OCTAVIA
WEALTH ADVISORS

Ultimate 2025 Tax Planning Guide

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INTRODUCTION

Most people tend to focus on tax planning at the end of the year or in the spring when it's time to file their return. But really, it makes sense to keep taxes in mind year-round. After all, almost every financial decision you make may have an impact on your taxes—sometimes even years down the road.

That's why tax planning shouldn't be a last-minute scramble or only about this year's return. At Octavia Wealth Advisors, we believe a great tax plan should be proactive, personalized (not cookie-cutter), and integrated into every aspect of your financial life.

Ultimately, it's up to you to decide which tax strategies work best for your household. This guide isn't meant to be a substitute for working with a tax professional. Our goal is to help you better understand your options and make informed choices for 2025.

2025 Tax Planning Checklist

Understanding Tax Planning Basics

Tax planning is the process of arranging your finances in a way that can help you minimize your current and future tax liability.

This includes:

- Knowing about changes to the tax code that could affect you, your family and your business;
- Taking advantage of relevant strategies to lower your tax burden; and
- Avoiding mistakes that could lead to costly penalties or paying more than you should.

Tax planning is not the same thing as *tax preparation*. Many Americans rely on a tax preparation service or accountant to file their taxes each year. While they may get some helpful advice or find a few deductions during that process, it's usually about looking backward to find savings. To make a meaningful impact on your tax savings at every stage of life, you need to focus on looking ahead. What major life events might occur—marriage, children, home purchase, new business, retirement, etc.—that would require adjusting your tax strategies?

If you have questions beyond the basics covered here, your Octavia wealth advisor can discuss specifics. You can also get more information and use the tools available on the official Internal Revenue Service (IRS) website, www.irs.gov.

Planning for New Tax Rules and Potential Changes

As a new administration moves into the White House this year, it's likely new tax rules will be proposed, and some may be modified. Provisions put in place by the Tax Cuts and Jobs Act (TCJA)—many of which are set to expire at the end of 2025—may or may not be extended by Congress, for example.

Changes related to the SECURE Act and the SECURE 2.0 Act of 2022 (SECURE 2.0) may also play a significant role in your planning this year, along with several key inflation adjustments recently announced by the IRS.

The Octavia team will keep you updated on any pertinent changes as they're discussed and implemented. In the meantime, here are some basics to know about the current tax rates and rules.

Bracket Management

Managing your tax bracket is a key component of effective tax planning. Knowing when to realize or defer income, and when to claim certain deductions, can make a big difference—not just in your tax bill each year, but over the long run.

In the U.S., income tax rates are graduated, meaning you pay different rates on different portions of your taxable income. As of 2025, there are seven federal income tax rates: 10%, 12%, 22%, 24%, 32%, 35% and 37%.

It's important to note that this seven-rate structure is set to expire at the end of 2025, unless lawmakers extend TCJA into 2026 and beyond.

INCOME TAX RATES AND BRACKETS FOR 2025 TAX YEAR

Tax Rate	Single Filers	Married Filing Jointly	Married Filing Separately	Head of Household
10%	$0 to $11,925	$0 to $23,850	$0 to $11,925	$0 to $17,000
12%	$11,926 to $48,475	$23,851 to $96,950	$11,926 to $48,475	$17,001 to $64,850
22%	$48,476 to $103,350	$96,951 to $206,700	$48,476 to $103,350	$64,851 to $103,350
24%	$103,351 to $197,300	$206,701 to $394,600	$103,351 to $197,300	$103,351 to $197,300
32%	$197,301 to $250,525	$394,601 to $501,050	$197,301 to $250,525	$197,301 to $250,500
35%	$250,526 to $626,350	$501,051 to $751,600	$250,526 to $375,800	$250,501 to $626,350
37%	$626,351 or more	$751,601 or more	$375,801 or more	$626,351 or more

Source: Internal Revenue Service.

Taking the Standard Deduction vs. Itemizing Deductions

The TCJA roughly doubled the standard deduction for taxpayers, and that larger amount will remain in place for 2025. For many taxpayers, the standard deduction can yield a more favorable outcome than itemizing—and it definitely simplifies the filing process by reducing time, effort and paperwork. However, it's always a smart idea to run the numbers to see if taking the standard deduction or itemizing will give you the better result this year.

What Is the Standard Deduction?

The standard deduction is a specific amount the IRS allows you to deduct from your income before calculating your tax liability. The amount changes annually based on inflation.

For tax year 2025, the standard deduction is:

- $15,000 for single filers and married individuals filing separately;
- $22,500 for heads of households; and
- $30,000 for married couples who file jointly.

