

Gray & Forester, LLC

•Tax • Accounting • CFO Advisory

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RE: Preparing for Tax Time: Essential Tax Tips for 2025

Dear Clients,

As we get close to the end of 2025, at **Gray & Forester** we recommend to our clients that it is a great time to do some year-end tax housekeeping to make sure you aren't surprised when it comes time to file. For the 2025 filing year, there are a number of tax changes enacted due to the One Big Beautiful Bill (OBBB) that could have an impact on your tax situation. Contact us or reach out to your tax professional to determine how this impacts you. Taking full advantage of tax law is good way of saving money and building wealth for you, your family, or your small business.

This year, we are expanding our business and taking on a limited number of new tax clients. We anticipate these spaces to fill quickly. We strongly suggest you reach out to us ASAP if you are interested in having Gray & Forester prepare your 2025 taxes.

Below are some tax savings ideas you may want to consider before the year ends. This is not an all-inclusive list but are items that could have an impact on many.

If you have questions, or want to discuss your situation, please feel free to contact us.

Regards,

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ONE BIG BEAUTIFUL BILL (items impacting your 2025 tax return, based on current framework)

- **State and Local Taxes** – The allowable deductible limit of State and Local Taxes was increased from \$10,000 to \$40,000. This likely will force many individuals to itemize deductions vs taking the standard deduction, especially if you live in a high tax state.

- **Additional Senior Deduction** – an additional \$6,000 deduction for each qualifying individual whether you itemize or take the standard deduction. This deduction does phase out based on your MAGI (Single, phase out starts at \$75,000 MAGI and completely phases out at \$175,000. MFJ, phase out starts at \$150,000 MAGI and completely phases out at \$250,000.)
- **No Taxes on Tips** - make up to \$25,000 of tip income deductible for individuals in traditionally and customarily tipped industries for tax years 2025 through 2028; deduction phases out at a 10 percent rate when adjusted gross income exceeds \$150,000 (\$300,000 for joint filers).
- **No Taxes on Overtime** - make up to \$12,500 (\$25,000 for joint filers) of the **premium portion of overtime** compensation deductible for itemizers and non-itemizers for tax year 2025; the deduction phases out at a 10 percent rate when adjusted gross income exceeds \$150,000 (\$300,000 for joint filers).
- **Auto Loan Interest** - Under the **One Big Beautiful Bill Act (OBBA)**, taxpayers can now deduct **up to \$10,000 per year in auto loan interest**. Vehicle must be new, final assembly of vehicle must have occurred in the US, purchased in 2025, Loan must be secured by the vehicle, VIN must be reported on your tax return. Available whether you itemize or take the standard deduction. Deduction starts to phase out when your Modified Adjusted Gross Income (MAGI) exceeds \$100,000 single, \$200,000 Married Filing Jointly.

Individual taxes – things to consider

- **Contribute as much as possible to your employers 401K.** The amount you contribute is not included in your taxable income and will grow tax free. When you start to withdraw this money (after age 59 ½) this is taxed as ordinary income. You can contribute up to \$23,500 (\$31,000 if over age 50) of your salary per year and is a good way of lowering your income taxes and saving for retirement. Additionally, many employers will match a portion of your contribution, so this is a good way to get an immediate return on your money.
- **Invest in an IRA.** If you don't invest in your employers 401K you can invest up to \$7,000 per year (\$8,000 if 50+) in an IRA account. The amount you contribute is not included in your taxable income and the money grows tax free. Note, there are early withdrawal penalties if money is withdrawn before age 59 ½ . (Few exceptions apply).
- **Invest in a 529 Education Savings Account.** Even though you don't get immediate benefit for your federal taxes, 529 plans grow tax free and when the money is used for qualified education expenses it is not taxed. Additionally, some states offer additional tax benefits for contributions to their 529 plans. This is a great way for

Parents, Grandparents, or your rich uncle to invest in you, or your child's future. Annual contribution limits do apply.

- **Convert your Traditional IRA to a Roth IRA.** You are allowed to convert any amount of a traditional IRA to a Roth IRA. The benefits of a Roth IRA is that after certain requirements are met any future withdrawals are tax free. The downside of this is the amount you withdraw from your traditional IRA to fund the Roth IRA is taxed at ordinary income rates. It is important to be strategic about this and to ensure you aren't putting yourself into a higher tax bracket and overpaying taxes. We can help guide you through this process.
- **Be conscious of the Net Investment Income Tax (NIIT).** With record setting stock market gains over the last few years, you should try to manage around the NIIT. The NIIT is an additional 3.8% tax on top of the short term/long term capital gains rates on investment income and applies if your Modified Adjusted Income (MAGI) exceeds \$200,000 single and \$250,000 MFJ. This means that if you are single and had earned income of \$100,000 and investment income of \$200,000 you would be hit with an additional tax of 3.8% on \$100,000 of your income. A good way to avoid this is to use tax loss harvesting or be strategic when selling assets with significant gains.
- **Avoid Penalties by paying estimated taxes.** To avoid penalties, the IRS Safe Harbor rules say that you need to pay at least 100% of last year's taxes (110% if income over \$150,000), or pay 90% of this year's current tax to avoid penalties. If you have additional income besides wages where your employer is withholding taxes, you should pay estimated taxes on those amounts. If not, you will likely have penalties. Additionally, timing is very important to the IRS and if you don't pay one of the quarterly estimated payments on time, this could cause you to pay penalties. Determining how much in estimated taxes you should pay is more of an art than a science. Give us a call and we can help you navigate this.

Small Business Taxes – Things to Consider

- **Accelerated Depreciation**
 - **Section 179** – Allows immediate deduction of qualifying personal property for a business (e.g. equipment, software, vehicles). Max deduction is \$1,250,000 but phases out and cannot create a NOL (Net Operating Loss).
 - **Bonus Depreciation** – Allows immediate deduction of up to 100% of qualifying cost of an asset, can create a NOL (Net Operating Loss), and applies to new or used property purchased by a business.
 - As with all things related to the IRS, there are a number of exceptions and restrictions, so please reach out to us to see how this will impact your unique financial situation.

- **Qualified Business Income Deduction (QBI)** – Allows eligible taxpayers to deduct up to 20% of qualified business income for pass through entities (Sole Proprietorship, Partnership, S Corp, Certain trusts & estates).
 - Limited to 20% of taxable income less any net capital gains.
 - Deduction starts to phase out if total income is \$191,950 (single), \$383,900 (MFJ).
 - Deduction limit is lesser of 20% of QBI, 20% of taxable income (minus net capital gains)
 - Wage/Property limitation (if above threshold)
 - Reach out to us to see how we can help you optimize this strategy.
- **SALT (State and Local Tax) Tax workaround** - Instead of paying state income tax personally (which will be capped at \$40K for 2025 return filed in 2026 federally under the OBBB), you elect to have your business pay the tax at the entity level. This shifts the tax deduction onto the business return, where it's fully deductible federally—and then credited back to you on your state return (most states, **but not all** allow for the Pass Through Entity Tax workaround). The business must be organized as a pass-through entity (S Corp, Partnership, or LLC taxed as such. **Sole proprietorships do not qualify**).
- **Start collecting and organizing receipts to ensure a smooth tax preparation process.**

Please contact us if you have any questions.