HIGHTOWER
Westchester

2025 Year-End Tax Planning Opportunities

The 2025 tax year brings significant changes following the passage of the One Big Beautiful Bill Act (OBBBA) in July, a law that makes permanent many of the 2017 Tax Cuts and Jobs Act (TCJA) provisions while introducing new and, in some instances, temporary, deductions. Below is a summary of many tax planning ideas and suggestions to consider as 2025 draws to a close.

Retirement Tax Planning

The SECURE Act 2.0, which was passed in 2022, and its predecessor, the SECURE Act, made several changes to rules relating to retirement plans and required minimum distributions. Make sure you take full advantage of any changes that work in your favor, including:

Maximize your retirement plan contributions: Confirm that you have contributed the maximum amounts allowed under current tax law — and feasible given your financial situation — to your retirement accounts. This may also include:

- You and/or your working spouse maximizing contributions to employer-sponsored retirement plans, with the intention to take advantage of any employer matching contributions.
- You and/or your non-working spouse contributing to an IRA or Roth IRA.
- Making additional catch-up contributions if you are age 50 or older. As of 2025, you can contribute an extra $7,500 per year to your 401(k) account. For those aged 60 – 63, the amount is $11,250 per year. Starting in 2026, if your annual earnings exceed $145,000 in the prior year, you will only be able to make catch-up contributions on an after-tax (e.g., Roth) basis.
- If self-employed, deferring large amounts of earnings through simplified employee pension (SEP) or SIMPLE IRAs, or in some cases, through a defined benefit pension plan or cash-balance plan, to which you may also be able to make significant contributions over several years. The 2025 maximum contribution to a SEP is $70,000. The maximum 2025 contribution to a defined benefit or cash-balance plan can, in some cases, be much higher.
- The SECURE 2.0 Act also created the ability to make a Roth SEP IRA or an after-tax retirement plan contribution to a SEP.

Strategically take your required minimum distribution (RMD): If you are more than 73 years of age, make sure to take your RMD before year-end and think strategically about how you do so. For example, time the withdrawal around any major expenditures so that you don't need to take withdrawals from taxable accounts. Other considerations include:

- The SECURE Act 2.0 raised the RMD age in 2023 to 73 and increased it to age 75 starting in 2033.
- If you turned 73 in 2025, you can delay taking your first RMD until April 1, 2026. Your second RMD will need to be taken by December 31, 2026, so be aware of any tax implications if you take out two RMDs within one year.
- If you inherit an IRA from an account owner who was taking RMDs, you will need to start taking RMDs in 2025, and the 10-year rule will start with the original year you inherited the account.
- If you have significant charitable intentions, you can consider making a qualified charitable distribution (QCD) — an otherwise taxable distribution of up to $108,000 from an IRA to a qualified charity.

Consider converting your traditional IRA to a Roth IRA: Owners of traditional IRAs may convert them into Roth IRAs, which involves taking an immediate income tax hit in exchange for future tax-free withdrawals. Generally speaking, you may benefit from a Roth conversion if your income tax rate has decreased (e.g., in retirement) or if you don't expect to need your Roth IRA assets during your lifetime and wish to leave them to your beneficiaries.

Business Tax Planning

Take advantage of higher Section 179 expensing limits this year: The Section 179 deduction allows businesses to expense the cost of qualifying property, including new and used machinery, equipment, and certain nonresidential building improvements such as roofs, HVAC systems, fire protection, alarm systems, and security systems. It also applies to tangible personal property used to furnish lodgings, such as in rental properties or hotels.

For tax years beginning after December 31, 2024, the maximum Section 179 deduction increases to $2.5 million, with a phaseout starting at $4 million of qualifying purchases (inflation-adjusted). The deduction is limited to the amount of taxable business income.

While most states conform to federal Section 179 rules, some impose different limits or disallow the deduction entirely. Consult your tax advisor to confirm your eligibility and maximize this benefit.

Consider taking advantage of the restored 100% bonus depreciation: Before the OBBBA, bonus depreciation was being phased out. A 100% bonus depreciation is now available and made permanent for property acquired and placed into service on or after January 19, 2025. This is especially helpful for businesses investing in equipment, machinery, or other qualifying property, as it allows them to deduct the full cost immediately and improve cash flow.

