KS ADVISOR BLOG

2025 Year-End Tax Planning Ideas for Individuals and Businesses

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As the end of 2025 approaches, consider the following tax planning ideas and action items before ringing in the new year.

Individuals

Tax Loss Harvesting

Consider selling specified stocks, bonds, or other investments that are currently in a loss position prior to year-end. The sale of these investments creates capital loss deductions that may help lower taxable income for many taxpayers. Capital losses are allowed to offset capital gains on a dollar-for-dollar basis. However, if no capital gains exist to offset, the loss is limited to $3,000 in the year and the remainder carries forward to future years. Also note, "wash-sale" rules require you to be out of the position for 30 days to take the loss. For example, if you purchased AAPL for $250 and it is now worth $225, you could sell it today and recognize a $25 loss for tax purposes. However, if you re-purchase AAPL shares within 30 days of the sale, the loss will be deferred until you sell the new shares.

Charitable Contributions

Charitable contributions fall into a basket of deductions known as itemized deductions and the charitable contribution rules can become complex. However, cash contributions are generally allowable up to 60% of Adjusted Gross Income (AGI) and non-cash contributions are generally allowable up to 30% of AGI, if the asset was held for more than one year. Consider donating appreciated securities (held for more than one year) to receive a full fair market value donation while avoiding capital gains. Donations of appreciated assets, other than publicly traded securities, will require an appraisal if the item is worth $5,000 or more. While some taxpayers may not receive the federal benefit of charitable donations because they do not itemize deductions, they will generally still receive the benefit as a deduction from their Oregon taxes. For more information on deductions including charitable donations, watch this KS Advisor video about tax deductions.

Beginning in 2026, new limits created under the One Big Beautiful Bill Act (OBBBA) create a new deduction "hurdle" for charitable contributions. As such, only contributions exceeding 0.5% of AGI will be deductible next year for itemizers. For non-itemizers in 2026, the OBBBA has created a new deduction of up to $1,000 ($2,000 for married taxpayers filing jointly) for cash contributions to qualified charities.

Itemized Deduction Limitation Beginning in 2026

A new "ceiling" limit also begins next year on all itemized deductions, including charitable contributions. The ceiling will impact taxpayers in the highest tax bracket (37%). The formula for limiting itemized deductions is equal to 2/37 multiplied by the lesser of (a) the total amount of itemized deductions claimed for the year or (b) the amount of income being taxed at the highest marginal rate.

Taxpayers in the highest marginal tax bracket should consider a "bunching" or accelerating charitable contributions into this tax year to avoid the limitations begging next year.

Consider Qualified Charitable Distributions (QCDs)
If you are age 70½ or older by the end of 2025, and especially if you are unable to itemize your deductions, consider making 2025 charitable donations via qualified charitable distributions from your traditional IRA. These distributions are made directly to the charities of your choice from your IRAs. Moreover, the amount of the distribution is excluded from gross income but is deemed to satisfy your required minimum distributions (RMDs), if applicable. For example, suppose your RMD is $50,000 and you make a QCD to the charity of your choice in the amount of $10,000. The $10,000 will apply towards your RMD and you will now only be required to distribute $40,000 as a taxable RMD. Lastly, QCDs do not reduce your standard tax deduction so you will still receive a full standard deduction if applicable.

Roth IRA Conversions
While converting from a taxable IRA to Roth IRA is generally a taxable event, it may still be a good idea. For example, consider current market performance and year-to-date returns. If your IRA has decreased in value this year, consider converting some of your traditional IRA to Roth IRA, effectively at a discount. For example, assume a traditional IRA worth $500,000 was converted to Roth IRA at the beginning of the year. This would generally create $500,000 of taxable income upon conversion. However, now assume you waited to convert, and the market performance decreased the traditional IRA's value to $400,000 at this time. If you now convert the IRA to Roth, you'll only report $400,000 as taxable income. Moreover, if your income from other sources is lower than "normal" this year (possibly due to retirement, change in job status, flow-through business losses, etc.), this may be an excellent time to convert some of your traditional IRA to take advantage of lower tax brackets. For more information on IRAs, check out this KS Advisor video.

