YEO & YEO

CPAS & ADVISORS

2025 Year-end Tax Planning Guide

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INTRODUCTION

The passage of the One Big Beautiful Bill Act in July ushered in updates for businesses and individuals in 2025 and beyond. This guide presents a list of the changes along with corresponding actions taxpayers can take to help optimize their position. Please contact your Yeo & Yeo professional if you have questions on any of the topics presented or if you would like to discuss year-end planning.

Visit yeoandyeo.com for additional tax planning resources, including:

- Everyday Business Podcast
- Tax Insights on Yeo & Yeo's Blog
- Tax Planning Calendars

Year-End Planning Businesses & Owners

The One Big Beautiful Bill Act made significant changes to bonus depreciation, treatment of research expenditures, and limitations on interest deductions, which can impact a business's taxable income.

E-FILING REQUIREMENT

For any taxpayer filing ten or more information returns in a calendar year, including 1099s, W2s, 941s, and business tax returns, electronic filing is required.

PURCHASES OF PROPERTY AND EQUIPMENT

The One Big Beautiful Bill increased the bonus depreciation deduction available for property, plant and equipment purchases. The property must be acquired and placed in service after January 19, 2025, to qualify for 100% bonus depreciation. If a written, binding contract for the acquisition of property is in effect before January 20, 2025, the applicable percentage of bonus depreciation under the Tax Cuts and Jobs Act would apply to the in-service date.

Businesses have opportunities to expense purchases in the year they are placed in service, either using Section 179 expense depreciation or bonus depreciation. Under Section 179, businesses cannot spend more than $4,000,000 on capital equipment during the tax year to qualify for the deduction, which is capped at $2,500,000 for 2025. If capital purchases exceed $4,000,000, the deduction will be reduced on a dollar-for-dollar basis.

QUALIFIED PRODUCTION PROPERTY

A new provision in the tax code allows for 100% expensing of certain real property used in production that is placed in service after January 19, 2025. This powerful new treatment is only available to manufacturers and entities engaged in agricultural or chemical production. Further, taxpayers will be required to bifurcate the portion of real property used for qualified purposes and non-qualified purposes (administrative offices, parking, or other functions). Yeo & Yeo and our partners can help you navigate the challenges with this provision.

RETIREMENT PLAN CONTRIBUTIONS

Making a contribution to a retirement plan can significantly reduce 2025 taxable income. In many cases, the contribution will not have to be paid until the due date of your 2025 income tax return. Let us assist you in determining if your plan is working to achieve your savings and tax goals.

401(K) CHANGES

For businesses that have not previously offered a retirement plan, a credit of up to $5,000 for three years is available to cover ordinary and necessary expenses associated with establishing a SEP, SIMPLE IRA, or 401(k) plan. An additional credit of $500 is available for employers who elect to have employees auto-enrolled in the plan. Eligible employers are those that have 100 or fewer employees who received at least $5,000 in compensation from the business in 2025. There must be at least one plan participant who is a non-highly compensated employee, and in the previous three years, these employees must not have been participating in another plan sponsored by your business or a controlled group, including your business.

Additionally, employers with 50 or fewer employees who provide a match on employee contributions are eligible for a startup tax credit. The credit is dollar-for-dollar up to $1,000 per employee on any match paid by the employer. The credit phases out over five years. Employers with 51-100 employees may be eligible for a reduced credit.

QUALIFIED BUSINESS INCOME DEDUCTION (QBID)

Taxpayers, other than corporations, may be entitled to a deduction of up to 20% of their qualified business income. The Qualified Business Income Deduction is a function of a business's income and W-2 wages or fixed assets. The industry in which a business operates can also influence the potential deduction. The Qualified Business Income Deduction has been in effect since 2018, but the OBBB made this deduction permanent for future years.

Contact your Yeo & Yeo professional to analyze the variables of the calculation and ensure the deduction is optimized.

DE MINIMIS SAFE HARBOR ELECTION

Businesses may be able to take advantage of the de minimis safe harbor election (also known as the book-tax conformity election) to expense the costs of lower-cost assets and materials and supplies, assuming the costs aren't required to be capitalized under the UNICAP rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS, e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500.

The Qualified Business Income Deduction has been in effect since 2018, but the OBBB made this deduction permanent for future years.

CORPORATE ESTIMATED PAYMENTS

A corporation (other than a large corporation) anticipating a small net operating loss (NOL) for 2025 (and substantial net income in 2026) may find it worthwhile to accelerate just enough of its 2025 income (or to defer just enough of its 2025 deductions) to create a small amount of net income for 2025. This allows the corporation to base its 2026 estimated tax installments on the relatively small amount of income shown on the 2025 return, rather than having to pay estimated taxes based on 100% of its much larger 2026 taxable income.

YEAR-END BONUSES

Year-end bonuses can be timed for maximum tax effect by both cash and accrual basis employers. Cash-basis employers deduct bonuses in the year they are paid, allowing them to time the payment for maximum tax effect. Accrual-basis employers deduct bonuses in the accrual year when all events related to them are established with reasonable certainty. However, the bonus must be paid within 2.5 months after the end of the employer's tax year for the deduction to be allowed in the earlier accrual year. Accrual employers looking to defer deductions to a higher-taxed future year should consider changing their bonus plans before year-end to set the payment date later than the 2.5-month window or change the bonus plan's terms to make the bonus amount not determinable at year-end.

