2025 YEAR END TAX PLANNING FOR INDIVIDUALS

As 2025 draws to a close, individual taxpayers face a familiar but evolving tax landscape. Many provisions from the Tax Cuts and Jobs Act (TCJA) have been preserved or extended under the One Big Beautiful Bill Act (OBBBA), while a handful of new deductions and adjustments take effect for the 2025 tax year.

This guide outlines key areas for review and planning before year-end.

Review your standard deduction and age 65+ benefits

The standard deduction remains the foundation of tax planning for most Americans.

2025 Standard Deduction Amounts based on Filing Status

Filing Status	2025
Single or married filing separately	$15,750
Married filing jointly	$31,500
Head of household	$23,625

Note: For the 2025 tax year, a single filer over 65 can claim an additional standard deduction of $2000, while a married couple filing jointly receives an additional $1600 per qualifying spouse.

Senior Bonus Deduction

The "$6,000 senior bonus deduction" is a new, temporary federal tax benefit available to eligible U.S. taxpayers aged **65 or older**, starting with the 2025 tax year (taxes filed in early 2026). It is a separate, additional amount added to the standard deduction for seniors.

Key Details

- **Amount:** The maximum deduction is $6,000 for single filers and up to $12,000 for married couples filing jointly if both spouses are 65 or older.
- **Eligibility:** You must be 65 or older by December 31 of the tax year for which you are filing (e.g., December 31, 2025, for the 2025 tax return). You must also have a Social Security number.
- **Availability:** This deduction is available even if you **itemize** your deductions, which is different from the existing age-based standard deduction.
- **Duration:** The provision is temporary and is set to expire after the 2028 tax year unless Congress extends it.

- **Income Limits (Phase-Outs)**
  - The deduction is gradually reduced (phased out) if your Modified Adjusted Gross Income (MAGI) exceeds certain thresholds:

  - **Single Filers:** The deduction begins to phase out if MAGI is over **$75,000** and is fully eliminated for MAGI above $175,000.
  - **Married Filing Jointly:** The deduction begins to phase out if MAGI is over **$150,000** and is fully eliminated for MAGI above $250,000.

Year-end move:

If you (or your spouse) turn 65 by year-end, be sure to factor in the temporary bonus deduction when estimating liability or making year-end tax payments.

Tip Income Deduction and Overtime Deduction

A new deduction is available for qualified tips (for certain tipped occupations) beginning in 2025, effective through 2028: up to $25,000 in cash tips for eligible taxpayers making up to $150,000 (single) or $300,000 (married filing jointly) in modified AGI.

A new deduction is also available for qualified overtime compensation, up to $12,500 for single filers (or $25,000 for joint) for tax years 2025–2028. This applies to overtime compensation paid to an individual as required by the

Fair Labor Standards Act that is above the regular rate at which that individual is employed. However, the deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers). These are above-the-line (reduce your AGI) benefits, so they can help preserve phase-out thresholds for other benefits or credits.

State & local tax (SALT) deduction cap

Under prior law, the state and local tax (SALT) deduction cap was $10,000. The OBBBA temporarily raises the cap to $40,000 (for tax years 2025–2029).A phase-out applies once Modified Adjusted Gross Income (MAGI) exceeds approximately $500,000 (married filing jointly) in 2025, and the cap may revert to $10,000 in 2030 unless changed.

Year-end move:

If your MAGI is near the phaseout range, focus on income-reduction strategies, such as maximizing retirement contributions or capital loss harvesting, to preserve your eligibility for the expanded SALT deduction. Additionally, if you own a pass-through entity, speak with your tax advisor about a PTE workaround, which may allow your business to deduct state taxes at the entity level – effectively restoring your federal deduction even if you are over the SALT cap.

Optimize retirement savings & withholding

Tax-deferred retirement contributions and withholding adjustments remain powerful tools for year-end. Contribute to IRAs, 401(k), or other employer plans before the year ends to reduce taxable income. If you expect high income in 2025 or anticipate changes for 2026, accelerating contributions may pay off.