IRA Contributions
Individuals may contribute up to $7,000 into their IRA accounts (either traditional or Roth) for the year 2025. Individuals aged 50 or older before the end of 2025 may contribute an additional $1,000 catch-up contribution (for a total of $8,000). Note that contributions to IRAs for the 2025 tax year must be funded no later than April 15, 2026. Also note, deductions for traditional IRA contributions may be limited based on income and participation in a qualified retirement plan. Meanwhile, Roth contributions may also be limited based on income. Please speak with your tax advisor to determine which type of IRA contribution may be best suited for you.

Maximize 401k Deferrals
The 401k deferral limit is $23,500 for the 2025 tax year. For those ages 50 and older, there is an additional catch-up contribution allowed in the amount of $7,500. Thus, taxpayers aged 50 and beyond can defer a maximum of $31,000 before the end of year. Additional contributions may be allowed for those between 60-63 if their respective plan permits. This is an excellent time to consider topping off 401k deferrals before the end of year. December salaries and bonuses can also be used to maximize 401k deferrals.

Estate Tax Exemption
Significant changes are made to the estate and gift tax exemption amounts and related provisions beginning in 2025 and beyond. For 2025, the basic exclusion amount for the estate and gift tax is set at $13,990,000, as adjusted for inflation, consistent with the inflation-adjusted amount published by the IRS for that year. Starting in 2026, the base exclusion amount permanently increases to $19,000,000, which is also indexed for inflation using 2025 as the base year for future adjustments. This change eliminates the prior sunset provision

that would have reverted the exemption to a lower amount after 2025; instead, the higher exemption is made permanent, with annual inflation adjustments continuing thereafter.

Maximize Gift Tax Exemptions

The annual gift tax exemption is $19,000 for 2025. As such, taxpayers can gift up to $19,000 to any individual with no-strings, no reduction to lifetime exemptions, and no tax return filing requirements. Gifting has the benefit of reducing the gross estate (and possibly the taxable estate) of the taxpayer. For married couples, each spouse is eligible to make gifts of $19,000 that are exempt from gift tax. As an example, if a married couple would like to gift money to their child, of whom is also married, then each parent would be able to gift $19,000 to both their child, as well as their child's spouse. In this manner, a married couple is effectively gifting $76,000 of which all is under the annual gift tax exemption. Also note, the annual gift tax exemption remains at $19,000 for the 2026 tax year. For more information on gifting and estate planning, watch this KS Advisor video.

State and Local Tax Cap (SALT Cap)

Beginning with tax year 2025, the SALT deduction cap increases from $10,000 to $40,000 for single filers and married couples filing jointly ($20,000 for married filing separately). This higher cap applies for 2025 and is indexed for inflation in subsequent years, rising to $40,400 in 2026 and increasing by 1% annually through 2029.

For high-income taxpayers, the allowable SALT deduction is phased out: the cap is reduced by 30% of the amount by which a taxpayer's modified adjusted gross income (MAGI) exceeds $500,000 ($250,000 for married filing separately), but the deduction cannot be reduced below $10,000. For example, a joint filer with $550,000 in MAGI in 2025 would see their cap reduced by $15,000 (30% of $50,000), resulting in a $25,000 SALT deduction limit. This structure remains in place through 2029, after which, starting in 2030, the cap reverts to its previous level of $10,000 ($5,000 for married filing separately), with no phase-out or inflation adjustment.

Businesses

Oregon PTE-E

The 2018 Tax Cuts and Jobs Act (TCJA) introduced a $10,000 limit for individuals with respect to federal itemized deductions of state and local taxes paid during the year. This has been increased to $40,000 under the OBBBA (see above). Beginning in 2022, Oregon created a workaround to this deduction limitation for owners of certain pass-through entities, by allowing a pass-through entity to make an election (PTE-E tax election) to be taxed at the entity level. Before making an election, talk to your tax professional as care needs to be exercised to determine eligibility and avoid traps for the unwary. Furthermore, if your business has experienced a significant change in income, please consult with your tax professional regarding modifying your fourth quarter PTE-E prior to year-end. For more information on Oregon PTE-E, read our KS Advisor blog article here.

