

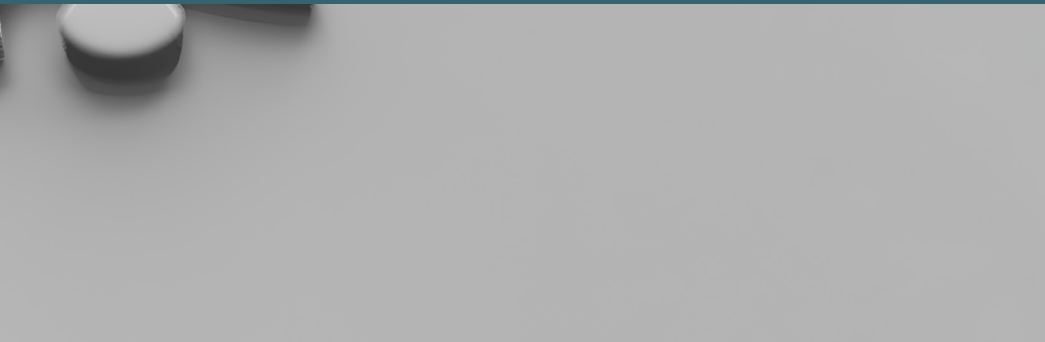


YEAR-END TAX PLANNING LETTER

2025

ITEMS TO CONSIDER BEFORE YEAR END

Our professionals can review the different areas of your business, individual circumstances or estate and trust situation to provide you with year-end tax strategies you can consider to potentially minimize taxes and penalties.



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TIME TO PLAN

As 2025 draws to a close, now is the time to sit down with your accountant and take a proactive approach to your financial health. The recently enacted One Big Beautiful Bill Act has introduced several tax law changes that could have a significant impact on individuals and businesses alike. Understanding how these updates affect your unique situation is critical to minimizing your tax liability and maximizing potential savings. Working with your trusted BMSS Professional can help you with the following:

- **Identify New Opportunities** – The latest legislation includes adjustments to deductions, credits, and business expense rules. A BMSS professional can help you uncover new ways to reduce your tax burden before December 31.
- **Avoid Costly Surprises** – Tax law changes can create unintended consequences. Your BMSS accountant can forecast your year-end position, helping you avoid unexpected liabilities when filing season arrives.
- **Strategize for the Future** – Beyond compliance, effective tax planning positions you for financial success in the coming year. Whether it's optimizing retirement contributions, timing capital gains, or planning for business growth, now is the time to act.

BMSS Advisors & CPAs

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01

INDIVIDUAL PLANNING



Tax planning is most effective when it's proactive and personalized. Our team of experienced professionals is here to help you approach year-end with clarity and confidence. We will work with you to identify opportunities and develop a tailored strategy that aligns with your unique financial situation and goals. This year's planning carries added importance with the enactment of the One Big Beautiful Bill Act (OBBBA) of 2025, which introduced several new deductions while making many of the Tax Cuts and Jobs Act (TCJA) provisions permanent. These updates may significantly influence both current and future tax considerations and are discussed throughout this letter.

TAX BRACKET PLANNING



There is still time before year-end to take advantage of strategies that may improve your 2025 tax position. Adjusting the timing of income and expenses—whether accelerating or deferring them—can make a meaningful difference depending on your individual circumstances. Understanding how your income fits within the federal tax brackets is key to optimizing these decisions.

The OBBBA made permanent the individual income tax brackets originally introduced under the TCJA, ensuring that the existing rate structure will continue for the foreseeable future. As such, being mindful of where you fall within these brackets is essential when considering year-end moves. For instance, if you are approaching a higher bracket as the year concludes, you may benefit from deferring

income or delaying certain transactions into early 2026. Conversely, if you expect to be in a higher bracket next year, accelerating income into 2025 could allow that income to be taxed at a lower rate.

The following tables outline the 2025 and 2026 federal income tax brackets now in effect. Reviewing these brackets can help you identify opportunities for strategic adjustments—such as shifting income or expenses—to achieve the most favorable tax outcome for your situation.

		Single Filers - Taxable Income Thresholds		Joint Filers - Taxable Income Thresholds	
Marginal Tax Rate		2025	2026	2025	2026
37%	Over	626,350	640,600	751,600	768,700
35%	Over	250,525	256,225	501,050	512,450
32%	Over	197,300	201,775	394,600	403,550
24%	Over	103,350	105,700	206,700	211,400
22%	Over	48,475	50,400	96,950	100,800
12%	Over	11,925	12,400	23,850	24,800
10%	Under	11,925	12,400	23,850	24,800

Note: The income tax brackets shown above do not include potential state or local income taxes, the 3.8% Net Investment Income Tax (NIIT), or additional Medicare surtaxes that may apply to higher-income taxpayers. Individual results may vary based on total income, deductions, and other factors.

ESTIMATED TAX REQUIREMENTS

Underpayment penalties can be avoided or minimized by confirming that you have paid enough tax for the 2025 tax year. Generally, you must pay 90% of 2025 tax or 100% of prior year tax (110% for joint filers with adjusted gross income (AGI) over \$150,000) through quarterly estimated tax payments and/or withholdings in order to be safe from penalties.

As year-end approaches, take a moment to review your year-to-date payments, especially in light of the updates under the OBBBA which may impact your overall tax position. If it looks like you might fall short, you can often increase withholdings from year-end bonuses or other compensation. Because withholdings are treated as if they were paid evenly throughout the year, this strategy can help you meet the safe harbor requirements and minimize potential penalties.

CAPITAL GAINS PLANNING

Long-term capital gains—on assets held for more than one year—continue to enjoy favorable tax treatment, with rates generally capped at 20%. The OBBBA did not alter these rates, maintaining the same preferential structure as in prior years.

As year-end approaches, it's an ideal time to review your investment portfolio for opportunities to harvest capital losses. Selling investments that have declined in value can help offset realized or anticipated capital gains, potentially reducing your overall taxable income for 2025.

When employing this strategy, keep in mind the wash sale rules, which disallow a loss if you repurchase the same or substantially identical stock or security within 30 days before or after the sale. Any disallowed loss is added to the cost basis of the newly acquired security, effectively deferring the deduction until it is later sold. Note that these rules apply only to losses—gains must always be recognized in full.



QUALIFIED OPPORTUNITY FUNDS (QOF)

If you have realized substantial capital gains, investing those gains in a Qualified Opportunity Fund (QOF) remains an effective way to defer and potentially reduce taxes. The OBBBA made several important updates that expand the program's flexibility and strengthen compliance requirements.

