

A photograph of a person's hands holding a tablet over a desk. On the desk, there is a laptop, a tablet displaying a line graph, and several papers with charts and graphs. The background is blurred, showing a window with greenery outside. A large red diagonal shape is in the top right corner.

2025 Tax Planning Strategies

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To Our Clients and Friends:

As we approach year-end, it is again time to focus on year-end planning ideas that you can implement to save taxes both in the current and future years. The approach of deferring income and accelerating deductions to minimize taxes still works for many taxpayers, along with the tactic of “bunching” expenses into this year or the next to optimize deductions.

This letter addresses some tax planning strategies to consider implementing before the end of the year. Some of these ideas may apply to you, some to family members, and others to your business.

The goal of tax planning is to identify strategies that will allow you to pay the lowest overall tax. You should look at your tax situation for at least a two-year period, with the objective of reducing your tax liability for the two years combined rather than just for 2025. Without a multiyear outlook, it can be difficult to be sure strategies intended to save taxes in the current year will not result in additional taxes in future years.

Additionally, the One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025. This act contained multiple, impactful tax provisions, including extending numerous provisions of the Tax Cuts and Jobs Act, which should be factored into your tax planning.

Please keep in mind that not all actions provided here may apply in your specific situation, but you may likely benefit from some of them. As always, you can contact us to help you sort through the options and implement strategies that make sense for you. Sincerely,

Andrews Hlopu Pavlik PLC

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One Big Beautiful Bill Act

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Ideas for Maximizing Tax Benefits for Individuals

Postpone Income and Accelerate Deductions

Due to the time value of money, it is usually better to pay taxes later rather than sooner (assuming your tax rates will not be appreciably higher next year). Therefore, strategies that defer income from the current year to later years and those that move deductions from later years into the current year are always popular.

Postpone income until 2026 and accelerate deductions into 2025 to lower your 2025 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2025 that are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2025. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year or where lower income in 2026 will result in a higher tax credit for an individual who plans to purchase health insurance on a health exchange and is eligible for a premium assistance credit.

Increased Standard Deduction

For 2025, the standard deduction amounts are \$15,750 for single filers and those who are MFS, \$31,500 for married filing joint couples (MFJ), and \$23,625 for heads of household. There is an additional standard deduction for taxpayers age 65 or older. The additional amount for 2025 is \$1,600 for each married taxpayer and \$2,000 for single or head of household (HOH) taxpayers. Additionally, effective for 2025 through 2028, individuals who are age 65 or older may claim an additional deduction of \$6,000 (\$12,000 for a married couple who both qualify). This new deduction is subject to income limitations. For single filers, the phase out begins if their modified adjusted gross income (MAGI) is over \$75,000 and is completely phased out at \$175,000. For joint filers, the phase out begins if their MAGI is over \$150,000 and is completely phased out at \$250,000. If your total annual itemizable deductions for 2025 will be close to your standard deduction amount, consider bunching deductions into one year. This strategy allows you to itemize in one year and use the standard deduction in the other.

The goal of bunching deductions is to look at a multi-year period of planned expenditures, and bunch them into one year to get the use of a high itemized deduction for one year and use the standard deduction for the other year(s). For example, consider making larger charitable donations this year and smaller contributions next year to compensate, or vice versa. A donor advised fund could be utilized to accomplish this also.

You could also consider accelerating the payment of your home mortgage payment due on January 1. Accelerating the payment into this year will give you 13 months' worth of interest in 2025. You do need to use caution in this area because there are limits on itemized deductions for home mortgage interest related to home equity loans and also on larger mortgages. Check with us if you are uncertain how this pertains to you.

If possible, you can also bunch other deductions like medical expenses, state and local income taxes, or property taxes. For 2025, medical expenses such as elective medical procedures, dental work, and vision care are deductible to the extent they exceed 7.5% of AGI.

