



# Year-end strategies

## Financial considerations before December 31

As year-end approaches, the clock is ticking on planning strategies to take advantage of before December 31. Review the details on each strategy below to see which ones may be applicable.

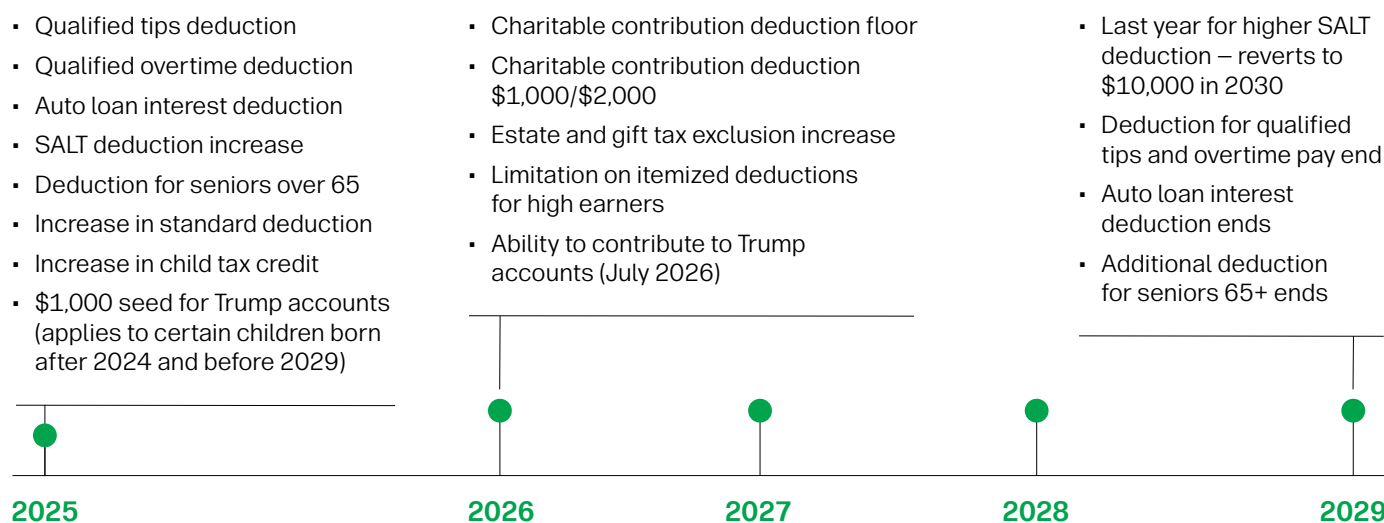
### Tax deduction opportunities

New tax deduction opportunities starting in 2025.

- Did you or are you planning on buying a car between 2025-2028?
- Do you work in an industry that is accustomed to receiving tips?
- Do you work any overtime hours where your pay is higher than your base pay?

Here is a timeline of the major changes that scale from 2025 to 2029.

### Timeline of major OBBBA provisions



#### Planning point:

Starting in 2026 itemizers can deduct charitable contributions only to the extent they exceed 0.5% of the taxpayer's contribution base. Non-itemizers can deduct up to \$1,000 (single filers) and \$2,000 (joint filers) for charitable contributions.

**INVESTMENT AND INSURANCE PRODUCTS ARE: • NOT FDIC INSURED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY  
• NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, THE BANK OR ANY OF ITS AFFILIATES  
• SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED**

## Charitable gifts

For those who are charitably inclined, there are a couple of general rules to be aware of when making charitable gifts (see chart).

- The amount of the deduction is based on the nature of the assets gifted and the status of the charity receiving the gift.
- When a donor gifts appreciated long-term capital gains assets to charity, the donor is usually able to avoid paying any capital gains taxes on those gains.

Deduction Limit for 2025 (% of AGI*)		
Charity	Public	Private
Cash	60%	30%
Long-term capital gains	30%	20%

\* Adjusted gross income

For more information, consult IRS Publication 526, Charitable Contributions.

Because the decision requires careful consideration of personal circumstances and goals, consulting with a tax or legal professional is advised.

**Qualified charitable distributions:** A qualified charitable distribution (QCD) can be a tax-efficient way to make a gift to charity. A QCD is a distribution of assets from an IRA directly to a qualified charitable organization. QCDs are only available to traditional IRA owners age 70½ or older and are currently limited to \$108,000 in 2025. The advantage of a QCD is that the distribution counts toward the owner's RMD for the year, but it is not included in income.<sup>1</sup> Note that moving forward the QCD limit will be indexed for inflation.

For additional information on QCDs, consult IRS Publication 590-B, Distributions from Individual Retirement Arrangements.

## Small business retirement plans

For sole proprietors or small-business owners who are concerned about their 2025 tax liability, there are two qualified retirement plans that can help reduce their tax bill and build their retirement nest egg.

### 401(k) profit-sharing plans

- A profit-sharing plan may offer advantages over a SEP or SIMPLE by allowing increased flexibility in designing plans and increased contribution and deduction limits in some cases.<sup>2</sup>
- Employees may defer up to \$23,500 with a \$7,500 catch-up contribution if they are age 50 or older. Additional catch-up contribution of \$11,250 for ages 60-63.
- The employer may deduct contributions up to 25% of the aggregate compensation of eligible participants (total contribution to an employee's plan is the lesser of 100% of employee's compensation or \$70,000 plus catch-up).<sup>3</sup>

### Defined benefit plans

These plans are often overlooked because of the perceived complexity and recordkeeping requirements.

