Norwalk Business Service, Inc.

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*****Year-End Tax Planning*****

Dear Client:

Our office will be closed Christmas Eve and will re-open the 5th. Call now for your 2026 appointment. Our first available appointment for 2025 tax returns is January 26, 2026.

It's been an interesting year with important tax changes that may impact you. Here are some of the changes to be aware of, and some tax planning moves that might benefit you.

- Many tax credits this year require a valid social security number. Please bring in a copy of a social security card for each person on the return. This includes cards for you, your spouse, and any dependents. If an individual does not have a SSN, please let the tax preparer know.
- Social Security is still taxable. Please bring a copy of your 1099-SSA to your appointment. Many seniors will benefit from an extra $6000.00 deduction if their income is under certain thresholds.
- Taxpayers with tip and overtime pay may be able to deduct some of those wages. Married filing joint filers who make under $300,000.00 (150k single) can deduct up to 25,000.00 in tips. Eligible tips are tips that are non-mandatory and are paid to someone in an occupancy that IRS has determined normally receives tips. A W-2 worker will generally have those tips marked on box 7 on their W-2. 1099 workers will only be able to deduct those tips if they are included in the 1099 they have been issued.

  Married filing joint filers who make under $300,000.00 can deduct 25,000.00 in overtime wages. Single filers must make under 150,000.00 and may deduct up to 12,500.00 in overtime wages. Excludable overtime wages are the 50% extra paid when you work over 40 hours a week. Please bring a year-end print out that shows your eligible overtime. Married filing separate filers do not qualify for either the tip or overtime deduction.
- State and local tax deduction increased to $40,000.00. Taxpayers may benefit from the strategy of delaying or accelerating property tax payments so that they fall in a year with more income, increasing the deduction in the year that needs it.
- IRS is eliminating paper check refunds. Please bring a bank account and routing number to your appointment.
- Solar and battery credits will come to an end as of December 31. If you are looking to get the energy credit this year, your system must be in production by December 31 to qualify.
- Crypto currency investors may receive a 1099-DA this year for their crypto transactions. Please check with your institution at year end and bring the issued report.
- Higher-income individuals must be wary of the 3.8% surtax on certain unearned income. The surtax is 3.8% of the income above $250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case.
- Postpone income until 2026 and accelerate deductions into 2025 if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2025 that are phased out over varying levels of AGI. These include deductible IRA contributions, child tax credits, higher education

tax credits, and deductions for student loan interest. Postponing income also is desirable for taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may actually pay to accelerate income into 2025. For example, that may be the case for a person who will have a more favorable filing status this year than next (e.g., head of household versus individual filing status), or who expects to be in a higher tax bracket next year.

- Long-term capital gain from sales of assets held for over one year is taxed at 0%, 15% or 20%, depending on the taxpayer's taxable income. If you hold long-term appreciated-in-value assets, consider selling enough of them to generate long-term capital gains that can be sheltered by the 0% rate. The 0% rate generally applies to net long-term capital gain to the extent that, when added to regular taxable income, it is not more than the maximum zero rate amount (e.g., $96,700 for a married couple). For example, if you had $5,000 of long-term capital gains you took earlier this year that qualifies for the zero rate then try not to sell assets yielding a capital loss before year-end, because the first $5,000 of those losses will offset $5,000 of capital gain that is already tax-free.
- *Capital Gains and Losses*. Taxpayers with unrecognized capital losses should consider recognizing those losses this year to offset capital gains that would otherwise be subject to the 15% or 20% long-term capital gains tax rate. Capital losses can also offset up to $3,000 of ordinary income if capital losses exceed capital gains by at least that amount. Recognizing capital losses to offset capital gains can also reduce the amount of income subject to the 3.8% surtax. Losses from crypto currency can offset gains from other capital assets (and vice versa)
- Sometimes the disposition of a passive activity can be timed to make best use of its freed-up suspended losses. Where reduction of 2025 income is desired, consider disposing of a passive activity before year-end to take the suspended losses against 2025 income. If possible 2025 top rate increases are a concern, holding off on disposing of the activity until 2026 might save more in future taxes.
- *Increasing contributions to 401(k) plans, SIMPLE pension plans, Keogh plans*. Some individuals may be able to reduce AGI by increasing contributions to retirement plans such as 401(k) plans, SIMPLE pension plans, and Keogh plans to their maximum amount.
- *Making IRA contributions.* Taxpayers have until the tax return filing deadline next April to make IRA contributions for 2025. Unlike Keogh plans, which must be in existence by year-end, IRAs can be set up when the contribution is made next year. Taxpayers might want to make IRA contributions earlier rather than later to maximize tax-deferred income on the contributed amount. Traditional IRAs are subject to limitations.

  IRA and Roth contribution limits for 2025 are 7,000 (8,000 for those 50+)
- It may be advantageous to try to arrange with your employer to defer, until early 2026, a bonus that may be coming your way. This might cut as well as defer your tax
- Short on cash? Credit card payments are deductible when the credit card purchase is made, not when the bill is paid later.
- Individuals who turn 73 this year have until April 1 of 2026 to take their first RMD but may want to take it by the end of 2025 to avoid having to double up on RMDs in 2026.
- If you are age 70 1/2 or older by the end of 2025, and especially if you are unable to itemize your deductions, consider making 2025 charitable donations via Qualified Charitable Distributions (QCD) from your traditional IRAs. These distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040.
- 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.
- If you become eligible in December to make HSA contributions, you can make a full year's worth of deductible HSA contributions for 2025.

Year-End Tax-Planning Moves for Businesses & Business Owners

- Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2025, if taxable income exceeds $394,600 for a married couple filing jointly, the deduction may be limited if the taxpayer is engaged in a service-type trade or business.
- For tax years beginning in 2025, the expensing limit is $2,500,000, and the ceiling of equipment purchased is $4,000,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for commercial non-residential interior improvements to a building (but not for its enlargement), elevators or escalators, or the internal structural framework, for roofs, and for HVAC, fire protection, alarm, and security systems.
- Businesses also can claim an 100% bonus first year depreciation deduction for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service this year, and for qualified non-residential improvement property, described above as related to the expensing deduction. The 100% write-off is permitted without any proration based on the length of time that an asset is in service January 20th – December 31st during the tax year. As a result, the 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2026. Assets purchased from January 1st through January 19th will use the previous pre-OBBB bill rules.

Very truly yours,

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