

2025

YEAR-END TAX PLANNING GUIDE



INTRODUCTION

As 2025 draws to a close, proactive year-end tax planning is important for individuals, trusts, and businesses to minimize tax, maximize available benefits, and ensure compliance with evolving rules. The One Big Beautiful Bill Act (OBBBA) passed earlier this year introduced some tax changes, including permanent extensions of key provisions, new deduction thresholds, and expanded reporting requirements. However, the most impactful outcome from the OBBBA were not changes, but a continuation of tax provisions that were set to expire at the end of 2025. Ultimately, that means 2025 year-end planning strategies remain similar to 2024. This guide is designed to help you identify key year-end tax planning actions for 2025, tailored to your unique circumstances as an individual, trust, or business. By addressing these items before December 31, you can position yourself for a successful tax year and avoid costly surprises.

A few highlights of the OBBBA tax changes that benefit taxpayers include:

- Increased deduction up to \$40,000 for state and local taxes, if income is less than \$500,000
- Deduction for interest from automobile loans on certain vehicles
- Charitable contribution deduction up to \$2,000 for non-itemizers starting in 2026
- No tax on tips up to \$25,000 and no tax on qualified overtime compensation up to \$25,000, if total income is below the threshold
- A personal exemption of \$6,000 for seniors age 65 and older is available through 2028, if income is below the threshold

However, there were a few provisions that could increase tax:

- Gambling losses limited to 90%
- Credits for energy efficient property were eliminated after December and the credit for electric vehicles were eliminated in September
- Business meals are now disallowed

Additionally, starting in 2026, the OBBBA limits the tax benefit of all itemized deductions, including charitable contributions, to 35%; and reduces the total charitable contribution deduction by 0.5% of adjusted gross income. As a result, 2025 is the better year for charitable contributions as compared to 2026.

One last item to note is the new requirement for all federal tax payments to be made electronically. Individuals and businesses are able to make electronic payments using the IRS Direct Pay system (<https://www.irs.gov/payments/direct-pay-with-bank-account>) which is accessible from the IRS.gov website. Trusts are not currently able to use Direct Pay but that is expected to change sometime in 2026. In the meantime, trusts that expect to make tax payments may want to enroll in the EFTPS system (<https://www.eftps.gov/eftps/>).

It's important to discuss your current tax situation in detail with Jenny, Ryan, or Stephanie. Many of the tried-and-true planning strategies are still beneficial but may vary based on your circumstances. We encourage you to read through the guide and identify any areas that might apply and then give us a call to discuss this in more detail.

TAX PLANNING CHECKLIST FOR INDIVIDUALS

Income Planning

- ☐ **Income Acceleration** – If 2025 income is temporarily lower than normal, consider accelerating income by taking retirement account distributions, converting an IRA to a Roth IRA, selling assets, or deferring deductions.
- ☐ **Tax-Exempt Income** – Review investment portfolios to consider exposure to municipal bonds. Not only is the interest tax-exempt, but it's also not subject to the 3.8% Net Investment Income Tax (NIIT) that might apply to other taxable income.
- ☐ **0% Tax Rate Income** – For some taxpayers in the 10%- or 12%-income tax brackets, long-term capital gains and qualified dividend income is taxed at 0%. If you are in one of these tax brackets, consider capital gain harvesting before year-end to increase basis within a portfolio. Note that wash sale rules that limit capital losses do not apply to gains so the assets can be immediately repurchased.
- ☐ **Like-Kind Exchange** – Consider using a Sec. 1031 like-kind exchange on the sale of real property used as a rental or business property to defer taxable gains.
- ☐ **Capital Gain Deferral** – Realized capital gains from the sale of an investment can be deferred into future years if a portion of the sale proceeds are invested in a Qualified Opportunity Zone Fund (QOF) within certain time periods. The QOF investment could even generate tax-free gain when sold.
- ☐ **Capital Loss Harvesting** – Review your portfolio and consider selling any unrealized capital losses (when appropriate) to offset other realized capital gains. Capital losses can be used to offset capital gains, and unused losses are carried forward to offset future capital gains. However, the wash sale rules will eliminate the benefit if the same asset is re-acquired within 30 days.
- ☐ **Washington Residents with Capital Gains** - Keep in mind Washington State's 7% capital gains excise tax applies to long-term capital gains over \$278,000 and a 9.9% rate applies to capital gains over \$1,000,000. When possible, realize long-term capital losses and delay recognizing long-term capital gains to keep net long-term capital gains below the threshold.