In a C corporation, a bonus cannot be accrued to a controlling shareholder (an individual owning 50% or more of the stock). The bonus is deducted when it is paid (cash basis).

STATE AND LOCAL TAX (SALT) CONSIDERATIONS

For states in which the business has sales, an analysis of nexus for sales, use, income, franchise and gross receipts taxes can identify risk and potential tax exposure, as well as provide solutions to address and mitigate exposure while staying alert for opportunities to reduce overall state liabilities.

For businesses relying on Public Law 86-272 for relief from state income taxes imposed by jurisdictions where business activity is limited to sales, a review of activity is advised to take into consideration the Multistate Tax Commission's (MTC) new interpretation of protections, as it removes protections for businesses engaging in activities over the internet, other than for a static website which does not allow communication or interaction with customers. While not all states have applied this revised understanding, a review of exposure may be warranted.

RESEARCH AND DEVELOPMENT EXPENSES

For the 2022-2024 tax years, taxpayers have not been allowed to expense research and development expenses. Instead, these expenses have been required to be capitalized and amortized over subsequent years.

The One Big Beautiful Bill changes the treatment to allow immediate expensing of domestic research and development expenses for 2025.

Taxpayers have options relating to previously capitalized expenses. Taxpayers who capitalized expenses in the 2022-2024 years may:

- Deduct the full unamortized amount in the 2025 tax year.
- Deduct the amounts ratably over two years (2025 and 2026).
- Continue to amortize the costs.

Additionally, qualified small businesses have a one-year window (until July 4, 2026) to amend their 2022, 2023, and 2024 tax returns and fully deduct R&D costs within those respective years. A thorough analysis should be completed to review all aspects associated with amending prior-year returns.

Not all states have adopted the change. Michigan has decoupled from federal treatment, and research and development expenses are still required to be capitalized and amortized for Michigan tax purposes.

CHANGES TO THE DEDUCTIBILITY OF BUSINESS INTEREST S163(J)

Section 163(j) limits the deductibility of interest. Generally, the calculation of this limitation is the business's interest income plus 30% of its adjusted taxable income. Starting in tax years beginning after December 31, 2024, businesses can 'add back' depreciation and amortization when calculating their adjusted taxable income. This is a big win for capital-intensive industries, which rely on third-party financing and consistently have large annual depreciation.

Year-End Planning Individuals

NO TAX ON OVERTIME

Starting in 2025, eligible taxpayers will be able to claim a deduction for overtime compensation. This deduction is limited to $12,500 per taxpayer. Generally, this deduction is only available to employees who are covered under the Fair Labor Standards Act. Furthermore, the deduction is limited to overtime compensation that exceeds regular pay. This deduction is only a temporary provision and will expire after 2028. All overtime wages are still subject to Medicare and Social Security tax.

NO TAX ON TIPS

For tax years beginning in 2025 through 2028, eligible employees can now deduct $25,000 in qualified tips. The deduction is the same for both single and married taxpayers filing jointly. Tips must be customary in the industry in which the employee works to be eligible for this deduction. The IRS has provided a list of qualifying industries, which is more expansive than previously thought. If you think you may be eligible, please contact your Yeo & Yeo advisor for further clarification.

AUTO LOAN DEDUCTION

Qualifying taxpayers may now deduct interest on auto loans from a qualified vehicle purchase. The deduction only applies to purchases of new vehicles purchased after December 31, 2024, which have been assembled in the United States.

This deduction is only in effect for tax years 2025 through 2028. Only interest paid on new passenger vehicles qualifies for the deduction. The deduction is limited to $10,000 per year and is subject to an income-based phaseout.

REMOVAL OF CLEAN ENERGY CREDITS

The One Big Beautiful Bill Act eliminated or scaled back many of the federal clean energy tax credits available to taxpayers. Credits for the acquisition of new or previously owned electric vehicles were sunset on September 30, 2025.

The energy-efficient home improvement credit will no longer be available for property placed in service after December 31, 2025.

ENHANCED DEDUCTION FOR SENIORS

Seniors who are age 65 or older are eligible for an additional $6,000 deduction in addition to the current standard deduction. The additional deduction is subject to phase-out based on the taxpayer's Modified Adjusted Gross Income. This does not directly change the taxation of social security benefits but can reduce the tax burden of the seniors claiming those benefits.

SALT DEDUCTION CHANGES

Individuals can now itemize up to $40,000 of their state and local taxes. This represents a significant increase over the $10,000 cap. Deductible amounts include state and local property taxes, income taxes and personal property taxes.

This deduction is subject to a phase-out, which starts at a modified adjusted gross income of $500,000. Due to this limitation, Michigan Flow Through Entity (and other states' PTE regimes) remain a viable option. Please contact your Yeo & Yeo advisor to discuss maximizing deductions related to your state and local taxes.

