2025
Year-End Tax Planning

"The hardest thing in the world to understand is the income tax." – Albert Einstein

THRYVE WEALTH MANAGEMENT

For most individual taxpayers, 2025 was pretty non-eventful as taxes at the Federal level remained pretty much unchanged from 2024. However, that does not mean changes did not, or will not, occur. Although not impacting taxpayers until 2026, or later, 2025 saw the passage of significant tax legislation, The One Big Beautiful Bill Act (see below, A Big Beautiful Bill?!). At the state level, taxpayers in many states did see a more tax beneficial environment in 2025 continuing the trend of lower state taxes (see below, States Trending Down). This paper provides a summary of changes and a preview of things to come, but more importantly, highlights planning items that taxpayers should consider before year-end 2025.

A BIG BEAUTIFUL BILL?!

Passed mid-year, The One Big Beautiful Bill Act (OBBBA), will provide significant tax changes in 2026 and beyond. Most changes appear to be taxpayer friendly; however, upon closer review several may not be beneficial or may have negative impacts on some. Key changes affecting non-corporate taxpayers include:

- Makes permanent lower federal income tax rates
- Repeals most miscellaneous itemized deductions
- Increases standard deduction
- Increases child tax credit
- Increases AMT exemption with accelerated phaseout
- Makes permanent 100% bonus depreciation
- Makes permanent Qualified Business Income deduction
- Increases the state and local tax deduction, but added a phase out (2025 going forward)
- Creates charitable deduction for non-itemizers
- Implements limits on charitable contributions for itemizers
- Creates $20,000 tax-free distributions from 529 plans for K-12 education (2025 going forward)
- Creates $10,000 car loan interest deduction, subject to phaseouts (2025 going forward)
- Makes permanent $750,000 home mortgage interest deduction cap (2025 going forward)
- Repeals clean car credits (2025 going forward) • Creates Trump child savings accounts

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INCOME TAX CONSIDERATIONS

CHARITABLE CONTRIBUTIONS

Charitable contributions made during the year might provide an income tax deduction that can be used in the current year or carried forward for use in future years. The value of the deduction and the amount that can be taken is dependent on several factors including the type of asset contributed and the status of the recipient charity. In addition, a taxpayer's Adjusted Gross Income ("AGI")—basically income one receives/earns modified by certain tax adjustments—is relevant in determining the availability of a charitable deduction.

CHARITABLE CONTRIBUTIONS + AGI

A symbiotic relationship!

Tony Taxpayer contributes $1,000,000 of cash to a public charity when his AGI is $3,000,000. Because Tony is making a cash gift to a public charity, he can deduct the contribution up to 60% of his AGI, allowing him to deduct the entire amount in 2025. Now, assume the same facts except Tony's contribution was to his private, non-operating, foundation. Tony is limited to a deduction equal to 30% of his AGI, or $900,000, with $100,000 of the contribution not deductible in 2025 and instead carried forward to be used as a deduction for up to five years.

The following tables summarize the rules that apply to charitable contributions (special rules for items such as tangible personal property and closely held stock might apply):

Contributions to Public Charities (includes donor advised funds and private operating foundations)

Type of Property	Deductible Amount	AGI Limit
Cash	Amount of cash	60%
Short-term capital gain and ordinary Income property	Basis	50%
Long-term capital gain property	Fair Market Value	30%
Tangible property used by the charity in its exempt function	Fair Market Value	30%
Tangible property NOT used by the charity in its exempt function	Basis	50%

Contributions to Non-Public Charities (i.e., private non-operating foundations)

Type of Property	Deductible Amount	AGI Limit
Cash	Amount of cash	30%
Short-term capital gain and ordinary Income property	Basis	20%
Long-term capital gain property	Basis unless publicly traded stock, then Fair Market Value	30%
Tangible property used by the charity in its exempt function	Basis	20%
Tangible property NOT used by the charity in its exempt function	Basis	20%

If a current year charitable deduction is desired, it is important to make sure certain timing requirements are met. In general, charitable contributions will be recognized the day the charity physically receives the donation. The most significant exception is when a contribution is mailed. In that case, the contribution will generally be treated as contributed at the time of postmark. Note: if sent via a private carrier (e.g., FedEx or UPS) instead of the United States Postal Service, it is the date of delivery and not the date of postmark that dictates when the contribution is treated as completed for deduction purposes.

Another way to fund charitable giving is to use IRA assets. IRA owners 70½ and older can distribute up to $108,000 annually from an IRA directly to a qualifying charity. The donated amount will not be included in the income of the IRA owner, and therefore the gift from the IRA will not be considered a taxable distribution. In addition, for taxpayers 73 and older such amounts distributed count towards the current year's required minimum distribution ("RMD").

