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Tax-Saving Tips

2025 December - Year End Edition

Learn How to Beat 2025 Estimated Tax Penalties Instantly, Today

Here's an important tax planning strategy that can save you thousands in penalties if you've missed estimated tax payments for 2025.

The Penalty Problem

When you don't make your 2025 estimated tax payments on time, the IRS charges a non-deductible 7 percent penalty that compounds daily.

Because penalties are not deductible, they are considerably more costly than deductible interest.

Simply writing a check today won't erase the penalties. It only prevents them from growing further. But there is a powerful way to make them disappear entirely.

The One Perfect Solution

By using a retirement account with 60-day rollover provisions, you can eliminate estimated tax penalties instantly. Here's how:

- Withdraw funds from your IRA, 401(k), or other eligible plan, and direct the custodian to withhold federal income tax.

- Repay the full amount into the retirement account within 60 days using other funds.

The IRS treats the withheld taxes as if they were made evenly across all four estimated tax deadlines. And because you repaid the account within 60 days, the withdrawal is not taxable, and no penalty applies.

Other Options and Pitfalls

If you are age 73 or over, you can use withholding taxes from required minimum distributions (RMDs) to cover both your RMD and your estimated tax needs.

Don't use a W-2 bonus. It triggers payroll taxes and can reduce your Section 199A deduction—likely more costly (and perhaps far more costly) than the penalty itself.

Beat the OBBBA/TCJA Rules That Punish Dog Breeding Hobbies

Are you involved in a dog breeding business or considering starting one? If so, you are in the IRS's crosshairs. The IRS has long considered dog breeding to be an activity typically classified as a hobby, rather than a business, for tax purposes. When it comes to taxes, hobbies are usually tax disasters. Unlike a business, you can't deduct your hobby expenses from hobby income (or any other

income). But you must still report and pay tax on any hobby income you earn.

On the expense deduction front, there's one exception. You can deduct your costs of goods sold for each puppy you sell.

Fortunately, a dog breeder can qualify as a business. You can do this even if you lose money in some years (or even in many years). There are two ways to qualify:

- 1. Profit test.** If you earn a profit in three of five years, the IRS must treat your activity as a business.
- 2. Facts and circumstances test.** If you can't meet the three-of-five-years test, you can still qualify by showing that you engage in breeding with a genuine intent to earn a profit. Your goal doesn't need to appear reasonable to others, but it must be honest and bona fide.

The IRS reviews nine factors to determine profit motive. Three factors carry the most weight:

1. Operating in a businesslike manner
2. Having expertise in dog breeding
3. Devoting time and effort to the activity

To strengthen your case as a business, you should:

- Keep accurate business records
- Market your business consistently
- Consider integrating breeding with related businesses, such as a kennel or grooming service
- Create and follow a business plan
- Commit steady time and effort to breeding

Forming a legal business entity, such as an LLC or a corporation, also reinforces your profit motive.

OBBBA's Secret Gift: Bigger Tax Breaks for QCDs from Your IRA

If you're age 70 1/2 or older, the IRS allows you to make charitable contributions directly from your IRA to approved organizations, such as your church. These transfers, known as qualified charitable distributions (QCDs), have become even more powerful under the new One Big Beautiful Bill Act (OBBBA)—and could be one of the most effective ways to give.

How QCDs Work

A QCD allows you to transfer funds directly from your IRA trustee to a qualified charity. The money never touches your hands, and the transfer is wholly excluded from your taxable income. While this means you cannot claim the gift as an itemized deduction, you don't need to—because avoiding taxation is the best. It's far better than a 100 percent deduction.

For 2025, the annual QCD limit is \$108,000 per person. If both you and your spouse have IRAs, each of you may contribute up to that amount separately.

Tax-Saving Advantages

QCDs provide you with many distinct benefits, including the five below:

- 1. Lower taxable income.** Unlike regular IRA withdrawals, QCDs do not increase your adjusted gross income (AGI) or modified AGI (MAGI). This helps you stay out of higher tax brackets and avoid triggering phaseouts of other deductions and credits.

