2025 TAX PLANNING TIPS

Strategies to maximize your tax savings in 2025.

OBBBA = One Big, Beautiful Bill Act (2025)
IRA = Inflation Reduction Act (2022)
TCDTRA = Taxpayer Certainty and Disaster Tax Relief Act (2020)
TCJA = Tax Cuts and Jobs Act (2017)

RETIREMENT CONTRIBUTION PLANNING:

- **IRA:** IRA contributions for 2025 must be deposited by April 15, 2026. The maximum 2025 IRA contribution is $7,000 (unknown in 2026). If you are aged 50 or older by December 31, 2025, the maximum amount is $8,000. There are no age limits for contributions to either traditional or Roth IRA's (California now conforms with this provision effective for the 2025 tax year). Roth IRA contributions are restricted to adjusted gross income phaseout amounts, with complete phaseout at $165,000 for single taxpayers and $246,000 for married taxpayers. IRA plans can be set up as late as April 15, 2026. If you are not eligible for a deductible IRA or Roth contribution due to income limitation, you can make a non-deductible IRA contribution and then (ideally) an immediate Roth conversion. Depending on any other IRA's you own, there may be reduced or no tax consequences. Contact us for specific details.

- **401(k):** The maximum 2025 contribution to your 401(k) is $23,500 (unknown in 2026). If you are age 50 or older by December 31, 2025, and your plan has been amended to allow it, the maximum amount is $31,000 (unknown in 2026). **Beginning in 2025, employer plans can be amended (but are not required) to allow employees aged 60-63 to make additional catch-up contributions. In this case, maximum contribution to a 401(k) for 2025 is $34,750 (or $81,250 for defined contribution plans).**

- **SEP:** The maximum 2025 SEP contribution is $70,000 (unknown in 2026). You have until the due date of your tax returns, including extensions, in which to make the 2025 contribution and to set up the plan. SEP and SIMPLE IRAs can now accept Roth contributions. This is a great option for those of you who have little or no regular income tax liability, but still owe self-employment tax from positive business income. You can now create a SEP/SIMPLE Roth and benefit from tax-free distributions in retirement.

- **All retirement plan contributions: Due to the complexity on limitations for contributions, we recommend that you consider waiting to make contributions until we have determined the allowable amount(s) based on your actual tax return OR contact us to discuss the appropriate amount(s) before you make contributions.** You (or your spouse) must have "earned income" for either of you to qualify for any type of IRA contribution.

- **Roth IRA rollover:** There is no adjusted gross income limitation that restricts the conversion of a regular IRA into a Roth IRA. Funds converted from a regular IRA to a Roth IRA will be taxed under the regular IRA distribution rules, but no penalties will apply. A Roth conversion can no longer be recharacterized (enacted with the TCJA). This means that any type of plan converted to a Roth IRA (including a traditional IRA, SEP, SIMPLE, 401(k) or 403(b)) cannot be undone or reversed after you have made a conversion.

- **IRA One-Rollover-Per-Year Rule:** You are allowed only one rollover from an IRA to another (or to the same) IRA in any 12-month period, regardless of the number of IRAs you own. This applies to all IRAs including SEP and SIMPLE IRAs and traditional or Roth IRAs. Transfers that are not limited include trustee-to-trustee transfers between IRAs and rollovers from traditional IRAs to Roth IRAs.

- **Required minimum distribution (RMD):** RMD's are required for 2025. The mandatory age to begin taking RMD's is increased from age 72 to:
  - Age 73 for those who turned age 72 in 2023 or later; and
  - Age 75 for those who will turn age 74 in 2033 or later.

2025 Standard deduction, including new enhanced senior deduction

- Married filing joint $31,500
- Head of household $23,625
- Single or married filing separate $15,750

Additional standard deductions for elderly/blind

- Elderly or blind (unmarried) $2,000 each
- Elderly or blind (married) $1,600 each

These additional standard deductions are available even if the taxpayer claims the $6,000 enhanced senior deduction.

Enhanced deduction for seniors

For 2025-2028, taxpayers aged 65 or older can claim a personal exemption deduction up to $6,000 ($12,000 for married taxpayers both over 65). Income phaseouts apply. More details on separate OBBBA sheet.

