will only go up in the future.

**Do not forget to consider the state income tax implications of any income acceleration into 2025**.

We recommend updating tax projections if you are unsure what the impact of any income or expense acceleration/deferral will be.

## B. DEVELOP STRATEGIES FOR GENERATING ADDITIONAL DEDUCTIONS BEFORE YEAR-END OR POSTPONING UNTIL NEXT YEAR.

Consider accelerating deductions if they provide a tax benefit.

- If your year-to-date realized gains exceed realized losses, consider realizing additional losses to reduce your overall gain.
    - A scenario we believe you should avoid is one where you are paying tax on capital gains in 2025 but unrealized capital losses are carried over to 2026. Taking capital losses to offset capital gains can also avoid the surtax on investment income. Discuss with your financial advisor if it makes sense to exit certain loss positions before year-end.
- Consider accelerating state and local tax (SALT) deductions before year-end if an increased deduction is available.
    - Maximum allowable deductions to the extent of the $40,000 cap if MAGI will be below $500,000 and you're itemizing.
    - If you will not receive a tax benefit from state tax payments (i.e., income or sales tax, personal property, and real estate taxes) in 2025, consider postponing payment to 2026 (if due date falls in the next calendar year).
- Consider participating in a pass-through entity's state and local tax (SALT) workaround
    - In most instances you will receive an immediate tax benefit at the federal and state tax level. These elections may not make sense for every taxpayer (some states will not allow a resident taxpayer to claim a credit for pass-through entity taxes paid to another state), so make sure an analysis of the tax benefit is done before proceeding.
- Think about your charitable giving strategy.
    - The charitable contribution deduction limit for cash gifts and non-cash (except long-term capital gain property) gifts to qualified public charities is 60% of AGI.
    - Gifts of long-term capital gain property to public charities, including donor-advised funds, is limited to 30% of AGI.

- Beginning January 1, 2026, taxpayers in the 37% tax bracket will have the deductibility of their qualified charitable donations capped at 35%. If a taxpayer in the 37% tax bracket donated $10,000 in 2026, instead of a tax-deductible benefit of $3,700, the tax savings are limited to $3,500. If you can increase your charitable contributions before December 31, 2025, this is something to consider to lock in the full 37% tax benefit.

- Cash gifts to private non-operating foundations are limited to 30% of AGI and 20% of AGI for long-term appreciated publicly traded assets.

- For some, it may be advantageous to lump two years' worth of charitable contributions into one year to take advantage of itemizing (versus claiming the standard deduction) if you would not otherwise receive a tax benefit from your charitable contributions in 2026 (due to the inflation adjusted standard deduction or the new 0.5% AGI floor for itemizing taxpayers, highlighted earlier).

Determine whether additional deductions will produce little or no tax benefit.

- If your rental losses are limited by the passive activity loss rules.

- If your losses or deductions push you into a 0%, 10%, or 12% tax bracket (and you'll be in a higher marginal bracket the following year).

- If additional allowable itemized deductions will not exceed the standard deduction.

    - 2025 Standard Deductions: Single/Married Filing Separate = $15,750; Head of Household = $25,625; Married Filing Jointly = $31,500.

    - There is an additional standard deduction for 2025 for taxpayers age 65 or older and/or blind. For 2025, there is $2,000 for singles and Head of Household and $1,600 for each married person and surviving spouse.

## C. REVIEW YOUR ESTATE, GIFT, AND GENERATION SKIPPING TAX PLAN

The estate tax exemption for 2025 is $13.99 million per individual with portability, and H.R. 1 has made the higher exemption permanent. In 2026, the exemption will increase to $15 million with portability. We recommend re-evaluating your estate and gift planning to ensure you are taking advantage of the higher exemption.

- Review gifting opportunities:

    - The current annual gift tax exclusion for 2025 is $19,000 per donee.

    - Unlimited transfers **directly** to educational institutions for tuition: These amounts are not considered taxable gifts. If amounts are not paid directly to the educational institution, they are considered gifts.

    - Unlimited transfers **directly** to medical care providers for medical expenditures: These amounts are not considered taxable gifts. If amounts are not paid directly

to the medical care provider, they are considered gifts.

- **Gifts to 529 plans**: These are considered gifts that reduce your annual exclusion ($19,000 maximum per donee in 2025). However, there is an exception that allows 5 years of gifts in 1 year - a maximum of $95,000 in 2025. **Please note:** A gift tax return will be required if you intend to "superfund" a 529 plan contribution, however no gift tax will be owed (assuming no other taxable gifts occurred).

### D. REVIEW YOUR 2026 MANDATORY RETIREMENT PLAN DISTRIBUTIONS SHORTLY AFTER YEAR-END.

The SECURE Act 2.0 increased the required beginning date age to 73 beginning Jan. 1, 2023 and this will remain until 2033 when the required beginning age changes to 75.

Taxpayers who are in their first required minimum distribution (RMD) year will have until April 15 of the following year to make their first required distribution. We rarely recommend deferring the first distribution to the following year, as the subsequent year's distribution is required by the end of the same year, essentially doubling required distributions into one tax year.

