**Greene, Dycus & Co., P.A.** Certified Public Accountants
205 North Elm Ave., Sanford, FL 32771
407-322-0561 / Fax: 407-322-0663 / www.GDCCPA.com
Member: American Institute of Certified Public Accountants
Member: Florida Institute of Certified Public Accountants

# 2025 Year-End Tax Planning Letter

## (With 2026 Key Tax Figures and TCJA expiring provisions)

Robert Kimelman, CPA
Thomas J. Frank, CPA
Vanessa R. Talley, CPA

# 2025 Year-End Tax Planning Letter

As the year-end approaches, now is an excellent time to review your tax position and explore planning strategies to maximize potential tax savings. Engaging in year-end tax planning can help you minimize your tax burden while also positioning you for financial success in the coming year.

**Why Year-End Tax Planning Matters:** Year-end tax planning allows you to take advantage of any available tax-saving opportunities before December 31st. This proactive approach can help you make informed financial decisions while there's still time to act, potentially reducing your taxable income or increasing deductions and credits. Additionally, planning ahead enables us to evaluate any potential adjustments related to changes in tax laws, ensuring that you are well-prepared and compliant.

**Reporting Life Events:** In the event you have a life changing event, including but not limited to (change in employment, marriage, divorce, change in dependents, etc.) that affects your tax filing status, income, or wealth, please bring this to our attention immediately. In addition, if you are anticipating any large purchases, sales, or other type of significant transactions, please also bring these changes to our attention immediately. We cannot underscore the importance of promptly alerting us to any changes in your current situation so that we will be able to provide meaningful and timely advice to you. Finding out about these events during the tax preparation process may be too late.

**Let's Work Together on Your 2025 Tax Plan:** We have compiled a list of tax planning areas and strategies that may help save tax dollars if acted upon before year-end. Not all strategies will apply in every situation, but you (or a family member, business colleague or friend) will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make.

The actions included are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you. In addition, we have also enclosed 2026 key tax figures and projected tax figures.

**Next Steps:** It's crucial for our clients to initiate the tax planning process promptly. Timely action allows us to thoroughly assess individual and business financial situations, identify potential deductions and credits, and strategize to minimize tax liabilities. To ensure the most comprehensive and tailored tax planning, we encourage you to reach out as soon as possible. Please ***contact our office (407) 322-0561 at your earliest convenience to schedule a consultation and commence the tax planning discussions.*** We are here to address any questions, provide guidance, and ensure a seamless and advantageous tax preparation process.

# Tax Planning for Individuals

## LIFE EVENTS

- Life events can significantly impact your tax situation and addressing them proactively can help avoid surprises at tax time. Life events include marriage or divorce, birth or death in a family, job changes or job loss, and retirement.

## PLANNING FOR TIMING OF INCOME

- Consider postponing income to 2026 and accelerating deductions into 2025 if it helps you qualify for larger deductions, credits, and tax benefits that phase out at certain adjusted gross income (AGI) levels. This could benefit taxpayers looking to maximize deductible IRA contributions, child tax credits, higher education credits, and student loan interest deductions. Delaying income is particularly advantageous for those expecting to be in a lower tax bracket next year due to changing financial situations.

- However, in some situations, it may actually be advantageous to accelerate income into 2025. For instance, this might apply if you expect a more favorable filing status this year than next (such as head of household versus single filer) or if you anticipate being in a higher tax bracket in 2026.

- You might benefit from arranging with your employer to defer any upcoming bonus until 2026, which could not only postpone but potentially reduce your tax liability. However, high-income taxpayers should consider additional factors, as the advantages may vary based on income thresholds and tax bracket implications.

- Long-term capital gains on assets held for over a year are taxed at rates of 0%, 15%, or 20%, depending on your taxable income. If you hold assets with substantial appreciation, consider selling enough to generate long-term gains that may qualify for the 0% tax rate. For 2025, the 0% rate applies when net long-term capital gains plus regular taxable income stay below $96,700 for married couples and $48,350 for single filers (increasing to $98,900 and $49,450, respectively, in 2026).

- For example, if $5,000 of your long-term capital gains qualifies for the 0% rate this year, avoid selling assets with capital losses before year-end. The initial $5,000 in losses would offset gains already taxed at 0%, resulting in no further tax benefit.