Previously, deferral of eligible gains was limited to December 31, 2026. The OBBBA repealed that sunset, allowing new deferral elections to continue beyond 2026. Generally, for investments made after December 31, 2026, deferred gains will be recognized at the earlier of a sale or exchange or five years after the investment date.

The familiar 10-year exclusion for post-acquisition gains remains available, and taxpayers may now hold QOF investments for up to 30 years before realizing deferred gains—offering greater long-term planning flexibility. Notably, updated basis step-up and substantial improvement rules apply to certain rural opportunity zones, enhancing their appeal for reinvestment and development strategies.

In addition, the OBBBA introduced an enhanced reporting and penalty regime to improve transparency and accountability. QOFs and their investors are now subject to stricter annual reporting and potential penalties for noncompliance, emphasizing the importance of careful documentation and monitoring.

Together, these updates make QOFs a continuing and potentially powerful tool for tax deferral and community-focused investment, particularly for those with a long-term horizon.

QUALIFIED SMALL BUSINESS STOCK (QSBS) EXCLUSION

The OBBBA enhanced the Qualified Small Business Stock (QSBS) exclusion, making this long-standing incentive even more attractive for entrepreneurs and investors. For QSBS acquired after July 4, 2025, the per-issuer gain exclusion cap increases from \$10 million to \$15 million (indexed for inflation), and the corporate gross asset threshold rises from \$50 million to \$75 million.

The OBBBA also introduced a phased exclusion schedule based on the holding period of the stock:

- 50% exclusion for stock held at least three years,
- 75% exclusion for stock held at least four years, and
- 100% exclusion for stock held five years or longer.

These changes significantly expand the potential benefits of investing in qualifying small businesses. Startups and investors should carefully consider the timing of new stock issuances and investments to take advantage of the higher exclusion limits and phased holding period structure.

NET INVESTMENT INCOME TAX (NIIT) - INDIVIDUALS

The net investment income tax (NIIT) is a 3.8% Medicare surtax applied to net investment income (NII) for joint filers with modified adjusted gross income exceeding \$250,000, or \$200,000 for single taxpayers. NII generally includes passive income such as interest, dividends, annuities, royalties, rents, and capital gains from the sale of securities or ownership interests in pass-through entities in which you do not materially participate. Income from a trade or business in which you actively participate is generally not subject to this tax.

While the OBBBA made no significant structural changes to the NIIT, the thresholds remain unindexed for inflation, meaning more taxpayers may be affected over time as income levels rise. Strategic planning can help manage exposure to this surtax—for example, by keeping income below the applicable thresholds, spreading the recognition of income across multiple years, or using deductions and losses to offset investment income.



WHO IS BMSS ADVISORS & CPAS?

At BMSS Advisors & CPAs, our goal is to provide a workplace that values character, family and a life/work balance while creating a professional environment where each individual is treated with respect. A life/work balance places the emphasis on our employees' well-being above the bottom line.

WHAT DOES THIS MEAN FOR YOU?

We believe happy employees equal happy clients because that means you'll have a more consistent team working on your engagement year after year whose main goal is to bring you peace of mind for your tax, accounting and advisory matters.



RETIREMENT ACCOUNT PLANNING

01 Contributing to Your 401(k)

For 2025, the employee contribution limit is \$23,500 (or \$31,000 for individuals age 50 and older, and \$34,750 for those ages 60 to 63). These deferrals are generally made on a pre-tax basis, reducing your current taxable income. However, contributions to a Roth 401(k)—if offered by your employer—are made on an after-tax basis, allowing for tax-free withdrawals in retirement.

For 2026, the contribution limits increase to \$24,500 (or \$32,500 for individuals age 50 and older, and \$35,750 for those ages 60 to 63). Starting in 2026, employees earning over \$150,000 in the prior year (indexed for inflation in future years) are required to make catch-up contributions to employer-sponsored retirement plans (such as 401(k), 403(b), or 457(b) plans) on a Roth (after-tax) basis. This rule does not apply to IRA contributions. We recommend reviewing your plan options and payroll elections to ensure your contributions are properly designated for the upcoming year.

Solo 401(k) Plans

A “Solo 401(k)” is a one-participant 401(k) plan designed for business owners with no employees (other than a spouse). These plans follow the same contribution and deduction rules as traditional 401(k) plans, making them an excellent option for self-employed individuals seeking higher retirement contributions.

02 Contributing to a Traditional IRA or Roth IRA

The IRA contribution limit for 2025 is \$7,000, plus a \$1,000 catch-up for individuals age 50 and older. For 2026, these limits increase to \$7,500 with a \$1,100 catch-up. Contributions require earned income, and while traditional IRA contributions may be deductible, Roth IRA contributions are not. However, Roth IRA withdrawals are generally tax-free if certain conditions are met.

Deductibility for traditional IRA contributions may be reduced if you or your spouse are covered by a retirement plan at work and your income exceeds certain thresholds. Likewise, Roth IRA contribution eligibility phases out at higher income levels. A backdoor Roth conversion remains a planning opportunity for those whose income exceeds the contribution limits.

All IRA contributions for 2025 must be made by the original due date of your tax return (generally April 15, 2026).

RETIREMENT ACCOUNT PLANNING - CONTINUED

03 **Converting a Traditional IRA to a Roth IRA**

A Roth conversion can be an effective long-term strategy—paying tax on converted funds now in exchange for tax-free growth and distributions later. Whether a conversion makes sense depends on your current and expected future tax rates, as well as your investment horizon before withdrawals begin. The OBBBA retained the Roth conversion rules, but its new income phaseouts and contribution indexing may affect eligibility and timing considerations.

04 **Simplified Employee Pension Plans**

A Simplified Employee Pension (SEP) plan allows employers to contribute to traditional IRAs established for employees. Employers can contribute up to 25% of compensation (up to the annual compensation limit - \$350,000 for 2025), up to a maximum of \$70,000 for 2025. For self-employed individuals, contributions are typically limited to 20% of net self-employment income. Contributions must be made by the extended due date of the employer's or individual's tax return.

05 **Age for RMDs**

The age for beginning Required Minimum Distributions (RMDs) remains 73 for individuals who turn 72 after 2022 and before 2033. For individuals reaching age 74 after December 31, 2032, the RMD age increases to 75. This change applies to those born on or after January 1, 1960.

Taxpayers in their first RMD year have until April 1 of the following year to take their first required distribution. Although immediate action may not be necessary, it is wise to plan ahead to manage income levels, avoid unnecessary taxation, and coordinate with other retirement and investment income strategies.

