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CERTIFIED PUBLIC ACCOUNTANTS

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# Newsletter December 2025

Dear clients:

We hope you all have had an excellent beginning to the holiday season. As we look ahead to the upcoming filing season, we write to inform you of several important pieces of information.

IRS continues to face severe challenges. In addition to delays in processing returns, issuing refunds, and resolving notices, **the filing season is expected to be delayed**. This further compresses the time our office and other tax professionals will have to prepare and submit your returns by the April 15th deadline. With this delay in mind, as well as the increased complexities from the One Big Beautiful Bill, it is imperative for us to receive your tax information as early in the filing season as possible. As you will find in our Engagement Letters and similar to last year, we must receive your complete business information by February 2, 2026 to file the returns by March 16, 2026, and we must receive your complete individual information by March 2, 2026 to file the returns by April 15, 2026. If we cannot receive your information by these deadlines, your returns may require an extension. Filing an extension request is common, and we are happy to do that for you.

Thank you for the continued opportunity to serve you. Please contact our office should you have questions or wish to discuss your tax situation further.

Sincerely,
Aaron Bagby
Kramer, Jensen & Bagby, LLC

## Year-End Individual Tax Planning Opportunities

**Article Highlights:**

- Not Needing to File a 2025 Return?
- Are Your Children Attending College?
- Did You Sell Your Home This Year?
- Do You Have an Employer Health Flexible Spending Account?
- Did You Become Eligible to Make Health Savings Account (HSA) Contributions This Year?
- Have You Funded Your Retirement Savings?
- Married and Spouse Does Not Work?
- Are You Age 60 to 64 This Year?
- Are You Expecting a Bonus This Year?
- Is Your Income Unusually Low This Year?
- Must You Take a Required Minimum Distribution (RMD)?
- Do You Have Stocks That Have Declined in Value?
- Do You Have Stocks That Have Appreciated in Value and Your Income Is Low This Year?
- Have You Considered Prepaying State Income and Property Taxes?
- Are You Planning Your Charitable Deductions?
- Do You Have Outstanding Medical or Dental Bills?
- Have You Forgotten the Annual Gift Tax Exclusion?

- Do You Think You May Have Under-Withheld Taxes This Year?
- Did You Suffer a Disaster Loss This Year?
- Divorced or Separated This Year?
- Do You Qualify for Energy or Environmental Tax Credits?
    - Credit for Energy Efficient Home Modifications
    - Solar Credit

Year-end is rapidly approaching, as are the holidays. So, before you become distracted with the seasonal celebrations, it may be in your best interest to consider year-end tax moves that can benefit you for your 2025 tax filing. Here are last-minute tax issues you might consider:

**Not Needing to File a 2025 Return? -** If your income and tax situation is such that you do not need to file for 2025, don't overlook the opportunity to bring in some additional income, to the extent it will be tax-free. For instance, if you have appreciated stock that you can sell without incurring any tax, consider selling it, or perhaps take a tax-free IRA distribution if you are 59½ or older or if younger and qualify for an exception to the "early withdrawal" penalty.

Also, just because you are not required to file a tax return does not mean you shouldn't. By not filing you may miss out on some substantial refundable tax credits.

**Is Your Income Unusually Low This Year?** If your income is unusually low this year, you may wish to consider converting some or all your traditional IRA into a Roth IRA. The lower income likely results in a lower tax rate, which provides you an opportunity to convert to a Roth IRA at a lower tax amount. Also, if you have stocks in your retirement account that have had a significant decline in value, it may be a good time to convert to a Roth.

**Are Your Children Attending College?** If you qualify for either the American Opportunity or Lifetime Learning education credits, check to see how much you will have paid in qualified tuition and related expenses during 2025. If it is not the maximum allowed for computing the credits, you can prepay 2026 tuition if it is for an academic period beginning in the first three months of 2026. That will allow you to increase the credit for 2025. This is especially effective for students just starting college who only have tuition expenses for part of the year.

