2025 Year-End Tax Planning for Individuals.

Dear Client,

It's that time of year again where we should consider meeting to discuss any year end strategies that might reduce your 2025 taxes.

For a short time this past summer, tax news became national news when the President signed the One Big Beautiful Bill Act (OBBBA). The OBBBA is a budget bill that makes the 2017 tax cuts permanent, introduces a bunch of new tax breaks, and repeals all but a few of the clean energy tax credits. Because most of the changes apply to the 2025 tax year, we'll want to factor them into our year-end planning. So, let's start with what's new and then move on to other year-end considerations.

New Tax Breaks

Most of the new tax breaks enacted by the OBBBA are available regardless of whether you itemize or take the standard deduction. However, most of them phase out for income above specified thresholds. These deductions are potentially quite valuable, so it might be worth your time to see if any apply to you:

> **Increased SALT limit**. The biggest break for individuals in the OBBBA isn't new, but it's greatly expanded. The limit on the state and local tax deduction has been increased from $10,000 to $40,000. You must itemize your deductions to take advantage of the SALT deduction. If you haven't itemized in recent years, the increased SALT limit may make it attractive to do so. The $30,000 increase in the deduction limit starts phasing out for AGI above $500,000. A less favorable limit and phaseout threshold apply to married individuals filing separate returns.
>
> **Deduction for Car Loan Interest**. There's a new deduction of up to $10,000 for interest on car loans taken out after 2024 for the purchase of a new personal use vehicle assembled in the U.S. The deduction is allowed through 2028 and begins to phase out for AGI above $100,000 ($200,000 for joint returns). The deduction is available regardless of whether you itemize or take the standard deduction. Pro Tip: To find out if your vehicle was assembled in the U.S., go to vpic.nhtsa.dot.gov/decoder/ and put in the vehicle's VIN and model year. The last item under "Other Information" is the final assembly plant's location.
>
> **Deduction for Tip Income**. There's a new deduction of up to $25,000 for tips received by an individual in an occupation which customarily and regularly receives tips (I can send a list of qualifying occupations). The deduction is allowed for both employees and independent contractors. The deduction begins to phase out for AGI above $150,000 ($300,000 for joint returns). The deduction is allowed through 2028 and is available regardless of whether you itemize or take the standard deduction.
>
> **Deduction for Overtime Pay.** This is another new tax break available through 2028. This one allows you to deduct up to $12,500 ($25,000 on joint returns) for overtime pay that's required to be paid at time and a half by federal law. The deduction begins to phase out for AGI above $150,000 ($300,000 for joint returns). The deduction is allowed through 2028 and is available regardless of whether you itemize or take the standard deduction.
>
> **Deduction for Seniors.** The OBBBA added a new $6,000 per person deduction for all individuals who have reached age 65 before the end of the tax year. This one works like personal exemptions used to before they were repealed: it doesn't matter whether you itemize your deductions and you don't have to do anything to

claim it other than have a social security number (and file a joint return, if married). The senior deduction begins to phase out for AGI above $75,000 ($150,000 for joint returns).

Charitable Contribution Deduction for Non-Itemizers. This one isn't available until 2026, but it's one you'll want to be aware of as you plan any year-end charitable contributions. The maximum deduction is $1,000 ($2,000 for joint returns). Eligible contributions must be made in cash (checks and credit/debit cards are also fine) to a public charity. There is no phase out for this deduction. Planning Opportunity: If you don't plan to itemize in 2025, you may get a tax benefit from delaying year-end charitable contributions until January when the new tax break takes effect.

Deductions and Exclusions from Income

Taking the Standard Deduction versus Itemizing. The Tax Cuts and Jobs Act (TCJA) substantially increased the standard deduction amounts, thus making itemized deductions less attractive for many individuals. The OBBBA makes this change permanent. For 2025, the standard deduction amounts are: $15,750 (single), $23,625 (head of household), and $31,500 (married filing jointly).

If the total of your itemized deductions in 2025 will be close to your standard deduction amount, we should evaluate whether alternating between bunching itemized deductions into 2025 and taking the standard deduction in 2026 (or vice versa) could provide a net-tax benefit over the two-year period. For example, you might consider doubling up this year on your charitable contributions rather than spreading the contributions over a two-year period. Adjusting the timing of your payments of state income taxes, property taxes, and medical bills can also help.

Bear in mind that even if you haven't itemized in recent years, the big increase in the limit on the SALT deduction I mentioned earlier may change the math in favor of itemizing. If you're not sure where you stand, let's run the numbers and find out. In years when it applies, itemizing can shave thousands of dollars (sometimes much more) off your tax bill. So, it's worth spending a little time to find out if we should change our approach in response to the favorable changes in the rules.

SALT Refresher. Because of the $10,000 cap on this deduction in recent years (2018-2024), it may have been a while since you've had to think about how to max out your deduction. Here's a quick refresher on what you can deduct:

- state and local income taxes.
- property taxes on real estate.
- personal property taxes (typically on motor vehicles); and
- sales taxes, but only as an alternative to deducting state and local income taxes.

If you choose to deduct your sales taxes you can either keep records of the actual sales taxes you pay during the year or let us determine the deductible amount using tables provided by the IRS.

Motor vehicle taxes or fees must be based on the value of your vehicle to be deductible. Taxes and fees based on weight, model year, and/or horsepower are not deductible. But taxes or fees that are partly based on value and partly based on other criteria may qualify in part.

As mentioned before, the **SALT deduction limit is $40,000 for 2025**, and it starts phasing down to the old $10,000 limit when your AGI reaches $500,000. If you're married and file separately, the limit is $20,000 and the phase down starts at AGI of $250,000.

