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Year-end Tax Planning Letter for Individuals Heading

To Our Clients and Friends:

The end of the tax year is almost upon us, so it's a good time to think about things you can do to reduce your 2025 federal taxes. The 2025 Act, commonly referred to as the One Big Beautiful Bill, or OB3, extended and enhanced many taxpayer-friendly provisions. With that said, here are some things to think about to save on your individual taxes before the end of the year.

Check Your Tax Withholding and Estimated Payments

If the Federal Income Tax (FIT) withheld from your paychecks plus any estimated tax payments for 2025 aren't at least equal to your 2025 tax liability [110% of that amount if your 2025 AGI was more than \$150,000 (\$75,000 if you file MFS)] or, if less 90% of your 2025 tax liability, you will be subject to an underpayment penalty for 2025. Making an estimated tax payment reduces any underpayment from the time the payment is made. But FIT withheld from wages is considered paid ratably over the year. So, if it turns out you had unexpected income or gains early this year and haven't made sufficient estimated tax payments to avoid the penalty, you can increase your withholding for the rest of the year to reduce or eliminate your underpayment from earlier quarters. We can help you project your 2025 tax and adjust your withholding to eliminate (to the extent possible) an underpayment penalty. We can also help you see what your remaining 2025 tax bill next April will look like.

Consider Bunching Itemized Deductions

Each year, you can deduct the greater of your itemized deductions (mortgage interest, charitable contributions, medical expenses, and state and local taxes) or the standard deduction. The 2025 standard deduction is \$15,750 for singles and Married Individuals Filing Separately (MFS), \$31,500 for Married Couples Filing Jointly (MFJ), and \$23,625 for Heads of Household (HOH). If your total itemized deductions for 2025 will be close to your standard deduction, consider "bunching" your itemized deductions, so they exceed your standard deduction every other year. Paying enough itemized deductions in 2025 to exceed your standard deduction will lower this year's tax bill. Next year, you can always claim the standard deduction, which will be increased for inflation.

For example, if you file a joint return and your itemized deductions are steady at around \$30,000 per year, you will end up claiming the standard deduction in both 2025 and 2026. But, if you can bunch expenditures so that you have itemized deductions of \$32,000 in 2025 and \$31,000 in 2026, you could itemize in 2025 and get a \$32,000 deduction versus a \$31,500 standard deduction. In 2026, your itemized deductions would be below the standard deduction (which adjusted for inflation will be at least \$32,000). So, for 2026, you would claim the standard deduction. If you manage to exceed the standard deduction every other year, you'll be better off than if you just settle for the standard deduction each year.

You can get itemized deductions into 2025 by making your house payment due in January 2026 in 2025, but there's a limit on the amount of mortgage interest you can deduct. Generally, you can only deduct interest expense up to \$375,000 (\$750,000 if MFJ) of a mortgage loan used to acquire your home. More generous rules apply to mortgages (and home equity debt) incurred before 12/15/17.

To a certain extent, you can also choose the year you pay state and local income and property taxes. Taxes that are due in early 2026 (such as fourth quarter estimated income tax payments in many states) can be paid in 2025. Likewise, property tax bills are often sent out before year-end but not due until the following year. However, note that the cap deduction for state and local taxes increased under The 2025 Act to \$40,000 (\$20,000 if you file MFS) (previously limited to \$10,000 (\$5,000 if you file MFS)). So, if your state and local tax bill is close to or over that limit, prepaying taxes may not affect your total itemized deductions. The deduction is reduced (but not below \$10,000) by 30% of Modified Adjusted Gross Income (MAGI) in excess of \$500,000 (\$250,000 MFS).

Warning: Prepaying state and local taxes can be a bad idea if you owe Alternative Minimum Tax (AMT) for 2025, since those taxes aren't deductible under the AMT rules. If you are subject to AMT in 2025 and think you won't be in 2026, it's better to pay the taxes in 2026, when you have a chance of deducting them.

Finally, consider accelerating elective medical procedures, dental work, and vision care into 2025. For 2025, medical expenses can be claimed as an itemized deduction to the extent they exceed 7.5% of your Adjusted Gross Income (AGI).

Seniors Age 65 or Older? The 2025 Act provides a temporary deduction for seniors age 65 or older of \$6,000 (\$12,000 MFJ if both spouses qualify), effective for tax years 2025-2028. This 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)).

Take a Look at Your Investment Portfolio

It's a good idea to look at your investment portfolio with an eye to selling before year-end to save taxes. Note that selling investments to generate a tax gain or loss doesn't apply to investments held in a retirement account [such as a 401(k)] or IRA, where the gains and losses are not currently taxed.

