

2025 Year-end Tax Planning Considerations – 1040 clients

Dear Client,

As we wrap up 2025 and look ahead to 2026, it's an excellent time for individuals, business owners, and family offices to review their current and future tax situations. With ongoing economic uncertainty, high interest rates, and market volatility, proactive tax planning is more critical than ever to manage cash flow and reduce long-term tax burdens.

Below are a few key items to consider as you prepare for year-end. If you haven't yet discussed your 2025 tax strategy with us and would like to, please call our office at **410-643-4477** and ask for **Marie**—we'll be happy to help!

Income and Deductions

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, significantly reshapes U.S. individual tax policy.

Tax Rates – Going forward, everyone will enjoy the temporarily reduced individual income tax rates from the Tax Cuts and Jobs Act (TCJA), which have now been made permanent. The 10%, 12%, 22%, 24%, 32%, 35%, and 37% brackets continue to apply for tax years after 2025.

Tips - If you are an employee or self-employed individual who receives tips in the normal course of your occupation, and tipping is customary and regular in your profession, you may be allowed to deduct up to \$25,000 of your qualified tips.

- Tips must be reported on W-2, 1099, or a specified statement supplied by the employer/payee.
- Begins to phase out at \$150,000 single, \$300,000 married filing jointly.
- The IRS has issued a list of 70 different occupations that qualify for the tax credit.

Overtime – If your employer requires you to work overtime, you may be eligible for a tax deduction—up to **\$12,500** for single filers and **\$25,000** for joint filers. To qualify, the overtime must be appropriately reported to the IRS and meet specific requirements.

- Must be separately reported on Form W-2, 1099 (if eligible) or specified statement.
- Same phase-out thresholds as the tip deduction.
- Married taxpayers must file jointly.
- Some subcontractors may be eligible under special circumstances.

Good News for Seniors! – New \$6,000 single or \$12,000 married filing jointly deduction for taxpayers 65 or older. This deduction is in addition to the existing senior standard deduction that some may already be receiving.

- Available for people who itemize or take the standard deduction.
- Must have a valid Social Security number.

- Phases out when modified adjusted gross income (MAGI) reaches \$75,000 single or \$150,00 married filing jointly. Married couples must file jointly to get a deduction.

State and Local Tax (SALT) Deduction raised – More good news for those who itemize! The SALT deduction limit has been raised from \$10,000 to \$40,000 for taxpayers who itemize. This benefit begins to phase out at a MAGI of \$500,000 (or \$250,000 for married filing separately).

Planning Tip: If you itemize, consider paying your 4th quarter 2025 state estimated taxes or real estate taxes (due January 2026) in December 2025 to claim the deduction this year.

New Car Loans – Did you buy or are you going to buy a new car in 2025? If it was final assembled in the U.S., you may be able to deduct up to \$10,000 in interest on your loan. This benefit phases out at \$100,000 MAGI for single filers and \$200,000 for married couples filing jointly. If the original loan is refinanced, car loan interest is not deductible.

Bunching deductible expenses – Due to the higher standard deduction, fewer taxpayers itemized in 2024. One strategy to make itemizing worthwhile is **bunching**—grouping deductible expenses into one year. For example, make charitable donations every other year to increase your itemized deductions and/or consider paying January 2026's state estimated taxes in December 2025 to maximize your SALT deduction this year.

Documentation Reminder:

- *All donations require a receipt.*
- *Contributions over \$250 need a written acknowledgment from the charity.*

Retirement & Tax-Advantaged Savings Updates for 2025

Maryland Saves Program

Beginning in September 2022, the Maryland Saves Program (marylandsaves.com) began requiring most businesses in Maryland to offer a retirement plan. This program provides a low-cost, easy-to-manage retirement savings option with no employer fees or administrative requirements. If your employer doesn't offer a retirement plan, ask them about enrolling in Maryland Saves. If you are self-employed, consider setting up a plan for yourself. Save now for your future!