2025 TAX RATES			
Single	Married Filing Jointly	Marginal Income Tax Rates	Long-term Capital Gain & Qualified Dividends Tax Rates
\$0 to \$11,925	\$0 to \$23,850	10%	0%
\$11,926 to \$48,350	\$23,851 to \$96,700	12%	0%
\$48,351 to \$48,475	\$96,701 to \$96,950	12%	15%
\$48,476 to \$103,350	\$96,951 to \$206,700	22%	15%
\$103,351 to \$197,300	\$206,701 to \$394,600	24%	15%
\$197,301 to \$250,525	\$394,601 to \$501,050	32%	15%
\$250,526 to \$533,400	\$501,051 to \$600,050	35%	15%
\$533,401 to \$626,350	\$600,051 to \$751,600	35%	20%
Over \$626,350	Over \$751,600	37%	20%

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Income Planning (Continued)

- ☐ **Suspended Passive Losses** – Consider disposing of passive real estate or business interests to recognize any suspended passive losses. Losses from a passive activity that are not allowed to offset current income due to the passive loss rules are suspended and carried forward. Disposing of a passive activity with suspended losses allows both the current year losses and suspended losses to offset current year income.
- ☐ **Passive/Rental Income** – Explore ways to increase the level of participation with passive entities or rental properties to avoid the additional NIIT. Income from passive activities may be subject to the NIIT 3.8% surtax in addition to income tax. However, this can be mitigated if taxpayers can meet one of the tests for material participation.
- ☐ **Roth IRA Conversion** – Evaluate your IRA and anticipated income level for 2025 to determine if a portion of your IRA should be converted to a Roth IRA. This conversion will create additional taxable income in the current year, at a potentially lower tax rate, but the distributions from the converted account will be income tax free in future years.
- ☐ **Required Minimum Distributions (RMD)** – RMDs for defined contribution retirement plans, including 401(k)s and IRAs, are required to be withdrawn by December 31. The age to begin taking RMDs has changed from 70.5 to 73 and must be taken by April 1 of the year after you turn 73.
- ☐ **Inherited IRAs** – Non-spouse individual beneficiaries inheriting an IRA from a decedent who passed away after 2019 are required to fully distribute the account in 10 years after the decedent passed.
- ☐ **Qualified Charitable Distribution (QCD)** – Taxpayers over age 70.5 with an IRA who normally make charitable donations, should utilize a QCD to donate funds directly from the IRA to the charity up to \$108,000 each year. The amount donated through a QCD will not be included in Adjusted Gross Income which helps increase the tax benefit of the donation. This strategy works especially well if the taxpayer does not itemize deductions.
- ☐ **Child's Income** – Transfer income-producing assets or appreciated property to kids to utilize their (generally) lower tax bracket. However, Kiddie Tax could eliminate most of the tax savings if the child is under age 18, or under age 24 and a full-time student.
- ☐ **Incentive Stock Options (ISO)** – Due to changes with AMT resulting in an increased AMT income threshold, evaluate ISO exercise strategies and consider exercising ISOs in a qualified transaction.
- ☐ **Foreign Bank Accounts** – With some exceptions, bank accounts, securities, mutual funds, online poker accounts, or insurance policies with cash value that are physically located outside the U.S. must be disclosed to avoid penalties. This applies to employees with signature authority and foreign retirement accounts.



TOP TAX RATES FOR 2025

Ordinary earned income	37%
Net investment income and passive income (1)	40.8% ⁽²⁾
Long-term capital gains	23.8% ⁽²⁾
Qualified dividends	23.8% ⁽²⁾
Estate and gift tax	40%

(1) Includes interest, dividends, royalties, net rental income, and other passive income

(2) Includes 3.8% surtax on the lesser of a) net investment income or b) adjusted gross income over the applicable threshold of \$200,000 for single taxpayers, \$250,000 for joint taxpayers, or \$15,650 for estates and trusts

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Deduction and Credit Planning