If you're 65 or older or blind at the end of the tax year, you're eligible for an additional deduction. In 2025, single filers and heads of households can claim an extra $2,000, while married couples filing jointly can claim $1,600 for each qualifying spouse.

If you're both 65 or older and blind, you'll continue to receive double the additional amount. This means an extra $4,000 for single filers or heads of household and $3,200 per qualifying spouse for married couples filing jointly in 2025.

What Are Itemized Deductions?

Itemized deductions are expenses that you are allowed to subtract from your taxable income, reducing the amount of tax you owe. If your total eligible expenses exceed the standard deduction for the tax year, itemizing may be the better option. Some common itemized deductions include:

- **State and local income, property or sales taxes:** Deductions for state and local sales, income, and property taxes remain the same as last year and are limited to a combined total of $10,000, or $5,000 for married taxpayers filing separately.
- **Mortgage interest:** You can deduct interest paid on a first or second mortgage used to buy, build or improve your home—but your deduction may be limited based on the amount of your mortgage, when you purchased your home, and your filing status. You can obtain more information from IRS Publication 936, “Home Mortgage Interest Deduction.”
- **Charitable contributions:** The percentage limit for charitable cash donations to public charities remains at 60% for 2025.
- **Medical and dental expenses:** The “floor” for medical and dental expenses is 7.5% in 2025, which means you can only deduct expenses that exceed 7.5% of your AGI. The IRS provides a list of qualifying medical expenses on its website.
- **Student loan interest:** Single filers who have a modified adjusted gross income (MAGI) of $85,000 or less can claim a $2,500 student loan interest deduction in 2025. For couples who are married filing and filing jointly, the income threshold is $170,000. The deduction is reduced if you earn more than the threshold for your filing status.

Your tax professional can calculate deductions based on the information you provide and enter them on the proper forms. But it’s important that you keep receipts and other documentation to be sure the amounts you provide are accurate. Tracking your expenses throughout the year can help make it easier to organize and manage your records.

What Is the Difference Between Tax Deductions and Tax Credits?

Tax deductions reduce how much of your income is subject to taxes. *Tax credits*, on the other hand, directly reduce the amount of tax you owe, giving you a dollar-for-dollar reduction of your tax liability. Some common tax credits include:

- **Child Tax Credit:** The Child Tax Credit is a benefit for taxpayers who have children under the age of 17 at the end of the tax year. If you meet all eligibility requirements, file jointly, and your annual income is $400,000 or less, the refundable portion of the child tax credit is $1,700 for each qualifying child in 2025. For all other filing

TYPES OF ITEMIZED DEDUCTIONS

STATE AND LOCAL INCOME, PROPERTY OR SALES TAXES

MORTGAGE INTEREST

CHARITABLE CONTRIBUTIONS

MEDICAL AND DENTAL EXPENSES

STUDENT LOAN INTEREST

statuses, the income threshold is $200,000. (Parents and guardians with higher incomes may be eligible to claim a partial credit.)

- **Saver's Credit:** Taxpayers who make contributions to IRAs or deferral-type employer-sponsored retirement plans of up to $2,000 may be eligible for a special income tax credit of 10%, 20%, or 50% of the amount contributed, depending on their income.
- **Education Credits:** Education credits like the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC) can help with the cost of higher education. To claim the full credit, your MAGI must be $80,000 or less ($160,000 or less for married taxpayers filing jointly).
- **Premium Tax Credit:** This refundable credit helps eligible individuals and families pay for health insurance coverage purchased through the Health Insurance Marketplace. It is based on your household's MAGI, so it's important to keep track and report any income changes that occur during the tax year.

Please note: The amounts of these credits and/or their eligibility rules may change with a new administration in place in 2025.

What Is the Alternative Minimum Tax (AMT)?

The AMT helps to ensure that high-income individuals pay at least a minimum amount of tax each year by limiting the tax breaks they can use. Certain deductions are added back into the taxpayer's income to calculate their alternative minimum taxable income (AMTI), and then the AMT exemption is subtracted to determine the final taxable amount.

For the 2025 tax year, the AMT exemption amount for unmarried individuals is $88,100 ($68,650 for married individuals filing separately) and begins to phase out at $626,350. For married couples filing jointly, the exemption amount is $137,000 and begins to phase out at $1,252,700.

To find out if you may be subject to the AMT, you can refer to the instructions for Form 1040 and Form 1040-SR.

Short-Term vs. Long-Term Capital Gains

The profits you make from selling various assets are taxed at different rates, depending on factors like the type of asset, how long you've owned it, and your income level.