If you are looking to sell appreciated securities, it's usually best to wait until they have been held for over 12 months, so they will generate a long-term, versus short-term, capital gain. The maximum long-term capital gain tax rate is 20%, but for many individuals, a 15% rate applies. The 3.8% Net Investment Income Tax (NIIT) can also apply at higher income levels. Even so, the highest tax rate on long-term capital gains (23.8%) is still far less than the 37% maximum tax rate on ordinary income and short-term capital gains. And, to the extent you have capital losses that were recognized earlier this year or capital loss carryovers from earlier years, those losses can offset any capital gains if you decide to sell stocks at a gain this year.

You should also consider selling stocks that are worth less than your tax basis in them (typically, the amount you paid for them). Taking the resulting capital losses this year will shelter capital gains, including short-term capital gains, resulting from other sales this year. But, consider the wash sale rules. If you sell a stock at a loss and within the 30-day period before or the 30-day period after the sale date, you acquire substantially identical securities, the loss is suspended until you sell the identical securities.

If you sell enough loss stock that capital losses exceed your capital gains, the resulting net capital loss for the year can be used to shelter up to \$3,000 (\$1,500 if MFS) of 2025 ordinary income from salaries, self-employment income, interest, etc. Any excess net capital loss from this year is carried forward to next year and beyond. Having a capital loss carryover into next year and beyond could be a tax advantage. The carryover can be used to shelter both short-term and long-term gains. This can give you some investing flexibility in future years because you won't have to hold appreciated securities for over a year to get a

lower tax rate on any gains you trigger by selling, to the extent those gains will be sheltered by the capital loss carryforward.

Planning Tip: Nontax issues must be considered when deciding to sell or hold a security. If you have stock that has fallen in value, but you think will recover, you might want to keep it rather than trigger the capital loss. If, after considering all factors, you decide to take some capital gains and/or losses to minimize your 2025 taxes, make sure your investment portfolio is still allocated to the types of investments you want based on your investment objectives. You may have to rebalance your portfolio. When you do, be sure to consider investment assets held in taxable brokerage accounts as well as those held in tax-advantaged accounts, such as IRAs and 401(k) plans.

Make Your Charitable Giving Plans

You can reduce your 2025 taxable income by making charitable donations (assuming your itemized deductions exceed your standard deduction). If you are close to the itemized deduction point, consider bunching future 2026 donations into 2025 to take advantage of a larger itemized deduction.

Note: In 2026, standard deduction filers will get an above-the-line charitable contribution deduction of \$1,000 (\$2,000 MFJ) so it makes sense to bunch charitable contributions into the 2025 tax year to take advantage of itemized deductions in 2025 and still benefit from cash contributions made in 2026 with the standard deduction.

If you don't have a charity or charities that you are comfortable making large donations to, you can contribute to a donor-advised fund (also known as *charitable gift funds* or *philanthropic funds*) instead. This is a public charity or community foundation that uses the assets to establish a separate fund to receive grant requests from charities seeking distributions from the advised fund. Donors can suggest (but not dictate) which grant requests should be honored. You claim the charitable tax deduction in the year you contribute to the donor-advised fund but retain the ability to recommend which charities will benefit for several years.

Another tax-advantaged way to support your charitable causes is to donate appreciated assets that were held for over a year. If you give such assets to a public charity, you can deduct the donated asset's fair market value and avoid the tax you would have paid had you sold the asset and donated the cash to the charity. Charitable gifts of appreciated property to a private nonoperating foundation are generally only deductible to the extent of your basis in the asset. But qualified appreciated stock (generally, publicly traded stock) donated to a private nonoperating foundation can qualify for a deduction equal to its fair market value.

If you are age 70½ or older, consider a direct transfer from your IRA to a qualified charity [known as a *Qualified Charitable Distribution* (QCD)]. While you can't claim a charitable donation for the amount transferred to the charity, the QCD does count toward your Required Minimum Distribution (RMD). If you don't itemize, that's clearly better than taking a fully taxable RMD and then donating the amount to charity with no corresponding deduction. Even if you do itemize and would be able to deduct the full amount transferred to the charity, the QCD does not increase your Adjusted Gross Income (AGI), while a RMD would. Keeping your AGI low can decrease the amount of your taxable Social Security benefits and minimize the phaseout of other favorable tax provisions based on AGI.

Caution: If you are over age 70½ and still working in 2025, you can contribute to a traditional IRA. But, if you're considering a QCD for 2025 (or a later year), making a deductible IRA contribution for years you are age 70½ or older will affect your ability to exclude future QCDs from your income.

Planning Tip: To get a QCD completed by year-end, you should initiate the transfer before December 31. Talk to your IRA custodian about making the transfer no later than December 2025.

