PLANNING TO PAY THE LEAST AMOUNT OF TAXES

There are opportunities to save on taxes…and tax traps you'll want to avoid. It's important to keep in mind the tax changes in the "One Big Beautiful Bill." It permanently extends most tax provisions in the 2017 tax law that were set to end after 2025 and enhances some, gives new breaks, axes clean energy credits and more.

Many of the tax changes take effect this year. Others begin in 2026. On individual tax planning, look at the overall impact on 2025 and 2026. The goal is to reduce your federal income tax liability over both years, not just one.

Most taxpayers will benefit taxwise by accelerating deductions from 2026 into 2025 while deferring taxable income. Others should consider the opposite approach.

Itemizers have flexibility in shifting deductions from one year to another. State and local taxes (SALT). Now that the SALT deduction cap on Schedule A is $40,000…up from $10,000 in prior years…more filers are expected to itemize. Medical expenses. If the medical costs you've incurred this year have topped or are near the 7.5%-of-adjusted-gross-income threshold, consider elective procedures before year-end. The list of eligible medical expenses is broader than you may think.

Charitable gifts. Bunch into 2025 gifts you'd usually give over multiple years. Give to a donor-advised fund to help maximize your charitable write-off. Contribute appreciated property. Don't donate assets that have fallen in value. Note two changes to the charitable contribution deduction that begin in 2026. Nonitemizers can deduct up to $1,000 of charitable cash gifts, starting with 2026 1040s filed in 2027. The amount is $2,000 for joint filers. And charitable deductions claimed on Schedule A are subject to a haircut. They are deductible only to the extent they exceed 0.5% of adjusted gross income. If you are itemizing for this year, you could benefit more than ever by bunching all your charitable gifts into 2025, before the 0.5%-of-AGI haircut kicks in.

It is always vital to reduce the taxable income reported on your return. But lowering your adjusted gross income is also more important than ever… Thanks to the OBBB. Several popular new breaks begin to phase out at MAGI (modified AGI) over a certain amount. They include the $6,000 deduction for filers 65 and older, the $40,000 SALT deduction cap on Schedule A, and the new deductions for up to $12,500 of overtime pay, $25,000 of tips and $10,000 of car loan interest.

If you have Medicare, consider how taxes could affect the premiums you pay. Joint filers with modified AGIs exceeding $212,000 and singles with over $106,000 of modified AGI pay higher monthly premiums for Medicare Parts B and D coverage in 2025. The surcharges increase as modified AGI rises. Monthly premiums for 2027 will be based on modified AGIs reported on your 2025 tax returns. So think about how any tax moves you make now could push your premiums up or down in 2027.

Use your annual gift-tax exclusion. You can give each person up to $19,000 this year without tapping your lifetime estate and gift tax exemption, paying gift tax or filing a gift tax return. Gifts over this amount will trigger the filing of a gift tax return, but you won't owe tax unless your lifetime gifts exceed $13,990,000.Note that the lifetime estate and gift tax exemption for 2026 increases to $15 million. Recipients don't pay income tax on their gifts. Beware of state and local gift tax laws.

Pay attention to the required minimum distribution rules for traditional IRAs. Owners 73 and older must take annual payouts. To arrive at the 2025 RMD, start with your IRA balances as of Dec. 31, 2024, and use the tables in IRS Pub. 590-B. If 2025 is your first RMD year, you have until April 1, 2026, to take the RMD. If you opt to defer your first RMD to 2026, you will be taxed in 2026 on two payouts: The deferred one for 2025 and the RMD for 2026. This will hike your 2026 income.

Similar rules apply to 401(k)s. However, people who work past age 73 can generally delay taking RMDs from their current employer's 401(k) until they retire.

Know the rules for nonspousal beneficiaries of IRAs inherited after 2019. There is a 10-year cleanout rule. Funds must be fully distributed within 10 years of death. Eligible designated beneficiaries are exempt from the 10-year rule. They include surviving spouses, minor children (until 21), beneficiaries who are disabled or chronically ill, and people who are no more than 10 years younger than the decedent. These people can do stretch IRAs. A spouse can also take an IRA as his or her own.

Charitable donations made directly from a traditional IRA can save taxes. People 70½ and up can transfer up to $108,000 in 2025 from IRAs directly to charity. Qualified charitable distributions can count as RMDs, but they are not taxable, and they're not added to your adjusted gross income. The QCD strategy is a good way to get tax savings from charitable gifts for taxpayers taking the standard deduction instead of itemizing, and for taxpayers wanting to keep their AGI amounts down to qualify for various tax breaks and to mitigate Medicare premium surcharges.

Consider whether a Roth conversion makes sense this year. You'll pay tax on the converted amount, but future earnings are tax-free. There are lots of factors in determining whether converting a traditional IRA to a Roth IRA is a good strategy for you. One key thing to note is that you don't have to convert the entire amount in one full swoop. It's best to look at Roth conversions as a multiyear planning tool, financial advisors say. Conversions in increments over time space out the tax hit.

Max out your 2025 401(k) and IRA contributions. You have until Dec. 31 to put money in 401(k)s and other workplace retirement plans, and until April 15, 2026, to contribute to an IRA for 2025. You can stash up to $23,500 in a 401(k). People 50 and up can put in $7,500 more. If you're 60-63, the catch-up amount jumps to $11,250. The 2025 contribution limit for IRAs is $7,000, plus $1,000 more if age 50 or older.

