Expert Opinion **Trusts and Estates**

2025 Year-End Tax Planning Guidance and Tips

As we approach the end of 2025, we wanted to highlight some key issues to think about before year-end, and items to consider for the new year.

December 16, 2025 at 10:52 AM By **Amy Neifeld Shkedy**

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As we approach the end of 2025, we wanted to highlight some key issues to think about before year-end, and items to consider for the new year. At this late juncture, hopefully our readers have already implemented or reviewed their year-end planning, but, if not, here is your gentle reminder.

Annual Exclusion Gifts. Each individual can make cumulative annual gift tax exclusion gifts of $19,000 per donee during 2025 ($38,000 for a married couple electing to split gifts). This exclusion amount will remain the same in 2026. Annual exclusion gifts do not use any portion of an individual's federal estate and gift tax exemption (discussed below). Annual exclusion gifts can be made outright, through 529 Plan benefits (education savings accounts), or in special qualifying trust structures. For some individuals, it may be worthwhile to plan for 2025 and 2026 at the same

time, keeping in mind that gifts for 2026 can be made effective as of Jan. 1. The annual exclusion amount that may be given to a spouse who is not a U.S. citizen is $190,000 in 2025 and will increase to $194,000 in 2026.

Use of Exemption. For 2025, the federal and gift tax exemption amount is $13.99 million per individual (allowing a married couple to shield up to $27.98 million from federal estate and gift taxes). The passage of the One Big Beautiful Bill Act (OBBBA) has "permanently" increased the federal estate tax exemption to $15 million per individual (or $30 million for a married couple), beginning Jan. 1, 2026. This is an additional $1.01 million (or $2.02 million for a married couple) of exemption that will be available starting in January. This increase is considered to be "permanent" in that there is no scheduled expiration or sunset date; however, it's important to keep in mind that new legislation may always be passed in the future to change this, so there is no guarantee that the exemption amounts will remain at such a high level.

High net worth individuals may consider whether to make large gifts in order to use their exemptions before the amounts may be reduced under future legislation. Many have already implemented such gift tax planning and may choose to make additional gifts beyond the annual gift tax exclusion gifts to take advantage of the inflation adjusted increases. Given the passage of OBBBA, this is not a year-end deadline for 2025 so there is some breathing room, unlike what we have dealt with in prior years. That said, we can never know with certainty if and when the tax laws may change and the exemptions may be reduced, so it is important to consider whether exemptions should be used sooner rather than later.

Accelerate Deductions. Taxpayers can prepay deductible expenses due in January (including state and local income tax estimated payments which may not be due until January). Previously the SALT (state and local tax) deductions were capped at $5,000 per person ($10,000 for a married couple) in 2024, but in 2025 this limit was increased to $20,000 (or $40,000 for a married couple). Before accelerating deductions, taxpayers should ascertain if the limit has been reached to determine whether this payment should be made now or deferred until 2026.

Loss Harvesting. Taxpayers can harvest tax deductible losses to offset taxable gains for 2025. However, be mindful of the 30-day wash sale rule of Internal Revenue Code Section 1091, which could disqualify a deduction of the capital loss if the same, or substantially identical, security is purchased within 30 days after selling at a loss.

Requried Minimum Distributions. For those individuals who have reached their required beginning date or who hold inherited IRA accounts, required minimum distributions (RMDs) for 2025 should be taken by Dec. 31 from their traditional IRAs or qualified plan accounts. For charitable taxpayers who have reached age 70.5, a qualified charitable distribution (QCD) can help reduce the tax hit of

taking a distribution. With a QCD, you are able to transfer from an IRA (other than an inherited IRA) up to $108,000 (or up to $216,000 for a married couple) directly to a qualifying charity (a "charitable rollover") in partial or full satisfaction of the RMD for 2025.

For the participant, the RMD amount can be calculated based on the participant's life expectancy. After the participant's death, determining the RMDs of inherited IRAs is different, and falls under the updated distribution rules of the SECURE Act. The required minimum distribution period for most beneficiaries (other than an "eligible designated beneficiary," such as a spouse, minor child, disabled or chronically ill individual or individual who is not more than 10 years younger than the deceased participant) is limited to 10 years after the death of the IRA owner or retirement plan participant.

With respect to the 10-year payout after a participant's death, the rules vary depending on when the owner died. If the owner died before their RMD beginning date, then beneficiaries can opt to wait until year 10 to take out their RMD (they can take out RMDs annually or in some years and not others, but they aren't required to take it out until year 10 so that the IRA is fully depleted by the end of the 10-year period). However, if the owner died on or after the RMD beginning date, then annual payouts are required for each of the 10 years, so that beneficiaries need to take annual

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account fully depleted by year 10. The annual RMDs are based on the beneficiary's life expectancy, using the Single Life Expectancy Table (thus, an older beneficiary would be required to take out larger annual amounts, whereas the annual amounts required to be taken out by a younger beneficiary would be smaller). Since this annual requirement was not clarified by the IRS until this year, beneficiaries won't be penalized for not taking payouts prior to this year and don't need to make up any missed RMDs. Starting with the 2025 RMD, a beneficiary would calculate the life expectancy factor that applied to the beginning of the 10-year period and subtract one for each subsequent year.

