TaxUpdate

2025 TAX PREVIEW NEWSLETTER

2025, The Year of Uncertainty

The changing administration in Washington, D.C. and the expiration of a number of temporary tax laws at the end of 2025, means we may be in for a rough ride in trying to forecast the impending tax weather.

Background

The Tax Cuts and Jobs Act made substantial changes to tax laws. Most, if not all, of these changes are set to expire at the end of 2025, making 2025 a key year for tax planning. Because beginning in 2026:

- Itemized deduction phaseouts will once again be in place.
- The standard deduction amounts will be greatly reduced, meaning more itemized deductions.
- The $10,000 limit on taxes as an itemized deduction will be removed.
- The 20% Qualified Business Deduction will be eliminated.
- Many tax rates will increase.
- The child tax credit will be reduced.
- The estate tax exemption will be greatly reduced.

And this is just to name a few of the changes! It is easy to see that planning before the fallback to old rules could be a unique opportunity to reduce your tax liability in 2025 AND 2026.

The risks

All this seems fairly predictable, except there is also a new administration taking office in 2025. Will they extend the current tax laws and increase the national debt to pay for it? Will attempts to do this be blocked? No one knows for sure, so here are some suggestions:

- Forecast your situation with the current laws and assume 2026 will revert back to old rules. Make this your baseline tax plan.
- Review your situation periodically during 2025 as the uncertainty out of Washington is made clear.
- Read any and all correspondence related to tax changes. Keeping current on new developments is more important than ever.

Income Brackets for 2025 Tax Rates

Tax Rate	Single	Married Filing Jointly/Widow	Head of Household	Married Filing Separately
10%	$1 – 11,925	$1 – 23,850	$1 – 17,000	$1 – 11,925
12%	11,926 – 48,475	23,851 – 96,950	17,001 – 64,850	11,926 – 48,475
22%	48,476 – 103,350	96,951 – 206,700	64,851 – 103,350	48,476 – 103,350
24%	103,351 – 197,300	206,701 – 394,600	103,351 – 197,300	103,351 – 197,300
32%	197,301 – 250,525	394,601 – 501,050	197,301 – 250,500	197,301 – 250,525
35%	250,526 – 626,350	501,051 – 751,600	250,501 – 626,350	250,526 – 375,800
37%	Over $626,350	Over $751,600	Over $626,350	Over $375,800

Key 2025 Tax Changes

Tax brackets up approximately 2.5%. While the tax rates stay the same, the income ranges in those brackets is now up 2.5% versus last year. This reflects a slowing of inflation, but it is one to keep track of, as it may impact the phaseout of some of your tax benefits.

New cryptocurrency reporting. Brokers of digital assets must now report sales and exchanges of digital assets to the IRS starting in 2025. The reporting will be somewhat similar to reporting of traditional security transactions like stocks, bonds and mutual funds.

Increased 1099-K reporting impacts millions. If you receive payments in excess of $2,500 from electronic sources it will now be reported to you and the IRS. This reporting threshold requirement keeps being lowered until it will reach a $600 target. This reporting requirement includes transactions from online stores like Amazon, Etsy and eBay. But it also includes selling transactions at ticket sites or digital payment service activity.

Higher catch-up contributions for select ages. If you are age 60 thru 63, there is a special catch-up contribution this year. The normal catch-up contribution for those over 50 in a 401(k) is $7,500, but it moves to $11,250 if you are age 60 – 63. With SIMPLE plans the normal catchup is $3,500, but it moves to $5,250 if you are aged 60 – 63.

Standard Deductions

Item	2025	2024	Change
Single	$15,000	$14,600	+$400
Married Jointly/Widow	30,000	29,200	+$800
Head of Household	22,500	21,900	+$600
Married Filing Separately	15,000	14,600	+400
Elderly/Blind: Married	+$1,600	+$1,550	+$50
Elderly/Blind: Unmarried	+$2,000	+$1,950	+$50

Other Tax Planning Ideas

As you approach this year's tax obligations, don't forget to review the basics:

