



BARRY & MOORE, CPAs

2025 Tax Guide

## 2025 Year-End Tax Planning in the OBBBA Era

Dear Valued Clients and Friends,

As we near the end of 2025 and prepare for a new year, now is an ideal time to review your current tax position, complete any year-end planning, and ensure a smooth transition into 2026.

This year brought several important tax and regulatory developments, most notably the ongoing implementation of the One Big Beautiful Bill Act (OBBA). The OBBBA introduced targeted modifications to several provisions originally established under the Tax Cuts and Jobs Act (TCJA) enacted in 2017, including updates affecting depreciation, business tax incentives, information-reporting thresholds, and certain individual tax benefits.

The updates introduced through the OBBBA highlight the importance of revisiting existing tax strategies. Adjustments to thresholds, deductions, and reporting rules may offer opportunities for year-end planning, entity-structure evaluations, and timing decisions around tax elections, income, expenses, and capital improvements. The OBBBA's emphasis on transparency and small-business support means many taxpayers may benefit from recalibrating current strategies to ensure they are fully aligned with the new framework.

The temporary federal government shutdown earlier this year caused delays in IRS operations, including processing times, correspondence responses, and various compliance activities. While the IRS has resumed normal operations, residual backlogs remain. As a result, proactive planning, timely documentation, and early submission of required filings are especially important.

As we move into 2026, Barry & Moore, CPAs remains committed to guiding you through these evolving requirements. Our team is here to help you identify planning opportunities, navigate new compliance obligations, and align your strategy with both short-term needs and long-term goals.

Thank you for your continued trust and partnership. We look forward to supporting your success in the coming year.

Warm regards,

A handwritten signature in black ink that reads "Barry & Moore, CPAs". The signature is fluid and cursive, with "Barry & Moore" on the top line and "CPAs" on the bottom line.

Barry & Moore, CPAs

## Key Provisions of the One Big Beautiful Bill Act (OBBBA)

**Permanent Extension of TCJA Rate Structure** - The OBBBA permanently extends the reduced individual income tax rate brackets that were originally set to expire after 2025 under the TCJA. Taxpayers continue to benefit from the 10%–37% rate structure, with inflation-adjusted bracket thresholds applying for 2025 and future years.

*Planning Note:* Rate certainty makes it easier to evaluate timing of income, deductions, Roth conversions, and capital gains harvesting over a multi-year horizon, rather than rushing everything into 2025.

**Increased Standard Deduction, Plus a New Senior Add-On** - For 2025, the base standard deduction increases to \$15,750 (Single/MFS), \$31,500 (MFJ/QW), and \$23,625 (Head of Household). The OBBBA temporarily layers on an additional \$6,000 per person age 65+ (or \$12,000 if both spouses qualify), with the senior add-on phasing out at higher income levels.

*Planning Note:* Seniors who qualify should monitor income around the phase-out thresholds and coordinate charitable giving, IRA withdrawals, and Roth conversions to maximize the combined benefit.

**Higher SALT Deduction Cap (Through 2030)** - The OBBBA temporarily raises the federal state and local tax (SALT) deduction cap from \$10,000 to \$40,000 for certain taxpayers beginning in 2025, with the cap gradually ratcheting back down by 2030.

*Planning Note:* For clients who itemize and pay significant property and state income taxes, there may be renewed value in itemizing and in timing state tax payments and property tax installments during the higher-cap years.

**Expanded Federal Estate and Gift Tax Exemptions** - The OBBBA boosts the unified federal estate and gift tax exemption to approximately \$15 million per individual starting in 2026 (about \$30 million for married couples), which is above the previously indexed TCJA amount. The annual gift tax exclusion is \$19,000 per recipient in 2025 which is expected to stay the same for 2026.

*Planning Note:* High-net-worth families have a window to shift additional wealth out of the taxable estate using lifetime gifts, irrevocable trusts, and business-interest transfers while the higher exemption is available.

**Enhanced Child Tax Credit and Family-Related Relief** - The OBBBA increases the Child Tax Credit to \$2,200 per qualifying child under age 17, with up to \$1,700 refundable for eligible families, while retaining the familiar income phase-out thresholds beginning at \$400,000 MFJ and \$200,000 Single/HoH/MFS. Some provisions also increase certain child and dependent care credits and expand adoption-related benefits.