- Loss harvesting involves selling stocks, mutual funds, or other securities currently worth less than their purchase price to offset realized capital gains and potentially lower your tax liability. One strategy is to sell the asset, then repurchase the same security after at least 31 days to comply with the wash sale rules, which prevent claiming a tax loss if the same security is bought within 30 days before or after the sale.

- Consider generating passive income or disposing of a passive activity to take advantage of suspended losses.

# Tax Planning Moves for Individuals – continued

## ITEMIZED DEDUCTIONS

- For 2025, many taxpayers may find itemizing less beneficial due to the substantial standard deduction amounts and limitations on itemized deductions. Notably, deductions for miscellaneous expenses, such as tax preparation fees, investment expenses, and unreimbursed employee costs, are no longer available. The State and Local Tax (SALT) Deduction cap is temporarily increased to $40,000 for 2025; however, for those with MAGI above $500,000, the deduction phases out by 30% of the excess over the threshold but will not drop below $10,000. Additionally, personal casualty losses are only deductible if related to federally declared disasters. You may still itemize medical expenses that exceed 7.5% of your AGI, charitable contributions, and mortgage interest on qualified debt. However, these deductions will only reduce your tax liability if they exceed the standard deduction.

| Standard deductions | 2025 |
|---|---|
| Married filing jointly | $31,500 |
| Head of household | $23,625 |
| Single/Married filing separately | $15,750 |
| Additional (age 65/older, or blind): | |
| Married (for each qualifying taxpayer) | $1,600 |
| Single | $2,000 |

- Using a 'bunching' strategy can help taxpayers maximize their deductions despite restrictions. This approach involves strategically timing medical expenses and charitable contributions in years when itemizing deductions is most advantageous. For instance, if you can itemize deductions in 2025 but expect to take the standard deduction next year, consider making two years' worth of charitable contributions in 2025.

- Here are the 2025 charitable deduction limits for gifts to public charities (including donor-advised funds):
    - Cash contributions: Up to 60% of adjusted gross income (AGI)
    - Non-cash assets held over one year: Up to 30% of AGI

  Any contributions exceeding these limits can be carried forward for up to five tax years.

- Donating appreciated assets like stocks to charity offers a double tax advantage. You receive a charitable contribution deduction for the full fair market value, and you completely avoid paying capital gains tax that would be due if you sold the assets. This strategy makes your charitable giving more tax-efficient than donating cash, especially for long-term appreciated investments.

- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2025 deductions even if you do not pay your credit card bill until after year-end.

# Tax Planning Moves for Individuals – continued

**ITEMIZED DEDUCTIONS – continued**

- Miscellaneous itemized deductions subject to the 2% floor are no longer allowed. Examples include investment expenses, unreimbursed job expenses, and tax preparation fees. For employee expenses, it may be advantageous to try to arrange a reimbursement plan with your employer.

- With recent weather events affecting many in our area, we wanted to clarify how casualty losses are treated for tax purposes:
  - Federally Declared Disaster Losses: If you have suffered losses from a federally declared disaster, you may qualify to deduct these losses as an itemized deduction on Schedule A. Disaster-related losses are deductible in the tax year they occurred or, alternatively, in the prior year to allow for more immediate tax relief. To claim these, you'll need to reduce the loss amount by $100 per event and by 10% of your adjusted gross income (AGI) on your tax return.

  - Non-Disaster Casualty Losses: For the 2025 tax year, you generally cannot deduct personal casualty losses unless they occurred in a federally declared disaster area. However, non-disaster losses for business or income-producing property (like rental properties) are still deductible. These losses should be reported on Form 4684 and can generally offset income for the year the loss occurred.

- For the 2025 educator deduction, the $300 above-the-line deduction remains available (up to $600 on a joint return if both spouses qualify)

**HEALTH PLANS**

- If you're eligible, consider maximizing your Flexible Spending Account (FSA) to pay eligible healthcare expenses with pre-tax dollars, reducing your taxable income. For 2025, you can roll over up to $660 of unused funds into 2026, and any excess is forfeited. Review your expected medical expenses and adjust contributions to make full use of this benefit without losing funds.