1. **Fully fund tax beneficial health accounts.** It is important to try to pay for out-of-pocket healthcare expenses with pre-tax income. Use tax programs like Health Savings Accounts (HSAs), Flexible Savings Accounts (FSAs) and Medical Savings Accounts (MSAs). Each plan presents a great way to pay for qualified medical, dental and vision care using pre-tax dollars.
2. **Planfully fund retirement accounts.** Plan now to take advantage of the many retirement savings options. Whether it be a 401(k) or one of many versions of IRAs, they are a great way to manage your tax obligation, while planning for your future.
3. **Consider any anticipated tax events.** Life events are the biggest cause of tax surprises. So if you are planning to move, retire, get married or divorced, have kids or change jobs you should know of the tax impact BEFORE it happens.
4. **Review withholdings.** At least once a year, review your paycheck withholdings to ensure the amount is adequate to fund your tax bill, but not too much or too little. Also be prepared to make any mid year corrections.
5. **Adjust for children and education.** This one is important because of the numerous tax benefits associated with children and education. It can mean funding a 529 program, or opening a Roth IRA if your older children have earned income. The bottom line, conduct a tax review specific to your children and their current and future schooling.
6. **Consider your property.** Selling a home, stocks, bonds or digital currency all have potential tax implications. So if any of these are on the horizon consider taking a planned approach.
7. **Review beneficiaries.** Now is the time to review beneficiaries in all your retirement accounts and insurance policies. While it might not impact your tax situation, it could impact others if not structured correctly.

Great Tax Shifting Ideas

There are often opportunities to reduce your tax burden by controlling the amount of your taxable income. This is because:

- Income tax rates vary from 0% to 37% depending on your income.
- Many tax breaks have income limits.
- These are income phase-out ranges.

So if you can shift your income and expenses from one year to the next, you could create a net tax obligation for both years that might be lower than if you did nothing. Here are some ideas to help you accomplish this.

Idea 1: Leverage the rules. Identify whether you are a good candidate to use shifting as a tax planning strategy. For singles, the income tax rate increases 80% or more on earnings over $48,475. For married couples, that increase occurs with adjusted gross income over $96,950. Common tax breaks subject to income limits are child tax credits, earned income credits, educational credits and many educational tax benefits.

Idea 2: Load up your contributions. If you itemize your deductions, consider loading up cash and non-cash contributions into the year that lowers more highly-taxed income. This is especially important in 2025 versus 2026 with possible material tax law changes.

Idea 3: Leverage the cash basis concept. You can take a deduction when you pay for it. A credit card receipt is good on the date you run the transaction and not when you pay your bill. So you could pay a property tax statement either a little early or a little late to change whether that deduction occurs in this year or next.

Idea 4: Stop working. The most common example applies to those who are under the full retirement age and receiving Social Security benefits. If this applies to you, consider actively managing your part-time work or you could end up paying taxes on some of your Social Security benefits.

Idea 5: Manage retirement plan distributions. Those over age 59½ can use distributions from pre-tax retirement plans to tightly control their taxable income. An analysis may indicate it is better to take out a little more this year to get these retirement earnings taxed at a lower rate than if you waited until next year.

Idea 6: Manage your stock and investment sales. You have up to $3,000 in investment losses that can offset your higher-taxed ordinary income. Use this to your advantage when deciding whether to take a stock loss this year or next. You can also match losses against gains to minimize your tax.

By shifting your taxable income to the right level, you can often reduce your tax bill. Please call if you wish to have a review of your situation.

Key Retirement Contribution Limits

Plan		2025	2024	Change
Simple IRA	Annual Contribution *50 or over catch-up* *2025 catch-up: Ages 60 – 63*	**$16,500** *Add $3,500* *Add $5,250*	**$16,000** *Add $3,500*	**+500** *No Change*
401(k), 403(b), and 457	Annual Contribution *50 or over catch-up* *2025 catch-up: Ages 60 – 63*	**$23,500** *Add $7,500* *Add $11,250*	**$23,000** *Add $7,500*	**+500** *No Change*
Traditional IRA	Annual Contribution *50 or over catch-up*	**$7,000** *Add $1,000*	**$7,000** *Add $1,000*	*No Change*
AGI Deduction Phaseouts:	Single; Head of Household	79,000 - 89,000	77,000 - 87,000	+$2,000
	Joint Nonparticipating Spouse	236,000 - 246,000	230,000 - 240,000	+$6,000
	Joint Participating Spouse	126,000 - 146,000	123,000 - 143,000	+$3,000
	Married Filing Separately (any spouse participating)	0 - 10,000	0 - 10,000	No Change
Roth IRA	Annual Contribution *50 or over catch-up*	**$7,000** *Add $1,000*	**$7,000** *Add $1,000*	*No Change*
AGI Deduction Phaseouts:	Single; Head of Household	150,000 - 165,000	146,000 - 161,000	+$4,000
	Married Filing Jointly	236,000 - 246,000	230,000 - 240,000	+$6,000
	Married Filing Separately	0 - 10,000	0 - 10,000	No Change
Rollover to Roth Eligibility	Joint; Single; Head of Household	No AGI Limit	No AGI Limit	No AGI Limit
	Married Filing Separately	Allowed / No AGI Limit	Allowed / No AGI Limit	Allowed / No AGI Limit

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.