NET OPERATING LOSS (NOL) AND EXCESS BUSINESS LOSSES (EBL)

Net Operating Losses (NOLs) may now be carried forward indefinitely, but they can offset only up to 80% of taxable income in any given year. This means an NOL can no longer completely eliminate taxable income in a future year.

The OBBBA made the Excess Business Loss (EBL) limitation permanent and subject to annual inflation adjustments. For 2025, an individual's net trade or business losses are limited to \$626,000 for joint filers and \$313,000 for single filers. Losses exceeding these thresholds are treated as excess business

losses and are disallowed in the current year. Disallowed amounts are carried forward as part of the taxpayer's NOL in subsequent years.

A "trade or business" includes—but is not limited to—activities reported on Schedule C or Schedule F, as well as business activities reported on Schedule E, such as pass-through income and losses from partnerships and S corporations. It also encompasses business gains and losses reported on Form 4797.

QUALIFIED BUSINESS INCOME DEDUCTION (QBID)

Taxpayers, other than corporations, may be eligible for a deduction of up to 20% of their qualified business income (QBI). QBI represents the net amount of qualified items of income, gain, deduction, and loss from a trade or business, including income from partnerships, S corporations, and sole proprietorships. This deduction (QBID) can materially reduce your effective tax rate—for instance, qualifying taxpayers may lower their top marginal rate on QBI income from 37% to 29.6%.

For 2025, the QBID phase-in thresholds are \$394,600 for joint filers and \$197,300 for single filers. When taxable income exceeds these amounts, the deduction may be limited based on a combination of W-2 wages paid by the business and/or the unadjusted basis of qualified property held by the business.

Beginning in 2026, the OBBBA makes the 20% QBID permanent and increases the phase-in thresholds to \$403,500 for joint filers and \$201,750 for single filers.

The deduction for specified service trades or businesses (SSTBs)—such as law, accounting, health, and consulting—continues to phase out once taxable income exceeds the threshold amounts. Under the OBBBA, the upper limits for 2026 are \$553,500 for joint filers and \$276,750 for single filers.

In addition, the OBBBA introduces a minimum deduction for qualifying active business income. If you materially participate in your trade or business and have at least \$1,000 of QBI, you are entitled to the greater of a minimum \$400 deduction (indexed for inflation after 2026) or your regular calculated QBID.

What Counts as a Qualified Tip?

The Treasury published Proposed Regs defining what industries are included. The list contains nearly 70 occupations from bartenders to water taxi operators and rickshaw drivers. Qualified tips are paid voluntarily without consequences for nonpayment, are not subject to negotiation, and the amount is determined by the payer.

NEW DEDUCTION FOR TIPS

The OBBBA introduced a new deduction for up to \$25,000 of qualifying tip income (this deduction limitation applies for all filing statuses) for tax years 2025 through 2028. Qualified tips include cash tips received in an occupation that customarily and regularly receives tips, provided they are paid voluntarily by the customer and not subject to negotiation. Mandatory service charges and automatic gratuities are not eligible.

This deduction begins to phase out for taxpayers with modified adjusted gross income (MAGI) above \$300,000 for joint filers and \$150,000 for single filers (note that married taxpayers must file jointly to claim this deduction). While the deduction reduces income for federal income tax purposes, tips remain subject to Social Security and Medicare taxes.

The IRS has issued Notice 2025-62, which provides transition penalty relief for employers and payors for tax year 2025. Because reporting systems have not yet been updated, employers will not face penalties for failing to separately report cash tips or the occupation of the tip recipient on 2025 Forms W-2 or 1099, as long as the overall filings are otherwise complete and correct.

Although separate reporting is not mandatory during this transition year, employers are encouraged to provide employees with occupation codes and a separate accounting of cash tips—for example, through an online portal, supplemental pay statement, or Box 14 of Form W-2—so that employees can accurately claim the deduction on their 2025 tax returns. Additional IRS guidance for individual taxpayers on how to claim this deduction is expected prior to the 2025 filing season.

NEW DEDUCTION FOR OVERTIME PAY

Beginning in tax year 2025, taxpayers may deduct up to \$25,000 of qualified overtime pay (\$12,500 for single filers) from income. The deduction applies to non-exempt employees and covers compensation paid for hours worked in excess of the employee's regular rate of pay. The deduction phases out for taxpayers with MAGI exceeding \$300,000 for joint filers and \$150,000 for single filers. Like the tip deduction, married taxpayers must file jointly to claim the overtime deduction.

The OBBBA also requires employers and payors to report the total amount of qualified overtime compensation on information returns such as Forms W-2 and 1099. However, consistent with IRS Notice 2025-62, the IRS and Treasury have announced penalty relief for 2025 because the current forms do not yet include separate reporting fields for overtime. Employers who make a good faith effort to provide accurate total wage information will not be penalized for failing to separately identify qualified overtime pay for 2025.

Employers are encouraged—though not required—to provide employees with a separate accounting of qualified overtime pay (for example, in Box 14 of Form W-2 or through another written statement) so employees have the information needed to claim the deduction on their 2025 returns.

NEW SENIOR DEDUCTION

Taxpayers, aged 65 or over, can take an additional standard deduction of \$6,000 per person in 2025. This new Senior Deduction starts phasing out once gross income reaches \$75,000 for single or \$150,000 for a joint return. This deduction is allowed whether the taxpayer itemizes or not and is applicable for tax years 2025 through 2028.

MAXIMIZING YOUR DEDUCTIONS BY “BUNCHING” YOUR ITEMIZED DEDUCTIONS

For 2025, the standard deduction is \$31,500 (married filing jointly), \$23,625 (head of household), and \$15,750 (single or married filing separately). Because the standard deduction is relatively high, it may be beneficial to “bunch” itemized deductions—for example, timing larger charitable gifts or medical expenses in a single year—so that total itemized deductions exceed the standard deduction in that year.

Itemized Deduction Limitation Beginning in 2026 (High Income Taxpayers): Starting in 2026, the OBBBA replaces the old “Pease limitation” with a new rule for high-income taxpayers. If your income exceeds the top (37%) tax bracket threshold, your total itemized deductions will be gradually reduced based on how far your income is above that level. For those taxpayers in the 37% bracket, the tax benefit of itemized deductions will be capped at 35%.

In simple terms, the higher your income rises above the 37% tax bracket threshold, the more your itemized deductions will be limited, though not eliminated entirely. Because this new limitation begins in 2026, it may be beneficial to accelerate deductible expenses into 2025 to take full advantage of them before the new rule takes effect.