**Did You Sell Your Home This Year?** If so, and if you meet the ownership and occupancy tests, the gain from selling your main home will not be taxed, up to $250,000 ($500,000 if you file a joint return with your spouse who also meets the occupancy test). But if you don't meet the requirements of both owning and using your home for 2 years in the 5 years counting back from the sale date, you may still qualify for a partial home sale gain exclusion. For example, you may qualify for a reduced exclusion if you sold your home to relocate this year because of a change in employment or due to health. We can determine the amounts of excluded income and taxable gain, and project how your taxes will be impacted.

**Do You Have an Employer Health Flexible Spending Account?** If so, and if you contributed too little to cover expenses this year, you may wish to increase the amount you set aside for next year. The maximum contribution for 2025 is $3,300. The amount you haven't used in 2025 that may be carried to 2026 is $660 and must be used in the first 2½ months of 2026.

**Did You Become Eligible to Make Health Savings Account (HSA) Contributions This Year?** If you become eligible to make health savings account (HSA) contributions late this year, you can make a full year's worth of deductible HSA contributions even if you were not eligible to make HSA contributions for the entire year. This opportunity applies even if you first become eligible in December. In brief, if you qualify for an HSA, contributions to the account are deductible (within IRS-prescribed limits), earnings on the account are tax-deferred, and distributions are tax-free if made for qualifying medical expenses.

**Have You Funded Your Retirement Savings?** Be sure to maximize your retirement plan contributions before year-end. Once the year is gone, you have forever lost an opportunity to make this year's annual tax-advantaged addition to your savings for future retirement, which won't be all that pleasant without a substantial retirement nest egg. If your employer matches some of the amount you contribute to your 401(k) or another eligible retirement plan, be sure to contribute as much as you can to take full advantage of this perk. If the contributions are tax-deductible, such as to a traditional IRA, or made with pre-tax income, maximizing the contributions may also cut your tax bill.

**Married and Spouse Does Not Work?** If one spouse works and the other does not, tax law allows the non-working spouse to base his or her contribution to an IRA on the working spouse's income. This tax benefit is frequently overlooked when spouses have been working and basing their individual contributions on their own income for years and then one of the spouses retires. Even if the working spouse has a retirement plan at work and his or her income precludes making an IRA contribution, the non-working retired spouse can still contribute based on the working spouse's income.

**Are You Age 60 to 64 This Year?** Starting in 2025, individuals are eligible for increased retirement plan catch-up contribution limits, set at 150% of the standard catch-up limit, which translates to $11,250 for employer plans and $5,250 for SIMPLE plans. These catch-up contributions are designed to boost retirement savings during the final working years and are subject to cost-of-living adjustments to ensure they remain beneficial relative to inflation. This provision specifically targets SIMPLE, 401(k), 403(b), and other qualified employer plans, offering a strategic advantage to older employees seeking to maximize their retirement savings in a relatively short timeframe before retirement. These enhanced amounts do not apply to IRAs.

**Are You Expecting a Bonus This Year?** If a job-related bonus is expected to be paid around the end of the year, you might be able to defer that income into next year if that is appropriate in your situation, such as when you expect less 'other' income next year. See if your employer is willing to put off payment until just after the first of the year.

**Do You Need to Take a Required Minimum Distribution (RMD)?** Once U.S. taxpayers reach the age of 73, they are required to take what is known as a "required minimum distribution" from their qualified retirement plan or traditional IRA every year. If this is the first year that this rule applies to you and you haven't withdrawn the required amount yet, there's no need to panic – you don't have to do so until sometime during the first quarter of next year. Of course, if you wait until 2026 to take your 2025 distribution, you're going to end up having to take two distributions in one year – one for 2025 and one for 2026.

If you have been required to take an RMD before 2025, you only have until December 31st to take the required distribution for 2025 if you want to avoid penalties.

For those who inherited a retirement account and are required to distribute the entire account within 10 years, be aware RMD from those accounts is also required beginning for 2025.

