2025 INDIVIDUAL YEAR-END TAX PLANNING UNDER THE ONE BIG BEAUTIFUL BILL ACT

As the end of the year approaches, now is the perfect opportunity to assess your financial strategies and implement effective year-end tax planning. With the recent passage of the One Big Beautiful Bill (OBBBA), it is especially important to anticipate how new provisions may impact your tax situation and to develop a strategy aligned with your broader financial goals. By addressing these strategies and seeking professional guidance, you can make informed strategic decisions to minimize your tax liability and take advantage of available opportunities.

Individuals

Capital Gains and Losses
If you've realized substantial capital gains this year, tax-loss harvesting can help offset them and reduce both your overall capital gains tax and potential exposure to the 3.8% Net Investment Income Tax. Realizing losses can be a smart way to manage your tax burden while maintaining your long-term investment strategy.

One important nuance: if your taxable income falls within the 0% long-term capital gains bracket, recognizing losses in that year may provide little immediate benefit. In those cases, it's worth taking a closer look at your broader financial picture before intentionally selling investments at a loss.

Retirement Savings

Another effective way to lower your taxable income for 2025 is by maximizing contributions to retirement plans.

- The 401(k) employee deferral limit for 2025 is $23,500, with an additional $7,500 catch-up available for individuals age 50 or older.
- SECURE 2.0 introduces an enhanced catch-up for individuals aged **60 to 63**, beginning in 2025. This "super catch-up" increases the limit to $11,250.
- In 2026, the limit increases slightly to $24,500, with an additional $8,000 catch-up contribution available for individuals aged 50 and older.

Trump Accounts

Trump Accounts, created under new IRC §530A, are designed as a government-funded pilot program beginning in the 2026 tax year. Any individual under age 18 who has been issued a Social Security number is eligible to have an account.

Each account allows up to $5,000 in annual contributions per beneficiary, excluding certain exempt contributions. Employers may also contribute up to $2,500 per year per child, and these employer contributions are not included in the employee's taxable income. All funds deposited into the account must be invested in stock mutual funds or exchange-traded funds.

Additionally, U.S. citizens born between 2025 and 2028 will receive a $1,000 initial federal contribution, with no restrictions attached. Account funds cannot be accessed before the beneficiary turns 18. After age 18, the account is generally treated similarly to a traditional IRA.

While not a direct tax credit, the main tax benefit is tax deferral. Earnings in these accounts are not taxed until distributed.

Roth IRA Conversions

For year-end tax planning in 2025, Roth IRA conversions remain a strong strategy, especially with the One Big Beautiful Bill Act (OBBBA) making lower individual tax

rates permanent beyond 2025. This stability reduces the risk of future conversions being taxed at higher rates, creating an ideal environment for moving funds from a traditional IRA to a Roth IRA.

While conversions are taxable in the year they occur, future Roth earnings grow and can be withdrawn tax-free, offering long-term benefits. High-income earners may also consider a "backdoor" Roth strategy. Keep in mind that conversions can affect your tax bracket, deductions, credits, and Medicare premiums, so careful planning is essential.

Strategies like spreading conversions over multiple years or timing them during lower-income periods can help manage the impact. Roth IRAs also avoid required minimum distributions during the owner's lifetime, offering estate planning benefits. Given the complexity and irreversibility of conversions, consult your advisor to determine if this approach fits your overall financial plan.

Qualified Business Income (QBI) Deduction

For year-end tax planning in 2025 and beyond, it's important to carefully evaluate eligibility for the Section 199A Qualified Business Income (QBI) deduction, which has been made permanent and enhanced under the One Big Beautiful Bill Act (OBBBA). The QBI rules remain complex, with taxable income, wage, and asset limitations playing a critical role especially for specified service trades or businesses (SSTBs), where income thresholds can determine eligibility.

The OBBBA introduced changes that expand wage and property limitations and provide a minimum deduction of $400 for qualifying taxpayers with aggregate QBI from active trades or businesses in which they materially participate. Because income levels significantly impact how deduction applies, strategic planning is essential. Techniques such as deferring income, accelerating deductible expenses, increasing itemized deductions (e.g., charitable contributions), or contributing more to retirement plans can help optimize the deduction. Work with your tax advisor to evaluate your options and take full advantage of this deduction.