Convert Traditional IRAs into Roth Accounts

Since you are required to pay tax on the conversion of a traditional IRA as if it had been distributed to you, converting makes the most sense when you expect to be in the same or higher tax bracket during your retirement years. If that turns out to be true, the current tax cost from a conversion this year could be a relatively small price to pay for completely avoiding potentially higher future tax rates on the account's post-conversion earnings. In effect, a Roth IRA can insure part or all of your retirement savings against future tax rate increases.

Planning Tip: If the conversion triggers a lot of income, it could push you into a higher tax bracket than expected. One way to avoid that is to convert smaller portions of the traditional IRA over several years. Of course, that delays getting funds into the Roth IRA where they can be potentially earning tax-free income. There is no one answer here. But keep in mind that you do not have to convert a traditional IRA into a Roth all at once. We can help you project future taxable income and the effect of converting various amounts of your traditional IRA into a Roth IRA.

Spend Any Remaining Funds in Your Flexible Spending Accounts

If you participate in an employer-sponsored medical or dependent care flexible spending plan, be sure to look at your plan closely. Generally, funds not spent before the plan's year-end are forfeited (the use-it-or-lose-it rule). There are a few exceptions. Employers can allow their employees to carry over up to \$660 from their 2025 medical FSA into their 2026 account. FSA plans can offer a grace period (up to 2½ months after the plan's year-end) during which employees can incur new claims and expenses and be reimbursed. Plans can (but don't have to) have either a carryover or a grace period, but not both.

FSAs can also have a run-out period (a specific period after the end of the plan year during which participants can submit claims for eligible expenses incurred during the plan year). The run-out period can be in addition to a carryover or a grace period. The runout period differs from a grace period because a runout period only extends the time for submitting claims. A grace period, in effect, extends the plan year so that expenses incurred during the grace period are treated as incurred before the plan year-end. It's important to know how your FSA(s) work so that you can make sure you don't lose any funds. If there is no grace period, be sure you incur qualified expenses before year-end and submit eligible claims by their due date.

Take Advantage of the Annual Gift Tax Exclusion

The basic credit amount for estate tax in 2025 is \$5,541,800, which offsets tax on cumulative transfers of \$13.99 million (\$27.98 million for married couples) in 2025. The 2025 Act permanently increased the estate and gift tax applicable exclusion amount and the generation-skipping transfer tax exemption amount to \$15 million, beginning in 2026. If you think your estate may be taxable, annual exclusion gifts (perhaps to children or grandchildren) are an easy way to reduce your taxable estate. The annual gift exclusion allows for tax-free gifts that don't count toward your lifetime exclusion amount. For 2025, you can make annual exclusion gifts up to \$19,000 per donee, with no limit on the number of donees.

In addition to potentially reducing your taxable estate, gifting income-producing assets to children (or other loved ones) can shift the income from those assets to someone in a lower tax bracket. But, if you give assets to someone who is under age 24, the Kiddie Tax rules could cause some of the investment income from those assets to be taxed at your higher marginal federal income tax rate.

If you gift investment assets, avoid gifting assets worth less than what you paid for them. The donee's basis for recognizing a loss is the lower of your basis or the property's FMV at the date of the gift. So, in many cases, the loss that occurred while you held the asset may go unrecognized. Instead, you should sell the securities, take the resulting tax loss, and then give the cash to your intended donee.

Remember, estate planning involves more than avoiding the Federal estate tax. Sound estate planning ensures that your assets go where you want them, considering your desires, family members' needs, and charitable giving, among other things. Please contact us if you would like to discuss your estate plan.

Trump Account—Child Born in 2025

The 2025 Act introduced a new type of tax-deferred investment custodial savings account, similar to a 529 plan or IRA, for minors called the Trump Account. Beginning in 2026, parents and guardians can open a new tax-deferred account for each eligible child and contribute up to \$5,000 (indexed for inflation) per year in after-tax dollars for each child until they reach the age of 18. For children born between 2025-2028, the federal government will contribute a one-time deposit of \$1,000 to each account, which does not count against that year's \$5,000 limit. Contributions to Trump Accounts may begin 7/4/26, but parents should plan to open the account and secure the government benefit for children born in 2025. Children born in 2025-2028 must have a social security number, which can be obtained when filling out the child's birth certificate if the child is born in a hospital, and can claim the \$1,000 contribution by filing an election with the IRS.

Note: Employers can contribute up to \$2,500 for an employee or the employee's dependent under the age of 18. However, the employer's contribution counts against the maximum \$5,000 annual limit per child.

Expiring Clean Energy Home Improvement Credits

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.

Conclusion

This letter only covers some of the year-end tax planning ideas that could reduce your 2025 tax bill. Please contact us if you have questions about any of the strategies described here or for more tax-saving ideas. We would love to help you develop a year-end tax planning strategy that delivers results.

Very truly yours,

Brian R. Crelin, CPA