- 2. Avoid new OBBBA restrictions.** Starting in 2026, the OBBBA reduces itemized charitable deductions by floors and limits tied to income levels. QCDs are exempt from these rules.
- 3. Meet required minimum distributions (RMDs).** If you are age 73 or older, QCDs can count toward your annual RMD, allowing you to satisfy the requirement without adding taxable income.
- 4. Preserve other tax breaks.** By keeping AGI and MAGI lower, QCDs can help you avoid Medicare premium surcharges, the 3.8 percent net investment income tax, and the loss of valuable deductions such as those for state and local taxes.
- 5. Achieve estate planning benefits.** QCDs reduce the size of your taxable estate, potentially lowering future estate tax exposure.

Takeaway

If you are charitably inclined and have reached age 70 1/2, QCDs may be your path to give generously and cut your tax bill. The OBBBA makes them even more attractive in 2025 and beyond.

Your 2025 Year-End Tax Planning Guide

As we approach the end of 2025, there's still time to take action and make a real difference in your tax outcome for the year.

With thoughtful planning and a few strategic steps, you can reduce your tax bill, strengthen your retirement savings, and position your finances for a better 2026.

Below are some year-end moves to consider before December 31. Each one is practical, IRS-approved, and designed to help you keep more of what you've earned.

1. Strengthen Your Business Deductions before December 31

Prepay Expenses Under the IRS Safe Harbor

If you're on the cash basis, you can prepay qualifying expenses up to 12 months in advance and deduct them this year. That includes office rent, equipment leases, and insurance premiums.

For example, if your monthly office rent is \$3,000, prepaying \$36,000 on December 31 to cover your 2026 rent gives you a \$36,000 deduction in 2025—and it provides the landlord with the income when he wants it, in 2026. Be sure to mail the funds on December 31 so they arrive in January 2026, and keep documentation, such as the USPS tracking number.

Hold Off on Year-End Billing

A simple yet effective move for cash-basis businesses: delay billing clients until January. Since you don't recognize income until payment is received, postponing invoices can shift taxable income into 2026.

Purchase Needed Equipment

If you've been planning to buy office furniture, computers, or machinery, doing it now can provide a full deduction through 100 percent bonus depreciation or Section 179 expensing—as long as you place the equipment in service before December 31.

Use Business Credit Cards Wisely

For Schedule C filers, the deduction occurs on the date of the charge, not when you pay the bill. That means charges made in December are deductible this year. Corporations can do the same when employees are using a corporate card.

Document and Claim Every Legitimate Deduction

Don't avoid deductions because you think they might raise red flags. If they're legitimate and supported by records, you're entitled to them. If deductions exceed your income, that loss may create a net operating loss (NOL) that carries forward to offset future profits.

Review Qualified Improvement Property

If you improved the interior of your business or one of your commercial rental properties this year, those costs may qualify for immediate expensing rather than 39-year depreciation. To take the deduction for 2025, you must place the improvement in service by December 31.

2. Take Full Advantage of Retirement Savings Opportunities

Retirement plans remain one of the most powerful tax-saving tools available to small-business owners and self-employed professionals.

Establish or Fund a Retirement Plan Before Year-End

If you don't yet have a retirement plan, setting one up before December 31 allows you to make both employee and employer contributions for 2025.

For a solo business, a 401(k) plan (often referred to as an "individual 401(k)" or a "solo 401(k)") is an ideal option. Your owner-employee contribution limits for 2025 are:

- \$23,500 if under age 50
- \$31,000 if age 50–59 or over 64
- \$34,750 if age 60–63

Your employer contributions to your retirement account (remember, you are both employer and employee) can tally up to 25 percent of compensation, with a combined maximum of \$70,000–\$81,250 depending on age.

