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2025 Year-End Tax Planning for Individuals

Introduction

The One Big Beautiful Bill Act (OBBBA) has dominated tax news in 2025 for good reason. The OBBBA made nearly all of the TCJA's temporary provisions permanent, introduced an assortment of new tax breaks, repealed most of the clean energy credits, and made numerous other tax changes.

This article recaps the new law's key provisions for individuals with an emphasis on new tax breaks and planning opportunities. It also discusses other year-end considerations and actions that may help reduce a client's 2025 tax bill.

New Tax Breaks and Other Key Changes

The following is a rundown of the OBBBA's new tax breaks and other key changes affecting individuals.

Increased SALT Limit

The biggest break for individuals in the OBBBA isn't new, but it's greatly expanded. The limit on the state and local tax deduction has been increased from \$10,000 to \$40,000 (\$20,000 for MFS). The \$30,000 increase in the deduction limit starts phasing out for MAGI above \$500,000 (\$250,000 for MFS).

Deduction for Car Loan Interest

The OBBBA provides a new deduction of up to \$10,000 for interest on car loans taken out after 2024 for the purchase of new personal use vehicles assembled in the U.S. that meet certain requirements. The deduction is allowed through 2028 and begins to phase out for AGI above \$100,000 (\$200,000 for joint returns). The deduction is available regardless of whether the taxpayer itemizes or takes the standard deduction.

Deduction for Tip Income

The OBBBA provides a new deduction of up to \$25,000 for tips received by an individual in an occupation which customarily and regularly receives tips. The deduction is allowed for both employees and independent contractors. The deduction begins to phase out for AGI above \$150,000 (\$300,000 for joint returns). The deduction is allowed through 2028, and is available regardless of whether the taxpayer itemizes or takes the standard deduction.

Deduction for Overtime Pay

The OBBBA allows taxpayers to deduct up to \$12,500 (\$25,000 on joint returns) for qualified overtime pay. The deduction begins to phase out for AGI above \$150,000 (\$300,000 for joint returns). The deduction is allowed through 2028, and is available regardless of whether the taxpayer itemizes or takes the standard deduction.

Deduction for Seniors

The OBBBA added a new \$6,000 per person deduction for all individuals who have reached age 65 before the end of the tax year. The deduction works the way personal exemptions did pre-TCJA. In fact, it was implemented as a personal exemption under Code Sec. 151(d)(5). The requirements for claiming it consist of providing the taxpayer's SSN and filing a joint return, if the taxpayer is married. The senior deduction begins to phase out for AGI above \$75,000 (\$150,000 for joint returns).

Charitable Contribution Deduction for Non-Itemizers

The charitable contribution deduction for non-itemizers isn't available until 2026, but it may factor into 2025 year-end planning for some clients. The maximum deduction is \$1,000 (\$2,000 for joint returns). Eligible contributions must be made in cash (i.e., cash, check, credit/debit card, gift card) to a public charity. There is no phase out for this deduction.

0.5% Charitable Contributions Floor for Itemizers

Starting in 2026, the OBBBA imposes a 0.5-percent floor on charitable contributions for individuals who elect to itemize. Specifically, the amount of deductible charitable contributions for a tax year is reduced by 0.5 percent of the taxpayer's AGI.

Itemized Deduction for Educator Expenses

Effective for 2026, the OBBBA provides a new itemized deduction for educator expenses. This deduction for K-12 teachers is a complement the longstanding \$300 (\$350 after 2025) above-the-line deduction for classroom expenses. There are two key differences between the above-the-line deduction and the new itemized deduction: (1) there is no limit on the amount of the itemized deduction; and (2) educator expenses of interscholastic sports administrators and coaches are allowed, and "nonathletic supplies for courses of instruction in health or physical education" are allowed as eligible expenses. There is no phase out for this deduction.

Mortgage Insurance Premiums

Beginning in 2026, mortgage insurance premiums on acquisition indebtedness are deductible as interest on acquisition indebtedness. The deduction is phased out for AGI above \$100,000 (\$50,000 for married filing separately).

Expiring Clean Energy Credits

The new and used clean vehicle credits expired on September 30, 2025, but the residential clean energy credit and the energy efficient home improvement credit are available through December 31, 2025.