Medical Expenses. For 2025, your medical expenses are deductible as an itemized deduction to the extent they exceed 7.5 percent of your AGI.

Charitable Contributions. If you are itemizing deductions, you can maximize the tax benefit of making a charitable contribution by donating appreciated assets, such as stock, instead of cash. Doing so generally allows you to deduct the fair market value of the asset while also avoiding the capital gains tax that would otherwise be due if you sold the asset. The more highly appreciated the asset, the better this strategy works.

Charitable contributions are highly useful for year-end tax planning because you have great control over both the amount and the timing. That's not to say that you should let the tail wag the dog: if you enjoy making contributions during the holiday season or some other time of year that's meaningful to you, changing the timing of your contributions for tax reasons may not be worth it. But it can't hurt to be aware that there can be a big difference from a tax standpoint between making a contribution in late December versus early January.

> *2026 Change Alert*. If you make substantial contributions in some years and not others, there's a good reason why you might want to choose 2025 over 2026. Beginning in 2026, if you itemize, your charitable contribution deduction will be reduced by 0.5% of your AGL For example, if your income is $200,000, your deduction will be reduced by $1,000. No such rule applies in 2025.
>
> *Charitable Contributions Directly from Your IRA*. If you have an individual retirement account and are 70 1/2 years old and older, you are eligible to make charitable contributions directly from your IRA. You don't get a deduction for such contributions, but you don't have to include the amount in your income. This can be advantageous compared with taking a distribution and making a donation to the charity that may or may not be deductible as an itemized deduction. It can also be advantageous from a standpoint of lowering your AGI, which can help reduce taxes on your social security income, reduce any net investment income tax, and preserve your ability to claim various deductions that are phased out or reduced based on your income.

Mortgage Interest Deduction. If the mortgage on your principal residence has a balance of $750,000 or less, your mortgage interest will generally be fully deductible. If your loan balance is higher than $750,000, deductibility depends on when you incurred the debt.

Interest on Home Equity Loans. You can potentially deduct interest paid on home equity indebtedness, but only if you used the debt to substantially improve your home. Thus, for example, interest on a home equity loan used to build an addition to your existing home is typically deductible, while interest on the same loan used to pay personal expenses, such as credit card debt, is not. The balance of any home equity loans is added to the balance of your mortgage for purposes of applying the $750,000/$1,000,000 limits discussed above.

Mortgage Insurance Premiums. Beginning in 2026, you can deduct mortgage insurance premiums as mortgage interest. The deduction is phased out for AGI above $100,000 ($50,000 for married filing separately).

Tax Credits

Child Tax Credit. For 2025, you can claim a tax credit of $2,200 (up to $1,700 is refundable) for each dependent child under age 17, and a $500 credit for qualifying dependents other than qualifying children. The credit is phased out for AGI over $200,000 ($400,000 for married filing jointly). For 2025, new requirements for providing social security numbers apply.

Earned Income Credit. The earned income tax credit (EITC) is a generous credit based on a percentage of earned income that phases out at relatively low levels of income. For 2025, the credit completely phases out at AGI of $68,675 for individuals with three qualifying children and at lower levels for individuals with fewer children (or none). The credit is unavailable to individuals with more than $11,950 in investment income.

Dependent Care Credit: If you incurred eligible expenses to care for a dependent under age 13 so that you can work or look for work, you can claim the child and dependent care credit. The credit is based on a percentage of eligible expenses. For 2025, the percentage ranges from 20 to 35% based on AGI. Up to $3,000 in childcare expenses can be taken into account for one qualifying dependent (up to $6,000 for two or more qualifying dependents). Although the credit percentage phases down to 20% at relatively low levels of income, it does not go any lower, even for very high incomes.

Premium Tax Credit. A health insurance subsidy is available in the form of a premium assistance tax credit for eligible individuals and families who purchase health insurance through the Affordable Care Act's Health Insurance Marketplace (aka, the "Exchange"). This credit is refundable and payable in advance directly to the insurer on the Exchange. Beginning in 2026, individuals with incomes exceeding 400 percent of the poverty level will not be eligible for the credit (there was no such limit from 2021-2025).

Retirement Plans, HSAs, and FSAs, and Trump Accounts

Retirement Plans. If you can afford to do so, investing the maximum amount allowable in a qualified retirement plan will yield a large tax benefit. If your employer has a 401(k) plan and you are under age 50, you can defer up to $23,500 of income into that plan for 2025. Catch-up contributions of $7,500 are allowed if you are 50 or over, and "super" catch-up contributions of $11,250 are allowed if you are 60, 61, 62, or 63.

If you have a SIMPLE 401(k), the maximum pre-tax contribution for 2025 is $16,500. That amount increases to $20,000 if you are 50 or older and $21,750 if you are 60, 61, 62, or 63.

The maximum IRA deductible contribution for 2025 is $7,000 and that amount increases to $8,000 if you are 50 or over. Also, don't overlook the possibility of a spousal IRA, which allows a spouse who does not have enough taxable compensation to make a maximum IRA contribution to use a portion of the other spouse's taxable compensation in calculating his or her own allowable contribution for the year.

WV Residents

Beginning in 2024, West Virginia individuals, partnerships, s-corporations, LLCs, and c-corporations that have timely paid their motor vehicle personal property taxes may receive a refundable tax credit on eligible vehicles.

Concluding Thoughts

Please don't hesitate to call if you have any questions or would like more information on any of the tax breaks discussed above. Also, feel free to set up an appointment to discuss your 2025 tax return and your year-end tax plan.

Sincerely,

Cooper & Associates, A.C.