Maximize Bonus Depreciation and 179 Expense

The maximum bonus depreciation benefit was slated to be at 40% for assets placed in service during the 2025 calendar year. However, the OBBBA reinstated 100% bonus depreciation for property acquired after January 19, 2025. and will continue to be permitted permanently. To receive the benefit of bonus depreciation, the asset must be placed in service and not simply purchased before year-end. For assets placed in service prior to January 19, the 40% benefit still applies.

For 2025, the maximum amount of Section 179 property that can be immediately expensed will be $2,500,000. That amount is double the deduction limits of the past and is available until qualifying property placed in service during the year reaches $4,000,000, at which point deduction phase out begins dollar for dollar. Additional limitations to Section 179 apply, such as income limitations and material participation limitations; consult with your tax professional to determine if Section 179 will be available to your business.

Maximize Qualified Business Income Deductions

The TCJA brought about the Qualified Business Income (QBI) deduction for flow through entities remains at 20%, with a minimum $400 deduction for active owners with at least $1,000 in QBI starting in 2026 such as S-Corporations and Partnerships (or LCCs taxed as partnerships). The deduction is up to 20% on flow through profits, however the deduction may be limited based on industry, W-2 wages, and assets used in the business. It's important to note that the deduction is not available for W-2 wages (S-Corporations) or guaranteed payments (partnerships). Planning opportunities may exist prior to year-end to optimize flow through profits accordingly.

Plan For Pass-Through Business Loss Utilization

Certain tax basis and active participation requirements must be met for losses of pass-through entities to be deductible by a partner or S-Corporation shareholder. In addition, an individual's excess business losses from their pass-through entities are subject to overall limitations in 2025 Planning opportunities may be available before year-end such that pass-through business owners can maximize their 2025 loss deductions.

Analyze Year-End Bonuses and Timing of Payments

Generally, for calendar year accrual basis taxpayers, accrued bonuses must be fixed and determinable by year-end and paid within two and half months of year-end – by March 15, 2026 – for the bonus to be deductible in 2025. However, the bonus compensation must be paid before the end of 2025 if it is paid by a personal service corporation to an employee-owner, by an S-Corporation to any employee-shareholder, or by a C-Corporation to a direct or indirect majority owner.

Capitalization of R&E Expenditures

For taxable years beginning after December 31, 2024, the OBBBA repeals the requirement to capitalize and amortize domestic R&D expenditures and instead allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred during the taxable year. Taxpayers who previously capitalized and amortized domestic R&D costs under the prior law are given transition relief: they may elect to deduct any remaining unamortized domestic R&D expenditures in the first taxable year beginning after December 31, 2024, or alternatively, deduct such remaining unamortized amounts ratably over the two taxable years beginning after that date. This election is available to all taxpayers, but the bill provides a special retroactive option for certain small businesses, which is defined as those meeting the gross receipts test under section 448(c), allowing them to apply the new expensing rules retroactively to taxable years beginning after December 31, 2021, by filing amended returns within one year of enactment. This retroactive relief is not available to large taxpayers, who must apply the new rules prospectively.

It is important to note that expenditures related to foreign research are still required to be capitalized and amortized over 15 years.

Limitation on Business Interest Deduction
The limitation on the deductibility of business interest expense is governed by IRC Section 163(j). Generally, the deduction for business interest is limited to the sum of business interest income and 30% of adjusted taxable income, with certain exceptions for small businesses and electing real property trades or businesses. The limitation on deducting business interest expense is now permanently based on EBITDA (earnings before interest, taxes, depreciation, and amortization), allowing larger deductions for many businesses.

Fringe Benefit Reporting
Employers should ensure that applicable fringe benefits, such as health insurance premiums and HSA contributions, are properly included in 2% S-Corporation shareholders' taxable wages and reported on their W-2s. Partners and LLC members, including owners of capital interests and profits interests, should not be issued W-2s, but their applicable fringe benefits should generally be included in guaranteed payments.

1099 Reporting
The IRS now requires all businesses issuing ten or more 1099s to file them electronically. Starting in 2026, the reporting threshold increases to $2,000 for payments made after December 31, 2025. Oregon also requires 1099s to be filed electronically through iWire. For tax year 2025, the 1099 reporting threshold remains at $600.

Please contact your tax professional at Kernutt Stokes to discuss how year-end tax planning opportunities may benefit you.