Also, review your federal and state tax withholding/estimated tax payments. If you foresee a big jump in income (bonus, stock vesting, sale), you may need to adjust now to avoid underpayment penalties.

Year-end move:

Determine whether you have maximized allowable retirement contributions and run a withholding/estimated payment check. Underpayment penalties can apply if you do not meet IRS safe harbor rules, which generally require paying at least 90% of your current-year tax liability or 100% of your prior year's tax liability (110% for earners with AGI above $150,000). Making an additional estimated tax payment before January 15, 2026, can help reduce or eliminate any penalty exposure.

Vehicle Interest Deduction

You can deduct up to $10,000 of interest on loans to purchase qualifying personal use vehicles. This applies to new passenger vehicles with gross-weight vehicle ratings under 14,000 pounds. Final assembly must occur in the United States. However, the deduction phases out for taxpayers with modified adjusted gross income over $100,000 ($200,000 for joint filers).

Consider capital gains, losses, and timing of income

Capital gains and investment income should be reviewed carefully before year-end, especially if your portfolio includes appreciated assets or unrealized losses. Long-term capital gains (for assets held more than one year) are taxed at preferential rates of 0%, 15%, or 20%, depending on your income. But short-term capital gains (from assets held one year or less) are taxed at ordinary income rates.

If you are holding appreciated assets and anticipate higher income or tax rates in 2026, it may be worth realizing gains in 2025. Conversely, if you are projecting a lower tax bracket next year, deferring gains until 2026 may be more advantageous.

Losses also play a role. Tax-loss harvesting allows you to sell underperforming investments to offset realized gains, reducing your taxable income. If capital losses exceed gains, up to $3,000 can be deducted against ordinary income, with excess amounts carried forward to future years indefinitely.

Year-end move:

Review your portfolio and estimate year-end tax impact. Consider whether realizing gains now or deferring to next year aligns better with your expected tax profile, and whether harvesting losses can help offset gains or reduce income subject to the Net Investment Income Tax (NIIT). Timing matters, and a coordinated strategy can reduce both current and future liabilities.

Review estate, gift, and transfer planning

For 2025, you can gift up to $19,000 per recipient without triggering gift tax reporting or reducing your lifetime estate and gift tax exemption. A married couple can combine their exclusions and gifts up to $38,000 per recipient through gift splitting. This makes annual gifting a powerful way to reduce the size of your taxable estate over time.

Year-end move:

Consider making annual exclusion gifts before December 31 to lock in this year's limit. For example, funding 529 plans, making direct payments for medical or tuition expenses, or transferring assets to trusts for children or grandchildren can be tax-efficient ways to reduce your estate without using any of your lifetime exemption.

Even smaller gifts, such as forgiving family loans or making contributions to a child's Roth IRA (if they have earned income), can add up overtime.

Charitable contributions

For individuals who itemize, charitable contributions made in 2025 may carry greater tax value than in future years.

Beginning in 2026, the OBBBA imposes two new limitations for itemizers:

- A 0.5% AGI floor on charitable deductions (meaning only contributions above that threshold will count).
- A new 35% cap on the value of itemized deductions, which can reduce the effective benefit for some high-income For taxpayers in the top (37%) marginal tax bracket, the tax benefit of itemized deductions (including charitable gifts) is effectively limited to 35% of the deductible amount, rather than the full 37%.

Starting in 2026, taxpayers who do not itemize their deductions can claim a permanent above-the-line deduction for qualified cash donations up to $1000 for single filers and $2000 for married couples filing jointly.

- **Eligibility**: This deduction is available only to taxpayers who take the standard deduction on their federal income tax return.
- **Deduction Amount**: The maximum deduction is $1,000 for individuals (including those married filing separately) and $2,000 for married couples filing jointly.
- **Donation Type**: It applies only to direct cash contributions made to qualified public charities. "Cash" includes donations made by cash, check, or credit card.
- **Ineligible Donations**: Contributions to donor-advised funds (DAFs) or private non-operating foundations do not qualify for this specific deduction.
- **AGI Impact**: This deduction is taken "above the line," meaning it reduces your adjusted gross income (AGI).