*Planning Note:* Families should confirm they meet residency and SSN requirements, model credit eligibility at different income levels, and coordinate with dependent care FSAs where available.

**New Charitable Giving Rules (Including a Non-Itemizer Deduction)** - Beginning in 2026, non-itemizers may deduct up to \$1,000 (Single) or \$2,000 (MFJ) of cash contributions to qualifying charities, while itemizers see new guardrails: a small AGI floor (0.5%) below which gifts are not deductible and a cap that limits the tax benefit of charitable deductions to 35% for top-bracket taxpayers.

*Planning Note:* As 2025 is a “transition year” for charitable planning, many higher-income clients may benefit from bunching donations or funding donor-advised funds in 2025 before the new limitations and AGI floor take effect.

## Key Provisions of the One Big Beautiful Bill Act (OBBBA) (Continued)

**Retirement Savings Enhancements** - For 2025, employees can contribute up to \$23,500 to 401(k) and similar plans, with an additional \$7,500 catch-up for those age 50+ (total \$31,000). IRA contribution limits remain \$7,000 (under 50) and \$8,000 (50+). SEP-IRA limits rise to 25% of compensation up to \$70,000, with a \$350,000 compensation cap.

*Planning Note:* Business owners and high-savers should revisit their plan design (SEP vs. Solo 401(k), profit-sharing, cash balance, etc.) and make sure they're capturing the full benefit of the higher limits.

**Health Savings Accounts and Health Coverage Changes** - The OBBBA expands eligible uses of Health Savings Accounts (HSAs) to include certain direct primary care and telehealth arrangements, providing more flexibility in how pre-tax health dollars can be spent. At the same time, enhanced Affordable Care Act (ACA) premium subsidies are scheduled to end after 2025.

*Planning Note:* Clients using marketplace coverage should factor the potential end of enhanced subsidies into their 2026 Roth conversion and income-timing strategies.

**Education and Invest America Accounts for Children** - The Act expands eligible uses of 529 plans and introduces new accounts (often referred to informally as "Trump Accounts") that provide a \$1,000 federal seed contribution for qualifying children born in a specified window, with additional private funding for some older children and annual contribution limits for families and employers.

*Planning Note:* Parents will need to decide how Trump Accounts fit with existing 529 and custodial account strategies; for many, 529s remain the primary education-savings vehicle, with Trump Accounts functioning more like long-term retirement starter accounts for children.

**Time-Limited Energy and EV Credits** - Several home energy-efficiency and clean-vehicle incentives now have earlier end dates under OBBBA, with certain credits expiring after 2025.

*Planning Note:* Home improvements and EV purchases that qualify for expiring credits may be more tax-efficient if completed by the end of 2025, subject to cash-flow and economic considerations.

**Full 100% Bonus Depreciation Reinstated Under the OBBBA** - The OBBBA restores 100% bonus depreciation for qualified property placed in service after January 19, 2025, reversing the scheduled TCJA phase-down that would have reduced bonus depreciation to 40% for 2025.

*Planning Note:* Businesses can immediately expense 100% of the cost of most new and used qualifying assets placed in service any time during 2025 after the effective date, such as machinery, equipment, computers, furniture, certain vehicles, and qualified improvement property (QIP). Bonus depreciation provides a powerful planning opportunity for capital-intensive businesses and works strategically with Section 179, allowing businesses to optimize deductions depending on taxable-income targets, ownership structure, and entity level limitations.

**Overtime and Tips Deductions** - The OBBBA introduces updated rules for employers in industries where employees regularly receive tips (such as restaurants, hospitality, and personal services). The OBBBA clarifies the treatment of overtime pay for tipped employees and expands the ability for employers to deduct tip-related wages when calculating business expenses.

*Planning Note:* Employers in tipped-wage industries should confirm their payroll systems correctly calculate overtime under the updated rules and ensure tip-reporting processes are properly documented.

## Strategic Tax Planning for Year-End

As we approach the close of 2025, it's crucial to adopt a strategic approach to your year-end tax planning. This section aims to provide you with actionable insights and recommendations to optimize your tax position before the year ends, considering the unique aspects of your businesses and investments.