Prepaying state and local income and property taxes that are due early next year can decrease your 2025 federal income tax bill because your itemized deductions will be higher; however, the OBBBA placed a cap on the amount you can deduct for state and local taxes at \$40,000 (\$20,000 if MFS). However, this amount is reduced if your MAGI exceeds \$500,000 (\$250,000 if MFS) and phased down to \$10,000 when MAGI exceeds \$600,000 (\$300,000 if MFS).

Manage Your Adjusted Gross Income (AGI)

Many tax breaks are only available to taxpayers with AGI below certain levels. Some common AGI-based tax breaks include the child tax credit (phase-out begins at \$400,000 for MFJ couples and \$200,000 for other filers), the \$25,000 rental real estate passive loss allowance (phase-out range of \$100,000 to \$150,000 for most taxpayers), and the exclusion of social security benefits (\$32,000 threshold for married filers; \$25,000 for other filers). Accordingly, strategies that lower your income or increase certain deductions might not only reduce your taxable income but also help increase some of your other tax deductions and credits.

Maximizing Tax Benefits for Individuals

Take Advantage of 0% Tax Rate on Investment Income

The OBBBA retained the 0%, 15%, and 20% rates on long-term capital gains (LTCGs) and qualified dividends recognized by individual taxpayers. Below are the taxable income brackets for 2025.

Long-term Capital Gains Rate	Single	Married Filing Separately	Married Filing Joint	Head of Household
0% bracket	\$0 – 48,350	\$0 – 48,350	\$0 – 96,700	\$0 – 64,750
15% bracket	\$48,351 – 533,400	\$48,351 – 300,000	\$96,701 – 600,050	\$64,751 – 566,700
20% bracket	\$533,401 and over	\$300,001 and over	\$600,051 and over	\$566,701 and over

Note: The 3.8% net investment income tax (NIIT) can hit LTCGs and dividends recognized by higher-income individuals. This means that many taxpayers will actually pay 18.8% (15% + 3.8% for the NIIT) and 23.8% (20% + 3.8%) on their LTCGs and dividends.

While your income may be too high to benefit from the 0% rate, you may have adult children, grandchildren, or other loved ones who will be in the 0% bracket. If so, consider giving them appreciated stock or mutual fund shares that they can sell and pay 0% tax on the resulting long-term gains. Gains will be long-term as long as your ownership period plus the gift recipient's ownership period (before the sale) equals at least a year and a day.

Giving away stocks that pay dividends is another tax planning strategy. As long as the dividends fall within the gift recipient's 0% rate bracket, they will be free from federal income tax.

If you give securities to someone who is under age 24, the Kiddie Tax rules could potentially cause some of the resulting capital gains and dividends to be taxed at their parents' tax rate.

Consider the following examples:

- Your married adult daughter files jointly and claims the \$31,500 standard deduction for 2025. She could have up to \$128,200 of AGI (including LTCGs and dividends) and still be within the 0% rate bracket. Her taxable income would be \$96,700, which is the top of the 0% bracket for joint filers.
- Your divorced adult son uses HOH filing status and claims the \$23,625 standard deduction for 2025. He could have up to \$88,375 of AGI (including LTCGs and dividends) and still be within the 0% rate bracket. His taxable income would be \$64,750, which is the top of the 0% bracket for heads of household.
- Your single adult daughter claims the \$15,750 standard deduction for 2025. She could have up to \$64,100 of AGI (including LTCGs and dividends) and still be within the 0% rate bracket. Her taxable income would be \$48,350, which is the top of the 0% bracket for singles.

Maximizing Tax Benefits for Individuals

Making the Most of Year-end Securities Transactions

As you evaluate investments held in your taxable brokerage accounts, consider the tax impact of selling appreciated securities. For most taxpayers, the federal tax rate on long-term capital gains is still much lower than the rate on short-term gains. Therefore, it often makes sense to hold appreciated securities for at least one year and a day before selling to qualify for the lower long-term gain tax rate. The federal income tax rate on long-term capital gains recognized in 2025 is only 15% for most taxpayers, although it can be 20% at higher income levels.