Use Available Tax Credits

If you started a new plan this year or plan to, you may qualify for valuable credits:

1. A start-up credit of up to \$15,000 for new plans
2. A contribution credit of up to \$3,500 per employee for employer contributions
3. An automatic-enrollment credit of \$500 per year for three years

These credits directly reduce taxes owed, not just taxable income.

Consider a Roth Conversion

If your income is lower this year or your investments have declined, converting a traditional IRA or 401(k) to a Roth can be an attractive option. You'll pay tax on the converted amount now, but future qualified withdrawals are tax-free, and Roth IRAs have no required minimum distributions during your lifetime.

3. Use Vehicle Deductions to Your Advantage

The One Big Beautiful Bill Act (OBBBA) expanded the deductions available for business vehicles in 2025. Timing and vehicle type are critical.

Heavy SUVs, Pickups, and Vans

These vehicles with a gross vehicle weight rating (GVWR) over 6,000 pounds may qualify for:

- 100 percent bonus depreciation
- Section 179 expensing up to \$31,300 for SUVs and \$2.5 million for trucks and vans
- No luxury limits

Example. A \$50,000 SUV used 90 percent for business produces a \$45,000 deduction this year.

Standard-Weight Vehicles

Cars (and lighter SUVs with GVWRs of 6,000 pounds or less) face luxury depreciation caps—allowing only up to \$20,200 in first-year deductions.

Act Before Year-End

To qualify, you must own the vehicle and place it in service by December 31—meaning it's ready and being used for business. Driving it even one business mile before midnight proves eligibility.

Note. Electric-vehicle tax credits ended September 30, 2025.

Crypto investors had a strong 2025, and now is the time to manage taxes efficiently.

Harvest Gains or Losses

- **Tax-gain harvesting.** Sell appreciated crypto now if you expect higher income next year. Pay tax at today's rate, and immediately repurchase to reset your basis.
- **Tax-loss harvesting.** Sell underperforming assets to offset other capital gains. Excess losses can offset up to \$3,000 of ordinary income, with the balance carried forward.

No Wash-Sale Restrictions

Because the IRS treats crypto as property—not securities—you can sell to create deductible losses and rebuy immediately without waiting 30 days.

Donate Appreciated Crypto

Donating directly to a qualified 501(c)(3) charity avoids capital gains and earns a deduction for the fair market value. If the gift exceeds \$5,000, obtain a qualified appraisal and include Form 8283 with your return.

Gift Crypto to Family Members

You can give up to \$19,000 per person in 2025 without any reporting requirement. The recipient inherits your original cost basis and holding period.

Invest through Self-Directed Accounts

Consider a self-directed IRA or solo 401(k) that allows cryptocurrency investments. You'll enjoy the same tax-deferred or tax-free growth benefits available with traditional investments.

4. Plan for Crypto Profits and Losses

5. Don't Overlook Deductions Hidden in Your Current Vehicles

Your existing vehicles can still produce valuable deductions before year-end.

- **Sell older business vehicles.** You'll capture deductible losses—especially for those with declining business use.
- **Check vehicles purchased before 2018.** If you traded cars under the old like-kind exchange rules, you may have unclaimed losses built up over multiple trades. Selling now could unlock a sizable deduction.
- **Convert a personal vehicle to business use.** OBBBA allows up to 100 percent bonus depreciation when you start using a personal vehicle for business. If you operate as a corporation, the company must reimburse you for the deduction before year-end.

6. Review Your Stock Portfolio for Tax Efficiency

Year-end is an ideal time to review and adjust your investments.

Offset Gains with Losses

Match short-term gains (taxed as high as 40.8%) with long-term losses.

Avoid Wash-Sale Traps

Selling and repurchasing the same stock within 30 days cancels your loss. Wait until January to rebuy if you plan to claim the loss in 2025.

Share Wealth within the Family

Gifting appreciated stock to children or parents in lower tax brackets lets them sell at 0%–15% capital gains rates, freeing up after-tax cash for the family as a whole.

Donate Appreciated Stock to Charity

Instead of cash, donate appreciated shares. If you itemize your deductions, you'll receive a deduction for the fair market value and avoid paying capital gains on the appreciation.