GAMBLING LOSSES

Beginning in 2026, the OBBBA limits the deduction for gambling losses to 90% of total losses, and only up to the amount of gambling winnings. Losses can no longer fully offset winnings, even if equal, and remain deductible only if you itemize. Taxpayers claiming the standard deduction cannot benefit. Taxpayers should maintain detailed records of winnings and losses, including receipts and statements, to substantiate any deduction.

CASUALTY LOSSES

Under the OBBBA, the limitation on deductions for personal casualty losses is made permanent and expanded to cover losses from both federally and state-declared disasters beginning in 2026. Each loss must exceed \$500, and total net losses are deductible only to the extent they exceed 10% of adjusted gross income. A timely insurance claim must be filed to qualify.

STATE AND LOCAL TAX DEDUCTION

Under the OBBBA, beginning in tax year 2025, the cap on the state and local tax (SALT) deduction increases to \$40,000 for most taxpayers and \$20,000 for married individuals filing separately. The cap is increased annually by 1% through 2029. Starting in 2030, the cap reverts to \$10,000 (\$5,000 for married filing separately), unless further legislation extends or modifies these provisions.

The SALT deduction is available only to taxpayers who itemize their deductions. For tax years before 2030, the cap is subject to a phase-down for high-income taxpayers: the allowable deduction is reduced by 30% of the amount by which the taxpayer's modified adjusted gross income (MAGI) exceeds a specified threshold. For 2025, the threshold is \$500,000 for all filing statuses except married filing separately, for which the threshold is \$250,000. Both thresholds are indexed for inflation in subsequent years.

For the 2025 tax year, once MAGI reaches \$600,000 for most taxpayers and \$300,000 for married individuals filing separately, the cap reverts to \$10,000 and \$5,000, respectively.



MORTGAGE AND HOME EQUITY LOAN (HELOC) INTEREST

The OBBBA makes permanent the \$750,000 cap on the deduction for mortgage interest on acquisition indebtedness for a primary and one secondary residence. Home equity loan interest remains deductible only if the proceeds are used to buy, build, or substantially improve a qualified residence within the \$750,000 limit. The OBBBA also clarifies that mortgage insurance premiums are deductible as mortgage interest, subject to income-based phaseouts.

STUDENT LOAN INTEREST DEDUCTION

Taxpayers may continue to deduct up to \$2,500 of interest paid on qualified education loans each year. The deduction is an above-the-line adjustment to income that can be claimed by all individuals, not just those who itemize. The maximum deduction of \$2,500 is subject to phase-outs based on modified adjusted gross income (MAGI) (ranging from \$85,000 to \$100,000 for single and \$170,000 to \$200,000 for joint filers for 2025). Be sure to keep Form 1098-E from your loan servicer as documentation for this deduction.

CAR LOAN INTEREST DEDUCTION

The OBBBA introduced a new temporary deduction for interest paid on car loans for U.S.-assembled passenger vehicles provided the vehicle is a new vehicle purchased and financed after December 31, 2024. Taxpayers may deduct up to \$10,000 per year of qualifying interest for tax years 2025 through 2028.

The deduction begins to phase out for taxpayers with modified adjusted gross income (MAGI) above \$200,000 for joint filers and \$100,000 for single filers. It applies only to personal-use vehicles that meet the final assembly requirement in the United States. This deduction is available to all taxpayers, whether they itemize or claim the standard deduction.

CHARITABLE GIVING STRATEGIES

Thoughtful charitable giving remains an important part of both personal financial planning and tax strategy. The OBBBA introduced changes to charitable contribution deductions beginning in 2026, creating new planning opportunities before the changes take effect.

Updated Charitable Deduction Rules (Beginning in 2026):

- Taxpayers who claim the standard deduction may deduct up to \$2,000 (married filing jointly) or \$1,000 (single) of cash charitable contributions each year.
- For itemizers, charitable deductions will continue to be available but will be subject to a 0.5% adjusted gross income (AGI) floor, meaning only contributions exceeding that threshold will be deductible.

Because this AGI floor begins in 2026, taxpayers who plan to make significant charitable gifts may wish to accelerate or “bunch” contributions into 2025 to take full advantage of current rules.

CHARITABLE PLANNING STRATEGIES

USE A DONOR-ADVISED FUND (DAF)

A DAF allows you to make a charitable contribution, receive an immediate deduction, and recommend grants to charities over time. It's a powerful way to bunch contributions in 2025 while maintaining flexibility for future giving.

DONATE APPRECIATED ASSETS

Contributing long-term appreciated securities directly to charity allows you to deduct the fair market value of the gift and avoid paying capital gains tax on appreciation.

MAKE QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs)

Individuals age 70½ or older can transfer up to \$108,000 in 2025 from an IRA directly to qualified charities. QCDs satisfy Required Minimum Distributions (RMDs) and reduce taxable income while supporting charitable causes.

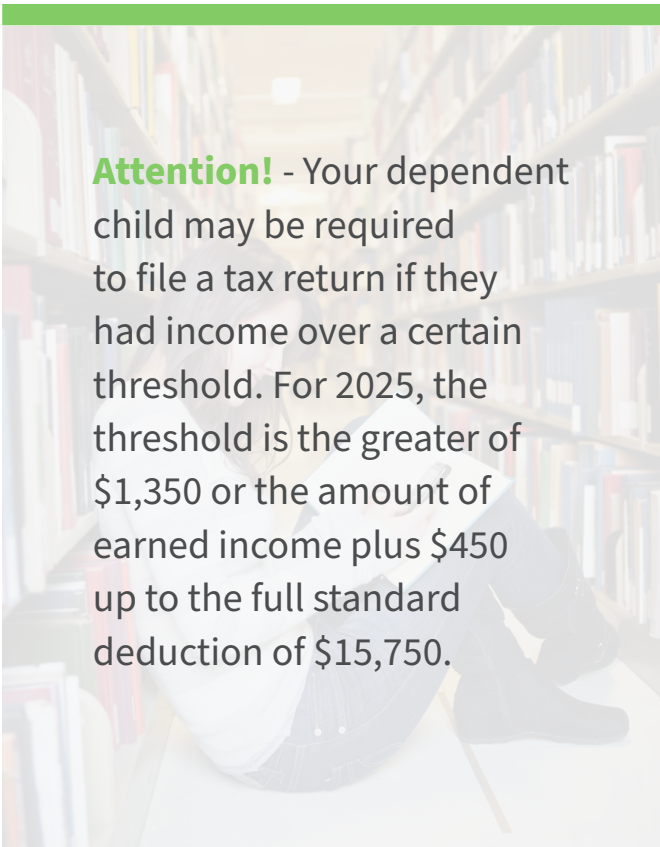
By planning the timing of your charitable contributions—especially before the new AGI floor begins—you can continue to maximize both your charitable impact and your overall tax efficiency under the OBBBA.