2025 PLANNING ITEM:

Accelerate Charitable Deductions

Under OBBBA, taxpayers who itemize deductions will face a new 0.5% AGI floor for charitable contributions. These taxpayers will only be able to deduct the portion of charitable contributions that exceed 0.5% of their AGI. For example, a taxpayer with $1,000,000 of AGI, will only be able to deduct charitable contributions to the extent they exceed $5,000. For those considering large contributions in the near future, they might consider bunching them into 2025.

HARVESTING LOSSES

December is typically when portfolios are reviewed to determine what positions might generate tax losses if sold. Although a loss itself is not good, harvesting losses to offset gains elsewhere in a portfolio might be beneficial. There are a couple of rules to keep in mind when harvesting losses:

Netting rules: Netting rules ensure that the character of a gain (i.e., long-term or short-term) is generally matched with the character of a loss. Short-term is when an asset is held for less than one year, long-term is when an asset is held for one year or more. The rules work as follows:

- Short-term losses are first applied against short-term gains.
- Long-term losses are first applied against long-term gains.
- If, after netting short-term losses and gains and long-term losses and gains, excess losses and gains remain, you apply the losses against remaining gains regardless of character, and you can net against short-term gains first.
- If an excess loss still exists, $3,000 of the loss can be taken against ordinary income with any remaining loss carried forward indefinitely to be used in subsequent years.

Wash sale rule: If a security is sold at a loss and then a “substantially identical security” is acquired either within 30 days before or 30 days after the sale, the loss will be disallowed. The disallowed loss is added to the basis of the acquired security and can be taken upon the subsequent sale as long as the wash sale rule is not again violated. Many transactions may cause the wash sale rule to apply; including exercising an option to acquire a stock, sale/purchase in an IRA, sale/purchase in a grantor trust, or short sales.

YES, CRYPTO IS TAXED!

The IRS generally treats selling (and exchanging) Crypto as a capital transaction resulting in a capital gain or loss in the same manner as applies to the purchase and sale of stocks, bonds, and other securities; this includes exchanging one virtual currency (such as Bitcoin) for another (such as Ethereum), such is treated as a taxable exchange. Likewise, using an appreciated virtual currency in payment for services or goods is a taxable transaction. Note, crypto earned from certain transactions, such as mining, staking, airdrops, and others will be treated as the receipt of ordinary income.

RETIREMENT PLAN PLANNING

The year end is a particularly important time for reviewing retirement plans. Decisions regarding establishing and funding plans, as well as taking distributions in the current year and planning for next year, often need to be made by December 31.

All taxpayers 73 years old and older, subject to some exceptions, must take distributions from IRAs and 401(k)s. In addition, custodians are required to provide an annual RMD calculation. Several nuances to the rules exist:

- The first RMD can be taken either in the year the participant turns 73, or by April 1 of the next calendar year.
- If the participant is still working and has a 401(k) with his/her/their current employer, distributions from that 401(k) do not need to begin until they retire, even if they have already turned 73.
- RMDs do not apply to Roth IRAs unless they are inherited.

Rules applying to inherited IRAs

For the inheritor of an IRA, the distribution rules are different and dependent on (a) the age of the decedent participant and (b) the type of beneficiary (i.e., the inheritor of the plan).

- ***Spousal beneficiary***: a spousal beneficiary has the option either to roll the deceased spouse's IRA into his or her own IRA or transfer it into an Inherited IRA. If rolled over into the beneficiary's IRA, distributions must begin under the rules for that spouse's (the beneficiary's) IRA. If rolled into an inherited IRA, distributions must begin when the decedent would have attained age 73 and are based on the age of the beneficiary spouse.
- ***Non-spouse beneficiary***: for IRAs inherited by non-spouses, the rules depend on whether the participant died before or after the RMD date. If the participant died before the RMD date, then distributions can be delayed until up to 10 years after the death of the participant as long as the IRA is fully distributed within the 10-year period. If the participant died after the RMD date, then distributions must be made over the 10-year period. The beneficiary must take a distribution at least equal to an annual amount based on the beneficiary's life expectancy, with any remainder taken in year 10.

Roth IRAs

There are no required distributions from Roth IRAs for participants, and when taken they are income tax-free. However, like traditional IRAs inherited by non-spouses, inherited Roth IRAs are subject to the 10-year rule applying to pre-RMD-inherited IRAs. Basically, subject to minor exceptions, the entire Roth must be distributed within 10-years of the death of the participant, with no requirement to take annual distributions.

ESTABLISHING RETIREMENT PLANS

Retirement plans, such as IRAs and 401(k)s, can provide significant tax benefits. Certain rules apply regarding when such plans must be established and funded. The following table summarizes the important dates for plan establishment and funding for the most common plans:

Type of Plan	Establishment Deadline
401 (k)	12/31 of current year
IRA/ Roth IRA	4/15 of next year
SEP IRA	4/15 of next year

For those still contributing to retirement plans, the rules applicable in 2025 create additional opportunities to save for retirement and save taxes. Taxpayers age 50 and older can contribute an additional $7,500 to their 401k or $1,000 to their IRA. In addition, taxpayers between ages 60 and 63 can contribute an additional amount depending on the type of retirement plan. For employer sponsored plans, such as 401(k)s, the total catchup contribution that can be made equals the greater of $10,000 or 150% of the regular catchup contribution limit, which would be $11,250 in 2025. Those with SIMPLE IRAs can also make an extra catchup contribution; albeit lower than the 401(k) amount, equal to the greater of $5,000 or 150% of the regular catchup contribution. Curiously, there is no additional catchup contribution for traditional or Roth, IRAs.