- ☐ **Retirement Plan Contributions** – Certain retirement plans, such as a 401(k) or Keogh, must be established by year-end even though employer contributions are not due until the tax return due date.
- ☐ **Over Age 50 Retirement Plan Contributions** – If over age 50, be sure to utilize the “catch-up contribution” that allows for additional contributions to a 401(k) and an IRA in addition to the regular contribution limits. Starting 2025, taxpayers ages 60 through 63 will be able to contribute even more. See chart for balances.
- ☐ **Health Savings Account (HSA) Contributions** – If eligible, contributions to an HSA are tax-deductible and eligible distributions are tax-free.
- ☐ **Bunch Deductions** – With the new increased standard deduction making it harder to reach the threshold to itemize deductions, consider bunching two years of deductions into one year by accelerating or deferring deductions like medical expenses and charitable contributions to maximize the deduction benefit. The goal is to report itemized deductions greater than the standard deduction one year and then utilize the standard deduction, which acts as a floor, in the next year.
- ☐ **Home Equity Interest** – The deduction for interest from a home equity loan or line of credit is only allowed if the proceeds were used to acquire or substantially improve your primary or secondary home.
- ☐ **Mortgage Interest** – Interest from mortgage loans originating after December 15, 2017, is deductible on mortgage debt up to \$750,000. Loans originating before that date are still able to use the previous \$1 million limitation. Second mortgages are also deductible if the proceeds were used to acquire or improve the residence, and the total mortgage debt is below the applicable threshold.

- ☐ **Interest for automobile loans** - For 2025 through 2028, taxpayers are allowed to deduct interest of up to \$10,000 for loans to purchase a new automobile that meets certain US assembly requirements. The deduction reduces Adjusted Gross Income and is not considered an Itemized Deduction but is subject to phase-outs based on income levels.
- ☐ **School Teachers** – Elementary and secondary school teachers are allowed to deduct up to \$300 on books, supplies, and materials purchased for their classrooms.



Retirement Plan Contribution Limits for 2025

Traditional/Roth IRA

\$7,000
\$8,000

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

\$23,500
\$31,000

Simple IRA

\$16,500
\$20,000

Under Age 50
Age 50 or Older

SEP

\$70,000
\$70,000

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Deduction and Credit Planning

- ☐ **Charitable Miles** – A deduction of \$0.14 per mile is allowed when using a vehicle for charitable purposes, plus parking fees and tolls.
- ☐ **Charitable Contributions of Appreciated Property** – Consider giving appreciated property to a charity instead of cash to receive a deduction for the fair market value and avoid paying tax on the capital gain. Conversely, investment assets with unrealized losses should be sold first, and the cash donated to charity to receive the benefit of the capital loss.
- ☐ **Timing of Charitable Contributions** – Credit card charges and checks mailed on or before December 31, though not actually paid until 2026, are still considered deductions in 2025.
- ☐ **Charitable contribution deduction for non-itemizers** – A charitable contribution deduction of up to \$1,000 for single taxpayers and \$2,000 for MFJ taxpayers that do not itemize deductions is allowed for cash contributions starting in 2026.
- ☐ **Substantiation of Charitable Contributions** – The IRS has been disallowing charitable contribution deductions when taxpayers are unable to completely meet the substantiation requirements. When giving over \$250 to charity, be sure to get an acknowledgment letter from the charity. It would even be advisable to take a photo of non-cash items contributed.
- ☐ **Donor-Advised Funds** – Taxpayers with charitable contributions might consider utilizing a Donor-Advised Fund (DAF) as part of a bunching strategy discussed above. The DAF allows taxpayers to make a large charitable contribution one year but distribute the funds to charities in future years.
- ☐ **Residential Energy Tax Credits** – The tax credits for installing energy efficient improvements are in effect through December 2025 and include an unlimited 30% credit for installing solar water heaters, solar panels, geothermal heat pumps, small wind turbines, and fuel cells. For 2025, residential energy efficient property receives an annual 30% credit up to \$1,200 for items meeting specific energy efficiency requirements, including biomass stoves, central air conditioners, furnaces, insulation, roofs, hot water heaters, windows, doors, and skylights.
- ☐ **Electric Vehicle Tax Credits** – The OBBBA terminated the credit for electric vehicles purchased after September 30, 2025.
- ☐ **Education Credits and Deductions** – To be eligible for the American opportunity tax credit or the lifetime learning credit, taxpayers must have a Form 1098-T from the educational institution. Information from Form 1098-T is needed to claim the credits or deductions.