**Pass-Through Entity Tax** - The pass-through entity tax (PTET) is an elective state tax that allows pass-through entities (PTEs) to shift taxation from the owner level to the entity level, bypassing the \$10,000/\$40,000 federal SALT deduction cap for individuals.

This strategy is not available for individuals with Schedule C businesses or certain Schedule E rental activities, but converting these activities into a PTE structure could yield significant tax savings, especially in high-income years or during major transactions. Timely planning and ensuring resolutions are in place by year-end are essential to maximizing these benefits.

**Capital Gains Management** - Review your 2025 investment activity to identify realized gains and consider harvesting losses where appropriate to offset those gains. This remains a core strategy for taxpayers with sizable brokerage accounts or concentrated positions, especially when coordinating with charitable gifts of appreciated securities.

**Charitable Giving – 2025 as a Transition Year** - With the OBBBA introducing a new non-itemizer charitable deduction and AGI floors and caps for itemized charitable deductions beginning in 2026, 2025 may be a favorable year to front-load larger gifts or fund donor-advised funds under the current rules. Careful planning can help high-income donors maximize their deduction in 2025 while positioning for the less generous rules ahead.

**Standard Deduction vs. Itemizing, Especially for Seniors** - The increased 2025 standard deduction, combined with the new senior add-on amount, will push even more taxpayers away from itemizing. Evaluate whether bunching deductions (charitable gifts, property taxes, elective medical/dental) into one year still makes sense, particularly if you are near the break-even point between itemizing and taking the standard deduction.

**Retirement Contributions and Roth Strategies** - Confirm 401(k), IRA, and (for business owners) SEP-IRA contributions before year-end (or by the applicable 2026 deadlines) to ensure you are taking full advantage of higher limits. Consider Roth conversions in years when current tax brackets and the OBBBA-extended rate structure make locking in today's tax cost attractive, but be mindful of impacts on Medicare premiums and ACA premium tax credits, especially with enhanced ACA subsidies scheduled to end after 2025.

**Estate and Wealth Transfer Planning Under Higher Exemptions** - The increased estate and gift tax exemption under the OBBBA offers a window for additional lifetime transfers and advanced strategies such as SLATs, GRATs, and family limited partnerships. Clients with taxable or near-taxable estates should review their plans, titling, and beneficiary designations to ensure they are aligned with their goals while the higher exemption is available.

**Business Owners: Expensing, Depreciation and Accounting Method Choices** - Confirm that 2025 equipment purchases, vehicles, and other capital expenditures are structured to take advantage of available expensing (Section 179) and bonus depreciation rules under current law (100% Bonus for eligible assets), as well as any OBBBA-related changes. For closely-held businesses, this may also be a good time to revisit accounting methods, inventory capitalization, and timing of large projects or contract billings.

## Strategic Tax Planning for Year-End (Continued)

**IRA Contributions** - Taxpayers have until April 15, 2026, to make traditional and Roth IRA contributions for the 2025 tax year. The contribution limit for 2025 is \$7,000 (\$8,000 if aged 50 or older), or, if less, your taxable compensation for the year. There is no age limit for contributing to traditional or Roth IRAs.

If your traditional IRA contributions are not tax-deductible, consider making non-deductible contributions instead. These can often be converted to a Roth IRA with minimal or no tax impact using a Backdoor Roth Conversion, allowing you to maximize your retirement savings.

**SEP-IRA Contribution Limits** - For 2025, employers can make contributions to an employee's SEP-IRA not to exceed the lesser of 25% of the employee's compensation or \$70,000. The employee compensation required to reach the maximum contribution limit for 2025 is \$280,000. For self-employed individuals, the applicable percentage for calculating the limit is 20% of net self-employment income. Although the contribution limits remain the same, reaching the full contribution requires \$350,000 of net self-employment income in 2025.

**Qualified Business Income (QBI) Deduction** - The Section 199A deduction (20% of Qualified Business Income) is now made permanent under the OBBBA, eliminating prior sunset-related uncertainty. Qualified pass-through entities (sole proprietorships, partnerships, S-corps, qualified trusts/estates) remain eligible. For 2025, most owners should benefit from the full QBI deduction if they have income below the following thresholds:

- Single/Head of Household: \$197,300
- Married Filing Jointly: \$394,600

For incomes above thresholds, deduction may be limited by W-2 wages paid by the business and/or the unadjusted basis immediately after acquisition (UBIA) of qualified property or reduced further for certain specified service trades or businesses (SSTBs). QBI must be computed separately for each qualified trade or business. Losses in one business offset gains in others; negative QBI can carry forward.