Section 529 Plan Enhancements

The OBBBA brought plenty of good news for present and future 529 plan owners. Effective July 5, 2025, taxpayers can withdraw funds for a wide range of K-12 expenses (as opposed to being able to only use plan funds for K-12 tuition under prior law). Beginning in 2026, the limit of withdrawals for K-12 expenses doubles, from \$10,000 to \$20,000.

Distributions can also now be used for post-secondary credentialing expenses, a broad new category that includes vocational training and licensing programs, continuing education (where required to maintain a credential), fees for licensing and certification exams, and many other postsecondary educational expenses that fall outside the realm of traditional higher education.

Trump Accounts

Trump accounts are essentially non-deductible IRAs for children that will transform into traditional IRAs when the beneficiary reaches age 18. These accounts cannot accept contributions until July 4, 2026. There is no guidance yet on how parents can set up the accounts for their children. Accounts can accept an aggregate of \$5,000 in contributions annually from parents and other individuals. There are several provisions that allow employers, nonprofits, and government entities to make contributions that are not counted toward the annual limit. Funds in a Trump account grow tax-free and must be invested in S&P index funds or similar equity index funds.

Other Year-End Tax Considerations

Individual Tax Brackets for 2025

The OBBBA made permanent the modified federal income tax bracket schedule and lower tax rates created by the Tax Cuts and Jobs Act (TCJA). For 2025 the thresholds for the top tax rate of 37 percent are \$751,600 for MFJ and surviving spouses, \$626,350 for single and head of household, and \$375,800 for MFS.

Net Investment Income Tax

High-income taxpayers are also subject to the 3.8 percent net investment income tax (NIIT) on the lesser of net investment income or the excess of modified adjusted gross income over the following threshold amounts: \$250,000 for MFJ or surviving spouse, \$125,000 for MFS, and \$200,000 in all others. These amounts are not adjusted for inflation.

Standard Deduction versus Itemized Deductions

The OBBBA makes permanent the nearly doubled standard deduction created by the TCJA, and increased the previously announced standard deduction amounts for 2025 by 5% across the board. For 2025, standard deduction amounts for 2025 are \$31,500 for MFJ and surviving spouses, \$23,625 for head of household, and \$15,750 for single and MFS.

Additional amounts for taxpayers who are 65 or older or blind for 2025 are \$1,600 for MFS and surviving spouses and \$2,000 for all others. The corresponding amounts for 2026 are \$1,650 and \$2,050.

Income, Deductions, and Exclusions

State and Local Taxes

The following taxes can be claimed as itemized deductions:

- state and local income taxes;
- property taxes on real estate;
- personal property taxes (typically on motor vehicles); and
- sales taxes, but only as an alternative to deducting state and local income taxes.

The deduction for sales taxes can be based on either records of the actual sales taxes paid during the year or based on tables provided by the IRS.

Motor vehicle taxes or fees must be based on the value of a vehicle to be deductible. Taxes and fees based on weight, model year, and/or horsepower are not deductible. But taxes or fees that are partly based on value and partly based on other criteria may qualify in part.

As mentioned previously, for 2025, the SALT cap is \$40,000 (an increase of \$30,000 over the old limit). The enhanced SALT cap is phased back down to the old \$10,000 limit by 30 percent by the excess of the taxpayer's modified adjusted gross income (MAGI) over a specified threshold. Both the cap and the phasedown threshold are increased by 1 percent annually for years after 2025. The phasedown threshold for 2025 is \$500,000.

Medical Expenses

For 2025, medical expenses are deductible as an itemized deduction to the extent they exceed 7.5 percent of AGI. To be deductible, medical care expenses must be primarily to alleviate or prevent a physical or mental disability or illness. They don't include expenses that are merely beneficial to general health, such as vitamins or a vacation. Deductible expenses include the premiums a client pays for insurance that covers the expenses of medical care, and the amounts paid for transportation to get medical care. Medical expenses also include amounts paid for qualified long-term care services and limited amounts paid for any qualified long-term care insurance contract.

As discussed previously, shifting medical expenses between tax years is one of the best ways to ensure that a taxpayer can itemize in at least one of the tax years.