VALUE	CHARITABLE CONTRIBUTION SUBSTANTIATION REQUIREMENTS		
	Cash Donations	Non-Cash Donations	Publicly Traded Stock Donations
\$249 or less	Maintain records to support contribution	Maintain records to support contribution	Maintain records to support contribution
\$250 - \$500	Maintain written acknowledgement from the charitable organization	Maintain written acknowledgement from the charitable organization	Maintain written acknowledgement from the charitable organization
\$501 - \$5,000		In addition to maintaining acknowledgement letter, must report date that property was acquired, adjusted cost basis, and method of acquisition	In addition to maintaining acknowledgement letter, must report date that property was acquired, adjusted cost basis, and method of acquisition
More than \$5,000		In addition to requirements above, must obtain an appraisal from a qualified appraiser	
\$500,000 or greater		Obtain an appraisal from a qualified appraiser for assets other than cash or publicly traded securities AND attach a copy of the appraisal to your return along with a confirmation letter from the charity	

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Estate and Gift Planning

- ☐ **Annual Exclusion** – Every taxpayer has a \$19,000 per-recipient annual exclusion from gift tax. Combined with a spouse's annual exclusion, a married couple can give \$38,000 per recipient. Consider evaluating your gifting options before year-end.
- ☐ **Federal Lifetime Exemption** – The federal lifetime exemption for gift and estate tax is now \$13.99 million (this is in addition to the \$19,000 per-recipient annual exclusion for lifetime gifts referenced above). The gift and estate tax rate for transfers greater than \$13.99 million is 40% for 2025.
- ☐ **State Estate Tax** – Some states, including Washington, Oregon, and Massachusetts, have state estate taxes. Notably, the Washington State exemption amount is now \$3 million per person and assets exceeding that balance are taxed at rates ranging from 10% – 35% so it is increasingly important to consider state estate taxes in your overall estate plan.
- ☐ **529 Plans** – Contributions to a 529 plan are excluded from a taxpayer's estate and earnings are tax free if withdrawn to pay for Qualified Higher Education expenses. Unused 529 funds are now eligible to be rolled into a Roth IRA for the beneficiary.
- ☐ **Stretch IRA** – The Secure Act eliminated the "stretch IRA" strategy for IRAs inherited after 2019 by requiring most non-spouse beneficiaries to withdraw the retirement account funds over 10 years. All taxpayers should revisit their estate plans considering this change; however, taxpayers that have named a trust as beneficiary of their IRAs should reach out to legal counsel to possibly revise the terms in light of these changes.
- ☐ **Charitable Gifts** – Taxpayers with significant charitable intent may be able to receive both an income tax benefit and an estate tax benefit with proper planning.
- ☐ **Valuation Discounts** – Discounts have been an extremely valuable tool in the estate planning arena for decades. Proposed regulations from the Treasury to limit the application of these discounts have been withdrawn so this strategy is still available.



TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Tax Planning Checklist for Trusts

- ☐ **Distributions** – Trusts have a low threshold of \$15,650 for the Net Investment Income Tax (NIIT) so most undistributed income in a trust will be subject to the additional tax. Trustees should consider maximizing distributions to beneficiaries and consider strategies to distribute capital gains.
- ☐ **Income Sources** – Similar to the tax planning strategies for individuals, trustees should evaluate the role of tax-exempt income in the trust's investment portfolio given the 3.8% NIIT on taxable income.
- ☐ **Passive Activities** – IRS guidance has clarified the application of NIIT on a trust's business and/or real estate income. With this new guidance, consider the role of a trustee in the management of the trust assets and whether additional steps can be taken to mitigate this additional tax.

Trust Taxable Income	Marginal Tax Rate
\$0 to \$3,150	10%
\$3,151 to \$11,450	24%
\$11,451 to \$15,650	35%
Over \$15,650*	37%

*Additional 3.8% tax on investment and passive income over \$15,650



TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Tax Planning Checklist for Businesses