If your employer does offer a 401(k), 403(b), or government 457(b), these remain one of the best ways to save for retirement while deferring taxes. For 2025, the IRS contribution limits are:

Contribution Limits for 2025

401(k), 403(b), and 457(b):

- Under 50: \$23,500
- Age 50+: \$31,000 (includes \$7,500 standard catch-up)
- Age 60–63: \$34,750 (includes \$3,750 special catch-up)

Traditional IRA:

- Under 50: \$7,000
- Age 50+: \$8,000 (with standard catch-up)

SIMPLE IRA and SIMPLE 401(k):

- Under 50: \$16,500
- Age 50+: \$20,000 (with standard catch-up)
- Age 60–63: \$21,750 (with special catch-up)

You can now make IRA contributions even after age 70½. However, required minimum distributions (RMDs) must begin at age 73.

Health Savings Accounts (HSAs):

2025 annual contribution limits for those with high-deductible health plans (HDHPs) are:

- Individual: \$4,300
- Family: \$8,550
- Additional catch-up (age 55+): \$1,000

(Note: Spouses must contribute to separate HSA accounts to receive the catch-up.)

Qualified Charitable Distributions (QCDs):

If you're 70½ or older, you can donate up to \$100,000 annually from a Traditional IRA directly to a qualified charity.

This counts toward your RMD and is excluded from taxable income, which may help reduce Medicare IRMAA surcharges on Medicare Part B and Part D premiums.

Please keep us informed**Digital Assets and Tax Reporting**

Digital assets—such as cryptocurrency and virtual currencies—are becoming increasingly popular. If you own any digital assets or have participated in any related activities, including work or transactions involving digital currency, please let us know.

It's important to discuss the potential tax and reporting implications with us to ensure everything is handled correctly.

Primary Home and 2nd Home

If you take out a loan (a mortgage) to buy, build, or substantially improve your main home or a second home, you can generally deduct the interest you pay on that loan from your taxable income if you itemize deductions on your tax return. Please include your 1098 forms for each mortgage when you send us your 2025 tax documents.

- The home must secure the loan.

- The money must be used to buy, build, or substantially improve that house.
- Any portion of the loan used for other purposes, such as paying off credit cards or personal debt, will reduce the portion of deductible mortgage interest.
- Interest on mortgages taken out on or after December 16, 2017, is limited to \$750,000 of the total mortgage debt (\$375,000 if married filing separately). This limit is for your combined mortgage balances, not per home.

Family Matters – New member to the family in 2025 (including adoptions)? Grandparents/Mom and Dad moving in? Kids getting ready to graduate high school and move forward to college or a new job? Let us know. These types of life events may change their and your tax picture.

(Pets still don't count as dependents – sorry!)

Major Life Events - Are you considering retirement, starting a small business, selling a major investment or business, or starting up a college savings program? We strongly suggest you contact us for a planning meeting to discuss these types of transactions from a tax perspective.

State Tax Issues

Maryland Family and Medical Leave Insurance (New in 2025)

Maryland is preparing to launch a new paid family and medical leave program! Starting July 1, 2026, workers will receive job protection and be able to take time away from work to care for themselves or a family member, while still being paid up to \$1,000 a week for up to 12 weeks. FAMLI is an insurance program. Employers and workers will make contributions to a fund administered by the State. Alternatively, an employer may apply to use a commercial or self-insured plan. When workers take leave, the State or a private plan will pay them a portion of their salary.

July 1, 2025: The contribution period for the State Plan begins.

This means payroll deductions will begin on July 1, 2025, and employers will remit the first payment to the State in October 2025.

July 1, 2026: Benefits for all workers begin.

The contributions employers are required to make to the State will create a trust fund. The fund will grow over time and be ready to pay out benefits to Maryland workers starting July 1, 2026.

Thanks for taking the time to review these important items—or even just skimming through the ones that apply to you! Our goal is to keep you informed and up to date on the ever-changing, often complex tax laws that may affect your financial situation.

As always, if you have questions about these items or any other tax/business questions, please reach out!

Best regards,

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