Top 10 tax-smart tips for 2025

At a glance

- 2025 tax changes offer updated tax brackets, a higher standard deduction, and expanded saving opportunities. The Tax Cuts and Jobs Act may expire at the end of the year, affecting tax rates, itemized deductions, mortgage interest deductions and the cap on state and local tax (SALT) deductions.
- Consider tax-planning strategies throughout the year, like maximizing credits and deductions and using tax-smart investing strategies.
- A tax professional and financial advisor can help you build a tax-smart plan that works for you all year long.

As we rapidly approach Tax Day, much may feel uncertain. Where is the global economy headed? Could recession be real this time? What about volatility in the stock market? And, most importantly, how will new policies impact my tax situation?

While we can't ever know the future, we can focus on the things in our control. Such as smart tax planning. To help, here are ten tips you can use to stay proactive and navigate the evolving tax environment so you can better manage your situation and maximize potential savings.

1 Keep up to date on tax law changes

With new inflation-adjusted tax brackets, higher standard deductions and more potential saving opportunities on the way, it's important to stay current on the latest federal and local tax policies.

Legislative updates. Stay informed about proposed changes in tax law such as modifications to the child tax credit, capital gains rates, alternative minimum taxes, gift and estate tax exemptions and retirement plan changes.

Expiration of temporary tax provisions. Some tax provisions, such as certain business deductions or individual tax breaks, are temporary and may expire soon. The Tax Cuts and Jobs Act will expire at the end of the year (unless Congress extends it), affecting individual tax rates, allowing more itemized deductions, removing the cap on state and local tax (SALT) deductions and returning mortgage interest deductions. Consider accelerating deductions or shifting income if beneficial.

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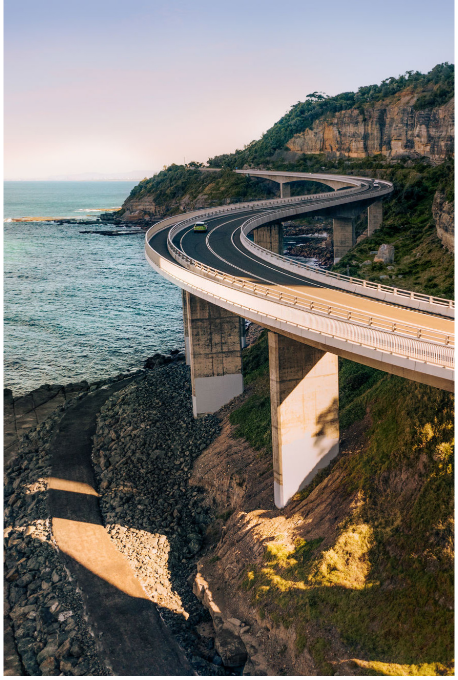


Did you know that you can gift up to $19,000 to as many individuals as you want without incurring a gift tax or needing to file a gift tax return? That's up from $18,000 in 2024.

2 Consider estate and gift tax planning strategies

When you gift assets, that's a taxable event. But fortunately, a large part of your gifts or estate may be excluded from taxation.

Annual gift exclusion. Review opportunities to gift assets to family members using the annual gift exclusion ($19,000 per person for 2025) to reduce the taxable estate over time.

Lifetime exemption. Use the higher lifetime gift and estate tax exemptions before they potentially decrease after 2025. Consider making larger gifts to heirs to reduce the future estate tax burden.

Trusts. Review whether creating or updating a trust (e.g., a revocable living trust, irrevocable trust, or charitable trust) makes sense for your estate planning.

3 Consider the impact of state and local taxes (SALT)

Within limits, you can deduct some or all of your state and local taxes if you itemize your deductions to reduce your federal taxable income.

State income tax considerations. If you're considering relocating, review how changes in state tax rates (or lack of state income tax) could affect your overall tax burden.

SALT cap strategy. With the $10,000 cap on state and local tax deductions, consider strategies like prepaying property taxes or bunching state income taxes to maximize your SALT deduction in a given year.

4 Make the most of tax-advantaged accounts

Whether through a tax-deferred retirement plan or a tax-free savings account, keeping your long-term savings in one or more tax-advantaged accounts can help lower your taxable income.

Retirement accounts. Ensure you're contributing the maximum allowed to tax-deferred retirement accounts like 401(k)s, Traditional IRAs, or similar accounts.

Did you know that a Health Savings Account (HSA) gives you a triple tax benefit? You can contribute money, grow it and withdraw it for qualified expenses all tax-free.

Roth IRAs and Roth 401(k)s. If you expect to be in a higher tax bracket in the future, consider contributing to Roth accounts to take advantage of tax-free growth.

Health Savings Accounts (HSAs). Contribute to an HSA if you have a high-deductible health plan (HDHP) and get a triple tax benefits: tax-free contributions, tax-free growth, and tax-free withdrawals for qualified expenses.

529 College Savings Plans. If you have children or are planning for education, contribute to a 529 plan to grow investments tax-free for qualified education expenses.