For sole proprietors and small partnerships, however, these plans can offer a substantial tax-deferral opportunity.

- The maximum annual benefit that can be paid to a participant under a defined benefit plan is limited to the lesser of:
  - A dollar limit (\$160,000 as a base, but indexed for inflation), or 100% of the participant's average compensation for their highest three consecutive years of service.
  - The dollar limit is adjusted annually for cost-of-living increases. For 2025, the indexed limit is \$280,000.<sup>3</sup>
- Defined benefit plans have required minimum funding rules.<sup>2</sup>

Single participant (Solo) plans may be available to self-employed individuals and their spouses. Those considering 401(k) profit-sharing plans or defined benefit plans should generally seek the assistance of a professional plan administrator. Selecting and designing the right type of plan can take time, so it's important to address this issue well before year-end.

The rules have changed for plan implementation and funding deadlines depending on the type of plan and business organization. Consult your tax professional for more details.

## Take advantage of a low-income year

Whether it is something like retirement, a pandemic, or the loss of a job, a low-income year creates opportunity.

In 2025, a married couple filing jointly can have \$96,700 or less of AGI and still qualify for a 0% capital gains rate and a 12% marginal income tax rate.<sup>5</sup>

Those faced with a reduction in their usual income may want to take advantage of lower tax rates. Taking capital gains at a 0% tax rate can be a good opportunity to rebalance or reposition investments. Similarly, pulling money out of an IRA at a low marginal tax rate may not only make sense now, but by reducing the balance in the account, it can help reduce future RMDs. This can potentially provide greater tax flexibility later in retirement.

## Roth opportunities

Not all tax planning is about tax reduction. Tax diversification in retirement can be another objective. Year-end can be a good time to get more money into a potentially tax-free Roth account.

Some may have an opportunity to get money into a Roth IRA while minimizing the tax liability of a Roth conversion.

- Those with pass-through business losses or large excess deductions may have an opportunity to offset the tax liability that would otherwise result from a Roth conversion.
- Examples: A sole proprietor with a loss on Schedule C (Form 1040) or seniors with deductible medical expenses in excess of their income may want to consider a Roth conversion.
- Business owners may want to consider whether their 401(k) plan will allow them to convert some of this year's pretax 401(k) contributions to after-tax Roth 401(k) contributions.
- Those who are rolling assets out of a 401(k) may want to take advantage of IRS guidance clarifying the method of allocating after-tax contributions to a Roth IRA via a rollover (IRS Notice 2014-54).
- OBBBA opportunities expanding Roth conversions
  - Made permanent the federal individual tax rates to convert at lower tax brackets
  - Standard deduction increased and additional deduction for 65+ of \$6,000
  - Itemizers opportunity for higher SALT deduction
  - Tax deductions for tips and overtime
  - Increase to child tax credit

## Planning for uncertainty

Since no one can say for certain what taxes will look like in the future, employing strategies that enable flexibility should be a primary focus. Moreover, the impact of taxation should be taken into consideration during both the accumulation stage and the distribution stage. The manner in which a portfolio is situated plays a major role in determining the taxes to which one is subject. One strategy to combat uncertainty is to diversify holdings across different types of accounts, also known as tax diversification.

### Tax diversification

- Tax diversification is the practice of diversifying assets across different account types with varying tax characteristics. In a changing tax policy environment, tax diversification can help investors draw assets from optimal sources and can provide flexibility. It may be a good time to review the current location of assets (e.g., taxable, tax-deferred, and tax-free) and determine if any changes should be made. The table on the next page can be used to get a quick idea of how assets are held.

### Roth conversions

- If someone is of the belief that tax rates will be higher in the future, it may make sense to convert some pretax retirement accounts to Roth. The idea being to convert at lower tax rates now to increase tax-free sources of income in the future when tax rates could be higher. Roth conversions need to be carefully considered, and it is always recommended to speak with a financial professional and tax professional.

## Assess: take inventory

### Get a complete view

- Worksheets, fact finders, and software can help

### Determine where the bulk of assets are held

- Look at both total amount and the percentage

### Develop a strategy and identify deficiencies

- Consider how your mix may change over time

Currently taxable	Tax-deferred	Tax-free
<b>Savings account and CDs</b>	<b>Traditional IRAs</b>	<b>Roth IRA and Roth 401(k)</b>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
<b>Brokerage account</b>	<b>Retirement plans (e.g., 401(k), 403(b))</b>	<b>Municipal bonds</b>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
<b>Mutual funds</b>	<b>Annuities</b>	<b>College savings account (e.g., 529)</b>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
% <input type="text"/>	% <input type="text"/>	% <input type="text"/>
<b>Total</b>	<b>Total</b>	<b>Total</b>
\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>

When it comes to preparing for your future, there's no time like the present.

<sup>1</sup> IRS Publication 590-B (2024), p.13; IRC Sec. 408(d)(8)

<sup>2</sup> IRS Publication 560 (2024), pp. 2 – 5, 12 – 15

<sup>3</sup> IRS Notice 2023-75 (2024)

<sup>4</sup> IRS 2023 Instructions for Schedule D (2024)

<sup>5</sup> IRS Rev. Proc. 2023-34 (2024)

Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal tax penalty may apply.

The tax costs of a Roth IRA conversion can be significant. Contributions are subject to taxes that were previously deducted, including any accumulated earnings. You may also be pushed into a higher tax bracket, especially if converting a large amount of money.

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