**Do You Have Stocks That Have Declined in Value?** While most stocks have trended up this year, you should still review your stock portfolio to identify any losers and consider selling those under-water stocks to offset capital gains that would otherwise be subject to the 15% or 20% long-term capital gains tax rate. Capital losses can also offset up to $3,000 ($1,500 in the case of a married taxpayer filing a separate return) of ordinary income if capital losses exceed capital gains by at least that amount. Recognizing capital losses to offset capital gains can also reduce the amount of income subject to the net investment income surtax. Be aware of the wash sale rules that don't allow you to deduct a loss if you repurchase those loser stocks within 30 days before or after the sale date.

**Do You Have Stocks That Have Appreciated in Value and Your Income Is Low This Year?** There is a zero long-term capital gains rate for taxpayers whose taxable income is below the 15% capital gains tax threshold. This may allow you to sell some appreciated securities that aren't in an IRA or retirement account that you have owned for more than a year and pay no or very little tax on the gain. The 2025 15% capital gains tax bracket starts at a taxable income of $96,701 for married joint filers, $64,751 for those filing as head of household, and $48,351 for all other filers.

**Have You Considered Prepaying State Income and Property Taxes?** The One Big Beautiful Bill Act (OBBBA) increased the deduction limit for state and local taxes (SALT) starting in 2025.If you are not subject to the alternative minimum tax and you itemize your deductions, you are eligible to deduct both your property taxes and state income (or sales) tax up to a maximum of $40,000 for 2025, up from $10,000 in 2024. Did you know that in some cases, and of course if you haven't exceeded the cap, you can increase the amount that you deduct on your 2025 return by prepaying some of the taxes by December 31, 2025? You can ask your employer to boost the amount of your state withholding by a reasonable amount; or, if you are self-employed, pay your 4th-quarter state estimated tax installment in December (otherwise due in January) and increase your deduction. The same is true for your real estate taxes: if you pay your first 2026 installment in 2025, you can take it as part of your 2025 deduction.

**Are You Planning Your Charitable Deductions?** Many people who itemize take advantage of the ability to take a deduction for their donations to their favorite charities or house of worship. Did you know that you can choose to pay all or part of your 2026 planned giving in 2025 to increase the amount you deduct in 2025? Though this may not be appealing to those who itemize every year, if you alternate between taking the standard deduction one year and itemizing the next, this can give you a big boost.

If you itemize deductions, there is another reason you might consider increasing your 2025 contributions in lieu of making the donations in 2026. Starting in 2026, there is a 0.5% floor on charitable deductions for individuals who itemize, meaning the amount of charitable contributions for the year is reduced by 0.5% of the taxpayer's adjusted gross income. This is like the way the medical deduction works, where medical expenses are reduced by 7.5% of AGI.

Charitable contributions are deductible in the year in which you make them. If you charge a donation to a credit card before the end of the year, it will count for 2025. This is true even if you don't pay the credit card bill until 2026. In addition, a check will count for 2025 if you mail it in 2025. For last-minute mailings, it may be appropriate to obtain proof of mailing from the USPS. And don't forget to get an acknowledgment letter or document from each qualified organization that clearly states the donated amount and whether the charity gave you goods or services (other than certain token items and membership benefits) because of the contribution.

**Did You Know You Can Make Charitable Deductions from Your IRA Account?** Those who are age 70½ or older are allowed to transfer funds (up to $108,000 for 2025) from their IRA to qualified charities without the transferred funds being taxable, provided the transfer is made directly by the IRA trustee to a qualified charitable organization. If you are required to make an IRA distribution (i.e., you are age 73 or older), you may have the distribution sent directly to a qualified charity, and this amount will count toward your RMD for the year.

Although you won't get a tax deduction for the transferred amount, this qualified charitable distribution (QCD) will be excluded from your income, with the result that you may get the added benefit of cutting the amount of your Social Security benefits that are taxed. Also, since your adjusted gross income will be lower, tax credits and certain deductions that you claim with phase-outs or limitations based on AGI could also be favorably impacted.

If you plan to make a QCD, be sure to let your IRA trustee or custodian know well in advance of December 31 so that they have time to complete the transfer to the charity. If you have contributed to your traditional IRA since turning 70½, the amount of the QCD that isn't taxable may be limited, so it is a good idea to check with this office to see how your tax would be impacted. You should be sure to obtain an acknowledgement from the charity as described in the "Are You Planning Your Charitable Deductions?" above.