Selling some securities that are worth less than you paid for them before year-end may also be a good idea. The resulting capital losses will offset capital gains from other sales this year, including high-taxed short-term gains from securities owned for one year or less.

If capital losses for this year exceed capital gains, you will have a net capital loss. You can use that net capital loss to offset up to \$3,000 of this year's ordinary income (\$1,500 if you file MFS returns). Any excess net capital loss is carried forward to next year.

Selling enough underperforming securities to create a bigger net capital loss that exceeds what you can use this year might also make sense. You can carry forward the excess capital loss to 2026 and beyond and use it to shelter both short-term and long-term gains recognized in future years.

Identify the Securities You Sell

When selling stock or mutual fund shares, the general rule is that the shares you acquired first are the ones you sell first. However, if you choose, you can specifically identify the shares you are selling when you sell less than your entire holding of a stock or mutual fund. By notifying your broker of the shares you want sold at the time of the sale, your gain or loss from the sale can be managed based on the identified shares. This sales strategy gives you better control over the amount of your gain or loss and whether it is long-term or short-term.

Secure a Deduction for Nearly Worthless Securities

If you own any securities that are nearly worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the loss this year. You can deduct a loss on worthless securities only if you can prove the investment is completely worthless. Therefore, a deduction is not available as long as you own the security and it has any value at all. Total worthlessness can be very difficult to establish with any certainty. To avoid the issue, it may be easier just to sell the security if it has any marketable value. As long as the sale is not to a family member, this allows you to claim a loss for the difference between your tax basis and the proceeds (subject to the normal rules for capital losses and the wash sale rules restricting the recognition of loss if the security is repurchased within 30 days before or after the sale).

Maximizing Tax Benefits for Individuals

Maximize Flexible Spending Account (FSA) Contributions

Keep in mind that the maximum contribution to a health flexible spending account (FSA) is \$3,300 per person. If you set aside too little for this year, increase the amount you set aside for next year in your employer's healthcare FSA. However, be careful on the amount you put into an FSA as FSAs are "use-it-or-lose-it" accounts. You do not want to set aside more than what you will likely have in qualifying expenses for the year.

Married couples who both have access to FSAs will also need to decide whose FSA to use. If one spouse's salary is likely to be higher than the FICA wage limit (which is \$176,100 for 2025) and the other spouse's will be less than the FICA wage limit, the one with the smaller salary should fund as much of the couple's FSA needs as possible. The reason is the 6.2% social security tax levy stops at the FICA wage limit (and does not apply at all to money put into an FSA). For example, if one spouse earns \$181,100 and the other earns \$40,000 and they want to collectively set aside \$5,000 in their FSAs, they can save \$310 (6.2% of \$5,000) by having the full amount taken from the lower-paid spouse's salary versus having 100% taken from the other spouse's wages. Of course, either way, the couple will also save approximately \$1,400 in income and Medicare taxes because of the FSAs.

If you currently have a healthcare FSA, make sure you incur eligible expenses to deplete the balance before the deadline for this year. Otherwise, you will lose the remaining balance. You can plan to incur expenses if needed such as new glasses or contacts, dental work you have been putting off, or prescriptions that can be filled early.

Consider a Health Savings Account (HSA)

If you are enrolled in a high-deductible health plan and do not have any other coverage, you may be eligible to make pre-tax or tax deductible contributions to an HSA of up to \$8,550 for family coverage or \$4,300 for individual coverage—plus an extra \$1,000 if you will be age 55 or older by the end of 2025. Distributions from the HSA will be tax free as long as the funds are used to pay unreimbursed qualified medical expenses. Furthermore, there is no time limit on when you can use your contributions to cover expenses. Unlike a healthcare FSA, amounts remaining in the HSA at the end of the year can be carried over indefinitely.

