LIFETIME Tax Management

Key 2025 Year-End Tax Planning Strategies

The “One Big Beautiful Bill Act (OBBBA) that was enacted in July is a sprawling piece of tax legislation covering numerous areas of the tax code. However, for all its size, the new law wasn't tremendously impactful from a planning standpoint. Much of it simply extends or modestly expands provisions from the 2017 Tax Cut and Jobs Act (TCJA) that was set to expire at the end of 2025.

When the Bill first passed, we wrote about the changes to the standard deduction amounts, the new deductions for tips and overtime, the new senior deduction, the enhanced state tax deduction, and the return of 100% bonus depreciation.

As we approach the end of the year, we wish to highlight several areas that require strategic decision making:

Make Charitable Contributions In 2025 To Avoid The New 0.5%-Of-AGI Floor

OBBBA made some notable changes to the deductibility of charitable contributions, which have up until now been fully deductible for taxpayers who itemize deductions - although they are subject to maximum deductibility limits ranging from 20% - 60% of AGI, depending on whether the contribution is made to a public or non-public charitable organization, whether the donation is in cash or other types of property, and whether the value of the donation is calculated using the donor's cost basis or the property's fair market value.

One of the changes created a new ‘floor' of 0.5% of Adjusted Gross Income (AGI) for charitable contributions that can be taken as itemized deductions on Schedule A. This means that taxpayers who itemize their deductions must first subtract 0.5% of their AGI from their qualifying charitable contributions, and that the total amount of contributions must exceed 0.5% of AGI to be deductible at all.

For example, taxpayers with $100,000 of AGI can only deduct contributions above $100,000 × 0.5% = $500, those with $200,000 of AGI can only deduct contributions above $1,000, and so on. The rule kicks in beginning in 2026,

On top of directly reducing charitable deductions by 0.5% of AGI, **OBBBA also introduced a new reduction starting in 2026 to overall itemized deductions for taxpayers in the 37% Federal tax bracket.** For those taxpayers, their total itemized deductions will be reduced by 2/37 – effectively reducing the amount of tax savings realized for every dollar of itemized deductions from $0.37 to $0.35. The overall itemized deduction limit is taken *after* the 0.5%-of-AGI floor on itemized charitable contributions, meaning that starting in 2026, charitable contributions made by taxpayers in the 37% bracket will be reduced first by 0.5% of their AGI, and then further reduced by the 2/37 reduction on overall itemized deductions.

Example: *A single taxpayer with $750,000 of Adjusted Gross Income (AGI), who is in the 37% Federal marginal tax bracket plans to make a $75,000 contribution to a charitable organization.*

If she makes the contribution in 2026, it would be reduced by the 0.5%-of-AGI floor on charitable deductions, and then by the 2/37 reduction for all itemized deductions for taxpayers in the 37% tax bracket. For the first part of the calculation, the $75,000 contribution would be reduced by 0.5% × $75,000 = $3,750 to $71,250. Then that amount would be reduced by 2/37 to $71,250 − (2/37 × $71,250) = $67,399.

For high-earning taxpayers, particularly those in the 37% tax bracket, the best strategy might be to make charitable contributions in 2025 that would have otherwise happened in 2026 or later. This has the benefit of avoiding both the 0.5%-of-AGI floor on itemized charitable deductions and the 2/37 reduction of overall itemized deductions that take effect in 2026: a charitable contribution made in 2025 would be fully deductible (as long as it falls below the existing AGI-based deductibility limits shown above).

If an individual wanted to make a charitable contribution in 2025 to get the full tax benefit of the contribution, while waiting until 2026 or later to actually disburse the funds to charitable organizations, **they could contribute to a Donor Advised Fund (DAF)**. This would allow the taxpayer to receive a deduction in the year they contribute to the DAF while the contributed funds can remain in the DAF indefinitely until the donor decides to distribute them to a qualified charitable organization. In this way, a higher-income donor could effectively ‘book' several years' worth of charitable contributions in 2025 while getting the full tax benefits of those contributions, rather than waiting to make them until future years when they'll be subject to reductions.