One cautionary note: if you have made traditional IRA contributions after reaching age 70½, they will reduce this benefit.

**Have Outstanding Medical or Dental Bills?** Taxpayers who itemize their deductions can deduct qualified medical and dental expenses that exceed 7.5% of their adjusted gross income. If you have reached that threshold or are close, then it may make sense for you to pay off any of those types of bills that are still outstanding rather than paying them over time. If you are near or above the limit, it may also make sense to look at what your medical and dental expenses will likely be for the next year and move those that you can into 2025 to increase the deduction. These expenses could include dental work or eyeglasses. An additional important issue: if you are thinking of doing this by using a credit card to make the payment, and you're not going to pay the card balance immediately, make sure that you're not paying more in interest than you're saving with the increased tax deduction.

**Have You Forgotten the Annual Gift Tax Exclusion?** Though gifts to individuals are not tax deductible, each year, you are allowed to make gifts to individuals up to an annual maximum amount without incurring any gift tax or gift tax return filing requirement. For the tax year 2025, you can give $19,000 (up from $18,000 in 2024) each to as many people as you want without having to pay a gift tax. If this is something that you want to do, make sure that you do so by the end of the year, as you are not able to carry the $19,000, or any unused part of it, over into 2026. Such gifts need not be in cash, and the recipient need not be a relative. If you are married, you and your spouse can each give the same person up to $19,000 (for a total of $38,000) and still avoid having to file a gift tax return or pay any gift tax. Speaking of spouses, there's no limit on the excluded amount a spouse can gift to their wife or husband.

**Do You Think You May Have Under-Withheld Taxes This Year?** Should your liability be greater than your prepayments by $1,000 or more, you may also be subject to underpayment penalties. This could simply be the result of under-withholding on your wages or underpaying estimated tax if you are self-employed, or of out-of-the-ordinary income, such as stock gains, sale of a business or rental or even winning big from the lottery. There are safe harbor prepayments to avoid a penalty, which require prepaying:

- 90% of the current year's tax liability,
- 100% of the prior year's tax liability, or
- 110% of the prior year's tax liability, if the prior year's AGI was over $150,000.

If you think there's a chance that the income taxes you've paid to date for 2025 are insufficient, it's a good idea to increase your withholding in the time that's left before year-end to make up for it. Underpaying taxes makes you vulnerable to an underpayment penalty that is assessed quarterly. The good news is that even if you have underpaid for any or all the first three quarters of the year and will owe taxes when you file your 2025 return, you can catch up by boosting your year-end withholding, since federal withholding is deemed paid ratably throughout the year. Plus, increased withholding and possible payment of estimated taxes can also reduce the fourth quarter underpayment penalty.

**Did You Suffer a Disaster Loss This Year?** 2025 has had some significant disasters, including wildfires, severe storms, and flooding throughout the U.S. Any unreimbursed property losses incurred because of a federally declared disaster can be claimed on the current year's tax return or, at the election of the taxpayer, on the prior year's return (2024 for 2025 disasters), generally providing quicker access to a tax refund. However, care must be exercised to ensure a disaster loss is claimed on the return of the year that will provide the greater benefit. In addition, after insurance reimbursement is accounted for, the result may not be as expected and should be determined before making the decision of which year to claim a loss.

**Did You Get Scammed This Year?** Generally, casualty losses are only allowed when related to a declared disaster. However, there is an exception for thefts or scam losses if the loss is related to a transaction entered for profit such as investments and retirement funds.

**Divorced or Separated This Year?** A divorce or separation can have a significant impact on a couple's tax filings. Filing joint or separate returns, who claims the children, the tax rules related to whether to take the standard deduction or itemize, how income and tax prepayments are allocated, and more issues need to be considered. Best to figure that all out in advance.

**Energy & Environmental Tax Credits?** OBBBA terminated the electric vehicle credit for purchases after September 30, 2025. Although the time is short, the credit for energy efficient home modifications and the home solar credit are still available through the end of 2025.