CHILD AND EDUCATION-RELATED TAX BENEFITS

Qualified Tuition Programs (QTP)

A Qualified Tuition Program (QTP), commonly known as a 529 plan, is an education savings plan that allows families to set aside funds for future education expenses. While contributions are not tax deductible, the earnings grow tax-free if used for qualified education expenses such as tuition, fees, room and board, books, supplies, computers, and software at eligible institutions.

The OBBBA expanded the definition of qualified expenses to include standardized test fees, dual enrollment costs, and tutoring. The OBBBA also increased the annual K–12 tuition limit to \$20,000 per student, allowing greater flexibility for families seeking to use 529 funds for private or parochial school expenses.



Attention! - Your dependent child may be required to file a tax return if they had income over a certain threshold. For 2025, the threshold is the greater of \$1,350 or the amount of earned income plus \$450 up to the full standard deduction of \$15,750.

529 Plan Rollover

Taxpayers may now roll over unused funds from a 529 education savings plan to the beneficiary's Roth IRA, up to a lifetime limit of \$35,000. To qualify:

- The 529 plan must have been open for at least 15 years,
- Contributions made within the past five years (and any earnings on those contributions) are ineligible for rollover, and
- The annual rollover amount cannot exceed the Roth IRA contribution limit (\$7,000 for 2025).

This strategy can be especially beneficial for parents or grandparents with remaining 529 plan balances after education expenses are covered—allowing those funds to continue growing tax-free for the beneficiary's future retirement.

Adoption Credit and Exclusions

The OBBBA expanded and modified the adoption credit and related income exclusions. Most taxpayers may continue to claim a credit for qualified expenses incurred in the adoption of an eligible child, including adoption fees, legal fees, court costs, and travel expenses.

Beginning in 2025, up to \$5,000 of the adoption credit is refundable, providing an immediate benefit even if no tax is owed. The refundable portion cannot be carried forward, but any remaining nonrefundable credit may be carried forward for up to five years.

Taxpayers may exclude from gross income amounts received under an employer-provided adoption assistance program. Both the credit and the exclusion continue to be phased out at higher income levels, with phase-out thresholds adjusted annually for inflation. The rules and qualifying expenses may vary depending on the type of adoption (domestic, foreign, or special needs).

CHILD AND EDUCATION-RELATED TAX BENEFITS - CONTINUED

Child and Dependent Care Credit

Taxpayers who pay for the care of a child under age 13 or an incapacitated dependent or spouse so that the taxpayer may work or look for work may qualify for the Child and Dependent Care Credit.

For 2025, the credit remains up to 35% of eligible expenses—a maximum of \$1,050 for one qualifying individual or \$2,100 for two or more, depending on income.

Beginning in 2026, the OBBBA permanently increases the maximum credit rate to 50% of eligible expenses, with the percentage phasing down as income rises (but never below 20%). The maximum qualifying expenses remain \$3,000 for one and \$6,000 for two or more, resulting in potential credits of up to \$1,500 or \$3,000. The credit remains nonrefundable, and the dollar limits are not indexed for inflation.

Child Tax Credit (CTC)

The OBBBA made the expanded Child Tax Credit permanent. For 2025 and 2026, the credit is \$2,200 per qualifying child under age 17, with up to \$1,700 refundable, depending on income. These amounts are indexed for inflation in future years.

The credit begins to phase out at \$400,000 of income for joint filers and \$200,000 for others, thresholds that are now permanent under the OBBBA. To claim the credit, both the taxpayer (or one spouse on a joint return) and each qualifying child must have a valid Social Security number issued before the tax return due date.

The OBBBA also retained the \$500 nonrefundable credit for other dependents who do not meet the qualifying child criteria and made permanent the suspension of personal exemptions.



American Opportunity Tax Credit (AOTC)

The American Opportunity Tax Credit provides a maximum credit of \$2,500 per eligible student for the first four years of higher education. Up to \$1,000 of the credit is refundable. The AOTC begins to phase out for taxpayers with modified adjusted gross income (MAGI) between \$80,000 and \$90,000 for single filers and between \$160,000 and \$180,000 for joint filers.

The Lifetime Learning Credit for Education

The Lifetime Learning Credit is a nonrefundable credit of up to \$2,000 per tax return for qualified tuition and related expenses. It is available for all years of post-secondary education, including courses to acquire or improve job skills. The LLC uses the same phase-out thresholds as the AOTC.

Coverdell Education Savings Accounts (ESAs)

A Coverdell Education Savings Account (ESA) is a trust or custodial account created to pay qualified education expenses for a designated beneficiary. Contributions are not tax deductible, but earnings grow tax-free, and distributions used for qualified education expenses (including elementary, secondary, and higher education) are also tax-free. Annual contributions are limited to \$2,000 per beneficiary, subject to phase-outs between \$95,000 and \$110,000 for single filers and \$190,000 and \$220,000 for joint filers. Contributions may be made up to the original due date of the tax return (generally April 15).



Scholarship Programs

Any amount received as a qualified scholarship and used for qualified tuition and related expenses can be excluded from income. The exclusion does not apply to any portion of the amount received which represents payment for teaching, research, or other services by the student required as a condition for receiving the qualified scholarship (with limited exceptions). Also, amounts used for incidental expenses, such as room and board, travel, and optional equipment, must be included in gross income.

ENERGY CREDITS

The Inflation Reduction Act of 2022 created or expanded several clean energy incentives, including the Residential Clean Energy Credit, Energy Efficient Home Improvement Credit, and the Clean Vehicle Credit.

Under the OBBBA, many of these incentives are set to expire. Specifically, the Residential Clean Energy Credit and Energy Efficient Home Improvement Credit will no longer apply to property placed in service after December 31, 2025, and the Clean Vehicle Credit cannot be claimed for vehicles acquired after September 30, 2025.

Taxpayers planning to install solar panels, energy-efficient windows or doors, and HVAC systems should consider completing these projects before year-end 2025 to take advantage of the remaining credits. The OBBBA did not extend or replace these energy provisions, making 2025 a key year for claiming available clean energy incentives.