Lump Other Deductions Into 2025 To Use The New Non-Itemizer Deduction

In addition to the 0.5%-of-AGI floor on itemized charitable contributions, OBBBA's other big change to the contribution rules is the creation of a new charitable deduction available only to taxpayers who do *not* itemize deductions, also beginning in 2026. This new charitable deduction is *not* subject to the 0.5%-of-AGI floor that applies to itemized contributions.

The new charitable deduction for non-itemizers has the biggest implications for taxpayers who aren't in the highest tax brackets and who are less likely to regularly itemize their deductions. For example, a person who rents their home and pays little or no state tax might never itemize their deductions, while a family whose mortgage and deductible State and Local Tax (SALT) payments aren't quite enough to exceed the standard deduction might only itemize deductions in years when their other deductible expenses like medical expenses or charitable contributions are high enough to push their total itemized deductions higher than the standard deduction. In either case, the new "non-itemizer" charitable deduction allows taxpayers with charitable contributions to deduct at least some of those contributions regardless of whether they itemize their deductions in that year.

Under OBBBA, taxpayers who take the standard deduction can deduct up to an additional $1,000 (for single filers) or $2,000 (for joint filers) of cash charitable contributions starting in 2026. As noted before, this deduction is not subject to the 0.5%-of-AGI floor that impacts deductible charitable contributions for those who itemize; rather, it's only available to those who take the standard deduction.

Under the traditional deduction lumping strategy, a taxpayer might concentrate two to three years' (or more) worth of charitable contributions into a single year, either as direct donations or as contributions to a Donor Advised Fund (DAF). They would then make no further deductible contributions for several years while taking the standard deduction until they're ready to have another ‘lumping' (and itemizing) year.

But with the new charitable deduction for non-itemizers, taxpayers don't necessarily need to lump *all* of their contributions into one year to get their full tax benefit. And in fact, because the non-itemizer charitable deduction isn't subject to the 0.5%-of-AGI floor, it might be more beneficial to make charitable contributions in *non*-itemizing years, at least up to the $1,000 (single) or $2,000 (MFJ) limits.

For 2025, then, it may make sense to consider this a potential ‘lumping' year in which a taxpayer times as many of their deductible expenses as possible (e.g., medical expenses, SALT payments up to $40,000 under OBBBA's increased deduction limit, mortgage interest, charitable contributions, and casualty and theft losses) to fall within the same tax year to enable them to itemize their deductions. At the same time, taxpayers might consider reserving some of those charitable contributions – at least those that would be made in cash (and not, for example, personal property or securities, or DAF contributions) – to contribute and deduct them in years when taking the standard deduction in order to get the full benefit from the newly available Form 1040 charitable deduction.

New Eligible Expenses For 529 Plans

The new law expands the types of expenses eligible for tax-free distributions from 529 plans by broadening the definition of "qualified higher education expenses". In addition to the current allowance for K–12 tuition, the measure adds several new K–12-related costs and also introduces a new category of qualified expenses for certain postsecondary credentialing programs.

EXPANDED LIST OF K–12 EXPENSES

Section 70413 of OBBBA expands the list of K–12 expenses eligible for tax-free 529 plan distributions. Currently, the only K–12-related expense eligible for 529 plan purposes is up to $10,000 per year of tuition paid to a primary or secondary school.

As of OBBBA's enactment on July 4, 2025, however, the new law adds the following additional expenses for students enrolled in public, private, or religious schools:

- Expenses for curriculum materials, textbooks, instructional materials, and online education materials;
- Costs for tutoring provided outside the home, if the tutor is unrelated to the student and meets specific qualifications;
- Fees for standardized tests, AP exams, and college admission exams;

- Dual enrollment fees for postsecondary programs (e.g., college courses taken in high school); and
- Educational therapy costs for students with disabilities, including occupational, behavioral, physical, and speech-language therapies.

Additionally, OBBBA increases the annual limit for these types of expenses from $10,000 to $20,000 per year beginning in 2026.

The new rules would apply to any *distributions* taken after the bill's enactment – meaning that any of the above expenses incurred this year, regardless of whether they were incurred before or after the bill's enactment, may be reimbursed through 529 plan funds as long as the distribution also happens this year.

POST-SECONDARY CREDENTIAL EXPENSES

Along with the expanded list of K–12 expenses, Section 70414 of OBBBA allows 529 funds to be used for qualified postsecondary credentialing expenses. The new law includes three types of eligible costs:

- Tuition, fees, books, and any other expenses required for enrolling in a postsecondary credential program;
- Fees for exams required to obtain or maintain the credential; and
- Fees for continuing education necessary to maintain the credential.