**Credit For Energy Efficient Home Modifications** – This tax credit for making energy saving improvements to taxpayers' existing homes has been around in various forms since 2006. The most recent credit rate is 30% with an annual cap of $1,200. That allows individuals to annually make up to $4,000 of creditable home energy improvements and benefit from the credit. There are annual limits for certain types of improvements; for example, there is a $600 annual credit limit for residential energy property expenditures, windows, and skylights, and $250 for exterior doors ($500 total for all exterior doors). In addition to the $1,200 annual cap, up to $150 of the cost for an energy audit performed by a certified home energy auditor on your primary residence is allowed.

This credit is non-refundable (meaning it can only offset the current tax liability) and there is no carryover.

**Solar Credit** – There is a 30% nonrefundable federal tax credit for installing solar on your first and second homes (need not own the home). Unused credit can be carried forward to the subsequent year. Expenses of battery storage technology with a capacity of not less than 3 kilowatt hours count toward the credit. Battery and systems upgrades will qualify for credit even after the initial installation.

But keep in mind, to qualify for these two credits, the installations must be complete and paid for by December 31, 2025.

Have questions related to any of the above? Give this office a call.

## Last-Minute Year-End Tax Tactics: Maximize Your Business Savings Now!

Article Highlights:

- Tax Strategy Optimization
- Buy Equipment and Other Fixed Assets
    - Section 179 Expensing
    - Bonus Depreciation
    - De Minimis Safe Harbor
- Year-end Inventory Management
- Contributing to a Retirement Plan
- Maximize the Qualified Business Income (QBI) Deduction
- Review Accounts Receivable for Bad Debts
- Pre-Pay Expenses
- Deferring Income
- First Year in Business
- Avoid Underpayment Penalties
- Are You a Working Shareholder in an S Corporation?
- Planning on Paying Your Employees a Bonus?
- Reassess Your Business Entity
- Conclusion

As the year draws to a close, small business owners find themselves in a crucial period for financial organization and tax strategy optimization. With the potential to significantly reduce your 2025 tax bill, implementing effective tax strategies now becomes imperative. By maximizing savings, managing cash flow, and ensuring compliance with tax deadlines, you can position your business more robustly for the upcoming year. Taking decisive action before December 31 is essential. To assist you in this critical period, here's a year-end tax planning checklist to help small businesses take control and uncover valuable tax-saving opportunities.

**Buy Equipment and Other Fixed Assets:** One of the most effective ways to generate tax deductions is to buy equipment, machinery and other fixed assets needed for the business and place them in service by Dec. 31. Ordinarily these assets are capitalized and depreciated over several years, but there are a few options for deducting some or all these expenses immediately, including:

- **Section 179 Expensing -** This break allows you to deduct up to $2.5 million ($1.25 million if filing married separate) in expenses for qualifying tangible property and certain computer software placed in service in 2025. It's phased out on a dollar-for-dollar basis to the extent Sec. 179 expenditures exceed $4 million.

  Section 179 expensing allows businesses to immediately deduct the cost of certain qualifying property, rather than depreciating it over time. This includes tangible personal property purchased for use in an active trade or business, such as machinery, equipment, and off-the-shelf software. Certain improvements to nonresidential real property, like roofs, HVAC systems, and fire protection systems, also qualify. However, buildings and structural components generally do not qualify unless they fall under the category of "qualified real property," which includes specific leasehold, restaurant, and retail improvements. The property must be used more than 50% for business purposes and placed in service during the tax year the deduction is claimed.

- Bonus Depreciation - Bonus depreciation saw a significant enhancement due to legislative changes made by the OBBBA, which increased the depreciation rate to a full 100% for qualifying property purchased after January 19, 2025. Previously set at 40% for 2025, this change, which OBBBA made permanent, enables businesses to immediately deduct the entirety of the cost of qualifying property in the year it is placed in service, providing a powerful tax-saving tool.

  Qualified property for bonus depreciation includes tangible personal property with a Modified Accelerated Cost Recovery System (MACRS) recovery period of 20 years or less, most computer software, certain leasehold improvements, and specific transport utility property. This depreciation benefit applies to both new and used assets acquired and placed in service after the designated date, offering businesses increased flexibility in managing their capital expenditures.