- ☐ **Entity Selection** – With the corporate tax rate of 21%, consider evaluating the tax benefits of a C corporation compared to an S corporation.
- ☐ **Qualified Business Income Deduction** – Non-corporate taxpayers with income from a pass-through entity or sole proprietorship are allowed a deduction of up to 20% of the Qualified Business Income (QBI). Service businesses are excluded from this benefit in some situations, but rental and other passive activities can be included.
- ☐ **Form W-2** – The filing deadline for Forms W-2/W-3 is January 31. Employers are also required to disclose the annual cost of health plan or HRA coverage to an employee on the W-2.
- ☐ **Health Insurance** – Employers with 50 or more FTE employees must offer minimum essential coverage and report insurance coverage for employees on specified forms.
- ☐ **SALT deduction** – Pass-through entities with income sourced to a state with an income tax should consider paying the shareholder's/member's state taxes. Most states have enacted legislation that permits a full deduction of state taxes if paid by a pass-through entity. Each state has its own requirements so it's important to research the necessary steps.
- ☐ **Cash Method of Accounting and UNICAP** – Taxpayers that satisfy a \$31 million gross receipts test may use the cash method of accounting and are exempt from application of the uniform capitalization (UNICAP) rules. Consider evaluating your current reporting methods to determine if an accounting method change would be advantageous.
- ☐ **Limitation on Health FSA Reimbursements** – The maximum Health FSA reimbursement may not exceed \$3,300 per year for 2025.
- ☐ **Section 179** – The Section 179 depreciation deduction for qualifying assets acquired in 2025 is \$2.5 million. This depreciation deduction begins to phase out once total depreciable assets purchased during the year exceed \$4 million. The definition of qualifying assets has also been expanded to include roofs, heating systems, HVAC units, and other specific assets that are used in a trade or business.
- ☐ **Bonus Depreciation** – 100% bonus depreciation is allowed for qualified tangible personal property with a recovery period of 20 years or less, for both new and used assets acquired after January 19, 2025. Bonus depreciation of 40% is allowed for assets acquired from January 1 through January 19, 2025.
- ☐ **Automobile Depreciation** – The maximum first-year deduction for a passenger automobile is \$20,200, which includes bonus depreciation.
- ☐ **Family Employees** – Consider hiring your school-age child to work for your business part-time. Reasonable compensation is deductible, reducing your self-employment income. No Social Security or Medicare tax is due on the child's earnings if they are under age 18 and the business is not a corporation. Also, the child could contribute to a traditional or Roth IRA.
- ☐ **Form 1099** – All businesses with payments to any vendor over \$600 must issue Form 1099-NEC for non-employee compensation or Form 1099-MISC for all other payments including rent. For payments made after December 31, 2025, the threshold increases to \$2,000. Form 1099/1096 is due by January 31 and the penalty for late filing can be as high as \$310 per Form 1099 with no maximum penalty. The IRS has emphasized greater enforcement of the Form 1099 compliance process.



TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Tax Planning Checklist for Businesses (Continued)

- ☐ **Form 1099K** – the threshold for reporting funds received through credit card and online payment processors using Form 1099K was changed to \$20,000 and 200 transactions starting in 2025. This new threshold does not change the requirement to report business income.
- ☐ **Health Reimbursement Arrangement (HRA)** – Employers with fewer than 50 employees and no company-provided health insurance can utilize an HRA to reimburse employees for healthcare expenditures. Annual reimbursements are limited to \$6,350 for employee-only coverage and \$12,800 for family coverage.
- ☐ **Work Opportunity Tax Credit** – Employers who hire and retain veterans and other qualified individuals, including long-term unemployment recipients, are eligible for a tax credit up to 40% of the employee's wages.
- ☐ **Employer-Provided Child Care Credit** – Employers can claim a credit of 10% to 25% up to \$150,000 for supporting employee childcare or childcare resource and referral services.
- ☐ **Research and Development Credit** – Companies that develop new or improved products or processes may be able to benefit from research tax credit incentives. The research tax credit law was permanently extended.
- ☐ **Qualified Small Business Stock** – Up to 100% of the gains from the sale of certain qualified small business stock can be excluded from income.

MACRS Depreciation Asset Classes

3 YEAR	5 YEAR	7 YEAR	10 YEAR
			
Tractor units for over-the-road-use	Autos, computers and equipment	Office furniture & fixtures, farm machinery & equipment	Vessels, barges, tugs
15 YEAR	20 YEAR	27.5 YEAR	39 YEAR
			
Certain land improvements	Certain farm buildings	Residential rental property: apartment buildings, single family	Non-residential real property: office & commercial

IMPORTANT TAX DUE DATES		
Tax Form	Filing Deadline	Extended Filing Deadline
Form W-2/W-3	February 2	N/A
Form 1099/1096	February 2	N/A
Individuals – Form 1040	April 15	October 15
FBAR – Form 114	April 15	October 15
Trusts – Form 1041	April 15	September 30
Partnerships – Form 1065	March 16	September 15
C Corporations – Form 1120	April 15	October 15
S Corporations – Form 1120S	March 16	September 15

Even though the legislation enacted in 2025 did not materially change our existing tax law, it is still important to evaluate the planning opportunities based on your current situation. Contact Jenny Keeney, Ryan Blume, or Stephanie Onzay for more information.

www.blumekeeney.com | (425) 404-3540



Jenny Keeney, CPA, MPAcc
Partner
(425) 404-3544
jenny@blumekeeney.com



Ryan Blume, CPA, CFP®
Partner
(425) 404-3545
ryan@blumekeeney.com



Stephanie Onzay, CPA
Partner
(425) 404-3543
stephanie@blumekeeney.com

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