Make sure you have Adequate Health Insurance Coverage

Medical insurance provided by your employer or through an individual plan purchased through a state insurance marketplace generally qualifies as adequate coverage. Although there is currently no federal penalty, certain states do impose a penalty if you do not have adequate health insurance coverage. These states are California, Massachusetts, New Jersey, Rhode Island, and Washington DC.

Maximizing Tax Benefits for Individuals



Maximize Contributions to 401(k) Plans

If you are a participant in a 401(k) plan at work, contribute as much as you can, especially if your employer makes matching contributions. You give up “free money” when you fail to contribute up to the maximum for the match. In addition, when you contribute to a traditional 401(k) plan, your contributions reduce your taxable income. Beginning in 2025, if you are age 60-63, you can make a larger catch-up contribution than others over age 50. Instead of a maximum catch up contribution of \$7,500, you are eligible to contribute an additional \$11,250.

Roth vs. Traditional IRA Contributions

Consider making contributions to Roth IRAs instead of traditional IRAs. Roth IRA payouts are tax-free and immune from the threat of higher tax rates, as long as they are made (1) after a five-year period, and (2) on or after attaining age 59½, after death or disability, or for a first-time home purchase. A Roth conversion strategy is beneficial when you expect to be in the same or higher tax bracket during your retirement years. The current tax impact from a conversion done this year may result in tax savings by avoiding potentially higher future tax rates on the account’s earnings. Although there are income limits restricting who can contribute to a Roth IRA, the “Backdoor Roth IRA” strategy allows even high-income earners to contribute up to the annual limit by converting from a nondeductible traditional IRA.

Take Required Retirement Distributions

The tax law generally requires individuals with retirement accounts to take withdrawals based on the size of their account and their age every year after they reach age 73 (prior to 2023, the age was 72). Failure to take a required withdrawal can result in a penalty of 25% of the amount not withdrawn.

Additionally, if you turn age 73 in 2025, you can delay your 2025 required distribution to 2026, if you choose. However, waiting until 2026 will result in two distributions in 2026—the amount required for 2025 plus the amount required for 2026. While deferring income is normally a sound tax strategy, here it results in bunching income into 2026. Therefore, think twice before delaying your 2025 distribution to 2026. Bunching income into 2026 might throw you into a higher tax bracket or have a detrimental impact on your other tax deductions.

Make Charitable Donations from Your IRA

IRA owners and beneficiaries who have reached age 70½ are permitted to make cash donations totaling up to \$108,000 per individual IRA owner per year—\$216,000 per year maximum on a joint return if both spouses make donations of \$108,000—to IRS-approved public charities directly out of their IRAs. These Qualified Charitable Distributions, or QCDs, are federal-income-tax-free to you, but you get no itemized charitable write-off. That is okay because the tax-free treatment of QCDs equates to an immediate 100% federal income tax deduction without having to worry about restrictions that can delay itemized charitable write-offs. It also reduces your AGI, which may result in state income tax savings as well. Be careful though—to qualify for this special tax break, the funds must be transferred directly from your IRA to the charity.

Maximizing Tax Benefits for Individuals

Make Charitable Gifts of Appreciated Stock

If you have appreciated stock that you have held more than one year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock (or mutual fund shares) instead. You will avoid paying tax on the appreciation but will still be able to deduct the donated property's full value. If you want to maintain a position in the donated securities, you can immediately buy back a like number of shares. This idea works especially well with no load mutual funds because there are no transaction fees involved.

However, if the stock is worth less than when you acquired it, sell the stock, take the deductible loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value and no capital loss will be available. Also, if you sell the stock at a loss, you cannot immediately buy it back as this will trigger the wash sale rules. This means your loss will not be deductible, but instead will be added to the basis in the new shares.