- **Tax-free distributions for charity (QCD):** Taxpayers over age 70 ½ can exclude IRA distributions from their gross income if the distribution is donated to a qualified charity (not including private foundations or donor-advised funds) as a direct transfer from an IRA account. The annual limit is now adjusted for inflation. The maximum QCD for 2025 is $108,000 (unknown in 2026). Even though the SECURE Act increased the RMD age, QCDs are allowed starting at age 70 ½. For 2025, taxpayers can make a one-time QCD up to $54,000 to a charitable gift annuity, charitable remainder unitrust, and/or charitable remainder annuity trust. Contact us for more information.

DEDUCTION AND CREDIT PLANNING:

- **Medical expenses:** The 7.5% medical expense threshold has been made permanent for all taxpayers by the TCDTRA. Expenses must be paid or charged on a credit card by December 31, 2025 to be eligible.

- **Charitable contributions:** Charitable contributions are only deductible for taxpayers that itemize in 2025. Be sure to ask for receipts to substantiate all amounts for both non-cash donations and cash donations. Cash donations can also be substantiated by canceled checks or bank statements that verify the charity's name, date and amount. Donations charged on a credit card by December 31, 2025 are eligible as a deduction for 2025, even if you don't pay the credit card balance until 2025. Charitable contributions have varied limitations based on your adjusted gross income. Any amounts not eligible due to these limitations can be carried forward for five years. Any donation deduction amount for cars, boats and airplanes of more than $500 **requires** your tax return to include a statement from the charity identifying the vehicle and stating the amount for which it was sold. Be sure to obtain these statements from the charity and include them with your organizer package. Any single item valued over $5,000 **requires** a certified appraisal; this includes donation(s) of cryptocurrency valued over $5,000.

- **Health savings accounts:** Health Savings Account (HSA) contribution limits for 2025 are $4,300 if single ($4,400 in 2026) or $8,550 for a family ($8,750 in 2026). For taxpayers aged 55 or older, the limits are $5,300 if single and an additional $1,000 for each qualifying spouse for a family plan. Reminder – taxpayers enrolled in Medicare are not eligible for HSA contributions.

- **Taxes:** State taxes are deductible on your federal tax return. State estimated income tax payments and property taxes that are due in 2026 can be paid in 2025. *CAUTION*: If you are subject to AMT (alternative minimum tax), there is no tax benefit by prepaying these taxes in 2025. OBBBA increased the total deduction of state and local income taxes, property taxes and personal property taxes to a combined total of $40,000 effective in 2025, but with income thresholds. Review our separate OBBBA sheet for more details. For rental property owners, there is NO limit to the amount of property taxes that can be deducted as a rental expense (however, overall rental losses could still be limited based on passive loss rules).

Deduction "bunching"

By applying a "bunching strategy", taxpayers can accelerate or defer their discretionary medical expenses, charitable contributions, and/or **state and local income taxes** into the tax year where it might create a tax benefit. The maximum SALT limit is now $40,000, which is already higher than the standard deduction, however, it may be reduced due to income limitations (but not lower than $10,000). As a result, careful planning of bunching deductions is even more important both in terms of timing and income.

- **Mortgage interest:** Mortgage interest is deductible to the extent the proceeds were used to acquire, construct, or improve your personal residence(s) to a maximum principal amount of $750,000 ($1,000,000 for California and for debts acquired prior to December 15, 2017). Interest paid on home equity loans for which the proceeds were **not** used to acquire, construct, or improve your personal residence is no longer deductible, even if the loan was acquired prior to December 15, 2017. California still allows a deduction for interest on home equity debt up to $100,000 regardless of what the proceeds were used for. Refinancing a mortgage and taking cash proceeds may impact the amount of interest that is deductible. Mortgage insurance premiums are not deductible for 2025, but will again be deductible in 2026 due to the passing of OBBBA.

- **Miscellaneous itemized deductions:** OBBBA "permanently" eliminated the deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2% of your adjusted gross income (California still allows this deduction). This category included tax preparation costs, investment/broker fees, union dues, unreimbursed employee expenses and safety deposit boxes. For taxpayers that incur high broker fees, consider discussing alternative options with your broker. For taxpayers with unreimbursed employee business expenses, consider discussing reimbursement options with your employer. Effective for 2026, OBBBA removes unreimbursed expenses of **educators** from being classified as a 2% miscellaneous itemized deduction, thereby making it an eligible deduction for itemizers for both federal and state purposes.

- **Residential Clean Energy Credit (solar)**: See separate OBBBA sheet

- **Energy Efficient Home Improvement Credit**: See separate OBBBA sheet.

- **Clean Vehicle Credit:** See separate OBBBA sheet.