While these tax planning tips cover many areas, there may be other areas that can be addressed based on your unique situation. Please reach out to your BMSS professional to discuss your options.

02

ESTATE, TRUST AND GIFT PLANNING



KEY FIGURES

The 2025 estate, gift, and generation skipping transfer (GST) basic exclusion amount is \$13,990,000 per person (\$27,980,000 for a married couple).

Beginning in 2026, the tax exclusion is \$15,000,000 per person (\$30,000,000 for a married couple). The OBBBA made these higher exclusion amounts permanent, with annual inflation adjustments. The maximum federal estate and gift tax rate remains 40%.

YEAR-END TRUST DISTRIBUTION PLANNING

For certain trusts that are not required to make distributions, distribution planning is important to minimize the overall tax due on the trust's income. In general, a trust not otherwise required to make distributions is liable for the tax on all of its income if no distributions are made to beneficiaries. If distributions are made, the beneficiary, rather than the trust, is taxed on the portion of the income distributed.

Since trusts quickly reach the top tax rate of 37%, distributions to beneficiaries often result in a lower overall tax burden. For 2025, ordinary

income in excess of \$15,650 will be taxed at the highest rate to the trust. Alternatively, in 2025, individuals are not assessed the 37% rate until their taxable income exceeds \$626,350 or \$751,600 for single and married filers, respectively. If a trustee determines that distributions are appropriate, the distributions should be paid to the beneficiaries by the end of the calendar year. However, the trustee may make an election to treat any distributions paid within 65 days after year end (before March 6, 2026) as a distribution for the 2025 tax year.

We realize that an estate plan is more than tax minimization strategies. It is planning to pass your legacy to your loved ones according to your unique needs and wishes.

THE IMPORTANCE OF ESTATE PLANNING

A well-crafted estate plan also provides clarity and direction for your loved ones, addressing matters such as probate administration, the coordination of wills and trusts, beneficiary designations, and the management of assets during incapacity. Beyond tax considerations, these elements work together to preserve family harmony and ensure that your intentions are carried out efficiently and effectively.

EXCLUSION FOR EDUCATIONAL & MEDICAL EXPENSES

In addition to the annual exclusion amount, nontaxable gifts or transfers may be made for certain educational and medical expenses. The exclusion for educational and medical expenses is unlimited in amount and can be made on behalf of anyone you choose, regardless of relationship. To take advantage of these exclusions, the payments must be made directly to the educational institution or health care provider.



REVIEWING RETIREMENT PLAN BENEFICIARIES

The SECURE 2.0 Act of 2022 made significant changes to qualified retirement plans, particularly the rules governing required minimum distributions (RMDs) after the account owner's death. These provisions remain in effect for 2025.

Eligible designated beneficiaries (EDBs)—including a surviving spouse, minor child (under age 21), a disabled or chronically ill individual, or a beneficiary not more than 10 years younger than the decedent—may continue to stretch RMDs over their lifetime. All other beneficiaries are generally required to fully distribute inherited accounts within 10 years of the account owner's death (or within five years if the estate or certain trusts are named as the beneficiary).

The IRS has clarified that, in some cases, annual RMDs may still be required within the 10-year period, depending on the original owner's RMD status.

To avoid unintended consequences, review and update the beneficiary designations on your 401(k), 403(b), IRA, annuity, and pension accounts to reflect life changes such as marriage, divorce, or the death of a beneficiary. Also, ensure your will and other estate documents are consistent with your current wishes.

PORTABILITY OF THE ESTATE AND GIFT TAX EXEMPTION

With the passing of the OBBBA, portability is maintained. Portability may provide relief for surviving spouses of deceased individuals that were not able to fully utilize their lifetime exclusion before their death. Portability allows an estate's executor to transfer ("port") the deceased spouse's unused exclusion (DSUE) amount to his or her surviving spouse, via an election made with the decedent's estate tax return (Form 706). This allows the surviving spouse to utilize the remainder of his or her deceased spouse's exclusion, in addition to their own exclusion, for gift and estate tax purposes.

If the surviving spouse does not utilize the remainder through gifting during his or her lifetime, it will be available to offset their gross estate value at his or her death. In the summer of 2022, the IRS released simplified procedures to make a late portability election within five years of the decedent's date of death. Previously, this required a private letter ruling if Form 706, including the DSUE calculation, was not timely filed. As with gifting, prior IRS regulations have indicated that ported DSUE amounts will not be "clawed back." Finally, it is important to note that portability is NOT available for the lifetime GST tax exemption.

ANNUAL GIFTING EXCLUSIONS

The annual gift tax exclusion allows taxpayers to gift up to \$19,000 during 2025 to any individual (\$38,000 for married couples who elect to split gifts), gift-tax free and without counting the amount of the gift toward the lifetime exclusion. The annual gifting exclusion will remain the same in 2026. The annual exclusion for gifts made to non-citizen spouses in 2025 is \$190,000 and increases to \$194,000 in 2026.

BUSINESS SUCCESSION

Ensure that your business remains in capable hands by creating a business succession plan. We can assist you by working with your advisors to develop a comprehensive transfer plan.



While year-end tax planning is important, so is proactive estate planning. If you do not have an estate plan in place already, the BMSS Estate and Trust team can put you in touch with the right people that can help you establish a plan and much more.

HOW CAN BMSS ADD VALUE TO THE ESTATE PLANNING PROCESS?



OFFER TAX-FOCUSED INSIGHTS

We can analyze your current financial situation and identify opportunities to minimize future tax exposure through strategic use of trusts, gifting, and charitable contributions.



ENSURE ACCURATE ASSET VALUATION

Properly valuing real estate, business interests, and investments ensures fair and compliant estate distribution.



COORDINATE WITH LEGAL & FINANCIAL ADVISORS

We often work alongside attorneys and wealth managers to align tax strategies with legal documents and investment goals, ensuring a cohesive plan.



MAINTAIN COMPLIANCE & DOCUMENTATION

From record-keeping to reporting requirements, we can help ensure your estate plan stays compliant with evolving tax laws and financial regulations.

Effective estate planning is built upon a multidisciplinary approach and is not an isolated one-time event. Updating your estate plan is just as important as creating one. It is a continual process to assist you in ensuring that your legacy remains viable long into the future.



BUSINESS PLANNING

Expertly navigate federal tax complexities with BMSS and maximize your returns with our tailored solutions for proactive tax management.