Do Not Lose a Charitable Deduction for Lack of Paperwork

Charitable contributions are only deductible if you have proper documentation. For cash contributions of less than \$250, this means you must have either a bank record that supports the donation (such as a cancelled check or credit card receipt) or a written statement from the charity that meets tax-law requirements. For cash donations of \$250 or more, a bank record is not enough. You must obtain, by the time your tax return is filed, a charity-provided statement that shows the amount of the donation and either lists any significant goods or services received in return for the donation (other than intangible religious benefits) or specifically states that you received no goods or services from the charity. Contributions of noncash similar items of more than \$5,000 require written appraisal by a qualified appraiser, except for marketable securities.

Maximizing Tax Benefits for Individuals

Withholding on Eligible Rollover Distributions

Consider taking an eligible rollover distribution from a qualified retirement plan before the end of 2025 if you are facing a penalty for underpayment of estimated tax and the increased withholding option is unavailable or will not sufficiently address the problem. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2025. You can then timely roll over (within 60 days) the gross amount of the distribution, increased by the amount of withheld tax, to a traditional IRA. No part of the distribution will be includible in income for 2025, but the withheld tax will be applied pro rata over the full 2025 tax year to reduce previous underpayments of estimated tax.



Adjust Your Federal Income Tax Withholding

If it looks like you are going to owe income taxes for 2025, consider bumping up the federal income taxes withheld from your wages or retirement benefits now through the end of the year. When you file your return, you will still have to pay any taxes due less the amounts already paid or withheld. However, as long as your total tax payments (estimated payments plus withholdings) equal at least 90% of your actual 2025 tax liability or, if smaller, 100% of your 2024 taxes paid (110% if your 2024 adjusted gross income exceeded \$150,000; \$75,000 for single or MFS returns), penalties will be minimized, if not eliminated.

Manage Excess Business Losses

Noncorporate taxpayers may be impacted by a limitation imposed on the deductibility of business losses. Under the excess business loss limitation, the deduction for certain trade or business losses of a taxpayer may be limited to \$626,000 (MFJ) or \$313,000 (for other individuals, trusts, and estates). Excess losses that are disallowed may be carried forward as a net operating loss.

Take Advantage of Principal Residence Gain Exclusion Break

Gains of up to \$500,000 on the sale of a principal residence are completely free of federal income tax for qualifying married couples who file joint returns. The gain exclusion limit for qualifying single or MFS returns is \$250,000. To qualify for the gain exclusion, you normally must have owned and used the home as your principal residence for a total of at least two years during the five-year period ending on the sale date.

Alternative Minimum Tax (AMT) Considerations

For 2025, the elevated AMT exemption and income phased out limits remain. The AMT is an add-on tax over and above your “regular” tax. Items that may require you to pay AMT include exercising incentive stock options or recognizing a large capital gain this year.

One Big Beautiful Bill Act

Some key tax changes for individuals under the OBBBA of 2025 include the following:

No Tax on Tips

Up to \$25,000 of “qualified” income from tips will now be eligible for a federal income tax deduction for tax years 2025 to 2028 for single and joint filers. The deduction begins to phase out for taxpayers with modified AGI over \$300,000 for MFJ filers, (\$150,000 for single, HOH, or MFS filers).

Taxes on Overtime

Up to \$12,500 of qualified overtime pay is eligible for a federal income tax deduction for tax years 2025 to 2028. The deduction begins to phase out for taxpayers with modified AGI over \$300,000 for MFJ filers (\$150,000 for single, HOH, or MFS filers).

Car Loan Interest Deduction

A deduction up to \$10,000 in car loan interest paid may be deductible for new vehicles purchased between 2025 and 2028. To qualify, the vehicle needs to have undergone final assembly in the United States, and the gross vehicle weight has to be under 14,000 pounds. Interest on used cars or new cars purchased prior to January 1, 2025, is not deductible. The deduction begins to phase out for taxpayers with MAGI over \$200,000 for MFJ filers, (\$100,000 for single, HOH, or MFS filers).

Child Tax Credit

The Child Tax credit increases to \$2,200 per qualifying child (was \$2,000). \$1,700 of the credit is refundable (was \$1,000). The MAGI threshold amounts at which the credit begins to phase out are \$400,000 for MFJ filers and \$200,000 for all other filers.