- If you're eligible for a High Deductible Health Plan (HDHP), consider maximizing your Health Savings Account (HSA). HSAs offer triple tax benefits—contributions are deductible, growth is tax-free, and withdrawals for qualified medical expenses are tax-free. Unlike FSAs, unused HSA funds roll over each year, making them a valuable tool for both healthcare and retirement planning. If you become HSA-eligible on December 1, 2025, you can contribute the full 2025 limit as long as you stay eligible through 2026 ("last-month rule"). Otherwise, the excess is taxable and subject to a 10% penalty. The HSA contribution limits for 2025 are $4,300 for self-only coverage and $8,550 for family coverage. Those 55 and older who are not enrolled in Medicare can contribute an additional $1,000 as a catch-up contribution.

# Tax Planning Moves for Individuals – continued

## RETIREMENT PLANS

- Required minimum distributions (RMDs) from an IRA or 401(k) plan (or other employer-sponsored retirement plan) are required if you are 73 or older in 2025. If you turn 73 this year, you have until April 1, 2026 to take their first RMD, but you may want to take it by the end of 2025 to avoid having to double up on RMDs next year.

- If you are age 70½ or older in 2025, consider making Qualified Charitable Distributions (QCDs) directly from your IRA to a qualified charity. QCDs are excluded from gross income, allowing you to support charities while still claiming the full standard deduction, which is especially valuable if you do not itemize. For 2025, the QCD limit is $108,000 per individual, or $216,000 per couple if both spouses qualify.

- Consider converting traditional IRA funds to a Roth IRA in 2025 if you have investments that are currently at lower values (beaten down stocks for mutual funds), you're in a lower tax bracket and you prefer future tax-free growth. It's important to consider the conversion will increase your 2025 taxable income which may affect income-based tax benefits.

## ADDITIONAL MEDICARE INCOME TAX .9%

- The 0.9% additional Medicare tax also may affect higher income. It applies to individuals whose employment wages and self-employment income total more than a threshold amount ($250,000 for joint filers, $125,000 for married couples filing separately, and $200,000 in any other case). Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income.

- There could be situations where an employee may need to have more withheld toward the end of the year to cover the tax. This would be the case, for example, if an employee earns less than $200,000 from multiple employers but more than that amount in total. Such an employee would owe the additional Medicare tax, but nothing would have been withheld by any employer.

- Self-employed persons must take it into account in figuring estimated tax.

## NET INVESTMENT INCOME TAX 3.8%

- Higher-income earners must be wary of the 3.8% surtax on certain unearned/investment income. The surtax is 3.8% of the lesser of: (1) net investment income (NII), or (2) the excess of modified adjusted gross income (MAGI) over a threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case).

# Tax Planning Moves for Individuals – continued

## NET INVESTMENT INCOME TAX 3.8% - Continued

- As year-end nears, the approach taken to minimize or eliminate the 3.8% surtax will depend on the taxpayer's estimated MAGI and NII for the year. Some taxpayers should consider ways to minimize (e.g., through deferral) additional NII for the balance of the year, others should try to reduce MAGI other than NII, and some individuals will need to consider ways to minimize both NII and other types of MAGI. An important exception is that NII does not include distributions from IRAs and most other retirement plans.

## ESTATE AND GIFT TAXES

- 2025 Annual Gift Tax Strategy. You can give up to $19,000 per recipient with no limit on the number of recipients. These gifts are tax-free and do not count toward your lifetime exemption. Gifting income-producing assets can shift income to family members in lower tax brackets, but the Kiddie Tax may apply to recipients under age 24. Avoid gifting assets worth less than your cost basis, as losses may be lost for tax purposes.

- The basic estate tax credit for 2025 is $5,541,800, offsetting tax on transfers up to $13.99 million per individual ($27.98 million for married couples). The estate and gift tax exemption rises to $15 million in 2026. Annual exclusion gifts and other strategies can help reduce your taxable estate.

- Strategic gifting of income-producing or appreciated assets can reduce gift, estate, and income taxes while transferring wealth to younger generations efficiently.

## IDENTITY THEFT

- Remember to be vigilant against tax-related identity theft! Unfortunately, these scams are on the rise, with fraudsters often impersonating the IRS or other government agencies. As your trusted tax advisors, we want you to be fully informed about the tactics used and how to protect yourself.

- It is essential to remember that the IRS **will never contact you by phone, text, email, or social media** to demand immediate payment or request sensitive information unless you already have an ongoing issue of which you are already aware. Scammers may threaten arrest, license revocation, or deportation, but these are false claims intended to create urgency.

- Please do not provide any information or make payments to anyone claiming to be the IRS or another government agency without first verifying their identity. Contact us immediately if you are approached with such a request. We can confirm whether the communication is legitimate and help you handle it appropriately.