**Section 179 Expensing** - Section 179 remains more flexible than bonus depreciation because it can be applied selectively asset-by-asset and Section 179 can reduce taxable income to zero, but it cannot create a loss (unlike bonus depreciation, which can).

Combining Section 179 and bonus depreciation remains a powerful year-end planning strategy, especially for contractors, medical/dental offices, real estate businesses (QIP), and equipment-heavy industries. For S-corps and partnerships, taxable-income limitations at both the entity and shareholder/partner level must be considered.

### *Section 179 Expensing Limits for 2025:*

- Maximum Deduction: \$2.5 million
- Phase-Out Threshold: \$4 million\*

\*The Phase-Out Threshold is the amount of Section 179 eligible assets you can place in service before the business begins to phase out its eligibility to expense fixed assets under Section 179.

### *Section 179 Vehicle Expensing Limits for 2025:*

- SUVs (GVWR 6,001–14,000 lbs): \$30,300 Max Section 179 Deduction
- Passenger Autos (subject to luxury auto limits): \$12,200.

## Net Investment Income Tax, Material Participation, and Real Estate Professional Status

**Net Investment Income Tax (NIIT)** - The 3.8% NIIT applies to net investment income for taxpayers whose modified adjusted gross income (MAGI) exceeds:

- \$250,000 – Married Filing Jointly
- \$200,000 – Single / Head of Household
- \$125,000 – Married Filing Separately
- \$15,650 – Estates and Trusts

### *How It Applies to Real Estate:*

Real estate activities may be subject to NIIT if they are considered passive. NIIT generally applies to:

- Rental income from passive rental real estate activities
- Capital gains from the sale of passive rental properties
- Gain from the sale of partnership or S-corporation real estate interests when the underlying activity is passive

NIIT does not apply if:

- The taxpayer materially participates in the rental activity and/or
- The taxpayer qualifies as a Real Estate Professional (and the rental activities are grouped)

**Material Participation Rules (Applicable to All Businesses, Including Rentals)** - To avoid passive classification under §469, a taxpayer must meet one of the following seven IRS material participation tests:

- 500-Hour Test: You participate 500 hours or more in the activity during the year.
- Substantially All Participation: Your participation is substantially all of the participation in the activity by all individuals (including employees).
- 100 Hours and More Than Anyone Else: You participate more than 100 hours and your participation exceeds that of any other individual.
- Significant Participation Activities: You participate in several significant participation activities totaling more than 500 hours.
- Past 5 out of 10 Years: You materially participated in the activity for any 5 of the last 10 years.
- Personal Service Activity: You materially participated in a personal service activity for any 3 prior years.
- Facts and Circumstances: Based on all facts and circumstances, your participation on a regular, continuous, and substantial basis must exceed 100 hours and cannot be overridden by anyone else's management involvement.

### *Important Note:*

Material participation does not automatically allow rental income to avoid NIIT unless combined with Real Estate Professional status or the rental rises to the level of a trade or business. Documentation of hours is crucial (calendars, logs, emails, etc.).

## Net Investment Income Tax, Material Participation, and Real Estate Professional Status (Continued)

**Real Estate Professional Status (REP)** - Under §469(c)(7), a taxpayer qualifies as a Real Estate Professional if they meet both tests:

### Test #1 – Personal Services in Real Property Trades

- More than 50% of all personal services performed during the year must be in real property trades or businesses, including development, redevelopment, construction or reconstruction, acquisition or conversion, rental, operation, or management, leasing or brokerage

### Test #2 – 750-Hour Rule

- You must perform more than 750 hours of services during the year in real property trades or businesses in which you materially participate.

### Key Requirements and Notes:

- Both tests must be met annually.
- Hours performed as an employee count only if you own >5% of the employer.
- Spouse's hours count toward material participation, but not toward the 750-hour test (the 750 hours is individual only).
- Contemporaneous records are strongly recommended.