Enhancement of Adoption Credit

The adoption credit is being enhanced to include a refundable portion of up to \$5,000. Prior law allowed taxpayers to claim a nonrefundable credit for qualified adoption expenses incurred, up to a maximum of \$17,280 per child.

Clean Energy Provisions Repeals

The OBBBA repeals some of the clean energy provisions. The Clean Vehicle Credit (\$4,000 for used electric vehicle & \$7,500 for new) ended September 30, 2025. Energy Efficient Home Improvement Credit (Up to \$3,200 credit for energy-efficient upgrades – doors, insulation, windows, etc.) and Residential Clean Energy Credit (Up to 30% of the cost of fuel cells, geothermal pumps, solar panels, etc.) ends December 31, 2025.

Ideas for Your Business

Take Advantage of Bonus Depreciation Tax Breaks

100% first-year bonus depreciation is available for qualified new and used property that is acquired and placed in service on or after January 19, 2025. That means your business might be able to write off 100% of the cost of some or all of your 2025 asset additions on this year's return. Consider making additional acquisitions between now and year-end for the 100% write off or postponing until 2026 to defer deductions. Contact us for details on what types of assets qualify.

Claim 100% Bonus Depreciation for Heavy SUVs, Pickups, or Vans. The 100% bonus depreciation provision can have a beneficial impact on first year depreciation deductions for new and used heavy vehicles used over 50% for business. That is because heavy SUVs, pickups, and vans are treated for tax purposes as transportation equipment that qualifies for 100% bonus depreciation. However, 100% bonus depreciation is only available when the SUV, pickup, or van has a manufacturer's Gross Vehicle Weight Rating (GVWR) above 6,000 pounds. The GVWR of a vehicle can be verified by looking at the manufacturer's label, which is usually found on the inside edge of the driver's side door where the door hinges meet the frame. If you are considering buying an eligible vehicle, doing so and placing it in service before the end of this tax year could allow for a write-off on this year's return.

Claim Bigger First-year Depreciation Deductions of Cars, Light Trucks, and Light Vans. For both new and used passenger vehicles (meaning cars and light trucks and vans) that are acquired and placed in service in 2025 and used over 50% for business, the luxury auto depreciation limit is \$20,200 for the first year if bonus depreciation is claimed.

Qualified Production Property

Qualified Production Property (QPP) is a non-residential real estate that is used by the taxpayer as an integral part of a qualified production activity and eligible for bonus depreciation. Original use of the asset must begin with the taxpayer. Construction on this property must begin on or after January 19, 2025, and before January 1, 2029, and must be placed in service before January 2, 2031.

Section 179 Depreciation Deduction Rules

For qualifying property placed in service in tax years beginning in 2025, the maximum Section 179 deduction is \$2.5 million. The Section 179 deduction phase-out threshold amount is \$4 million.

Qualified Improvement Property (QIP). Section 179 deductions can be claimed for qualifying real property expenditures, up to the maximum annual Section 179 deduction allowance (\$2.5 million for tax years beginning in 2025). There is no separate limit for QIP expenditures, so Section 179 deductions claimed for QIP reduce the maximum annual allowance dollar for dollar. Qualified Improvement property means any improvement to an interior portion of a nonresidential building that is placed in service after the date the building is first placed in service, except for expenditures attributable to the enlargement of the building, any elevator or escalator, or the building's internal structural framework. The definition also includes roofs, HVAC equipment, fire protection and alarm systems, and security systems for nonresidential real property. To qualify, these items must be placed in service after the nonresidential building has been placed in service.

Ideas for Your Business

Maximize Self-employed Retirement Plans

Set up a self-employed retirement plan if you are self-employed and have not done so yet. Current retirement plan rules allow for significant deductible contributions. For example, if you are self-employed and set up a SEP-IRA, you can contribute up to 20% of your self-employment earnings, with a maximum contribution of \$70,000 for 2025. If you are employed by your own corporation, up to 25% of your salary can be contributed, with a maximum contribution of \$70,000. There is no age limit for making IRA contributions, as long as you have sufficient compensation income.