# Tax Planning Moves for Individuals – continued

## COMPLIANCE REQUIREMENT FOR CLAIMING EDUCATIONAL TAX CREDITS

- In order to claim an American Opportunity or Lifetime Learning Credit or a deduction for education-related tuition and fees, you must have received a Form 1098-T. The form reports qualified tuition and related expenses received by the educational institution. If you have educational expenses eligible for the credits or deduction, you should receive Form 1098-T by January 31, 2026. If you did not receive the 1098-T by mail, the student should be able to download the form from their online university account.

## DIVORCE AND ALIMONY

- Alimony is neither deductible by the payor nor includible in income by the recipient for agreements entered into after December 31, 2018.

## ENERGY TAX CREDIT

- Unfortunately, many clean energy home improvement credits expire at the end of this year. If you are considering home improvement projects, like new windows and doors, solar panels and wind energy property including battery storage for your home, make those upgrades before the end of 2025.

## FOREIGN BANK ACCOUNT REPORTING ("FBAR")

- The IRS has been actively pursuing individuals that fail to report their holdings in foreign accounts. If you have an interest in a foreign bank account, it must be disclosed; failure to do so carries stiff penalties. You must file a FBAR if: 1) you are a US resident of a person doing business in the US; 2) you had one or more foreign financial accounts that exceeded $10,000 during the calendar year; and 3) you had a financial interest in the account or signatory or other authority over a foreign financial account. If you are unclear about the requirements or think they could possibly apply to you, please let us know.

- The deadline for filing an FBAR is April 15. However, a six-month extension is available.

## NEW TEMPORARY DEDUCTIONS (2025-2028)

- **Deduction for seniors**: Taxpayers 65 and older can claim an extra $6,000 deduction ($12,000 for married couples if both qualify). This benefit is available even if you take the standard deduction and phase out for higher earners. The deduction is in addition to the standard deduction and is available to both itemizers and non-itemizers. The deduction is subject to limitations based on MAGI (the deduction amount is reduced, but not below zero, by 6% as income exceeds $75,000 ($150,000 MFJ).

- **No Tax on Tips:** A deduction of up to $25,000 is available for qualified tips for certain occupations, which effectively removes the federal income tax on that portion of income.

This deduction phases out for higher incomes. The deduction begins to phase out when the taxpayer's modified adjusted gross income (MAGI) exceeds $150,000 ($300,000 in the case of a joint return). The deduction phaseout range is $250,000 before the full $25,000 deduction is phased out.

- **No Tax on Overtime:** A deduction of 12,500 ($25,000 for joint filers) is available for qualified overtime pay, with income limitations. The deduction begins to phase out when the taxpayer's modified adjusted gross income (MAGI) exceeds $150,000 ($300,000 in the case of a joint return). The deduction phaseout range is $250,000 before the full $25,000 deduction is phased out.

- **Car Loan Interest Deduction:** Up to $10,000 of interest paid on loans for new, personal-use vehicles is deductible. The vehicle must have undergone final assembly in the U.S. and meet weight requirements (less than $14,000 lb.) Lease payments do not qualify.

- **Trump Savings Accounts for Children:** The 2025 Act created the Trump Account, a tax-deferred savings account for children. Starting in 2026, parents can contribute up to $5,000 per year per child under 18. Children born 2025–2028 receive a one-time $1,000 federal deposit. Accounts require a Social Security number, and employer contributions up to $2,500 count toward the $5,000 limit.

**EXTENDED AND INCREASED BENEFITS**

- **Child Tax Credit**: The maximum credit for 2025 is raised to $2,200 per qualifying child. A portion of this credit is refundable, subject to eligibility rules.

- **State and Local Tax (SALT) Deduction Cap**: The $10,000 cap is temporarily increased to $40,000 (with some income-based phase-outs) through 2029.

- **Higher Estate and Gift Tax Exemption**: The federal exemption for estates is set at $13.99 million per person for 2025 and is made permanent at $15 million per person starting in 2026.

- **Charitable Deductions**: Starting in 2026, taxpayers who don't itemize can claim an "above-the-line" deduction for charitable contributions up to $1,000 ($2,000 for married filing jointly).

- **Alternative Minimum Tax (AMT):** The TCJA increases AMT exemptions, which are made permanent with inflation adjustments.