Gains from assets held for a year or less are considered short-term capital gains, which are generally taxed at the same rate as your ordinary income (anywhere from 10% to 37%).

On the other hand, gains from assets held for more than a year are called long-term capital gains, and are usually taxed at lower rates—0%, 15% or 20%—depending on your income.

Rates for long-term capital gains will stay the same in 2025, but the income brackets they apply to have changed for the year.

MAXIMUM CAPITAL GAINS RATES FOR 2025 TAX YEAR

Tax Rate	Single Filers	Married Filing Jointly	Head of Household
0%	Up to $48,350	Up to $96,700	Up to $64,750
15%	$48,351 to $533,400	$96,701 to $600,050	64,751 to $566,700
20%	Over $533,400	Over $600,050	Over $566,700

Source: Internal Revenue Service.

Planning for Capital Gains and Losses

If your capital gains are higher than your losses in 2025, tax-loss harvesting could be a smart way to help lower your tax bill.

Although tax-loss harvesting is often thought of as a year-end strategy, keeping it in mind year-round could help you get the most out of it—and avoid any mistakes as you manage your investments.

Here are the basics of how tax-loss harvesting works:

- First, you sell an investment that's underperforming and losing money.
- Next, you use that loss to reduce your taxable capital gains and potentially offset up to $3,000 of your ordinary income.
- Finally, you reinvest the money from the sale in a different security that meets your investment needs and asset-allocation strategy.

There are several IRS rules that you should know about before moving forward with this strategy, so don't hesitate to ask your Octavia advisor for assistance. IRS Publication 550, "Investment Income and Expenses," may also be a valuable source of information.

Tax-Advantaged Retirement Planning

Each year the IRS sets new limits on how much individuals can contribute to their tax-deferred retirement accounts (such as 401(k)s and traditional IRAs) and Roth accounts. Here are some of the changes for 2025. (For details and other notable adjustments, check out Octavia's comprehensive list of 2025 Retirement Plan Contribution Limits.):

- **Contributions to 401(k)s and similar plans:** The annual contribution limit for employees who participate in 401(k), 403(b), governmental 457 plans, and the federal government's Thrift Savings Plan (TSP) has increased to $23,500, up from $23,000

in 2024. The catch-up contribution limit for employees aged 50 and older remains $7,500. However, SECURE 2.0 put a higher catch-up contribution limit in place for employees who are aged 60 to 63. For 2025, their catch-up contribution limit is $11,250.

- **Contributions to IRAs:** The limit on annual contributions to an IRA remains at $7,000. Under SECURE 2.0, the IRA catchup contribution limit for individuals aged 50 and older was amended to include an annual costofliving adjustment, but the limit for 2025 remains at $1,000.
- **Roth IRA income cutoffs:** The income phase-out range for contributing to a Roth IRA increased to between $150,000 and $165,000 for singles and heads of household for 2025. For married couples filing jointly, the income phase-out range is now between $236,000 and $246,000. If your MAGI is above these limits, you may still contribute indirectly through a Roth conversion.

Is a Roth Conversion Right for You?

If you're interested in contributing to a Roth IRA but your income exceeds the IRS limits, you may want to consider doing a Roth conversion in 2025. By rolling all or a portion of your retirement funds into a Roth account, you could potentially reduce your future tax bills. Keep in mind, though, you'll have to pay taxes on any money you withdraw in the year you make the conversion. Your Octavia wealth advisor can help you evaluate the pros, cons, and timing of a conversion to determine if it's the right move for you.

Charitable Giving Planning

Donating to qualifying charities lets you support causes you care about, and with some proactive planning, you can also benefit from tax savings. Here are a few strategies you may want to consider in 2025:

- **Donor Advised Funds (DAFs):** A DAF can be an efficient way to donate to your favorite charities. You can use a DAF to bundle several years' worth of donations into one larger contribution (in cash or assets), helping you meet the TCJA threshold for itemizing charitable deductions in 2025.

Rather than giving directly to a charity, your donation is invested by the DAF's sponsoring organization, where it can grow tax-free. It is then paid out tax-free to qualifying causes over time.