CHARITABLE CONTRIBUTIONS

Starting after 2025, individuals who do not itemize their deductions can take a $1,000 deduction per taxpayer for charitable contributions.

Beginning in 2026, limitations on charitable deductions will apply to taxpayers who itemize. The contribution deduction for those itemizing their deductions is limited to contributions exceeding .5% of Adjusted Gross Income. Timing of charitable contributions should be carefully analyzed to determine whether a donation would result in a more favorable tax outcome if made in 2025 or 2026.

TAX BRACKETS MADE PERMANENT

The passage of the Tax Cuts and Jobs Act temporarily reduced the individual income tax brackets and eliminated exemptions. These changes are now permanent with the implementation of the One Big Beautiful Bill Act.

ITEMIZED DEDUCTION LIMITATION FOR HIGH-INCOME TAXPAYERS

Taxpayers in the 37% tax bracket will have a limit applied to itemized deductions beginning in 2026. The provision, referred to as the 2/37 rule, effectively caps the maximum itemized deduction at 35 cents for every dollar of itemized deductions. The cap applies to all categories of itemized deductions.

There may be benefits for taxpayers with the ability to advance deductions into 2025 if they expect to be in the 37% bracket for 2026 and would otherwise experience a reduction.

ESTATE TAX EXEMPTION

The estate tax exemption has been increased to $15 million per taxpayer, indexed for inflation every year. This is a very big win for taxpayers who are starting their estate plans or currently have one in place. Prior to the passage of the One Big Beautiful Bill Act, the increase to the estate tax exemption was set to expire at the end of 2025, which added a layer of uncertainty to many estate plans. Now, the increase to the estate exemption is made permanent and can be relied on by taxpayers. If you do not have an estate in place, Yeo & Yeo Wealth Management and its partners can help and ensure your estate is protected for your loved ones.

CHILD TAX CREDITS

In 2025, the child tax credit increased. The amount of the credit is $2,200 per child under the age of 17 and $1,700 is refundable.

CHILD AND DEPENDENT CARE CREDIT

In 2025, the credit is non-refundable, and the maximum credit remains at 35%. The credit is allowed for up to $3,000 in expenses for one child/dependent and $6,000 for more than one. The maximum credit for 2025 is $1,050 for one child/dependent and $2,100 for more than one child.

RETIREMENT PLAN CONTRIBUTIONS

Have you maximized your employer retirement plan contributions for 2025? For a 401(k), an employee can defer up to $23,500 into the plan. If you are 50 years or older, you can make additional "catch-up" contributions of up to $7,500. Making these contributions can reduce your 2025 taxable income and potentially increase your retirement benefit if your employer has a matching program.

Starting in 2026, those making catch-up contributions and earning more than $145,000 must make their catch-up contributions into a Roth 401(k).

IRA CONTRIBUTIONS

For 2025, taxpayers may contribute up to $7,000 into an IRA. If you are age 50 or older, the limit is $8,000. There are several types of IRA accounts, and eligibility depends on many other factors. The contributions for 2025 must be made on or before April 15, 2026.

CRYPTOCURRENCY

Virtual currency transactions are becoming more common. The IRS is ramping up enforcement in this area. The sale or exchange of virtual currency is a taxable transaction. Additionally, using virtual currency to pay for goods or services has a tax impact. If you have engaged in virtual currency transactions, contact us to determine the records you will need and the tax impact of the activities.

Year-end Tax Saving Strategies

TAX-LOSS HARVESTING

Taxpayers may consider selling investments (such as stocks), which have experienced a loss, before year end. The losses are used to offset capital gain income from other investments.

CONVERT IRA TO ROTH IRA

Taxpayers may convert Traditional IRA funds to a Roth IRA during a year of relatively low income. Employing this strategy allows taxpayers to take advantage of the progressive tax brackets and get funds into a tax-free account they can utilize in retirement.

FLEXIBLE SAVINGS ACCOUNT

Consider increasing the amount you set aside for next year in your employer's FSA if you set aside too little for this year and anticipate similar medical costs next year. Participants should be aware any unused funds during the eligible period are effectively lost.

HEALTH SAVINGS ACCOUNT

If you are eligible in December 2025 to make HSA contributions, you can make a full year's worth of deductible HSA contributions for 2025. The family contribution limit is $8,550, the self-only limit is $4,300 and the annual "catch-up" contribution amount for individuals age 55 or older will remain at $1,000.

GIFT TAX EXCLUSION

Each taxpayer can give up to $19,000 per person annually without reducing their lifetime estate and gift tax exemption. Spreading gifts over a series of years is an effective estate planning strategy. You cannot carry over unused exclusions to another year. Additionally, these transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

Tax Resources

Our experienced CPAs develop tax strategies to maximize tax savings. Contact a Yeo & Yeo professional for information on how the changing laws impact you. Regularly visit Yeo & Yeo's Tax Resource Center to help you better manage your personal and business taxes. Everyday tax resources include an IRS withholding calculator, tax calendars, and links to useful websites. There's much more:

- **Advisor eNewsletter**
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