- **Mortgage Interest**: The lower mortgage interest deduction cap of $750,000 (down from the previous $1 million) is made permanent.

- **529 Plan Qualified Expenses**: Allows tax-exempt distributions from Sec. 529 savings plans to be used for additional educational expenses in connection with enrollment or attendance at an elementary or secondary school and homeschool expenses, and postsecondary credentialing expenses.

NOTES:

# Tax Planning Moves for Businesses & Business Owners

## GENERAL

- Businesses should consider accelerating income from 2026 to 2025 if it or its owners will be in a higher bracket next year. Conversely, it should consider deferring income until 2026 if they will be in a higher bracket this year.

- If you own an interest in a partnership or S corporation, consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.

- Sometimes the disposition of a passive activity can be timed to make the best use of its suspended passive losses. Where reduction of 2025 income is desired, consider disposing of a passive activity before year-end to take the suspended losses against 2025 income. If a taxpayer anticipates being in a higher tax bracket in 2026, consider holding off on disposing of the activity until 2026.

- More small businesses can use the cash (as opposed to accrual) method of accounting than were allowed to do so in earlier years. To qualify as a small business a taxpayer must, among other things, satisfy a gross receipts test, which is satisfied for 2025 if, during a three-year testing period, average annual gross receipts do not exceed $31 million. Cash method taxpayers may find it a lot easier to shift income, for example by holding off billings till next year or by accelerating expenses, for example, paying bills early or by making certain prepayments.

- Year-end bonuses can be timed for maximum effect by both cash- and accrual-basis employers. Cash-basis employers deduct bonuses in the year paid, so they can time the payment for maximum tax affect. Accrual-basis employers deduct bonuses in the accrual year when all events related to them are established with reasonable certainty. However, the bonus must be paid within 2 ½ months after the end of the employer's tax year for the deduction to be allowed in the earlier accrual year. Accrual employers looking to defer deductions to a higher-taxed future year should consider changing their bonus plans before year-end to set the payment date later than the 2 ½ month window and change the bonus plan's terms to make the bonus amount not determinable at year end.

- To reduce 2025 taxable income, consider deferring a debt-cancellation event until 2026.

# Tax Planning Moves for Businesses & Business Owners – continued

**DEPRECIATION AND SECTION 179**

- Businesses can expense up to $2.5 million of qualifying property, including most equipment, off-the-shelf software, and certain nonresidential building improvements (QIP), such as roofs, HVAC, fire protection, alarm, and security systems. To qualify, these items must be placed in service after the nonresidential building has been placed in service.

- Deductions phase out above $4 million of property placed in service during the 2025 tax year, with full phase out at $6.5 million. Also, Section 179 deduction cannot create an overall business loss.

- The Act makes additional first-year (bonus) depreciation for certain qualified property permanent at 100%. This provision is effective for property acquired after Jan. 19, 2025 (Asset acquired 1/1-1/19-25: 40% first-year bonus depreciation).

- A new 100% bonus depreciation provision for Qualified Production Property (QPP) applies to property placed in service after July 4, 2025. QPP generally includes nonresidential real property used in the manufacturing, production, or refining of tangible personal property.

- With 100% bonus depreciation remaining fully available for the foreseeable future, barring any legislative changes, now is an ideal time to think beyond year-end purchases and begin long-term planning for asset acquisitions. Section 179 expensing and bonus depreciation can significantly reduce taxable income, and the ability to rely on full bonus depreciation in future years opens the door to multi-year tax planning strategies.

- Businesses may be able to take advantage of the de minimis safe harbor election (also known as the book-tax conformity election) to expense the costs of lower-cost assets and materials and supplies, assuming the costs do not have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property cannot exceed $2,500 ($5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). Where the UNICAP rules aren't an issue, consider purchasing qualifying items before the end of 2025.

- Consider accelerating recovery of real property through cost segregation and/or repair studies.

# Tax Planning Moves for Businesses & Business Owners – continued

## SECTION 199A 20% PASS-THROUGH DEDUCTION

- Section 199A qualified business income (QBI) deduction is now permanent and keeps the deduction rate at 20%. Expands the Sec. 199A deduction limit phase-in range for SSTBs and other entities subject to the wage and investment limitation by increasing the $50,000 amount for non-joint returns to $75,000 and the $100,000 amount for joint returns to $150,000.

