Highlights

- New OBBBA Provisions Apply in 2025
- Reduced Importance on Bunching Itemized Deductions
- Changes to Retirement Distributions

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Tax Briefing | 2025 Year-End Tax Planning

Planning Strategies and Techniques Available Through End of Year

The big news of 2025 on the tax front has been the July passage of the One Big Beautiful Bill Act (OBBBA). The act permanently extended nearly all provisions set to expire at the end of 2025 under the Tax Cuts and Jobs Act (TCJA). This included lower tax rates for individuals, the termination of the personal exemption, the increased standard deduction, and many other items. In addition, the act made new deductions applicable to seniors, tip workers, and hourly wage earners receiving overtime pay. The act also terminated many of the green energy credits available to individuals under the Inflation Reduction Act of 2022.

Last year, the impending sunset of the TCJA was of paramount importance in preparing for the 2025 tax year. The passage of OBBBA takes nearly all of the steam out of those preparations. However, OBBBA does present some new considerations for the end of 2025, especially for those provisions that take effect for this tax year. Additionally, there are a handful of tax provisions that will still expire at the end of the year, and may need attention.

Besides anything related to new, extended, or expiring tax issues, there is always the continued application of tried-and-true year-end tax strategies from years' past. The best plan for the next few weeks is to take advantage of the simple tactics of deferring income and increasing current deductions, and coupling that with any new considerations from OBBBA.

Wolters Kluwer

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LEGISLATION

Through the end of 2025, there is a very low likelihood of tax legislation. However, at the time of publication, the government has been shut down since the beginning of October, so there is the possibility that any deal that is struck to open the government could include some minor tax legislation, though tax changes are absent from a pending deal to reopen the government. Notably, the deal does not include a plan to extend the expanded premium tax credit for Affordable Care Act health plans. The credit expansion that was provided in legislation during the height of the COVID-19 pandemic expires at the end of 2025, and the extension of that expanded credit has been the stated goal of Senate Democrats in holding out on voting for a budget bill to open the government.

Additionally, some Senate Republicans have been floating the possibility of another reconciliation bill this year. Under Senate rules, only a simple majority is required to pass a reconciliation bill (the tactic used to pass OBBBA in July). There are strict rules about what can be passed as part of a reconciliation bill, but generally speaking, tax changes are allowed. Nevertheless, it is not clear what the appetite for such a bill is on the Hill, or in the White House, so there is little likelihood of one happening before the end of 2025.

MINIMIZING INDIVIDUAL TAXES

Income taxes

The key to any year-end planning strategy is to minimize taxes. This is generally done by either reducing the amount of income received or increasing the amount of deductions. In recent years, the possibility of increased rates on higher incomes due to proposed legislation, or changes in qualification for various stimulus proposals, made the decision of deferral or acceleration highly dependent upon individual circumstances. As the end of 2025 approaches, these factors are not in play anymore due to the permanent extension of TCJA. Also, any OBBBA provisions that are effective for 2025 are effective for 2026 as well, so it is unlikely any individual considerations need to be closely examined in making a deferral or acceleration decision.

The impact of inflation usually makes deferral of income a likely winner for almost all individuals. Due to a number of factors, inflation has remained stubbornly high during 2025. Though not as high as it was in 2022 and 2023, inflation has been somewhat resurgent during the first nine months of 2025, and it was reflected in the tax brackets for 2026 released by the IRS in October. As an example of the increase in the brackets, the rates for married taxpayers filing jointly in 2025 compared to 2026 are below:

2025

	If Taxable Income Is:			
	Over	But Not More Than	The Tax Is	Of the Amount Over
Married Filing Jointly	$0	$23,850	$0 + 10%	$0
	23,850	96,950	2,385.00 + 12%	23,850
	96,950	206,700	11,157.00 + 22%	96,950
	206,700	394,600	35,302.00 + 24%	206,700
	394,600	501,050	80,398.00 + 32%	394,600
	501,050	751,600	114,462.00 + 35%	501,050
	751,600		202,154.50 + 37%	751,600

2026

	If Taxable Income Is:			
	Over	But Not More Than	The Tax Is	Of the Amount Over
Married Filing Jointly	$0	$24,800	$0 + 10%	$0
	24,800	100,800	2,480.00 + 12%	24,800
	100,800	211,400	11,600.00 + 22%	100,800
	211,400	403,550	35,932.00 + 24%	211,400
	403,550	512,450	82,048.00 + 32%	403,550
	512,450	768,700	116,896.00 + 35%	512,450
	768,700		206,583.50 + 37%	768,700

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Individuals may not necessarily see increases in earnings that keep up with that level of inflation, so if deferral of income from 2025 into 2026 is possible, it would mean that more income would fall into a lower tax bracket. In the long run, that would mean a lower aggregate tax burden.