UNLIMITED SALT

Limiting salt in your diet is good for your health. On the other hand, a limit to a taxpayer's deduction of state and local taxes (SALT) can have a significant economic impact. Although OBBBA did increase the once unlimited SALT deduction, from $10,000 to $40,000 beginning in 2026, this increase is subject to phaseouts resulting in a loss of the increase for most high income taxpayers.

UNLIMITED SALT (CONT.)

Therefore, planning to "enhance" the ability to deduct SALT such as taking advantage of pass-through entity tax deductions and utilizing non-grantor trusts, among other techniques, remain important planning strategies.

ESTATE PLANNING CONSIDERATIONS

UTILIZE LIFETIME EXEMPTION

Every taxpayer has exemptions for gift, estate, and generation skipping transfer taxes. For 2025 these exemptions are $13,990,000. Beginning January 1, 2026, pursuant to OBBBA, these will adjust permanently (unless changed by subsequent legislation) to $15,000,000, adjusted by inflation annually going forward.

ANNUAL EXCLUSION GIFTS

Every taxpayer has an annual exclusion from gift taxes that enables them to make gifts of up to $19,000 to as many individuals (or qualifying trusts) as they want. This is an annual exclusion and any amount unused in a particular year is "lost" (cannot be carried over to future years). For a gift to be treated as made in 2025, it must be completed in 2025, hence timing rules are important:

- If writing a check, the gift is not complete until the check clears.
- A cashier's check, like cash, is complete upon delivery.
- Gifts of stock are complete when the stock is registered in the recipient's name or in the case of an endorsed stock certificate, once physically received by the recipient.

STATES TRENDING DOWN

Federally personal taxes have trended down over the past 20 years. The same has been true at the state level with 2025 seeing a significant decrease across the board. Thirteen states passed legislation that lowered personal income taxes for state residents in 2025. On the other hand, not one state increased personal income taxes. There are currently eight states that have no personal income tax, and Washington only taxes capital gains. A like trend is occurring with regard to state estate and inheritance tax with only 16 states and the District of Columbia imposing a tax in 2025 opposed to 20 states imposing such taxes less than a decade ago. A number of states have current ballots pending to further reduce or eliminate their death taxes. (Source: taxfoundation.org)

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REVIEW ESTATE PLANNING (AND OTHER PLANNING)

As part of an annual financial review, it is prudent to revisit your estate plans and other items like insurance, income tax, etc. Review the decision-makers (e.g., executors, trustees, guardians, health care decision-makers, powers of attorney, etc.), beneficiaries, and distribution provisions. This might be particularly relevant with possible upcoming changes to the estate tax.

ESTATE (SCARCITY) PLANNING

While OBBBA prevented a mad rush for estate planning at the end of 2025, there does appear to be an increase in demand for estate planning services. In addition, as much as these increased exemptions provide opportunity, they also warrant doing a review of current planning to determine what effect they might have.

Although there have been minimal changes to the tax laws affecting individual taxpayers in 2025, that doesn't mean that planning is not still needed. With all the uncertainty in the world, this actually might make tax planning even more important than at any other time in recent history.

CORPORATE TRANSPARENCY ACT UPDATE

The CTA drama continues. Over the past several years we have seen new (onerous) filing requirements created, stayed, re-instated, and now we have the latest. An interim final rule issued earlier this year that exempts all domestic companies (which includes limited liability companies and partnerships) from reporting beneficial ownership information, leaving filing requirements in place for certain foreign entities. As an interim ruling it could still be modified. However, until this occurs, if it does, taxpayers can proceed under this guidance.

2026 TAX CHEAT SHEET

Some of the important numbers to be aware of going into 2026

Top federal tax rate	37%	On income above $768,700 (married)
SALT deduction	$40,000 (married) $20,000 (single)	Limited to $10,000 if $20,000 (single) modified AGI exceeds $600,000 (married or $300,000 (single)
Charitable contribution deductions	60% of AGI for cash contributions to public charities	Made permanent
Retirement contribution catchups	IRAs: $1,000 if 50+ up to $10,000 more if 60-63 401Ks: $7,500 if 50+ up to on plan type $10,000 if 60-63	Permanent; actual amounts dependent on plan type
Estate tax lifetime exemption	$15,000,000 per person	Permanent; increased by inflation annually
Annual exclusion gift exemption	$19,000 per person	

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