Consider taking advantage of the restored research and development (R&D) expensing deduction: Under the OBBBA, businesses in industries such as manufacturing, architecture, and engineering can once again deduct R&D expenses starting January 1, 2025, with the option to capitalize and amortize as before.

Small businesses (with less than $31M in average annual gross receipts) can elect to deduct domestic research and experimental (R&E) expenditures retroactively to 2022 by filing amended returns by July 4, 2026.

All taxpayers may also deduct prior-year unamortized costs under an accelerated 1- or 2-year schedule beginning with the first taxable year after December 31, 2024.

Note: Foreign Section 174 costs must still be amortized over 15 years.

Income Tax Planning

Maximize your charitable impact: Review charitable giving strategies with your advisor. By being more strategic with your charitable dollars, you can make a bigger impact, including by allocating more to the causes you care about as opposed to taxes. One example to consider is a donor-advised fund (DAF), which is an account or fund owned by a sponsoring organization that you make contributions to. The sponsoring organization manages the DAF's investments and distributions. The potential benefits of a DAF include relative ease (since the sponsoring organization manages it), simplified record-keeping for tax reporting, privacy, and flexibility on when, if, and how to make donations.

- Consider making a larger-than-normal contribution to the DAF in a year in which you have a larger-than-normal amount of ordinary income. The goal is to match an ordinary deduction with ordinary income to provide a larger tax deduction due to the additional income taxed at higher ordinary rates.
- Consider donating long-term highly appreciated securities to receive the tax deduction at fair market value (limited to 30% of AGI) and avoid the tax on the capital gains. This may be advantageous given market returns over the past year.

Contribute to 529 accounts, which now offer greater flexibility for unused funds: While there's no federal deadline for 529 contributions, many states offer income tax deductions or credits for contributions. Under the SECURE Act 2.0, beneficiaries can roll over up to $35,000 (lifetime max) from a 529 plan to their Roth IRA, subject to annual contribution limits and earned income requirements. The 529 account must have been open for at least 15 years, and recent contributions (within 5 years) are excluded. This helps alleviate concerns about unused funds being "trapped."

You can also roll over 529 funds to an ABLE (Achieving a Better Life Experience) account tax-free for the same beneficiary or a family member, though rollovers count toward the ABLE annual contribution limit and must follow IRS timing rules.

Qualified education expenses remain broad: tuition, fees, books, and computers for K–12, college,

and trade schools. Under the OBBBA, the list now includes educational therapies for students with disabilities, tutoring, standardized test fees, curriculum materials, and homeschooling costs. The annual K–12 withdrawal cap increases to $20,000 starting in 2026. Additionally, 529 funds can now cover workforce education programs and postsecondary credentialing expenses for professional licenses and certifications.

Review your payroll tax withholding: Evaluate your withholding elections for 2025 to help ensure you will have enough (but not too much) federal and state taxes taken from your paycheck in 2026. The cap on deducting state and local income and property taxes, also known as SALT, was previously $10,000 but was increased to $40,000 for certain taxpayers subject to a phaseout based on income.[1] It might be advantageous to time the remittance of additional tax payments in 2025 or 2026, depending on your situation. If your 2025 income is below the threshold, and your taxes paid do not yet exceed $40,000, consider remitting your Q4 estimated tax payment in December to provide a higher tax deduction in 2025. Alternatively, if your 2025 income is higher (or going to be higher) than the threshold, consider waiting until January to remit your Q4 estimated tax payment, or consider deferring payment of a real estate tax into January if possible.

Harvest tax losses: Consider harvesting losses in your taxable accounts — the practice of selling investments trading at a loss, replacing them with similar assets (while being careful not to run afoul of the “wash sale” rule[2]), and then offsetting gains with those losses. After capital gains and losses are netted against one another, any remaining losses can be used to offset ordinary income up to $3,000 per year and carried over in unlimited amounts until exhausted to be used against future gains and income.

Monitor the Alternative Minimum Tax (AMT): If you expect to be subject to the AMT, consider shifting income and deductions from one year to another, to the extent possible, to minimize your overall income tax liability. The OBBBA reset AMT exemption thresholds to 2018 levels, meaning that the exemption will phase out at $500,000 for unmarried individuals and $1 million for married couples filing jointly, with annual inflation adjustments. The lower exemption phaseouts, combined with the increased state and local tax deduction for certain taxpayers, will likely mean an increase in the number of taxpayers subject to AMT. Consider the effects of the AMT when determining the amount of additional tax payments to make in a given year.