Alimony

For divorces finalized on or after January 1, 2019, alimony is neither deductible by

the payer nor taxable for the recipient. For divorces finalized on or before December 31, 2018, the previous rules still apply, where alimony is deductible for the payer and taxable for the payee.

Required Minimum Distribution (RMD)

Individuals turning 73 in 2025 are required to take an RMD by April 1, 2026. Failing to take an RMD will result in an excise tax of 25%, which may be reduced to 10% if corrected within the designated "correction window" of two years. Be sure to stay informed about these rules to avoid penalties and consult with your financial advisor before the year end.

Education Planning

With the passage of OBBBA, 529 plans have greater flexibility, higher withdrawal limits, and eligible expenses creating additional benefits and opportunities for our clients. While there is no federal tax deduction for contributions, states like Ohio offer a state tax deduction of up to $4,000 per beneficiary. Ohio House Bill is currently in the senate to increase the deduction for Married filing joint to $8,000 for 2026. Additionally, 529 plan distributions can be used for K-12 tuition (up to $10,000 annually, increasing to $20,000 for 2026), making them even more versatile.

For parents with children in college, tuition tax credits may be available, even if your child is pursuing a master's degree. Contributions to 529 plans count as gifts for federal gift tax purposes but qualify under the annual gift tax exclusion of $19,000 per recipient ($38,000 if splitting gifts with a spouse). Donors can also "super-fund" a 529 plan, making a lump-sum contribution and electing to spread it over five years for tax purposes. Consult with your tax advisor to explore this strategy.

Verify Your Withholding

The IRS provides several ways to pay taxes, including payroll withholding, retirement plan withholding, and quarterly estimated payments. To avoid underpayment penalties, ensure you meet one of the IRS's safe harbors:

1. Pay 100% of your prior year's tax liability (110% if your adjusted gross income exceeded $150,000).
2. Pay 90% of your current year's tax liability.

Review your withholding and estimated payments to confirm compliance with these requirements.

Federal Push to Modernize Payments

The federal government is taking a big step toward streamlining payment processes. Starting September 30, 2025, all IRS refunds will be issued via direct deposit—no more paper checks. This is part of a broader initiative to ensure that all IRS payments are processed electronically in the future. Learn more here.

Maximize Above-the-Line Deductions

- **No Tax on Tips.** New above-the-line deduction of up to $25,000 for qualified tip income for 2025–2028, phasing out at $150,000 MAGI (single) and $300,000 (joint).
- **No Tax on Overtime.** New above-the-line deduction of up to $12,500 (single) or $25,000 (joint) for qualified overtime pay from 2025–2028, phasing out at $150,000 MAGI (single) and $300,000 (joint).
- **Deduction for Seniors.** Individuals aged 65 or older may claim an additional deduction of up to $6,000 (or $12,000 for a married couple if both spouses qualify). This is in addition to the existing standard deduction for seniors and phases out for modified AGI over $75,000 (single) or $150,000 (joint).
- **Qualified Car Loan Interest.** New above-the-line deduction of up $10,000 on qualified passenger vehicle loans for loans incurred after Dec 31, 2024, for personal use and U.S. assembled. Phasing out at $100,000 MAGI (single) and $200,000 (joint).
- **Health Savings Accounts (HSA).** If you're eligible to contribute to an HSA by December 2025, you can make a full year's worth of deductible contributions. For 2025, inflation-adjusted limits allow contributions of up to $4,300 for self-only plans and $8,550 for family plans, with an additional $1,000 catch-up contribution for individuals aged 55 or older.