Charitable Contributions

Charitable contributions are highly useful for year-end tax planning because the client has great control over both the amount and the timing of his or her contributions. Many people, however, feel strongly about contributing the same amounts every year or making contributions during the holiday season or at other specific times that are meaningful to them. So using the timing of charitable contributions as a tax planning tool is not appropriate for every client.

Donating Appreciated Assets. Clients can maximize the tax benefit of making a charitable contribution by donating appreciated assets, such as stock, instead of cash. Doing so generally allows the client to deduct the fair market value of the asset while also avoiding the capital gains tax that would otherwise be due if he or she sold the asset. The more highly appreciated the asset, the better this strategy works.

Charitable Contributions Directly from an IRA. A special provision allows taxpayers age 70 1/2 and older to make a charitable contribution of up to \$108,000 directly from their IRAs to a charity. The SECURE 2.0 Act expanded this provision to allow such taxpayers to make a one-time, \$54,000 distribution to a "split-interest entity" (i.e., a charitable gift annuity, charitable remainder unitrust, or charitable remainder annuity trust).

Making a charitable contribution directly from an IRA has several benefits. First, a taxpayer who takes the standard deduction can benefit from this rule because it delivers its tax benefit by allowing a taxpayer to exclude the IRA distribution from income, not via a charitable contribution deduction. Second, by making a contribution directly to a charity, the donation counts towards the taxpayer's required minimum distribution. Finally, because the distribution is not included in AGI, the taxpayer is in a better position to take medical expense deductions (lower AGI floor), may be able to shield more social security income from income tax, and, for higher income taxpayers, possibly shield investment income from the 3.8 percent NIIT.

Mortgage Interest Deduction

For clients who sold their principal residence during the year and acquired a new principal residence, the mortgage interest deduction may be limited. For mortgages of more than \$750,000 obtained after December 15, 2017, the deduction is limited to the portion of the interest allocable to \$750,000 (\$375,000 in the case of married taxpayers filing separately). For a mortgage on a principal residence acquired before December 16, 2017, the limitation applies to mortgages of \$1,000,000 (\$500,000 in the case of married taxpayers filing

separately) or less. However, for clients operating a business from home, an allocable portion of the mortgage interest is not subject to these limitations.

Deductions for Interest on Home Equity Debt

Interest on home equity debt may be deductible where a client used that debt to buy, build, or substantially improve his or her home. For example, interest on a home equity loan used to build an addition is typically deductible, while interest on the same loan used to pay personal expenses, such as credit card debt, is not. Thus, it's important to document the portion of the debt for which an interest deduction is taken.

Student Loan Interest

Interest on qualifying educational loan interest loans of up to \$2,500 is deductible above-the-line. In 2025, the deduction is phased out for AGI above \$85,000 (\$170,000 for married filing jointly).

Deduction for Eligible Teacher Expenses

A deduction from gross income is available for eligible teacher expenses of up to \$300 paid during 2025 (\$350 for 2026). If spouses are filing jointly and both are eligible educators, the maximum deduction on the joint return is \$600 (\$700 for 2026). However, neither spouse can deduct more than the individual limit.

Gain on the Sale of a Principal Residence

If a client sold his or her home this year, up to \$250,000 (\$500,000 for married filing jointly) of the gain on the sale is excludible from income if the home was the taxpayer's principal residence for at least two of the five years preceding the sale. However, the amount of the excluded gain may be reduced if part of the home was rented out or used for business purposes. Generally, a loss on the sale of a home is not deductible. But again, if a portion of the home was rented or was otherwise used for business, the loss attributable to that portion of the home is deductible.