For those who recently inherited an IRA, you may also recall that the SECURE Act 1.0 eliminated the "stretch" IRA for some beneficiaries of inherited retirement accounts (i.e., non-eligible designated beneficiaries). The new rule required that the inherited account for those non-eligible designated beneficiaries must be liquidated by year 10 after the decedent's date of death. Many interpreted the rule to mean that distributions of an inherited account were not required in years 1 through 9, and then in year 10, the account would be liquidated. However, in 2022, the Treasury Department issued Proposed Regulations that require non-eligible designated beneficiaries inheriting from decedents dying after their required beginning date to be subject to *both* the 10-year rule and the 'regular' stretch distributions. The Final Regulations issued on July 18th, 2024, reinforced the Proposed Regulations and non-eligible designated beneficiaries who inherited an IRA of someone who died on or after their required beginning date must follow the 10-year rule while also taking annual required minimum distributions.

For non-eligible designated beneficiaries inheriting from individuals dying prior to their required beginning date, must empty their inherited retirement account by the end of the 10th year after death with no RMDs required in the interim.

Review this impact with your financial advisor, or if you manage your own account(s), the custodian to make sure you are distributing the correct amount. It may make sense to accelerate distributions in 2025 despite not being required to do so (eliminate income bunching in subsequent tax years).

# 2025 Year-End Tax Planning: Routine Follow-ups

### 1. TAXPAYERS SHOULD MAKE SURE THAT WITHHOLDING AND/OR TAX DEPOSITS ARE ADEQUATE TO AVOID UNDERPAYMENT PENALTIES.

- Review tax projections to ensure tax deposits (including withholding) are sufficient to avoid

underpayment penalties. We recommend updating your estimate before year-end if income has changed materially during the year.

- Holders of mutual funds in non-tax deferred accounts should review year-end capital gain distributions. Distributions occur as early as the week after Thanksgiving until year-end. Each fund will provide distribution information on their website, so do give this a look over if you are concerned.

## 2. MAKE SURE THAT YOU ARE MAKING MAXIMUM USE OF THE FOLLOWING TAX BENEFITS:

- $3,000/year capital loss deduction allowance.

- $25,000 rental loss allowance for owners with active participation in the ownership and management of rental real estate. (*Warning*: This benefit is phased out as Adjusted Gross Income increases from $100,000 to $150,000.)

- $6,000 additional deduction for individuals who are 65 years of age and older for tax years 2025-2028. This is available to itemizers and non-itemizers and phased out as Adjusted Gross Income exceeds $150,000 for joint filers and $75,000 for single.

- Child tax credit of $2,200 for every dependent under age 17.

- The dependent care exclusion of $6,000 for individuals or married couples filing jointly ($3,000 for married filing separately).

- The Child and Dependent Care Credit maximum of $2,100.

- Deductible IRA contributions (Maximum $7,000 per individual). Individuals over age 50 can make an additional “catch-up” contribution of $1,000. Non-working spouses may have deductible IRA’s available if adjusted gross income tests are met.

- $108,000 per year exclusion of qualified charitable distributions (QCD) from IRA accounts by individuals aged 70 ½ or older.

- Benefits under IRC section 1202 for exclusion of gain for “Qualified Small Business Stock.” A taxpayer may be eligible for up to a 100% exclusion of gain up to the greater of 10 times the taxpayer’s basis in the shares or $15 million.

    - The OBBBA introduced key modifications QSBS acquired after July 4, 2025 that allows the realization of tax benefits sooner and expand the inclusion of larger start-ups. Key modifications include reduced holding periods for partial tax exclusions, increased gross asset value thresholds for qualifying businesses, and increased exclusion cap.

- Review whether bonus depreciation or IRC section 179 expensing is more beneficial for property used in a trade or business. To qualify for bonus depreciation the property categorization must meet the MACRS recovery period of 20 years or less.

    - Bonus Depreciation: For assets acquired after January 19, 2025, taxpayers may now

deduct 100% of the cost of eligible property in the year it's placed in service.

- Section 179 Expensing: For 2025, the maximum allowable expensing for certain qualifying business property under IRC Section 179 is $2,500,000. This amount begins to phase out when eligible property exceeds $4,000,000.

- The optional standard mileage reimbursement rate for 2025 is 70 cents per business mile driven from 1/1/2025-12/31/2025.

## 3. SATISFY REQUIRED DISTRIBUTIONS PRIOR TO COMPLETING A ROTH CONVERSION

Required distributions from IRA account(s) must be taken before any Roth conversions occur. If the required minimum distribution (RMD) is not taken before a Roth conversion occurs, the amount converted that would satisfy the person's RMD will be considered an excess contribution into the Roth IRA and must be removed. This rule applies to multiple IRA holders as well, as the total aggregated IRA RMD must be withdrawn before any Roth conversion can be completed, not just the RMD on the account being converted.

## 4. PAY ATTENTION TO FINANCIAL HOUSEKEEPING.

- Shareholders who have advanced money to their incorporated businesses should evidence the transaction with a note and should charge an adequate rate of interest. Failure to do so could cause the loan to be recharacterized as a capital contribution.

