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RETIREMENT
PROTECTION SOLUTIONS

2025 Tax Planning Steps

The 2025 financial landscape remains uncertain with questions surrounding economic policies, inflation rates, stock market performance, and interest rates. In times of uncertainty, it's crucial to focus on what we can control, and one area within our grasp is tax planning. While taxes are inevitable, strategic planning may help minimize your tax burden to better protect your wealth. Here are a few key strategies to consider.

1. Seize Available Deductions

The IRS has expanded the tax brackets, potentially leading to lower income taxes for many individuals. The standard deduction has also increased significantly to $15,000 for single filers, while married couples can now claim up to $30,000 for joint filers or $22,500 for heads of household.[1] Evaluate your potential itemized deductions, including state and local taxes, medical expenses, home mortgage interest, charitable donations, and deductions related to federally declared disasters. If itemizing seems advantageous, consider bunching deductions to help maximize write-offs. Additionally, if you itemize, think about donating appreciated assets held for more than a year to qualified public charities to minimize capital gains tax.

2. Make the Most of Higher Saving Incentives

For the 2025 tax year, contribution limits have increased for various tax-advantaged accounts:

- IRAs: You can now contribute up to $7,000, with an additional $1,000 for those over 50.[2]
- HSAs: Contribution limits are $4,150 for self-only coverage and $8,300 for family coverage, with an extra $1,000 for those 55 and over.[3]
- 529 College Savings Accounts: You can contribute up to $18,000 (or $36,000 per married couple filing jointly). These contributions can help you grow your savings tax-free.[4]

[1] IRS, "Tax Inflation Adjustments for Tax Year 2025," accessed October 21, 2024 www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2025
[2] IRS, "IRA contribution limits," accessed October 21, 2024 www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits
[3] Fidelity, "HSA Contribution Limits and Eligibility Rules," August 29, 2024 www.fidelity.com/learning-center/smart-money/hsa-contribution-limits
[4] Charles Schwab, "Saving for College: 529 College Savings Plans," June 14, 2024 www.schwab.com/learn/story/saving-college-529-college-savings-plans
[5] Annuity withdrawals are taxed as ordinary income and may incur an additional 10% IRS penalty if taken before age 59½

3. Put Your Savings to Work

Consider tax-efficient investing strategies to help maximize returns on your savings. Evaluate investment and savings options such as individual bonds and certificates of deposit (CDs), especially in tax-deferred accounts like IRAs. Stocks, with their lower capital gains tax rates, may be better suited for taxable accounts.

4. Evaluate Tax-Advantaged Investments

Tax-advantaged investment opportunities encompass various choices, including various investments, retirement savings, annuities, and cash value life insurance. While most individuals are familiar with retirement accounts, annuities and life insurance options may appear less common. In such vehicles, taxes on any growth may be postponed or even tax free when withdrawn.

- **Fixed Annuities.** These are insurance contracts, offering a predetermined income payment for a specified duration or for life. Interest earned is tax deferred until withdrawn. Work with your financial professional to determine if an annuity fits into your overall financial plan.[5]
- Cash value life insurance policies. In addition to a traditional death benefit, it offer a tax-deferral cash value component that earns interest, often suitable for individuals with higher incomes. Your policy's cash value can grow without taxation until you decide to access it.[6]

5. Tax-Loss Harvesting

For non-retirement accounts, consider year-round tax-loss harvesting to offset gains and help reduce your taxable income. Be cautious of the wash-sale rule, which doesn't apply to cryptocurrencies, but be mindful of potential changes in cryptocurrency regulations.

6. Consider a Roth Conversion

Explore the potential benefits of a Roth conversion. If your investment values are down, you may be able to convert more shares for the same total amount and tax bill. Additionally, with tax rates set to increase in 2026, converting your traditional IRA sooner rather than later could be advantageous since you will pay taxes now on any converted amount and then enjoy tax free income later (after age 59½ and the account has been open for 5 or more years).[7]

7. Do a Checkup

Regularly review your financial situation to ensure you're paying the correct amount of taxes throughout the year. Utilize tools provided by the IRS and state tax authorities for accurate tax withholding. Thorough bookkeeping can help you maximize deductions and credits. For remote workers, residence considerations in lower tax states may be worth exploring.

8. Revisit Your Estate Plan

With the 2017 Tax Cuts and Jobs Act (TCJA) estate planning provisions set to expire in 2025, it's wise to revisit your estate plan. Consider accelerating gifting or donating appreciated assets before potential changes in the law take effect.

Remember that tax planning is a complex matter, and individual circumstances can vary widely. Consult with a qualified tax professional and financial professional to tailor these strategies to your specific situation.

[6] Life insurance distributions are taken via loan or withdrawal which will reduce cash values and death benefits and could cause the policy to lapse or require additional premium payments to keep the policy in force. This assumes the policy is not a Modified Endowment Contract (MEC).

[7] Converting an employer plan account to a Roth IRA is a taxable event. Increased taxable income from the Roth IRA conversion may have several consequences including (but not limited to) a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA. Roth distributions are tax free after age 59½ and the account has been open for at least 5 years.

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