Boost your federal income tax withholding if you expect to owe tax for 2025. It can help avoid an underpayment penalty when you file your 2025 return. You're off the hook for the penalty if you prepay, through estimated tax payments or withholding, at least 90% of your 2025 total tax bill or 100% of what you owed for 2024 (110% if your adjusted gross income for 2024 exceeded $150,000). You can give your employer a new W-4 to have more tax taken from wages. Fill out Form W-4V to have tax withheld from your Social Security benefits. Retirees taking RMDs from traditional IRAs can use this popular strategy: Have more tax withheld from a year-end distribution from your traditional IRA. Tax withheld at any point in the year is treated as if evenly paid throughout the year.

Your investment portfolio provides plenty of tax-saving opportunities. See if you qualify for the 0% rate on long-term gains and qualified dividends. If taxable income other than long-term gains or dividends doesn't exceed $48,350 on single returns, $64,750 for head-of-household filers or $96,700 for joint filers, then your qualified dividends and gains on sales of assets owned more than a year are taxed at a 0% federal tax rate until they push you over the threshold amounts.

Some words of caution on 0% long-term capital gains and dividends. They might not be taxed at the federal level, but they do increase your AGI.

Also, capital gains may be taxed differently for state income tax purposes. If you're not eligible for the 0% rate, there's always the 15% or 20% rate. The 20% rate on long-term capital gains and qualified dividends begins at incomes of $533,401 for singles, $566,701 for household heads and $600,051 for joint filers. The 15% rate is for filers with taxable incomes between the 0% and 20% break points.

Take steps to limit the sting of the 3.8% tax on net investment income… dividends, capital gains, taxable interest, annuities, passive rents, royalties and certain income from passive activities. Investment expenses reduce income subject to the 3.8% tax. The tax hits joint filers with modified AGI over $250,000 and singles over $200,000, and is due on the lesser of NII or the excess of modified AGI over the threshold amounts.

Here are a few ways to keep the 3.8% tax at bay. Invest in municipal bonds. Use an installment sale to spread out a large gain over several years. Keep modified AGI below the $250,000/$200,000 thresholds so that the surtax won't even kick in.

Tax loss harvesting is a way investors can lower their tax bills. The strategy involves selling stocks or other securities in your taxable investment accounts that have declined in value for the purpose of generating capital losses to offset gains from the sale of winners. Investors commonly do this closer to the end of the year, when they have a better idea of the amount of capital gains they will have.

Capital losses can offset capital gains plus up to $3,000 of other income. You can carry over excess capital losses to the next year to help offset future gains. If you have capital loss carryforwards, cull your portfolio for capital gains.

Beware of the sneaky wash-sale rule, which bars a capital loss write-off if you purchase substantially identical securities up to 30 days before or after a sale. Any suspended loss is added to the tax basis of the replacement securities or shares. The rule can catch people by surprise. For example, if you sell a mutual fund at a loss shortly after the date a dividend is reinvested, or if you buy stock in your IRA soon after selling the same stock at a loss in your taxable investment account, or if you sell stock at a loss a few weeks after your spouse buys identical stock.

Review whether your stock mutual funds frequently buy or sell holdings. These funds can potentially generate big short-term capital gain distributions, which are taxed at ordinary income rates instead of as long-term capital gains.

Before you invest in a mutual fund, check its turnover ratio. The higher the ratio, the higher the potential for tax-inefficient short-term capital gains distributions.

Investing in REITs or publicly traded partnerships can give you a tax break. The OBBB made permanent the popular 20% qualified business income deduction for pass-through entities. The break also applies to holders of PTP units and interests in REITs. Individuals can deduct 20% of qualified REIT dividends…distributions not taxed under the favorable rules for capital gains and dividends…and 20% of their share of a PTP's qualified business income. Claim the write-off on Form 8995.

Act quickly if you want a tax break for energy-efficient home improvements. Two credits end after this year. The energy-efficient home improvement credit is for homeowners who install heat pumps, exterior doors and windows, boilers, central air-conditioning systems, etc. The 30% residential clean-energy credit is for taxpayers who install solar panels and the like in their residences. Both are repealed for property that is placed in service after Dec. 31, 2025. Paying for the improvements before Jan. 1, 2026, isn't enough to get a credit. You will need to pay for them and get them completed before year-end.

Preparing for 2026. Qualified teachers, keep receipts and records of all your 2026 teacher's expenses. You may be able to deduct more than $300.

Starting in 2026, the maximum annual contribution limit for Dependent Care FSAs will increase from $5,000 to $7,500 for single individuals and married couples filing jointly, and from $2,500 to $3,750 for married individuals filing separately.

Gamblers. You must keep an accurate diary or similar record of your losses and winnings. Your diary should contain at least the following information.
The date and type of your specific wager or wagering activity.
The name and address or location of the gambling establishment.
The names of other persons present with you at the gambling establishment.
The amount(s) you won or lost.

In addition to your gambling diary, you should also have other documentation. You can generally prove your winnings and losses through Form W-2G, Certain Gambling Winnings; Form 5754, Statement by Person(s) Receiving Gambling Winnings; wagering tickets; canceled checks; substitute checks; credit records; bank withdrawals; and statements of actual winnings or payment slips provided to you by the gambling establishment.