Delaying and reducing gains

Like taxes on ordinary income, taxes on capital gains also apply at different rates depending upon the amount of taxable income. For 2025, the rates are as follows:

	0%	15%	20%
MFJ/SS	$0 - $96,700	$96,701 - $600,050	over $600,050
MFS	$0 - $48,350	$48,351 - $300,000	over $300,000
HoH	$0 - $64,750	$64,751 - $566,700	over $566,700
Single	$0 - $48,350	$48,351 - $533,400	over $533,400
E&T	$0 - $3,250	$3,251 - $15,900	over $15,900

For taxpayers whose income tends to fluctuate from year to year, it would be wise to examine the impact of sales of investment items. For taxpayers who think they may have lower income in 2026, it would be smart to hold off on a sale of a capital item if their income is at or near a threshold for a higher capital gains bracket.

This type of consideration should not be limited to capital gain taxes, but also the net investment income (NII) tax. The 3.8% NII tax kicks in at $200,000 of modified adjusted gross income for single and head-of-household filers, $250,000 for joint filers, and $125,000 for married taxpayers filing separately.

COMMENT. *Since the NII thresholds fall right in the middle of the 15% capital gains bracket, a taxpayer to whom the NII applies because of a sale of a capital item would likely not be able to reduce the tax to 0%. But a taxpayer who is barely in the 20% bracket could defer a sale and get into the 15% bracket, meaning a sale of a capital item would only be taxed at 18.8% instead of 23.8%.*

A potential tax strategy involves selling investments at a loss to offset or reduce capital gains generated in the same tax year. However, the benefits only apply to high-income taxpayers. In addition, taxpayers must be mindful of the wash-sale rules that might disallow the loss if they reinvest in a 'substantially similar' asset within 30 days.

Maximizing deductions

For 2025, the inflation-adjusted (and OBBBA-increased) standard deduction amounts are $31,500 for joint filers, $23,625 for heads of households, and $15,750 for all other filers. With standard deduction amounts so high, it is difficult for many taxpayers to claim enough deductions to make itemizing deductions beneficial. Thus, maximizing deductions may not be beneficial for all taxpayers.

However, exceeding the standard deduction through itemized deductions is much more achievable in 2025 than in recent years due to OBBBA. TCJA put a $10,000 cap on the deduction of state and local income taxes (SALT). With that limitation, it was very difficult for most taxpayers to reach the standard deduction amount with itemized deductions, even with interest and charitable contributions. However, for tax years beginning in 2025, the cap has been increased to $40,000.

Before the increase of the SALT cap, one of the best ways to maximize the amount of deductions was to develop a bunching strategy. This involves accumulating charitable contributions, or even medical expenses, from two or more years into one year. For example, a taxpayer may have not made any of their normal charitable contributions in 2024, and then made double the normal amount in 2025 in order to help surpass the standard deduction amount. Bunching is still a viable strategy for those taxpayers who are close to, but not in excess of, the increased standard deduction amounts, even with the increased SALT cap. However, it will likely be less applicable, especially for taxpayers who live in states with higher income and or property tax rates.

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The same bunching strategy can be employed for deductible medical expenses where the timing is somewhat flexible, such as for elective procedures (remember that purely cosmetic procedures are not deductible).

COMMENT. *Bunching can be a very effective strategy, but it has to be effectively used, and potentially planned out two or three years in advance to maximize the benefit, while also taking into account shifts in tax policies.*

When maximizing deductions, with or without a bunching strategy, two additional areas warrant consideration in light of OBBBA changes.

First, OBBBA made two significant changes with regard to charitable contributions. Starting in 2026, nonitemizers can claim a $1,000 deduction for cash contributions to a charity. This alone would not impact a bunching strategy, as the taxpayer will either make the contribution or not in order to implement the strategy, it isn't a question of reporting or timing, though it should be taken into account. More importantly, beginning in 2026, a 0.5 percent floor on charitable contributions will be in effect, so any bunching strategy that includes increasing charitable contributions in 2026 would need to account for that floor reducing the deductible amount.

More significantly, OBBBA brought back a limit on itemized deductions for higher income taxpayers, effective in 2026. For taxpayers in the highest tax bracket (37 percent), a taxpayer's itemized deductions are reduced by 2/37 of the lesser of his or her itemized deductions or taxable income that exceeds the dollar amount at which the 37 tax bracket begins with respect to the taxpayer. It is unlikely that a taxpayer who has taxable income high enough to make this limit applicable would have a low amount of deductions where they would be better off with the standard deduction, but it is possible, and since the limit doesn't apply in 2025, it should be considered.