- **Simplified Employee Pension (SEP) Contribution.** If you have self-employment income, consider contributing to a SEP. This option remains available even if you have other retirement plans. SEPs offer flexibility and significant contribution limits, making them an attractive choice for self-employed individuals. If you've already maximized contributions to your employer-sponsored 401(k) plan, consider contributing to a SEP plan. SEP contributions typically reduce both federal and state taxes for the contribution year. For 2025, the maximum SEP contribution is $69,000, and contributions can be made up until the federal tax return due date, including extensions.
- **Student Loan Interest.** You may qualify for an above-the-line deduction of up to $2,500 for student loan interest paid during the year.
- **Self-Employed Health Insurance.** Self-employed individuals, as well as partners and S-Corp shareholders who own more than 2% of the entity's stock, can deduct health insurance premiums for themselves and their dependents. This deduction is above the line, meaning it reduces taxable income without being subject to adjusted gross income (AGI) limitations, unlike itemized deductions.

Bunching Itemized Deductions

One Big Beautiful Bill Act (OBBBA) has made several significant changes to itemized deduction rules as well as accounting for annual inflation adjustments. To maximize deductions that might otherwise be lost due to the higher standard deduction, consider bunching deductions into a single year. If your mortgage is paid off and you don't have significant medical expenses, charitable contributions may be one of your few remaining itemized deductions. To maximize their value, consider funding multiple years' worth of contributions in a single year. A Donor-Advised Fund is a helpful tool for this strategy, allowing you to claim the deduction in the year of the donation while distributing funds to charities over subsequent years.

- **Medical Expense Deduction.** For 2025, you can deduct medical expenses exceeding 7.5% of your AGI. Eligible expenses include health insurance and

Medicare premiums, medical care costs, prescriptions, and more. However, unless your medical expenses are significantly high, you may not meet the threshold for this deduction.

- **State and Local Tax Deduction.** The SALT deduction cap is raised from $10,000 to $40,000 for 2025–2029 (with inflation adjustments) before reverting to $10,000 in 2030, with a phasedown for Modified Adjusted Gross Income (MAGI) over $500,000 that cannot reduce the deduction below $10,000. It does not restrict existing SALT workaround strategies like PTET elections.
- **Mortgage Interest Deduction**. Mortgage interest remains deductible, but with important limits:
  - Mortgages after December 15, 2017 – Interest is deductible only on the first $750,000 of mortgage debt. The OBBBA has made the $750,000 cap permanent
  - Mortgages before that date – The limit is $1,000,000.

Interest on home equity loans is deductible only if the funds are used to buy, build, or substantially improve your home. The previous rule allowing a deduction for up to $100,000 of home equity loan interest, which was temporarily eliminated by the Tax Cuts and Jobs Act, is now permanently gone under OBBBA.

Additionally, don't overlook the deductibility of mortgage points paid during a home purchase or refinancing.

- **Miscellaneous Itemized Deductions.** Suspension under Tax Cuts and Jobs Act for miscellaneous itemized deduction (subject to the 2% AGI floor) has now been made permanent.
- **Moving Expenses.** Suspension under Tax Cuts and Jobs Act for moving expenses outside of active military members has now been made permanent.
- **Casualty and Theft Losses**. The limitation of the personal casualty loss deduction to federally declared disasters is made permanent and expands eligibility for disaster tax relief to certain state-declared disasters, but this change applies to tax years starting after December 31, 2025

- **Wagering Loss.** Starting in 2026, the deduction for gambling losses will be limited to 90% of qualified losses, only to the extent of gains
- **Pease Limitation.** The Pease limitation is permanently repealed starting in the 2026 tax year. It has been replaced by a new overall limitation on itemized deductions for high-income earners in the top 37% tax bracket, typically referred to as the "2/37ths rule". The limitation will reduce itemized deductions by 2/37 of the lessor of total itemized deductions or taxable income exceeding the 37% tax bracket threshold.

Charitable Contribution Deduction

Make charitable donations by year-end to maximize deductions. Contributions can be in cash or non-cash items, such as highly appreciated stock. Donating appreciated stock allows you to deduct its fair market value and avoid capital gains tax.