Year-end move:

If your total itemized deductions hover near the standard deduction threshold, you may benefit from bunching several years' worth of charitable contributions into 2025. This allows you to itemize this year and take the standard deduction next year, instead of missing the deduction entirely in both years.

Also, consider donating long-term appreciated assets. If held for more than a year, you may be able to deduct the asset's fair market value while also avoiding capital gains tax.

Taxpayers over age 70½ can transfer up to $108,000 directly from an IRA to qualified charities ($216,000 per couple if each has an IRA). These QCDs count toward required minimum distributions (RMDs) and do not increase your AGI, which can help avoid higher Medicare premiums, preserve other deductions, and reduce taxable Social Security income. This is often a more tax-efficient option than taking an IRA distribution and then donating cash.

Cryptocurrency

New digital asset reporting requirements are scheduled to go into effect for returns filed after December 31, 2025.

- **New Form 1099-DA:** Starting with the tax year 2025 (forms issued in early 2026), digital asset brokers and exchanges must report sales and exchange transactions to the IRS and taxpayers on the new Form 1099-DA.
  - For the 2025 tax year, exchanges are only required to report the **gross proceeds** of sales.
  - For the 2026 tax year and onward, exchanges will also be required to report the **basis** of assets purchased and sold on the same platform, which will make it easier for taxpayers and the IRS to calculate gains or losses.

Retirement Planning

Limits to your annual contribution are as follows:

2025 Limits for 402(k), 403(b) and 457 Plans	
Elective deferrals for people under age 50 at year end	$23,500
Elective deferrals for people age 50 or older at year end	$31,000
Elective deferrals for people age 60 to 63 at year end	$34,750
Defined contribution plan limit	$70,000

For those employees without retirement benefits and those that are self-employed – the limits are as follows:

2025 Contributions Limits for Traditional IRAs	
People under age 50 at year end	$7,000
People age 50 or over at year end	$8,000

Note that the deduction for traditional IRA contributions is phased out if your modified adjusted gross income exceeds certain levels and you or your spouse participates in an employer sponsored retirement plan.

Required Minimum Distributions (RMD)

Required minimum distributions (RMD) are the minimum amounts you must withdraw from your retirement accounts each year. The required minimum distribution (RMD) age depends on your birth year: it is **73 for those born between 1951 and 1959** and **75 for those born in 1960 or later**.

You must start taking RMDs from traditional retirement accounts like IRAs and 401(k)s in the year you reach the applicable age.

RMD age by birth year

Birth Year	**RMD Age**
1950 or earlier	72
1951-1959	73
1960 or later	75

If you reach age 73 in 2025:

- Your first RMD is due by April 1, 2026, based on your account balance on December 31, 2024, and
- Your second RMD is due by December 31, 2026, based on your account balance on December 31, 2025.

Inherited IRA’s

If you inherit an IRA, the rules for distributions depend on the account owner’s date of death (before or after 2020), the beneficiary’s relationship to the owner and the original owner’s age and status when they passed away.

If the account owner died after 2019, the 10-year rule generally applies for non-spouse beneficiaries, meaning the account must be fully distributed within 10 years following the year of death. For 2025, most non spouse beneficiaries must begin taking annual required minimum distributions (RMD) from an inherited IRA and empty the account within 10 years.

If the account owner died before 2020, rules based on the original owner's remaining life expectancy may apply.

Note that inherited ROTH IRAs have no required minimum distributions.

2025 – a year of opportunity and transition

The passage of the OBBBA has given individuals and families a clearer frame for long-term tax planning. Many of the tax provisions introduced under the TCJA remain in place, while new, time-limited deductions for tips, overtime, and state taxes offer additional planning opportunities in the near term.

As you evaluate year-end moves, consider both your 2025 liability and your broader tax profile for 2026 and beyond. Income levels, filing status, and the timing of deductions or deferrals can all influence which strategies are most effective.

If you have any questions about individual year-end tax planning, our team is here to help. Please contact your trusted TBC advisor for the latest updates and guidance.