New deductions

OBBBA created four new deductions for individuals that can be claimed whether the individual itemizes deductions or not, and they are all available for 2025. None of them require any planning before the end of the year, though they may require some additional paperwork to establish eligibility.

First, the new $6,000 senior deduction is available for persons aged 65 or older before the end of the year, subject to income limitations. This is a deduction that either applies or it doesn't, though it should be included in the consideration of other available deductions, and it may make sense to consider the income limitations when taking retirement distributions.

Next is the $10,000 deduction for interest on an automobile loan. The deduction is available to people purchasing new qualified vehicles (qualification mostly centers on domestic manufacturing requirements) and phases out for taxpayers with adjusted gross income in excess of $100,000 ($200,000 for joint filers). The deduction is available in 2026 as well, so there isn't an immediate need to take advantage of it, but again, it should be considered in light of additional income deferral/acceleration decisions.

Finally, the new deductions for qualified tip income and qualified overtime income will need to be accounted for by individuals wishing to claim them for 2025. At this time, it appears that the strict statutory requirements for employers reporting these types of income will be delayed to 2026, so employees wishing to claim the deduction should start keeping track of what income may or may not be eligible for the deductions in 2025.

Green energy

Green energy provisions, particularly those credits applicable to individuals, took a big hit in the One Big Beautiful Bill Act. Already terminated are credits for the

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purchase of new or used clean vehicles (though the credit can still be claimed for 2025 if the vehicle was purchased before October 1, 2025).

However, two individual energy credits are still available if action is taken before the end of 2025. First, the Energy Efficiency Home Improvement Credit, equal to 30% of the taxpayer's qualified expenses, which can include doors, windows, other qualifying energy property, and even a home energy audit, is still available for property placed in service before the end of 2025. Also, the Residential Clean Energy Credit, which is equal to 30% of the cost of installation of certain energy property like solar cells, small wind turbines, or battery storage, is available for expenditures made before the end of 2025.

> **COMMENT.** *Note that, despite the difference in language for the terminations of these two provisions, the IRS has clarified that, generally, for purposes of the clean energy credit, the expenditure will be treated as occurring when installation is completed.*

Retirement savings

The age at which required minimum distributions (RMDs) must begin is 73 for individuals who turn 72 after 2022 and age 73 before 2033.

Remember that taxpayers who are in their first RMD year have until April 15 of the following year to make that first RMD. So, while action isn't absolutely necessary before the end of the year, affected taxpayers should start to plan for those RMDs. Keep in mind that the subsequent RMD for 2026 is required by December 31, 2026. If a taxpayer were to take both RMDs in 2026, it could push them into a higher tax bracket because both distributions would be taxable in one tax year.

Qualified charitable distributions, or QCDs, offer eligible taxpayers aged 70 ½ or older a great way to easily give to charity before the end of the year. For those who are at least 72 years old, QCDs count toward the IRA owner's RMD for the year. QCDs are tax free if they are paid directly from the IRA to an eligible charitable organization. The annual QCD limit for 2025 is $108,000 (up from $105,000 in 2024).

Other year-end strategies for individuals

A number of other traditional year-end strategies may apply. These include:

- Maximizing Education Credits – Individuals can claim a credit for tuition paid in 2025 even if the academic period begins in 2026, as long as the period begins by the end of March.
- Increasing 401(k) Contributions – Adjusted gross income (AGI) can be reduced if individuals increase the amount of their 401(k) contributions.
- IRA Contributions – Individuals eligible for deductions for IRA contributions can claim deductions, and thus reduce AGI, for amounts contributed generally through April 15, 2026.
- Teacher deductions – Educators can claim a deduction for up to $300 of classroom expenses (like books, supplies, and computer equipment, as well as personal protective equipment, disinfectant, and other supplies used to prevent the spread of COVID-19), and should maximize those expenses by year-end.

> **COMMENT.** *Beginning in 2026, educators who itemize deductions will be able to claim a miscellaneous itemized deduction, not subject to the two-percent floor, on unreimbursed expenses. However, for 2025, the $300 deduction is the only one available.*

YEAR-END BUSINESS STRATEGIES

Depreciation and expensing

OBBBA greatly expanded already very generous depreciation and expensing limitations. The Code Sec. 179 expensing deduction now has an investment limitation of $4,000,000 for 2025, with a dollar limitation of $2,500,000.