- The new law introduces an inflation-adjusted minimum deduction of $400 for taxpayers who have at least $1,000 of QBI from one or more active trades or businesses in which they materially participate.

## RESEARCH AND EXPERIMENTAL (R&E) EXPENSING

- Business can immediately deduct domestic research or experimental expenditures paid or incurred in tax years beginning after Dec. 31, 2024. However, research or experimental expenditures attributable to research that is conducted outside the United States will continue to be required to be capitalized and amortized over 15 years under Section 174.

- Small business taxpayers with average annual gross receipts of $31 million or less have the additional option of making an election and applying the new law to the 2022, 2023, and 2024 years. All taxpayers will have the option to elect to take the costs in 2025, or half in 2025 with half in 2026, or to remain on the current amortization schedule for the costs.

## FORM 1099 INFORMATION REPORTING

- Starting for 2026, increases the information-reporting threshold for certain payments to persons engaged in a trade or business and payments of remuneration for services to $2,000 in a calendar year (from $600), with the threshold amount to be indexed annually for inflation in calendar years after 2026.

- 1099-K: You will only receive a Form 1099-K if you receive more than $20,000 in gross payments and have more than 200 transactions on a single platform.

- 1099-NEC: Businesses must issue a Form 1099-NEC to any independent contractor or service provider to whom they paid $600 or more during the calendar year.

- 1099-MISC: For many types of payments, such as rent, prizes, and other income, the reporting threshold is $600 or more. For royalties or broker payments in lieu of dividends, the threshold is $10 or more.

# Tax Planning Moves for Businesses & Business Owners – continued

**MILITARY SPOUSES' RETIREMENT PLAN ELIGIBILITY CREDIT**

- The SECURE Act 2.0 provides a tax credit to employers who immediately include military spouses in their retirement plans. The credit includes $200 for each participating spouse plus up to $300 for employer contributions.

**CREDIT FOR SMALL EMPLOYER PENSION PLAN STARTUP COSTS**

- For tax years beginning after December 31, 2022, the SECURE Act 2.0 increases the small employer pension plan startup credit of up to $1,000 per employee is available for employer contributions (excluding elective deferrals), phased out for employer with 51-100 employees. The credit equals 100% of contributions in year 1-2, 75% in year 3, 5-% in year 4, and 25% in year 5. It does not apply to employees' earnings over $100,000, a threshold indexed for inflation after 2025.

**CHARITABLE DEDUCTION FOR CORPORATIONS**

- The floor will be 1% of the corporation's taxable income, and the charitable contribution deduction cannot exceed the current 10%-of-taxable-income limit. The 1% floor is carried forward if the corporation exceeds 10% (example – taxpayer gives 11%, gets to deduct 9% (10%-1%), and then carries forward 2%. However, if the taxpayer gives 9%, they will get to deduct 8% (9%-1%), and no carryforward will be available.

**SEC. 1202, QUALIFIED SMALL BUSINESS STOCK EXCLUSION**

- Increases the Sec. 1202 exclusion for gain from qualified small business stock. For qualified small business stock acquired after the date of enactment of H.R. 1 and held for at least four years, the percentage of gain excluded from gross income will rise from 50% to 75%. If it is held for five years or more, the exclusion percentage will go up to 100%.

**STATE INCOME TAX DEDUCTION – PTET ELECTION**

- Recent legislation retroactively raised the federal SALT (State and Local Tax) deduction cap from $10,000 to $40,000 for 2025, with the cap increasing by 1% annually through 2029 before reverting to $10,000 in 2030. The cap is phased down for taxpayers with MAGI over $500,000, though it never falls below $10,000.

- To mitigate the effects of the SALT cap, owners of partnerships or S corporations can make a Pass-through Entity Tax (PTET) election at the state level. This allows the business—not the individual owner—to pay state income tax, bypassing the federal SALT deduction limit.

# Tax Planning Moves for Businesses & Business Owners – continued

**NOTES:**

# 2026 Key Tax Figures and Projected Tax Figures

The IRS has released the 2026 inflation adjusted numbers which are adjusted for inflation annually. Some of the key tax figures below are projected amounts.