BUSINESS EXPENSE PLANNING:

- **Health insurance premiums:** As a self-employed person, you are allowed to deduct 100% of health insurance premiums paid for yourself, your spouse, and your dependents to the extent of your earned income. This also includes dental and vision insurance, plus limited amounts for long-term care insurance. It does not include disability or life insurance. **Health insurance paid for shareholders of an S-corporation must be reported on the shareholder's W-2 to be deductible.**

- **Depreciation:**
  - *"Section 179 deduction":* Equipment purchases are eligible for a "Section 179 deduction" of up to $2,500,000 for 2025. The equipment must be "placed in service" by December 31, 2025. Note that purchasing too much equipment (over $4,000,000) will restrict your total "Section 179 deduction".
  - *Bonus depreciation*: OBBBA extended 100% bonus depreciation for property acquired after January 19, 2025. The "acquired" date and the "placed in service" date are important to distinguish so be sure to maintain careful records, including a written, binding purchase contract. Qualified improvement property is eligible for bonus depreciation, excluding building enlargement, structural framework, and other miscellaneous improvements.

INVESTMENT PLANNING:

- **Sale of home:** When selling your principal residence, you may exclude up to $500,000 of capital gain if married or $250,000 of capital gain if single. A sale of a home in 2025 or 2026 could trigger an increased capital gain rate and the 3.8% Medicare surtax if there is a taxable gain. Since there is no exclusion for the sale of a second home, vacation home, or rental property, the entire capital gain could be subject to these higher rates for sales in 2025 and beyond.

- **Capital gains and losses:** Income that results from sales of stock, investment property, and rental property (above depreciation recapture) is considered capital. Long-term gains result from sales that have been held over one year. The federal income tax rate on long-term capital gains is limited to 20% in 2025 (see chart for brackets). The Medicare surtax of 3.8% on investment income for taxpayers with income exceeding certain thresholds is also still in effect. **Losses are deductible to the extent of gains plus $3,000.** Any excess loss is carried over to subsequent years for an unlimited amount of time. *CAUTION*: If you are subject to AMT (alternative minimum tax), the capital gains tax rate benefit may be partially offset by an increased AMT liability amount.

2025 Long-Term Capital Gains Rates

For Taxes Due in 2026

Filing Status	0% Tax Rate	15% Tax Rate	20% Tax Rate
Single	< $48,350	$48,351 to $533,400	> $533,400
Married Filing Jointly	< $96,700	$96,701 to $600,050	> $600,050
Married Filing Separately	< $48,350	$48,350 to $300,000	> $300,000
Head of Household	< $64,750	$64,751 to $566,700	> $566,700

- **Gifts**: Amounts transferred up to $19,000 per person per year in 2025 are considered exempt from gift reporting and taxation. Amounts given above this amount require the "giver" to file a gift tax return and either elect to use part of their "life-time exclusion" or to pay a gift tax. This gift tax return is due April 15, 2026 or October 15, 2026 if an extension is filed. There are no requirements for the recipient of the gift. The 2026 limit is also $19,000.

- **Social security:** Up to 85% of social security benefits may be taxable depending on your modified adjusted gross income. For one-time events you should take into consideration the year of receipt. Please call us for an individualized analysis.

- **Net operating loss (NOL):** A net operating loss occurs if certain non-personal income and expenses create a negative amount. For California, net operating losses were suspended for tax years between 2024 and 2026, but only applies to personal income taxpayers with modified AGI and net business income greater than $1M. The TCJA repealed the net operating loss carryback (with limited exceptions), but it is still allowed to be carried forward indefinitely (the 20-year expiration only applies to California). NOL's can only offset 80% of the taxpayer's taxable income (100% for California).

ALTERNATIVE MINIMUM TAX:

- Some of the standard year-end planning ideas will not reduce tax liability if you are subject to the alternative minimum tax (AMT) because different rules apply. Because of the complexity of the AMT, we recommend a personalized analysis (tax projection) of your AMT exposure.

HEALTHCARE MANDATE:

- California and many other states continue to impose a health care mandate. The maximum penalty for California residents who do not have minimum essential health coverage for 2025 is $900 per adult 18 years or older and $450 per dependent child, up to an annual maximum of $2,700. The penalties will be calculated and reported on your 2025 California tax return. There is no such mandate or penalties on your federal return.

2025 Standard Mileage Rates

- Business: 70 cents per mile
- Charitable: 14 cents per mile
- Medical: 21 cents per mile