Under current law, the tax rate for C Corporations is a flat 21%. While the reduced rate helps alleviate some of the tax burden of these entities, C Corporations continue to face double taxation, with taxes paid once at the entity level and again when dividends are paid to shareholders.

Many businesses, however, are not taxed at the entity level as corporations; instead, taxable profits and losses are passed through to their owners. With the highest individual tax rate at 37% and additional surtaxes on passive income by way of the 3.8% net investment income tax, minimizing tax remains a challenge in 2025.

PERMANENT 100% BONUS DEPRECIATION

Thanks to the OBBBA, the bonus depreciation deduction is permanently restored to 100% in 2025 for eligible property acquired and placed in service after January 19, 2025.

SECTION 179 EXPENSING

Section 179 property includes new or used tangible personal property that is purchased to use in an active trade or business. Under the enhanced expensing for 2025, businesses can expense up to \$2,500,000 in qualifying expenditures, with no reduction unless expenditures exceed \$4,000,000. Note that the amount expensed cannot exceed the taxpayer's business income. Bonus depreciation does not have this income limitation.

LIKE-KIND EXCHANGES

Taxpayers may continue to defer recognition of gain on the exchange of like-kind real property held for investment or business use. To qualify, both the relinquished and replacement properties must be real property—such as land, buildings, or other permanent structures—and must be held for productive use in a trade, business, or investment.

Proper identification and timing rules under IRC §1031 continue to apply, requiring that replacement property be identified within 45 days and the exchange completed within 180 days of the sale of the relinquished property.

NEW 100% EXPENSING FOR QUALIFIED PRODUCTION PROPERTY

The OBBBA introduced a powerful new incentive for businesses engaged in manufacturing, production, or refining tangible personal property. Under new IRC §168(n), taxpayers may elect 100% first year expensing for certain nonresidential real property used directly in qualified production activities.

To qualify, construction must begin after January 19, 2025 and before January 1, 2029, and the property must be placed in service after July 4, 2025 and before January 1, 2031. The property must be owned and used by the taxpayer in its own production activities—leased facilities and office or research space do not qualify.

This new expensing provision offers a major opportunity for manufacturers, producers, and refiners to accelerate deductions and reduce the after-tax cost of new facility investments. Businesses considering expansions or new construction should review project timelines and structure investments carefully to ensure eligibility.

TANGIBLE PERSONAL PROPERTY REGULATIONS

The IRS previously simplified the rules for expensing tangible personal property, including the de minimis safe harbor. For 2025, the safe harbor enables taxpayers to routinely deduct items which cost below \$5,000 for taxpayers with an applicable financial statement (AFS) and \$2,500 for taxpayers without an AFS.



A cost segregation study can be a valuable tax strategy in a year that a building is acquired or completed in the case of new construction. Please contact your BMSS advisor for details on the potential tax benefits.

ADDITIONAL BUSINESS ITEMS TO CONSIDER



LIMITATION ON THE DEDUCTION OF BUSINESS INTEREST

The OBBBA retained the business interest deduction limits under IRC §163(j) but restored a more favorable rule beginning in 2025—adjusted taxable income (ATI) once again includes depreciation, amortization, and depletion. This change may allow many businesses to deduct more interest expense. In general, the deduction is limited to:

- Business interest income,
- 30% of ATI, and
- Floor plan financing interest (if applicable).

The limitation applies to most taxpayers except small businesses with average annual gross receipts of \$31 million or less for 2025 (adjusted for inflation). It does not apply to electing real property or farming businesses, regulated utilities, or certain small entities that qualify for an exemption.

WRITE OFF BAD DEBTS AND WORTHLESS STOCK

Businesses should evaluate whether losses may be claimed on their 2025 returns related to worthless assets such as receivables, property, or other investments. Business bad debts can be wholly or partially written off for tax purposes. A partial write-off requires a conforming reduction of the debt on the books of the taxpayer; a complete write-off requires a demonstration that the debt is wholly uncollectible as of the end of the year.

NET OPERATING LOSS (NOL)

The OBBBA retained the rule that net operating loss (NOL) carryforwards may offset no more than 80% of taxable income in a given year, except for losses incurred before 2017. Businesses should carefully plan for the tax liability on the remaining taxable income, as it can have a meaningful impact on cash flow management.

ADDITIONAL BUSINESS ITEMS TO CONSIDER - CONTINUED

Other strategies may be available to you as this letter cannot cover all possibilities. Reach out to your BMSS professional to discuss your unique situation.

INVENTORY PLANNING

If your business carries material inventory, talk with your BMSS professional to discuss your options for inventory methods such as LIFO.

EMPLOYER-PROVIDED MEALS

The OBBBA changed the rules for employer-provided meals, effective for tax years beginning after December 31, 2025.

Starting in 2026, meals provided for the convenience of the employer or in on-premises dining facilities will no longer be deductible, except in limited cases—such as meals sold to customers (e.g., restaurant staff meals) and meals for crews of certain vessels or oil and gas platforms, which remain fully deductible.

Most other business meals continue to be 50% deductible, while employee recreational meals (like company picnics or holiday parties) remain 100% deductible.

The OBBBA did not change the employee exclusion rules—meals provided for the employer's convenience can still be excluded from employee income, even if the employer cannot deduct the cost.

Employers should review their meal policies before 2026 to ensure proper tracking of deductible, nondeductible, and employee-excludable expenses.

RESEARCH AND DEVELOPMENT (R&D)

The OBBBA restored the immediate deductibility of domestic R&D expenses beginning in 2025, while foreign R&D costs must continue to be amortized over 15 years.

Taxpayers with unamortized R&D costs from 2022–2024 may elect to write off the remaining balance in 2025 or spread the deduction over 2025 and 2026. In addition, small businesses with average annual gross receipts of \$31 million or less may choose to amend 2022–2024 tax returns to retroactively deduct domestic R&D costs.

The R&D credit, which provides a credit equal to 20% of qualified research expenses exceeding a base amount, remains available for taxpayers engaged in eligible research and experimentation activities.

BMSS' R&D team can help evaluate how these new provisions may benefit your business and identify opportunities to maximize the available credit.



STATE & LOCAL TAX (SALT)

LET US ADD A LITTLE SALT PLANNING TO YOUR TAX DIET

State and local taxes are a part of every business in every state and every county.



If your business sells or operates in more than one state, state and local taxes can have a big impact on your effective tax rate and your risk profile. Post-Wayfair rules let states assert tax obligations based on your sales into a state, even if you have no physical presence there, and many states now offer pass-through entity tax (PTET) elections that interact with the federal SALT deduction cap.