**Marginal Tax Rates**
For tax year 2026, the top tax rate remains 37% for single taxpayers with incomes greater than $640,600 ($768,700 for married couples filing jointly). The other rates are:

- 35% for incomes over $256,225 ($512,450 for married couples filing jointly);
- 32% for incomes over $ 201,775 ($403,550 for married couples filing jointly);
- 24% for incomes over $ 105,700 ($211,400 for married couples filing jointly);
- 22% for incomes over $ 50,400 ($100,800 for married couples filing jointly);
- 12% for incomes over $ 12,400 ($24,800 for married couples filing jointly);
- 10% for incomes of $12,400 or less ($24,800 for married couples filing jointly).

**Standard Deduction Amounts**
The standard deduction amounts for 2026 are:

- $32,200 for married couples filing jointly (up $700 from 2025).
- $16,100 for single taxpayers and married individuals filing separately (up $350 from 2025).
- $24,175 for heads of household (up $550 from 2025).

**Social Security Wage Base**
The maximum wage base for the OASDI (social security) portion of the FICA and the Self-Employment Tax for 2026 is $184,500 (up from $176,100 in 2025).

**Child Tax Credit**
The Child Tax Credits have now adjusted back to $2,200 per qualifying child. The refundable portion of the child tax credit is $1,700. Households earning up to $200,000 ($400,000 for married couples filing jointly) can claim these credits when filing their tax return.

**Lifetime Learning Credit**
The Lifetime Learning Credit maximum credit per return is $2,000 and is phased out beginning at AGI of $80,000 ($160,000 for a joint return).

**American Opportunity Tax Credit**
The American Opportunity Tax Credit maximum credit per student is $2,500 and will be an amount equal to 100% of qualified tuition and related expenses but not in excess of $4,000. The credit is phased out beginning at an AGI of $80,000 ($160,000 for a joint return) and you can’t claim the credit if your AGI is over $90,000 ($180,000 for a joint return.)

**Student Loan Interest Deduction**
For 2026, the deduction for student loan interest is limited to $2,500 and phases out ratably for modified adjusted gross income between $170,000 and $200,000 for joint filers and between $85,000 and $100,000 for other returns.

# 2026 Key Tax Figures and Projected Tax Figures – continued

**Flexible Spending Accounts (FSA)**
For tax years beginning in 2026, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements rises to $3,400, a $100 increase from the previous year. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount rises to $680, increasing from $660 in tax year 2025.

**Health Savings Accounts**
For participants who have self-only coverage in a medical savings account (HSA), the plan must have an annual deductible of not less than $2,900 up $50 from tax year 2025, but not more than $4,400, up $100 from tax year 2025. For self-only coverage, the maximum out-of-pocket expense amount is $5,850, up $150 from tax year 2025. For family coverage in tax year 2026, the annual deductible is not less than $5,850, up $150 from tax year 2025; however, the deductible cannot be over $8,750, up $200 from tax year 2025. For family coverage, the out-of-pocket expense limit is $10,700, up $200 from tax year 2025.

**Child Adoptions**
For tax year 2026, the maximum credit allowed for an adoption of a child with special needs is the amount of qualified adoption expenses up to $17,260. The available adoption credit begins to phase out for taxpayers with modified adjusted gross income in excess of $258,950 and is completely phased out for taxpayers with modified adjusted gross income of $298,950.

**Foreign Earned Income Exclusion Amount**
The foreign earned income exclusion increases to $132,900 from $130,000 in tax year 2025.

**Estate and Gift Tax Exclusion Amount**
Estates of decedents who die during 2026 have a basic exclusion amount of $15,000,000, increased from $13,990,000 for estates of decedents who died in 2025.

**Gift Tax Exclusions**
The annual exclusion for gifts increases to $19,000 for calendar year 2026, rising from $18,000 for calendar year 2025.

**Retirement Plan Contributions**
The limit on annual contributions to an IRA is $7,500. The additional catch-up contribution limit for individuals aged 50 and over is $1,100. The amount you can contribute to your 401(k) or similar workplace retirement plan is $24,500. The additional catch-up contribution is $8,000, so if you're 50 or older, your 401(k) employee contribution limit should be $32,500 in 2026. The amount you can contribute to a Simple IRA or 401k plan is $17,000. The additional catch-up contribution is $4,000. But, if your plan permits, if age 60-63 by the end of 2026, the catch-up contribution is $11,250 for 401K and $5,250 for Simple.

**Educator Deduction**

An educator who pays $1,000 out of pocket and itemizes in 2026 could deduct the full amount. An educator who takes the standard deduction would receive no benefit for the same spending and the $300 above the line deduction has been eliminated.