Eligible credentials include those that are industry-recognized and accredited by major credentialing organizations, apprenticeships registered with the Department of Labor, occupational licenses issued or recognized by a state or the Federal government, and other postsecondary credentials as defined under Section 3 of the Workforce Innovation and Opportunity Act.

"Trump Accounts" To Jumpstart Retirement Savings For Kids?

It's not uncommon for parents to want to help their children get a head start on their retirement savings, particularly given the potential for compounding tax-deferred (or tax-free, in the case of a Roth account) growth over many decades between childhood and retirement.

The challenge, however, is that existing options for parents to save on their children's behalf all have drawbacks of one kind or another. Retirement-focused accounts like traditional and Roth IRAs require the contributor to have earned income, meaning a child can't contribute to them (or have funds contributed on their behalf) until they have a job. Taxable custodial accounts like UTMAs or UGMAs are transferred in full to the child at the age of majority, with no way to ensure the funds are actually used for retirement as intended. And 529 plan funds are limited to qualified educational expenses.

Section 70204 of OBBBA creates a new alternative for starting retirement savings at an early age with a type of IRA dubbed a "Trump account", which can be opened and funded on behalf of any individual with a Social Security number from birth up until the year before the year in which they turn 18.

It's helpful to break down the rules for these accounts into two phases: prior to the year the beneficiary turns 18, and after.

RULES PRIOR TO THE YEAR THE BENEFICIARY TURNS 18

Starting in July 2026, one year after OBBBA's enactment, contributions of up to $5,000 per year (indexed to inflation in subsequent years) can be made to a Trump account on behalf of a beneficiary who has not yet reached the year in which they turn 18. Unlike a traditional or Roth IRA, there's no earned income requirement. Contributions made directly by a parent or other individual are not tax-deductible.

However, other entities – including Federal, state, and local governments and 501(c)(3) charitable organizations – can also contribute on a beneficiary's behalf, and those contributions do not count toward the $5,000 annual limit. Additionally, employers can contribute to a Trump account on behalf of an employee or any of the employee's dependents, subject to a $2,500 annual cap, also adjusted for inflation, which *does* appear to count against the $5,000 limit. Contributions from any of these sources, however, are excluded from the beneficiary's income.

If an individual is eligible to contribute to both a Trump account and a traditional or Roth IRA (i.e., they are under the age limit for Trump account contributions and meet the earned income requirements for IRA contributions), contributions to one do not reduce the amount that can be contributed to the other.

Investments in a Trump account are limited only to funds that track a qualified index, defined as the S&P 500 or any index composed primarily of U.S. equities. Market-cap based indexes (e.g., U.S. small cap) are allowed, but sector- or industry-weighted indexes (e.g., tech stock funds) are not. The funds must also be unleveraged and have annual fees no higher than 0.1%.

No distributions can be made from a Trump account until the year in which the beneficiary turns 18, except to roll over the entire account balance into a 529A ABLE account in the year the beneficiary turns 17, assuming the beneficiary qualifies due to disability. Trump accounts may be rolled over into other Trump accounts at any time, provided they are rolled over in their entirety, but they cannot be rolled into other types of IRAs.

If the beneficiary dies prior to the year in which they turn 18, the account loses its tax-deferred status. The entire balance (minus any direct contributions) becomes taxable to the designated beneficiary, or to the account beneficiary's final tax return if no beneficiary is named.

RULES STARTING IN THE YEAR THE BENEFICIARY TURNS 18

Once the beneficiary of a Trump account reaches the year in which they turn 18, the account starts to look much more like a standard traditional IRA, though it contains a mix of after-tax dollars (direct contributions) and pre-tax dollars (contributions from other sources that were excluded from gross income plus all growth). Most notably, the IRA distribution rules requiring owners to wait until they reach age 59 1/2 to make penalty-free withdrawals would presumably still be in effect. The "eligible investment" rules no longer apply and the beneficiary can invest the funds in any way allowed within an IRA.