- **De Minimis Safe Harbor** - The de minimis safe harbor rule offers an opportunity to directly expense certain low-value items used in your business, bypassing the usual process of capitalizing and depreciating them as fixed assets. If your business maintains applicable financial statements, you can write off expenses of up to $5,000 per item or invoice for these purchases, assuming they're also expensed for accounting purposes. Without such financial statements, the cap is lowered to $2,500. Despite its "de minimis" label, this provision allows for substantial immediate deductions. For instance, purchasing ten computers at $2,500 each could enable you to claim an upfront deduction of $25,000.

**Year-end Inventory Management:** Year-end inventory plays a significant role in determining a business's profit or loss as it directly affects the Cost of Goods Sold (COGS), which is a critical component of calculating gross profit.

Cost of goods sold (COGS) is calculated as the beginning inventory plus purchases during the year minus the ending inventory. Thus, the value of the ending inventory directly reduces the COGS. A higher ending inventory results in a lower COGS, which increases gross profit and taxable income. Conversely, a lower ending inventory results in a higher COGS, reducing gross profit and taxable income. Here are some year-end strategies:

- Identifying and writing down obsolete or slow-moving inventory at year-end can lead to reductions in taxable income, as the inventory's reduced value is recognized as a loss.

- Delaying inventory purchases until after year-end, businesses can manage their COGS and effectively reduce taxable income, thereby optimizing their financial results for the current year.

**Contributing to a Retirement Plan:** Retirement plan contributions not only offer significant tax advantages but also facilitate future savings for both business owners and employees. For self-employed individuals, contributing to a retirement plan such as a Simplified Employee Pension (SEP) IRA can be highly beneficial. Business owners can contribute up to 25% of their net self-employment earnings, with a maximum contribution of $70,000 for 2025. The advantage of a SEP IRA is its flexible contribution deadline, which extends until the tax return filing date, offering additional planning time.

For sole proprietors, freelancers, and independent contractors, a Solo 401(k) presents an excellent opportunity due to its dual-role contribution system, where you are considered both employer and employee, allowing for substantial contribution limits. This makes it an ideal choice for maximizing retirement savings. Additionally, employers can enhance employee satisfaction and retention by offering year-end bonuses and retirement plan contributions, which are often deductible. This dual benefit of tax savings and employee incentive strengthens both the company's financial position and workforce stability.

**Maximize the Qualified Business Income (QBI) Deduction:** As the year-end approaches, business owners should take strategic steps to maximize the Qualified Business Income (QBI) deduction (also known as the Sec 199A deduction), a vital tax benefit allowing up to a 20% deduction on qualified business income. To optimize this deduction, first review your income levels to ensure they fall below the $197,300 for single filers or $394,600 for joint filers threshold (2025 amounts) to avoid phase-outs. Adjusting a “working shareholder’s” W-2 wages appropriately, aligning with industry standards while considering IRS scrutiny, is essential for businesses structured as S corporations. Making capital investments can enhance deductions through Section 179 expensing or bonus depreciation, effectively lowering business income.

**Review Accounts Receivable for Bad Debts:** As year-end approaches, business owners should evaluate their accounts receivable to consider writing off bad debts, which can provide valuable tax deductions. A bad debt is an uncollectible amount owed to your business, often arising from unpaid customer invoices or unreturned loans, and is categorized as either business or nonbusiness. To qualify for a business bad debt deduction, the debt must have been previously included in your business's income, and it should be related to regular business operations.

For accrual method taxpayers, these debts are deductible in the year they become worthless. Documenting diligent collection efforts and the debt's worthlessness is crucial for IRS compliance. Effective management of bad debts not only cleans up financial records but also optimizes taxable income, ultimately enhancing your business’s financial health. Consult with a tax advisor to ensure you take full advantage of this deduction as part of your year-end tax strategy.