- The 60% of AGI limitation for cash contributions to public charities is made permanent.
- Donations made with a credit card by December 31, 2025, qualify for a 2025 deduction, even if you pay the bill in 2026. Similarly, checks mailed on December 31 are deductible for 2025, even if they clear in 2026.
- Non-cash donations exceeding $5,000 (excluding publicly traded stock) require a written appraisal and a letter of acknowledgment from the charity to qualify for a deduction.
- If you are over 70½, consider making a Qualified Charitable Distribution (QCD) from your IRA, up to $108,000. QCDs can count toward satisfying your Required Minimum Distribution (RMD).
- Ohio offers a tax-credit program for contributions to Scholarship-Granting Organizations (SGOs), which provide private school scholarships for students in need. This program offers a dollar-for-dollar tax credit of up to $750 for individual taxpayers or $1,500 for married couples filing jointly. A list of eligible SGOs is available at Tax.Ohio.Gov. For detailed guidance on utilizing Ohio's tuition tax credit or other charitable giving strategies, consult your trusted tax advisor.

- Charitable Donations – looking ahead:
  - There will be a new .5% AGI floor on charitable deductions. A couple with an AGI of $400,000 in 2026 would have a floor of $2,000 (0.5% of $400,000). If they donate $10,000, their deduction would be $8,000. If they only donate $1,500, they would not be able to claim a deduction for that amount. Donors might consider combining multiple years' worth of contributions into one large gift in 2025 to maximize the deduction before the AGI floor applies.
  - The charitable deduction for non-itemizers has been increased from $300 ($600 joint) to $1,000 ($2,000 joint) for qualified charitable donations made. This change has become permanent with OBBBA

Tax Credits

OBBBA has introduced several new credits while rolling back some clean energy incentives established under Tax Cuts and Jobs Act. Electric Vehicle credit has been eliminated after September 30th, 2025. Additionally, the Residential Energy credits will expire after December 31st, 2025. Enhancements and adjustments to other credits include:

- **Child Tax Credit.** Raised the child tax credit to $2,200 with inflation adjustments, makes the $1,400 refundable portion permanent, retains higher phaseout thresholds ($200,000 single/$400,000 joint), and keeps the $500 credit for non-child dependents
- **Enhancement of Adoption Credit.** Up to $5,000 of the adoption credit is now refundable, with inflation adjustments. This is a significant change, as the credit was previously non-refundable. The credit is limited by income thresholds; phase outs begin when your Modified Adjusted Gross Income (MAGI) is over $259,190 and is eliminated if your MAGI exceed $299,190 or more. Any unused non-refundable portion of the credit can be carried forward for up to five years to offset future tax liabilities.

Tax Credits Looking Ahead – Starting in 2026

- **Enhancement of Employer-Provided Child Care Credit.** Increases the credit rate to 40% (50% for small businesses) and the maximum credit to $500,000 ($600,000 for small businesses), with inflation adjustments and expanded eligibility.
- **Enhancement of the Dependent Care Assistance Program.** Increases the exclusion limit for employer-provided dependent care assistance to $7,500 ($3,750 MFS).
- **Enhancement of Child and Dependent Care Tax Credit.** Increases the applicable percentage to 50%, phased down to 35% at $15,000 AGI, then to 20% at $75,000 AGI ($150,000 joint).
- **Enhancement of Saver's Credit for ABLE Contributions.** Saver's credit for ABLE contributions is made permanent and increased to $2,100.

Estate Tax Planning

Annual Gifting

Take advantage of the **annual gift tax exclusion** to reduce potential gift and estate taxes.

- In 2025, the exclusion allows tax-free gifts of up to $19,000 per recipient, with no limit on the number of recipients.
- The exclusion will remain the same for 2026.
- Note: Unused annual exclusions cannot be carried forward to future years.

To optimize your estate planning, ensure gifts are made before year-end. Transferring income-generating property to family members in lower income tax brackets, who are not subject to the kiddie tax, can help reduce the overall family income tax burden.

Lifetime Exemption Planning

The current estate tax exemption is $13,990,000 (indexed for inflation). This exclusion was set to revert to a lower level in 2026 under previous legislation. However, the One Big Beautiful Bill Act made the increased exemption a

permanent change. The exclusion for 2026 is $15,000,000, with inflation indexing to begin in 2027.