Qualified Retirement Plan Establishment. Business owners who are considering funding a new retirement plan have the opportunity to establish a qualified retirement plan by the end of the year but defer the decision about the funding amount (and the actual contribution) until later during 2026 (contributions can generally be delayed until at least Sept. 15). The limitation for tax deductible contributions for 2025 is $70,000 per participant for defined contribution plans. For those ages 50 and up, this limitation increases to up to $77,500 (when including the $7,500 catch-up contribution), or, for those ages 60-63, this limitation increases to up to $81,250 (when including the $11,250 super catch-up). In 2026, this cap is projected to be increased to $72,000 (or $80,000 when including the $8,000 catch-up for those ages 50 and up, or $83,250 when including the $11,250 super catch-up for those ages 60-63).

Roth IRA Conversion. Taxpayers can consider converting a traditional IRA to a Roth IRA in order to take advantage of lower brackets or absorb excess deductions. By converting a traditional IRA to a Roth IRA, any untaxed amounts that are rolled over to the Roth IRA are subject to income taxation. The conversion must take place by Dec. 31. Under current law, Roth IRA conversions are irrevocable and cannot be reversed (this is pursuant to the Tax Cuts and Jobs Act of 2017). There are currently no income limitations for Roth conversions, which allows high income individuals to utilize this powerful strategy even though they would not otherwise be eligible to contribute directly to a Roth IRA directly because of income limitations.

Basis Step-Up Planning. For individuals who have funded "grantor" trusts for their families, year-end is a good time to think about swapping back low basis assets (e.g., appreciated stock) for high basis assets (e.g., cash) to help make tax reporting after the swap cleaner (rather than switch tax identification numbers in the middle of a tax year). It is better to own the lower basis assets at death because of the opportunity for a basis step-up to fair market value under Internal Revenue Code Section 1014. There is always a chance that this planning could change in the future if the step-up basis at death is ever eliminated or if grantor trusts will be treated differently for tax purposes.

Charitable Giving. Taxpayers in a high-income year can consider "prepaying" future charitable contributions to generate current income tax deductions. This is also something to consider given the higher standard deduction (for 2025, $15,750 for individuals and $31,500 for married couples), which might make bunching of charitable deductions worthwhile so you can benefit from the standard deduction in a year where your charitable deductions are reduced due to the prior year bunching/prepayment. This can be accomplished by increasing the contributions to your favorite charities, in general, or by deferring the receipt by the charitable organizations (or even defer the decision as to which ones to benefit) by contributing to a donor advised fund, a private foundation, charitable lead trust or charitable remainder trust or purchasing a charitable gift annuity. Both the charitable gift annuity and charitable remainder trust options allow you to retain an income stream for life and defer the transfer of the remaining funds to the charity until after your death.

IRAs and HSAs. Taxpayers have until April 15, 2026, to fund their Individual Retirement Accounts and Health Savings Accounts for 2025, however, it is always a good idea to start planning for such funding at year end. For those with children who have earned income, consider helping your children fund tax favored Roth IRAs if possible. The maximum contributions for IRAs for 2025 is $7,000 and will increase to $7,500 in 2026 (plus an extra $1,100 catch up for those who have reached the age of 50). The maximum family contribution for an HSA in 2025 is $8,550 (or $4,300 for individuals), with an extra $1,000 available for those who have reached the age of 55. For 2026, the maximum family contribution for an HSA will increase to $8,750 (or $4,400 for individuals).

Trust Income Tax Planning. Year end is a good time for trustees to evaluate whether to shift trust taxable income to a beneficiary (although a trustee will generally have until 65 days after the end of the tax year to shift trust taxable income to a beneficiary). Trusts reach the highest federal income tax much quicker than individual taxpayers, so shifting income to a beneficiary will shift the tax burden (via a K-1 to the beneficiary) and could result in a lower tax rate, depending on the beneficiary.

Estate Plan Review. For those individuals who are implementing gifting strategies to take advantage of the higher exemption amounts and/or annual gift tax exclusion amounts, consideration should be given to making these gifts to trusts for the intended recipients rather than outright. This should be properly coordinated with the overall estate plan for consistency and for proper tax planning (i.e., estate tax and generation-skipping transfer tax). Even for those who are not currently implementing gifting strategies, year-end is always a good time to review, or make a plan to review, your estate plan to see if changes might be in order, whether due to tax law changes or changes to family circumstances.

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