- Loans between family members in excess of $10,000 should be evidenced with a note and an adequate rate of interest should be charged. The rate of interest should be at or above the applicable federal rate for the month the loan was made. Avoid any disguised gift tax issue by having a written debt instrument with appropriate interest, a repayment schedule, and an expectation that the amount will be repaid.

- If you are married to a foreign national, make sure your spouse has an ITIN (Individual Tax Identification Number). E-filing is not allowed without one.

- Apply for Social Security numbers for dependents.

- Change Social Security name records for name changes due to marriage or divorce. (Note: Names used on tax returns must agree exactly to the spelling used by the Social Security Administration, including the use of abbreviations and initials.)

- Obtain documentation for charitable contributions. Gifts of $250 or more must be substantiated by a written acknowledgment from the donee organization.

- Obtain appraisals for non-cash contributions exceeding $5,000. Note that appraisals are not required for donations of publicly traded securities.

- Get auto usage records compiled. Businesses should make sure that the personal use value of company autos are included in the employee's W-2.

- Make sure that documentation for meal expenses and other deductions is adequate to withstand an IRS audit. With a possible significant increase in IRS funding to enhance audit rates of tax returns, taxpayers may want to focus on making sure they have documentation to support all deductions and credits on their tax returns. Do not dispose of the year's appointment book if you intend to rely on it to support business deductions. **Entertainment expenses are no longer deductible**.

- Get taxpayer ID numbers for 1099 and W-2 recipients (including daycare providers) by having them complete Form W-9.

- Document participation in business activities if you feel that this may be an issue in applying the passive loss rules (or if you are claiming exemption from the Net Investment Income tax on the sale of partnership interests or S-corporation stock). The general cutoff point for material participation is 500 hours per year. To qualify as a real estate professional, a taxpayer must perform more than 50% of services in real property trades or businesses, perform more than 750 hours of service in real property trades or businesses, and materially participate in each rental activity (500 hours or more).

- Update your tax basis records for investments, especially for mutual funds with dividend reinvestment. Also update basis records for improvements made to real estate.

- If you have received any gifts of investment property during the year, ask the donor for carryover basis information. Maintain gift letters in your permanent records.

- Get business activities segregated into separate bank accounts for 2025.

- If income will change radically in 2026, be sure to adjust your withholding accordingly using Form W-4.

## 5. REVIEW 2025 BENEFIT PLAN OPTIONS WITH YOUR EMPLOYER.

- 401(k) plan contribution rate and investment choices. (Do not forget to elect the bonus contributions if you are 50 or older.) The maximum elective deferral for 2025 has increased to $23,500. The catch-up contribution for individuals 50 years or older is $7,500.

- Non-qualified deferred compensation plan elections.

- Dependent care assistance salary reductions.

- Compensation paid in the form of mass transit passes. (The Tax Cuts and Jobs Act eliminated the deduction for employers but retained the pre-tax benefit for employees.)

- Health savings account contributions

- Flex spending account contributions

Having health insurance coverage with a high-deductible policy entitles you to make contributions to a Health Savings Account (HSA). Minimum qualifying policy deductibles are $1,600 for single coverage or $3,200 for family coverage. The maximum HSA contribution for 2025 is $4,300 for single coverage or $8,550 for family coverage. Catch-up contributions of $1,000 will be allowed for individuals aged 55 or more. **Individuals**

**enrolled in any part of Medicare cannot make HSA contributions**.

- Married couples with HSA-eligible family coverage will share one family HSA contribution limit of $8,550 in 2025. If both spouses have eligible self-only coverage, each spouse may contribute up to $4,300 in separate accounts.

- If both spouses with family coverage are age 55 or older, they must have two HSA accounts in separate names if they each want to contribute an additional $1,000 catch-up contribution.

- If only one spouse is 55 or older but the younger spouse contributes the full family contribution limit to the HSA in his or her name, the older spouse must open a separate account to make the additional $1,000 catch-up contribution.

The maximum annual contribution limit for a flex spending account for 2025 is $3,300. Participants can carry over up to $660 in unspent contributions if the plan has not adopted the 2 ½ month grace period rule. (This allows 2 ½ months after year-end to spend unused funds.) The $660 carryover will not reduce the current year's FSA contribution. **Caution:** Taking advantage of the carryover rule will prevent HSA contributions.

If you plan on making HSA contributions for 2026, clear out the flex spending account before year-end.

# Looking Forward to 2026

Mid-term elections are only months away and sweeping tax legislation isn't top of mind for many federal lawmakers. Next year should hopefully bring additional guidance from the IRS on certain components of the latest tax bill. While the landscape is still evolving with staggered effective dates on key provisions, the current framework will be in place at least until the next administration.

The same can't be said at the state level. Many states are still grappling with the changes made as part of H.R. 1, and those with rolling conformity (automatically incorporate federal changes) will need to examine whether decoupling can offset further revenue loss. This will make state tax planning difficult, at both the business and individual level, and will warrant continued review throughout the 2026 legislative session.

As always, our goal is to ensure you achieve your goals in the most tax efficient manner. If you have any questions or require a deeper review of existing projections or models, please don't hesitate to reach out.