Sell Losers, Then Give Cash

If a stock has lost value, sell it to recognize the loss, then donate the cash proceeds. This way, you claim both the loss and the charitable deduction.

7. Review Your Health Care Reimbursement Options

For small-business owners, properly structured medical plans can be powerful deduction tools.

Reimburse Section 105 Expenses before December 31

If you have a Section 105 Health Reimbursement Arrangement (HRA) for your spouse-employee, ensure that all reimbursements are completed before year-end so your family's medical expenses qualify for a 2025 deduction.

Consider a QSEHRA or an ICHRA

- **QSEHRA (Qualified Small Employer HRA):** For businesses with fewer than 50 employees, reimburse up to \$6,350 (individual) or \$12,800 (family) tax-free.

- ICHRA (Individual Coverage HRA): Works for employers of any size, and reimburses employees for individual health insurance coverage.

S Corporation Owners

For you to qualify for the above-the-line deduction on your Form 1040, your S corporation must pay or reimburse your health insurance premiums and include them on your W-2.

Small-Employer Health Insurance Credit

If you cover at least half the cost of employee health insurance, you may qualify for a 50 percent tax credit for up to two consecutive years—another reason to review your benefits before December 31.

8. Make Smart, Family-Focused Tax Moves

Put Your Children on Payroll

Paying your under-18 child reasonable wages for legitimate work can save thousands:

- The wages are deductible for you.
- Neither you nor your child owes payroll taxes.
- The first \$15,750 paid to the child is tax-free to the child due to the standard deduction.
- Your child can contribute up to \$7,000 to a Roth IRA, building tax-free savings for life.

Be sure to issue a W-2 (not a 1099) and keep clear records of work performed and payment dates.

Consider Marriage or Divorce Timing

Your marital status on December 31 determines your filing status for the entire year. Run both scenarios—married and single—to see which is most beneficial. Joint filing usually lowers overall tax, but not always.

For divorces finalized after 2018, alimony is no longer deductible by the payer or taxable to the recipient.

Mortgage and Relationship Planning

Two unmarried co-owners can each deduct interest on up to \$1 million of mortgage debt for older loans (or \$750,000 for newer loans). Married couples are limited to a total of \$1 million (or \$750,000).

Use the 0 Percent Capital-Gains Bracket for Family Gifts

If you assist parents or relatives in lower tax brackets (say, with a joint income of under \$96,700), consider giving them appreciated stock instead of cash. They can sell the stock tax-free, preserving more family wealth.

9. Make the Most of the Section 199A Deduction

The 20 percent deduction on qualified business income remains one of the most valuable breaks for owners of pass-through entities such as sole proprietorships, partnerships, and S corporations.

Eligibility Thresholds for 2025

- \$197,300 for single filers
- \$394,600 for joint filers

If your taxable income exceeds these levels, the deduction may phase out—especially for specified service businesses such as law, health, or consulting.

Three Ways to Boost the Deduction before Year-End

1. **Harvest capital losses.** Lower taxable income by offsetting gains in your investment portfolio.
2. **Make charitable contributions.** Prepay 2026 charitable gifts or donate appreciated stock to increase itemized deductions and lower your taxable income.
3. **Buy business assets and place them in service.** New equipment or property expensed under Section 179 or bonus depreciation can bring taxable income below the threshold and increase your deduction.

- Purchase and place in service needed equipment and vehicles
- Establish or fund your retirement plan
- Review current and older vehicles for possible loss deductions
- Manage crypto and stock portfolios for gains and losses
- Complete any health-insurance reimbursements or S corporation W-2 adjustments
- Pay children for work performed in the family business
- Confirm eligibility for the Section 199A deduction

Each of these moves can help reduce your 2025 tax liability and improve your long-term financial position.

10. Review Your Year-End Tax Checklist

Here's a quick review of some steps to take before December 31:

- Prepay next year's qualifying business expenses
- Delay billing until January