**Pre-Pay Expenses:** As the year-end approaches, business owners can strategically manage their cash flow by prepaying expenses to reduce taxable income and, consequently, tax liability. By accelerating deductible business expenses such as insurance premiums, office supplies, or marketing costs before December 31st, you can effectively lower this year’s taxable income. This is especially beneficial for businesses using the cash accounting method, where expenses are deducted in the year they're paid. Prepaying up to 12 months of expenses, allowed under the IRS’s safe harbor rule, can be an effective way to pull deductions into the current tax year, provided income can be appropriately deferred without jeopardizing cash flow needs.

**Deferring Income:** Deferring income to the following year can keep a business under certain tax thresholds, thus optimizing tax outcomes. For cash basis taxpayers, delaying client billing until after the new year means that income is counted when received. However, careful consideration is required to ensure that deferring income won't adversely affect business operations or relationships. Balancing these strategies allows business owners to manage their taxable income actively, ensuring smoother cash flow and potentially significant tax savings.

**First Year in Business?** If so, you can elect to deduct up to $5,000 of start-up **and** $5,000 of organizational expenses in the first year of a business. Each of these $5,000 amounts is reduced by the amount by which the total start-up expense **or** organizational expense exceeds $50,000. Expenses not deductible in the first year of the business must be amortized over 15 years.

**Avoid Underpayment Penalties:** If you are going to owe taxes for 2025, you can take steps before year-end to avoid or minimize the underpayment penalty. The penalty is applied quarterly, so making a fourth quarter estimated payment only reduces the fourth-quarter penalty. However, withholding is treated as paid ratably throughout the year, so increasing withholding at the end of the year can reduce the penalties for the earlier quarters. Here are some possible solutions:

- If you have a qualified retirement plan, a temporary solution to address the under-withholding is to take an unqualified distribution from a qualified retirement plan, utilizing this as a temporary solution to address withholding shortfalls. Upon taking the distribution, 20% is automatically withheld for federal income taxes, providing an opportunity to catch up on required tax payments and avoid underpayment penalties. Meanwhile, you can mitigate tax implications by rolling over the full amount of the distribution, including the withheld portion, back into the plan within the 60-day window. This maneuver requires the use of other funds to cover the withheld amount during the rollover but allows for maintaining the tax-deferred status of the retirement savings and ensures compliance with rollover rules. This approach offers a unique yet viable method to align tax payments without incurring additional tax liabilities on the distribution.

- If you are married and your spouse is employed, the spouse can increase withholding for the end of the year. Even withhold as much as the entire paycheck with the help of a cooperative employer.

- If you have other sources of income subject to withholding, have the withholding increased appropriately.

It may be beneficial for you to consult with this office to estimate your underpayment and whether an underpayment penalty exception might apply.

**Are You a Working Shareholder in an S Corporation?** If so, you may not be aware of the IRS's "reasonable compensation" requirements, which can influence your Section 199A (qualified business income) deduction and your payroll taxes. Reviewing the requirements as they apply to your circumstances may avoid future problems with the IRS.

**Planning on Paying Your Employees a Bonus?** Consider paying your employees their bonuses before year-end, rather than after the start of the new year. That way you benefit from the tax deduction a year sooner.

**Reassess Your Business Entity:** The end of the year is a smart time to evaluate whether your current business structure is still the best fit for your operations. Each structure has unique tax and liability implications. Options include sole proprietorships, partnerships, limited liability company, S Corporation and C Corporation.

**Conclusion:** While year-end strategies primarily aim to manage and reduce income tax liabilities, it's important to remember their wider financial benefits. Implementing these strategies can also diminish the burdens of self-employment tax and business payroll taxes. By shifting income, optimizing deductions such as the Qualified Business Income (QBI) deduction, and making strategic investments or prepayments, businesses can decrease taxable income to more favorable levels, thus lowering associated tax obligations across the board. Such comprehensive tax planning not only enhances cash flow but also strengthens the financial position of the business, paving the way for a more robust and tax-efficient new year. As you finalize your year-end financial strategies, consider consulting with this office to ensure you maximize these opportunities across all tax dimensions.

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Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Aaron Bagby
Kramer, Jensen & Bagby, LLC

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