Other small business retirement plan options include the 401(k) plan (which can be set up for just one person), the defined benefit pension plan, and the SIMPLE IRA. Depending on your circumstances, these other types of plans may allow for larger deductible contributions.

The deadline for setting up a SEP-IRA for a sole proprietorship and making the initial deductible contribution for the 2025 tax year is October 15, 2026, if you extend your 2025 return to that date. Other types of plans generally must be established by December 31, 2025, if you want to make a deductible contribution for the 2025 tax year, but the deadline for the contribution itself is the extended due date of your 2025 return. However, to make a SIMPLE-IRA contribution for 2025, you must have set up the plan by October 1, 2025. If the SIMPLE-IRA option is appealing to you, you will have to wait until 2026 to set this up. Be aware that if your business has employees, you may have to cover them too.



Ideas for Your Business

Evaluate Inventory for Damaged or Obsolete Items

Inventory is normally valued for tax purposes at cost or the lower of cost or market value. Regardless of which of these methods is used, the end-of-the-year inventory should be reviewed to detect obsolete or damaged items. The carrying cost of any such items may be written down to their probable selling price (net of selling expenses). This rule does not apply to businesses that use the Last In, First Out (LIFO) method because LIFO does not distinguish between goods that have been written down and those that have not.

To claim a deduction for a write-down of obsolete inventory, you are not required to scrap the item. However, in a period ending not later than 30 days after the inventory date, the item must be actually offered for sale at the price to which the inventory is reduced.

Business Interest Expense Deduction

The OBBBA of 2025 returned the exclusion of depreciation, amortization, and depletion from the disallowed business interest deduction calculation. This should result in a greater amount of business interest expense to be deductible.

Research and Experimentation Expenditures

The OBBBA of 2025 removed the requirement to amortize domestic research and experimentation (R&E) expenditures; however, foreign R&E expenditures continue to be amortized over 15 years. Once again, qualified businesses can expense R&E expenditures in full in the year incurred. Small businesses (defined as having gross receipts of less than \$31 million for each of the last three years) have the option to amend their 2022-2024 returns to retroactively claim the amortized expenses from those years. Small and large businesses have the option to claim the remaining unamortized expenses from 2022-2024 on their 2025 or split the amount between their 2025 and 2026 returns. Businesses retain the right to continue amortizing R&E expenditures. This requires an annual election. The decision on which path to take will require careful consideration for both federal and state filings.

Research Credit More Attractive for Smaller Businesses and Start-Ups

Businesses with \$50 million or less in gross receipts may claim the Code Sec. 41 research and development (R&D) credit against AMT liability. Qualified small businesses (\$5 million or less in gross receipts and no gross receipts for any tax year preceding the five-tax-year period ending with such tax year) may claim the R&D credit against their payroll tax liability.

Employ Your Child

If you are self-employed, do not miss one last opportunity to employ your child before the end of the year. Doing so has tax benefits in that it shifts income which is not subject to the Kiddie Tax from you to your child, who normally is in a lower tax bracket or may avoid tax entirely due to the standard deduction. There can also be payroll tax savings since wages paid by sole proprietors to their children age 17 and younger are exempt from both social security and unemployment taxes. Employing your children has the added benefit of providing them with earned income, which enables them to contribute to an IRA. Children with IRAs, particularly Roth IRAs, have a great start on retirement savings since the compounded growth of the funds can be significant.

Ideas for Your Business

Employ Your Child

Remember a couple of things when employing your child. First, the wages paid must be reasonable given the child's age and work skills. Second, if the child is in college, or is entering soon, having too much earned income can have a detrimental impact on the student's need-based financial aid eligibility.