Tax Credits

In addition to the expiring clean energy credits discussed above, tax credits available to individuals for 2025 include -

- Child tax credit. Maximum credit for 2025 is \$2,200 per qualifying child. See Parker ¶100,701.
- Earned income credit. Maximum credit for 2025 is \$8,231 (for three or more children). See Parker ¶102,101.
- Dependent care credit. Maximum credit for 2025 is \$2,100 (for two or more children). Maximum credit increases to \$3,000 in 2026 (OBBA change). See Parker ¶100,301.
- Premium tax credit. Available to all taxpayers who purchase health insurance through an ACA exchange in 2025. Beginning in 2026, individuals with incomes exceeding 400 percent of the poverty level will not be eligible for the credit. See Parker ¶102,601.
- American opportunity tax credit. Maximum credit for 2025 is \$2,500 per eligible student. See Parker ¶101,115.
- Lifetime learning credit. Maximum credit for 2025 is \$2,000. See Parker ¶101,120.
- Retirement savings credit. Also known as the Saver's Credit; Maximum credit for 2025 is \$1,000. See Parker ¶101,301.

Retirement Plans, HSAs, and FSAs

Retirement Plans. Most clients can reduce their tax bill significantly by maxing out their contributions to a qualified retirement plan, if they can afford to do so. If the client's employer has a 401(k) plan and the client is under age 50, they can defer up to \$23,500 of income into that plan for 2025. Catch-up contributions of \$7,500 are allowed for individuals 50 or over, and "super" catch-up contributions of \$11,250 are allowed for individuals who are 60, 61, 62, or 63.

For a SIMPLE 401(k), the maximum pre-tax contribution for 2025 is \$16,500. That amount increases to \$20,000 for individuals 50 or older and \$21,750 for individuals who are 60, 61, 62, or 63.

The maximum IRA deductible contribution for 2025 is \$7,000 and that amount increases to \$8,000 for individuals 50 or over. Often overlooked, spousal IRA contribution rules allow a spouse who does not have enough taxable compensation to make a maximum IRA contribution to use a portion of the other spouse's taxable compensation in calculating his or her own allowable contribution for the year.

Health Savings Accounts. Practitioners should consider whether it might be advantageous for a client, who has not already done so, to contribute to a health saving account (HSA) if he or she does not already have one. These tax-advantaged accounts can help an individual who has a high-deductible health plan (HDHPs) pay for medical expenses. Amounts contributed to an HSA are deductible in computing adjusted gross income. These contributions are deductible whether the client is itemizing deductions or not. Distributions from an HSA are tax free to the extent they are used to pay for qualified medical expenses (i.e., medical, dental, and vision expenses). For 2025, the annual contribution limits are \$4,300 for an individual with self-only coverage and \$8,550 for an individual with family coverage.

Flexible Spending Accounts. If a client works for an employer who offers a Flexible Spending Account (FSA), and the client has not already signed up for an FSA account, it's worth encouraging the client to do so. This will allow him or her to pay medical and dental bills with pre-tax money. And the FSA can be used to pay qualified expenses even if the employer or employee haven't yet placed the funds in the account. While FSA funds can be used to pay deductibles and copayments, they cannot be used for insurance premiums. The maximum amount that can be set aside in 2025 is \$3,300. If the cafeteria plan permits the carryover of unused amounts, the maximum carryover amount is \$660.

Life Events

For clients with divorces pending at the end of the year, practitioners may want to project the differences in a final tax bill based on filing a joint return or filing as married filing separately. For clients that divorced during the year, head of household filing status, with its increased standard deduction, is appropriate if the client has dependents living at home for more than half of the year and the client paid more than half of the upkeep of the home. For clients who will be changing their name as a result of a change in marital status, the Social Security Administration (SSA) must be notified. Similarly, the SSA should be notified for a dependent whose name has been changed. A mismatch between the name shown on the tax return and the SSA records can cause problems in the processing of tax returns and may even delay tax refunds.

On the other hand, if a spouse died during 2025, the client can still use married filing jointly as the filing status. While the year of death is the last year for which a joint return can be filed with a deceased spouse, the client may be eligible to use the head-of-household filing status for the following year or the year after that if he or she is considered a "surviving spouse." A surviving spouse is one (1) whose spouse died during either of the two tax years immediately preceding the tax year; and (2) who maintains as a home a household which constitutes for the tax year the principal place of abode (as a member of such household) of a dependent who is a son, stepson, daughter, or stepdaughter of the taxpayer, and with respect to whom the clients is entitled to a dependency exemption deduction for the years in which such exemption deductions are available. Even if the client does not qualify as a surviving spouse, he or she may nevertheless qualify as a head of household if the applicable requirements are met.