5 Manage your investments in a tax-efficient way

Taxes may not be top of mind with your investment strategy, but it makes good sense to pay attention to opportunities to manage, defer and reduce taxes.

Tax loss harvesting. If you have investments that have declined in value, consider selling them to offset capital gains. This can reduce your overall taxable income.

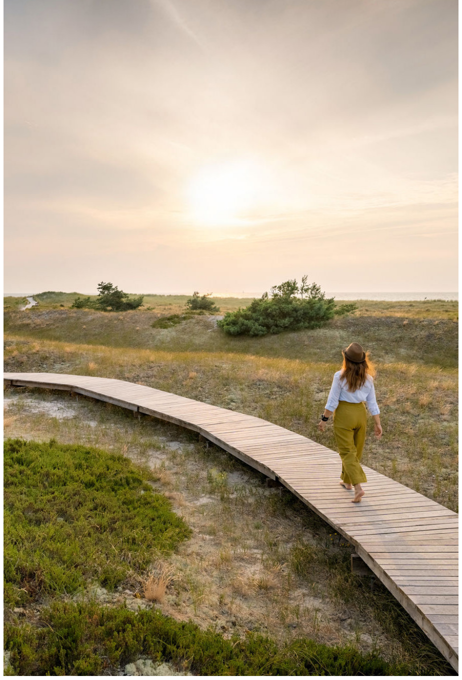
Asset location. Review the types of investments held in taxable vs. tax-advantaged accounts. Keep income-generating assets (dividends, interest) in tax-advantaged accounts and growth assets in taxable accounts.

Municipal bonds. If you're in a high tax bracket, municipal bonds can offer tax-free interest, providing a way to generate income with favorable tax treatment.

6 Get the most out of your deductions and credits

A tax deduction reduces your taxable income while a tax credit pays off a portion of what you owe in taxes. Maximizing these may decrease your tax liability and increase your refund.

Standard vs. itemized deductions. Assess whether you should itemize deductions (e.g., mortgage interest, medical expenses, state/local taxes, charitable contributions) or take the standard deduction. Bunching deductions into one year might help exceed the standard deduction threshold.



Did you know that you can take an immediate tax deduction when you contribute to a Donor-Advised Fund (DAF)? Also, your donation can grow tax-free while you decide how that money should be used.

Child tax credit and dependent care credit. Ensure you're maximizing credits related to children and dependents, especially as these have seen temporary increases under various recent laws.

Energy-efficient home credits. Take advantage of tax credits for qualifying home improvements like solar panels, energy-efficient windows, or electric vehicle (EV) purchases.

7 Review withholding and estimated tax payments

As the IRS says, "pay as you go, so you won't owe." You pay most of your taxes throughout the year either through withholding from your pay or making quarterly estimated tax payments.

Adjust withholding. If you've had major life changes (new job, marriage, children), ensure your W-4 withholding is up to date to avoid underpayment penalties or an unexpectedly large refund.

Quarterly estimated taxes. For self-employed individuals or those with other sources of income, make sure you're on track with estimated tax payments to avoid penalties.

8 Realize the benefits of charitable contributions and philanthropy

With smart tax planning strategies and itemized deductions, charitable contributions can potentially reduce federal income, capital gains and estate taxes.

Donor-Advised Funds (DAFs). Donating to a DAF can allow you to take an immediate charitable deduction while deciding where and when to distribute the funds.

Qualified Charitable Distributions (QCDs). If you're 70½ or older, consider making charitable donations directly from your IRA to satisfy Required Minimum Distributions (RMDs) without incurring income taxes.

Consult with a professional because tax rules change every year

These ten tips can help you remain proactive in adjusting your strategies for an evolving environment. Regularly consult with your tax professional and financial advisor to ensure you're taking advantage of every opportunity and minimizing risks. You'll be better equipped to optimize your position and stay ahead of potential tax law changes.

9 Review your tax filing status

Your filing status determines your filing requirements, standard deduction, eligibility for certain credits and your correct tax rate.

Filing status. Ensure you're using the most advantageous filing status: single, married filing jointly, married filing separately, head of household and qualifying surviving spouse. This is especially important if your situation has changed due to marriage, divorce, or dependents.

10 Discover tax-smart strategies for business owners and entrepreneurs

As a business owner or entrepreneur, tax planning may seem particularly complex. Consulting a tax professional or financial advisor throughout the year can help you avoid risk as year-end tax decisions may significantly impact your tax position.

S-Corp vs. LLC structure. If you're self-employed or own a business, review your entity structure to ensure it's still the most tax-efficient option (e.g., S-Corp status to avoid self-employment taxes on certain income).

Qualified Business Income (QBI) deduction: If applicable, ensure you're taking advantage of the 20% QBI deduction for pass-through entities, and review income thresholds that might impact this deduction.

Retirement Plans for small businesses. Consider establishing a retirement plan like a SEP IRA, Solo 401(k), or SIMPLE IRA to allow larger tax-deductible contributions if you're self-employed or a small business owner.