Maximize the Deduction for Pass-through Business Income

The Qualified Business Income (QBI) deduction allows individuals, trusts, and estates to deduct 20% of certain pass-through entity's QBI, subject to restrictions. For QBI deduction purposes, pass-through entities are defined as sole proprietorships, single-member LLCs that are treated as sole proprietorships for tax purposes, partnerships, LLCs that are treated as partnerships for tax purposes, and S corporations.

The QBI deduction also can be claimed for up to 20% of income from qualified real estate investment trust (REIT) dividends and 20% of qualified income from publicly traded partnerships.

Because of the various limitations on the QBI deduction, tax planning moves (or non-moves) can have the side effect of increasing or decreasing your allowable QBI deduction. Individuals who can benefit from the deduction must be careful at year-end tax planning time.

Claim 100% Gain Exclusion for Qualified Small Business Stock

There is 100% federal income tax gain exclusion privilege for eligible sales of Qualified Small Business Corporation (QSBC) stock that was acquired after September 27, 2010, but before July 4, 2025. QSBC stock must be held for more than five years to be eligible for the gain exclusion break.

For Qualified Small Business Corporation (QSBC) stock that was acquired after July 4, 2025, 100% federal income tax gain exclusion remains if the stock is held for more than five years. If the stock is held for less than five years but more than four years, a 75% gain exclusion is available. If the stock is held for less than four years but more than three years, a 50% gain exclusion is available.

Increase Basis to Deduct Losses

Increase your basis in a partnership or S corporation if doing so will enable you to deduct a loss from it for this year. A partner's share of partnership losses is deductible only to the extent of their partnership basis as of the end of the partnership year in which the loss occurs. An S corporation shareholder can deduct their pro rata share of an S corporation's losses only to the extent of the total of their basis in (a) their S corporation stock and (b) debt owed to them by the S corporation.

State Income Tax Deduction Workaround

The pass-through state income tax deduction essentially allows business owners to deduct state income tax on their business income without limit. This deduction allows a pass-through entity to elect to pay the state income tax due on the business income that would otherwise be paid on the owner's personal tax returns. The federal itemized deduction cap of \$40,000 (\$20,000 if MFS) for state and local taxes doesn't apply when a pass-through entity pays the tax on its earnings at the entity level. As of 2025, 36 states, including Michigan, have passed legislation allowing the pass-through tax deduction work-around.

Ideas for Your Business

Michigan Decoupling of OBBBA

Michigan House Bill 4961 decouples from four key OBBBA provisions. They are: bonus depreciation, Section 179 depreciation, R&E expenditure amortization, and business interest expense calculation. Businesses filing in Michigan will need to maintain separate records where bonus depreciation is not deducted, Section 179 depreciation remains limited to \$1.22 million, R&E expenditures remain amortized over five years, and the business interest expense deduction calculation continues to include amortization, depreciation, and depletion. The decoupling from the OBBBA is expected to decrease business tax deductions, thereby increasing your Michigan income taxes, and will add an additional complexity to tax planning.

Opportunities for Estate Planning

Annual Gifts

Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. You can give \$19,000 in 2025 to each of an unlimited number of individuals, but you cannot carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the Kiddie Tax.

Estate Exemption

For 2025, the unified federal gift and estate tax exemption is a historically generous \$13.99 million, or effectively \$27.98 million for married couples. The federal estate tax rate is 40%. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. Also, you may need to make some changes for reasons that have nothing to do with taxes.



Conclusion

Through careful planning, it is possible to reduce your 2025 tax liability. However, the longer you wait, the less likely it is that you will be able to achieve a meaningful reduction. The ideas discussed in this letter are a good way to get you started with year-end planning, but they are no substitute for personalized professional assistance. Please do not hesitate to contact us with questions or for additional strategies on reducing your tax impact. We would be glad to set up a planning meeting or assist you in any other way that we can.

Any accounting, business, or tax advice contained in this communication, including attachments and enclosures, is not intended as a thorough analysis of specific issues, nor a substitute for a formal opinion, nor was it written to be used to avoid tax related penalties.



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