- **Qualified Charitable Distributions (QCDs):** For individuals aged 70½ and older, QCDs allow you to make tax-free donations directly from your IRA to a qualified charity, potentially satisfying all or part of your annual required minimum distributions (RMDs). You can make a QCD from any tax-deferred IRA account, such as a traditional IRA, inherited IRA, or a SIMPLE IRA or SEP IRA that you're no longer contributing to (but not from a 401(k) or similar workplace retirement plan). In 2025, you can donate up to $108,000, and up to $54,000 of that can be used for a one-time donation to a charitable remainder trust (CRT) or charitable gift annuity (CGA). If you're married, each spouse can donate up to his or her individual annual limit.
- **Donating highly appreciated stocks:** If you haven't turned 70½ yet, donating highly appreciated securities directly to a qualifying charity could help you avoid paying capital gains tax on the sale of those investments. For securities held longer than a year, you can also receive a tax deduction for the market value. However, if the security is held for a year or less, the deduction is limited to the cost basis of the investment.

Gifting Strategies and Estate Tax Planning

Each year, the IRS sets the annual gift tax exclusion, which allows a taxpayer to give a certain amount ($19,000 in 2025) tax-free to each recipient without using up any of their lifetime gift and estate tax exclusion ($13.99 million in 2025). For married couples, this means they can give $38,000 per recipient this year.

For planning purposes, you should be aware that unless Congress extends it, the estate tax exclusion is set to revert back to pre-TCJA levels (approximately 50% of the current amount, adjusted for inflation) starting in 2026. However, according to the IRS, individuals who take advantage of the increased gift tax exclusion from 2018 to 2025 won't be adversely affected if the exclusion amount drops as expected.

Currently, the maximum federal gift and estate tax rate is 40%.

Education Planning

A 529 plan, or qualified tuition program, is a tax-advantaged education savings account that offers several benefits for parents and grandparents, and the children they love, including:

- **Tax-free growth:** Contributions to a 529 plan are not deductible on your federal tax return, but the money in the account grows tax-free, and qualified withdrawals are not subject to federal or state income taxes. Some states even offer tax credits or deductions for 529 contributions.
- **High contribution limits:** While lifetime contribution limits can vary by state, there are no annual contribution limits.
- **Flexibility:** Recent changes have made 529 plans more flexible. Thanks to the SECURE Act, tax-free withdrawals can now be used to pay up to $10,000 in certain student loan repayments. Under SECURE 2.0, you may also be able to roll over unused assets—currently up to $7,000 per year with a lifetime limit of $35,000—into a Roth IRA for the beneficiary without triggering taxable income or the 10% penalty for nonqualified withdrawals.

Your Octavia wealth advisor can fill you in on how to maximize the benefits of a 529 plan and help you determine if it's the best education savings option for your family.

Small Business Tax Planning

If you own a small business, there are several strategies you can use to help reduce your tax burden, including the qualified business income (QBI) deduction established by the TCJA. The QBI deduction is set to expire at the end of 2025 along with other TCJA provisions we've mentioned in this guide. This year, though, owners of sole proprietorships, partnerships, LLCs, or S corporations may still be eligible to deduct up to 20% of their qualifying business income.

The QBI deduction is subject to an income threshold. For 2025, the thresholds are $394,600 for married taxpayers filing jointly and $197,300 for other taxpayers.

Other strategies worth discussing with your financial advisor or tax professional may include deductions for business start-up costs, asset depreciation, home office expenses, and more.

529 PLAN BENEFITS

Tax-free Growth

High Contribution Limits

Flexibility

Taking a More Proactive Approach to Taxes

It may seem daunting to think about planning for taxes in 2025 when you're still figuring out your 2024 return. But taking the time to plan ahead can help you maximize your tax savings and minimize your tax bill next year. Plus, if certain TCJA provisions are not extended and expire at the end of the year, this may be your last chance to take full advantage of those benefits.

You can find general tax information on the IRS website (www.irs.gov), or make an appointment to speak to someone at your nearest IRS location (https://apps.irs.gov/app/office-locator/).

But if you have any questions, concerns, or need help making decisions, don't hesitate to reach out to an Octavia wealth advisor. We're here to assist you in understanding how specific strategies might apply to you and your family, your goals, and the success of your overall financial plan. Contact us at (513) 762-7701 or visit www.octaviawa.com.

KEY TAKEAWAYS

- Proactive tax planning is the process of arranging your finances in a way that helps you maximize tax savings and minimize your current and future tax liability.
- Starting your planning early, instead of at the end of the year, can help you keep better records and make the most of any tax strategies that may apply to your situation.
- Several key provisions put in place by the Tax Cuts and Jobs Act (TCJA) in 2018 are set to expire at the end of 2025 unless they are extended by Congress. This means 2025 may be your last chance to make the most of certain tax savings available to individuals, families, investors, and business owners.
- Many deductions, credits, exemptions, and income thresholds are adjusted for inflation each year. Staying on top of these changes can help you minimize your tax bill or increase your refund.

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