### Effect of REP Status on NIIT:

If you qualify as a REP and you materially participate in your rental activities:

- Rental income becomes nonpassive
- NIIT does not apply to those rental activities
- Gain on the sale of those properties is also excluded from NIIT

### Grouping Election for Real Estate Professionals (§1.469-9(g)):

REPs often need to file a grouping election to treat all rental activities as one combined activity, allowing hours from each to count toward material participation.

### Why Make the Election?

- Helps meet the material participation standards
- Allows multiple small rentals to qualify as one trade or business
- Required for REP status taxpayers to properly claim nonpassive treatment
- Without the election, each rental stands alone and may remain passive

### Election Mechanics:

- Made by attaching a statement to your timely filed tax return
- Stays in effect for all future years unless revoked with IRS consent
- Must include a declaration that the taxpayer is making the election under Reg. §1.469-9(g)

**Short-Term Rentals (STRs)** - Generally defined as rentals with an average stay of seven days or fewer, or 30 days or fewer when significant services are provided. STRs are treated differently from traditional long-term rentals. Because STRs are not classified as passive rental activities, they follow the seven IRS material participation tests.

## 2025 Tax Information Reference Guide

### 2025 Tax Brackets

<u>Rate</u>	<u>Single</u>	<u>Married Filing Jointly</u>	<u>Head of Household</u>
10%	Up to \$11,925	Up to \$23,850	Up to \$17,000
12%	Over \$11,925 but not over \$48,475	Over \$23,850 but not over \$96,950	Over \$17,000 but not over \$64,850
22%	Over \$48,475 but not over \$103,350	Over \$96,950 but not over \$206,700	Over \$64,850 but not over \$103,350
24%	Over \$103,350 but not over \$197,300	Over \$206,700 but not over \$394,600	Over \$103,350 but not over \$197,300
32%	Over \$197,300 but not over \$250,525	Over \$394,600 but not over \$501,050	Over \$197,300 but not over \$250,500
35%	Over \$250,525 but not over \$626,350	Over \$501,050 but not over \$751,600	Over \$250,500 but not over \$626,350
37%	Over \$626,350	Over \$751,600	Over \$626,350

### 2025 Standard Deduction

<u>Single/MFS</u>	<u>Married Filing Jointly</u>	<u>Head of Household</u>
\$15,750	\$31,500	\$23,625

### 2025 Child Tax Credits

<u>Child Tax Credit</u>	<u>Married Filing Jointly</u>	<u>All Other Taxpayers</u>
\$2,200 - Children under age 17 \$500 - Credit for other dependents	Phaseout begins at \$400,000, credit is fully phased out at \$444,000 of AGI for one qualifying child.	Phaseout begins at \$200,000, credit is fully phased out at \$244,000 of AGI for one qualifying child.

### 2025 AZ Tax Credit Limitations

<u>Organization Type</u>	<u>Single/HOH/MFS</u>	<u>Married Filing Jointly</u>
Public School Tax Credit	\$200	\$400
Qualifying Charitable Organization	\$495	\$987
Qualifying Foster Care Organization	\$618	\$1,234
Private School Tuition Tax Credit	\$769	\$1,535
Private School Tuition - Plus Tax Credit	\$766	\$1,527
Military Family Relief Fund <sup>1</sup>	\$200	\$400
<b>Maximum Potential AZ Tax Credits<sup>2</sup></b>	<b>\$3,048</b>	<b>\$6,083</b>

1. AZ allows only \$1,000,000 in contributions each year to qualify for this credit. If the limit has been reached, your contribution for the tax credit will be returned.
2. Credit eligible contributions made on or before the original due date for individual returns can be utilized on the preceding taxable year (i.e., contributions made by April 15, 2026 can be utilized on 2025 tax returns; excludes Military Relief Fund contributions, which must be made in the year they apply to, due to yearly cap limitation).

### AZ Tax Credits - Timing of Contribution

AZ tax credit contributions can no longer be deducted on Schedule A as charitable contributions when a state credit is received. Therefore, we recommend making your AZ tax credit contributions as near as possible to the April 15, 2026 due date to maximize the timing and credit of the payments on your 2025 returns.

**529 Plan Deduction** - 529 plan contributions of up to \$4,000 per beneficiary can be deducted against your Arizona income.

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