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Taxpayers may also claim an additional first-year depreciation allowance of 100% for property placed in service after January 19, 2025. This 100% bonus depreciation was last available for property placed in service in 2022.

COMMENT. *Last year, the smart move after the results of the election was to sit and wait for a return of 100% bonus depreciation, as the rate was 60% for 2024 and scheduled to be 40% for 2025. For businesses savvy enough to read the tea leaves that 100% bonus depreciation would make a return with the new Congress and White House, their patience now pays off. And, OBBBA made 100% bonus depreciation permanent, so there is no need to hurry to take advantage of it (barring another change by a new Congress sometime down the road).*

Clean commercial vehicles

Similar to the personal credits for the purchase of clean vehicles, the credit for the purchase of a clean commercial vehicle expired for vehicles purchased after September 30, 2025, so it is now too late to take any year-end action to qualify for the credit. However, the credit can still be claimed in 2025 for purchases before October 1.

Retirement Plans

The SECURE 2.0 Act of 2022 expands provisions for retirement plans to benefit both employers and plan participants.

An employer that does not sponsor a retirement plan can offer a starter 401(k) plan (or safe harbor 403(b) plan). A starter 401(k) plan (or safe harbor 403(b) plan) would generally require that all employees be enrolled in the plan at 3% to 15% of compensation deferral rate by default. The limit on annual deferrals would be the same as the IRA contribution limit. This provision is effective for plan years beginning after December 31, 2023.

The SECURE Act 2.0 permits an employer to adopt a new retirement plan by the due date of the employer's tax return for the fiscal year in which the plan is effective. Current law, however, provides that plan amendments to an existing plan must generally be adopted by the last day of the plan year in which the amendment is effective. This precludes an employer from adding plan provisions that may be beneficial to participants. The SECURE Act 2.0 amends these provisions to allow discretionary amendments that increase participants' benefits to be adopted by the due date of the employer's tax return. This provision is effective for plan years beginning after December 31, 2023.

Work Opportunity Credit

One of the provisions that was not extended by OBBBA is the Work Opportunity Tax Credit, so it does not apply to employers who are otherwise eligible after the end of 2025. The credit applies to employers who hire employees who are members of designated groups. Employers who wish to claim this credit must complete all requirements for the credit before the end of the year.

Reporting for new OBBBA deductions.

The IRS recently announced that penalties will not apply to employers who fail to meet the strict reporting requirements for the new employee deductions for qualified tip and overtime income as employers may not yet have procedures in place to meet the requirements. Still, employers are encouraged to make the information available to employees so the entire reporting burden does not fall on employees. Similarly, the strict reporting requirements for sellers of new vehicles giving rise to a deduction of auto loan interest are not applicable to 2025. While these are not necessarily year-end planning issues, businesses should expect to start implementing new systems in 2026.

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COMMENT. *With the absence of penalties applicable to employers for these reporting requirements, the heat is off to make system changes to account for reporting. However, employers should start preparing for next year, and can also engender some employee good will by making the necessary information available for the 2025 tax year.*

Other year-end strategies for businesses

A number of other traditional year-end strategies may apply. These include:

- Timing the deduction of employee bonuses and executive compensation (note that new rules apply to the $1 million compensation deduction limit for controlled groups in 2026)
- Prepay rent and suppliers under the cash system; commit to contracts under the accrual method
- Consider inventory write-offs
- Avoid the impact of corporate AMT

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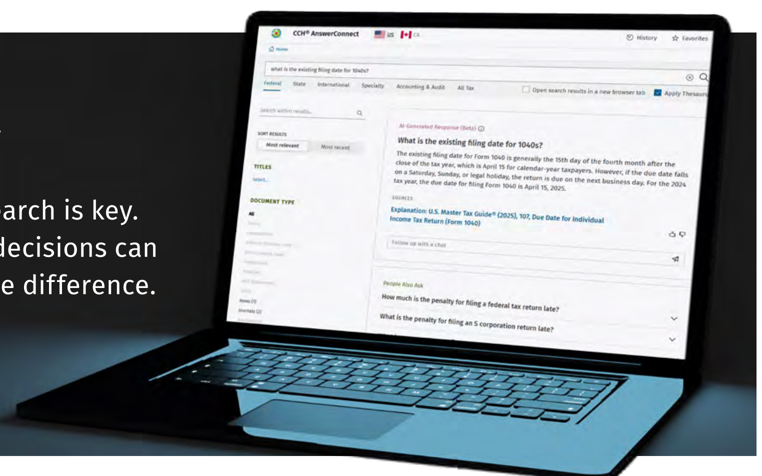

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