It's still unclear whether a Trump account could be rolled into a standard IRA or converted to a Roth IRA once the beneficiary turns 18. Notably, Trump accounts will not be subject to the IRA aggregation rules under IRC Section 408(d)(2), which means there may be advantages to keeping them separate from other IRAs – for example, to avoid taxable conversion under the IRA pro-rata rules when making backdoor Roth contributions.

But for a young adult in a relatively low tax bracket, there also could be significant benefits to converting the whole account to a Roth IRA at age 18, making any future growth tax-free. More guidance will be needed to clear up the questions around how Trump accounts will interact with standard traditional and Roth IRAs.

The law is also unclear on whether other IRA rules – including Required Minimum Distributions (RMDs) or the 10-year post-death distribution rule under the SECURE Act – will apply after the year the beneficiary turns 18. The assumption is that they will, since the law states that Trump accounts are generally treated as IRAs under Section 408(a) unless otherwise specified. However, since there are many years until the first beneficiaries reach RMD age, additional clarification may emerge over time.

Complete Home Energy Projects Before December 31

OBBBA accelerated the sunset date of several tax credits created by the Inflation Reduction Act of 2022 aimed at incentivizing home energy efficiency improvements and expanding the use of clean energy for homes and cars. One of these deadlines has already passed: The Clean Vehicle Credits for new and used electric or fuel cell vehicles, **which expired on September 30, 2025.**

For some of the home energy-related credits, however, taxpayers still have until **December 31, 2025**, to meet the eligibility requirements – which gives them some time (albeit not much) to qualify for the credits.

The credit that most households would realistically qualify for is the Energy Efficient Home Improvement Credit (EEHIC) under IRC Section 25C. This credit covers a wide range of home projects that can improve energy efficiency, including windows, doors, insulation and sealing materials, and home energy audits to identify the most cost-effective improvements for energy and cost savings. The combined EEHIC limit for all the eligible costs *except* heat pumps, biomass stoves, or biomass boilers is $1,200, while heat pumps and biomass stoves or boilers are subject to their own individual limit of $2,000. The maximum EEHIC that can be taken in 2025, then, is $3,200. The improvements must be made to the taxpayer's primary residence – the credit isn't available for improvements made to additional homes or rental properties.

Another incentive is the Residential Clean Energy Credit (RCEC), which equals 30% of the cost of qualified expenses. This credit applies to materials and labor costs for installing solar panels, solar water heaters, wind turbines, geothermal heat pumps, fuel cells, and home battery storage systems.

To qualify for the credit, all projects must be installed or placed in service by December 31, 2025. At this point, the tight timeline may be unrealistic for many of the bigger-scale projects – e.g., it could be difficult to get a heat pump or solar panels installed in the amount of time left to claim the credit. However, smaller improvements, like doors or windows, might still be feasible. And, at the least, scheduling a home energy audit – which can often include free improvements like replacing old incandescent light bulbs with LEDs, installing weatherstripping on doors, and swapping out old power strips – can qualify for a $150 credit (though some cities and states provide home energy audits for free to their residents).

Even if there's not enough time to qualify for the Federal clean-energy tax credits, many states and cities offer their own credits, rebates, and financing subsidy programs to incentivize such projects. So homeowners may still find meaningful savings for energy efficiency improvements to their homes.

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Other Year End Strategies for Individuals

- **Maximizing Education Credits** – Individuals can claim a credit for tuition paid in 2025 even if the academic period begins in 2026, as long as the period begins by the end of March.
- **Increasing 401(k) Contributions** – Adjusted gross income (AGI) can be reduced if individuals increase the amount of their 401(k) contributions.
- **IRA Contributions** – Individuals eligible for deductions for IRA contributions can claim deductions, and thus reduce AGI, for amounts contributed generally through April 15, 2026.
- **Teacher deductions** – Educators can claim a deduction for up to $300 of classroom expenses (like books, supplies, and computer equipment, as well as personal protective equipment, disinfectant, and other supplies used to prevent the spread of COVID-19) and should maximize those expenses by year-end.

COMMENT:

Beginning in 2026, educators who itemize deductions will be able to claim a miscellaneous itemized deduction, not subject to the two-percent floor, on unreimbursed expenses. However, for 2025, the $300 deduction is the only one available.

We hope you find these year-end tax-savings strategies and information helpful. Feel free to contact us with any questions.

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