Evaluate whether you meet the threshold for the 3.8% net investment income tax: Consider whether there are strategies to defer and/or reduce your modified adjusted gross income (MAGI) to reduce or avert the 3.8% surtax on net investment income (which, in 2025, applies to MAGI over $200,000 for individuals and $250,000 for married couples filing jointly).

Fully fund health savings accounts (HSAs): If you participate in a high-deductible health insurance plan, you are eligible for an HSA to help offset out-of-pocket medical expenses. HSAs offer significant, triple-tax benefits: Contributions are tax-deductible, grow tax-deferred, and are not taxed when withdrawn to cover eligible healthcare expenses. In 2025, individuals can contribute up to $4,300 – plus an additional $1,000 as a catch-up contribution if you are 55 or older – and $8,550 if your insurance covers your family.[3]

Spend flexible spending account (FSA) money: If you have one, confirm that you have spent the entire balance in your FSA by the plan deadline. FSAs generally have a "use it or lose it" rule, meaning you must incur qualifying expenditures by the last day of the plan year — or at the latest, by the 15th day of the third month following the close of the plan year.

Establish domicile if you have moved to a new state: If you plan to change your state residency for tax purposes, particularly if you have multiple residences, make sure you have taken all necessary actions to qualify for residency in the new state (e.g., spending enough days there, registering for a driver's license, changing your mailing address, etc.).

Consider taking advantage of the remaining Inflation Reduction Act tax credits that expire at the end of the year:

These include:

- Limited energy-efficient home improvement credits, such as for installing new doors, windows, skylights, insulation, and heat pumps that more efficiently regulate temperature, will end on December 31, 2025.
- Residential clean energy credits for installing clean energy units (e.g., solar systems, geothermal heat pumps, etc.)—which can provide federal tax credits of up to 30% of the costs— will end on December 31, 2025.

Turn Capital Gains into Tax Savings: Some taxpayers may be able to take advantage of a 0% long-term capital gains tax rate. For married taxpayers filing jointly with taxable incomes not exceeding $96,700, there is a 0% rate available for long-term capital gains and qualified dividends. For single taxpayers not subject to kiddie tax rules, the 0% rate is available if taxable income does not exceed $48,350.

Gifts and Estate Tax Planning

Transfer wealth to your family ahead of lower exemption amounts: If you plan on transferring significant wealth to your loved ones, consider taking advantage of the federal estate and gift tax exemption. In 2025, the limit is $13.99 million per person and $27.98 million per married couple. In 2026, the limit will be permanently increased to $15 million per person and $30 million for a married couple and indexed to inflation. There are several tax-efficient estate planning strategies to consider, including grantor retained annuity trusts (GRATs) and other types of grantor trusts, gifting stocks, and intrafamily transactions and installment sales.

Gift to family members: Consider taking advantage of the annual gift tax exclusion — the maximum you can give to a single person within a calendar year without needing to file a gift tax return and pay gift taxes. For 2025, this amount is $19,000 per recipient for an individual and $38,000 per recipient for a married couple. Also, note that direct payments of tuition and medical expenses do not count toward these limits; these types of gifts have unlimited exclusions. Also, you can "front-load" a 529 plan with five years' worth of annual exclusions, allowing a greater amount of assets to grow tax-free for a longer period of time. Note that this necessitates the filing of a gift tax return.

reach out to us for help

For more details on any of the above strategies, or for additional tax planning ideas, please reach out to us, and we can collaborate with you and your tax advisor. We look forward to hearing from you soon.

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[1] State and local tax (SALT) deduction: Overview and FAQs. (n.d.). Thomson Reuters. Retrieved November 5, 2025, from https://tax.thomsonreuters.com/en/glossary/salt-deduction

[2] https://www.investor.gov/introduction-investing/investing-basics/glossary/wash-sales

[3] HSA contribution limits and eligibility rules for 2025 and 2026. (2025, August 26). https://www.fidelity.com/learning-center/smart-money/hsa-contribution-limits