YEAR-END SALT CHECKUP FOR MULTISTATE BUSINESSES



Key Year-End Questions to Consider:

Where do we have filing obligations?

Review your current-year and prior-year sales by state, along with where you have employees, inventory, or other activity. You may have income or sales-tax “nexus” in states where you’ve never filed.

Are we sourcing revenue correctly?

Service revenue is often sourced to the customer’s location, while product sales are typically sourced to the ship-to address. Getting this wrong can distort your state income allocations and over- or under-state your tax in key jurisdictions.

Should we evaluate a PTET election?

Many states allow partnerships and S corporations to elect to pay state income tax at the entity level, potentially increasing federal deductions and reducing overall tax for the owners. Rules, deadlines, and benefits are very state-specific, so these elections should be modeled before year-end.

Are our sales and use tax filings current?

Confirm that your sales and marketplace activity is properly registered where required and that you’re collecting and remitting tax on taxable sales, including online and remote sales.

Do we have historical exposure to address?

If potential prior-year liabilities are identified, there may be options—such as voluntary disclosure programs—to limit penalties and look-back periods.

A comprehensive SALT strategy can reduce surprises, support smoother transactions (such as business sales or financings), and lower your long-term tax burden. Our SALT professionals can help you:

- Analyze your multistate footprint and nexus,
- Evaluate revenue-sourcing and PTET opportunities, and
- Develop a practical compliance plan going forward.



If your business has grown, expanded online, or added new states in the last few years, this is a good time to revisit your state and local tax position. Reach out to your BMSS advisor to connect with our SALT team.

05

TRANSACTION ADVISORY SERVICES

Having an advisor who can provide sound judgment and experienced advice can make all the difference in the world.

If you are considering buying or selling a business, you need someone who can guide you through every step of the transaction life cycle while providing experienced advice you can count on.

Our Transaction Advisory Services professionals are well-versed in understanding the issues and challenges involved in each transaction. As a buyer, proper due diligence and quality of earnings studies are key to minimizing risk and acquiring the earnings you expect. As a seller, sell-side or defensive due diligence is key to identifying issues before they arise in order to help mitigate risk and maximize sales price ahead of the transaction while proper tax planning helps maximize after-tax cash flow.

Contact the BMSS Transaction Advisory Services team to learn how we can provide value and peace of mind on your next transaction.

SELLER

- Restructuring
- Performance Improvement
- Transaction Readiness
- Transition Planning
- Investment Planning
- Wealth Management Planning
- Estate Planning
- Sale Side, Defensive Due Diligence & Quality of Earnings

BUYER/SELLER

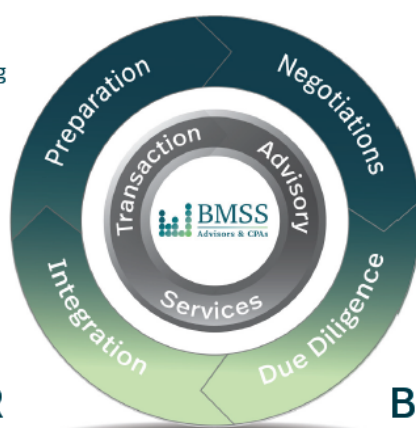
- Business Valuation
- Transaction Structure and Modeling
- Tax Strategy and Structure
- Due Diligence Support

BUYER/SELLER

- Post-closing Adjustments
- Earn-outs
- Opening Balance Sheet Procedures
- Financial Modeling
- Accounting Integration/Support
- IT Consulting
- Business Intelligence
- Strategic Planning, Transaction Tax Compliance and Reporting

BUYER/SELLER

- Financial, Tax and IT Due Diligence Support
- Transition Planning



MORE SERVICES

OUR GOAL FOR YOU: PEACE OF MIND

Offering you the services of a traditional accounting firm coupled with the innovative mindset of an advisory firm.



Business Advisory

With a client-centric approach and a focus on your peace of mind, we're dedicated to simplifying complex business challenges and empowering you to achieve your goals with peace of mind.



Client Accounting Solutions

Our experienced team can assist with your business' financial activities and operations to help it stay on solid ground while you keep an eye on future success.



Financial Reporting

When you need a trusted advisor to provide you with top-notch services, our highly skilled assurance team is ready to assist you with your reporting needs.



Government Contracting

Government contractors have unique accounting and contract administration needs. Our team can assist with the accounting aspects of the business as well as understand the entire business operations function to help government contractors succeed in this market.



Tax Planning & Compliance

Tax laws and regulations are continually changing. Let our dedicated professionals help bring you peace of mind regarding your tax matters.



And More

We offer a full range of services and more than what is listed here. Contact us today to see how we can help you succeed!

BMSS VALUE-ADDED SOLUTIONS

At BMSS, we are always looking for ways to better serve our clients in meeting their overall business and personal accounting and advisory needs. This has resulted in our Family of Companies in order to provide for the IT, business intelligence, cybersecurity, payroll and financial planning needs of our clients.

BMSS Family of Companies: Providing you solutions for the complexities of business.

 Abacus Technologies is a trusted partner for proactive technology solutions, including business intelligence, managed services, information security, information assurance, and artificial intelligence that delivers results today and scales with your business for the future. www.abacustechnologies.com 205.443.5900	 At BMSS Advisors & CPAs, we offer all the services of a traditional CPA firm but with a nontraditional flair. We create peace of mind for our clients through an individually tailored experience. www.bmss.com 833.CPA.BMSS
 BMSS Wesson Wealth Solutions is a fee-for-service Registered Investment Advisor (RIA) that provides financial planning and investment advisory services, integrated organization, risk identification and mitigation planning for privately-held business owners, executives and high-income professionals as well as for trusts and those who have inherited significant wealth. www.bmsswesson.com 205.982.5562	 Payroll & Benefit Solutions (PBS) serves as your outsourced human capital management provider by offering payroll, HR and PEO services that are customized to suit your specific needs. www.pbspay.com 205.271.5400

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WE'RE HERE TO HELP YOU

BMSS understands the complexity of the tax laws and the stress of year-end tax planning. However, year-end tax planning is vital to protecting the financial well-being of you, your family and your business. This letter only hits the high points so there may be other strategies that could reduce your tax liability.

Please contact BMSS at (833) CPA-BMSS if you have any questions regarding your tax planning opportunities, whether or not addressed in this letter. BMSS is ready to help you with your unique tax planning circumstances and can set up an appointment to discuss your situation.

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THANK YOU!