



Tax & Business Alert

NOVEMBER 2025

RESTORED 100% BONUS DEPRECIATION: A VALUABLE YEAR-END TAX PLANNING TOOL

As this year comes to a close, business owners seeking to reduce their taxes for 2025 have more opportunities to do so under the One Big Beautiful Bill Act (OBBBA). One such opportunity is first-year bonus depreciation. It had been scheduled to be only 40% for 2025 (60% for certain long-production assets) and to vanish after 2026. The OBBBA permanently reinstates 100% bonus depreciation for eligible assets acquired and placed in service after January 19, 2025. Acquiring eligible assets and placing them in service by Dec. 31, 2025, could significantly reduce your 2025 tax liability.

ASSETS ELIGIBLE FOR BONUS DEPRECIATION

Eligible assets include most depreciable personal property, such as:

- Equipment,
- Computer hardware and peripherals,
- Certain vehicles, and
- Commercially available software.

Also eligible is qualified improvement property (QIP), defined as improvements to the interior of a nonresidential building that was already placed in service. QIP doesn't include costs to change the building's internal structural framework (such as enlargement). These costs must generally be depreciated over 39 years.

Unlike Section 179 expensing, which is limited to \$2.5 million for 2025 (up from \$1.25 million before the OBBBA) and subject to a phaseout, the amount



of bonus depreciation a taxpayer can claim is generally unlimited. But there are other tax consequences to consider.

BEWARE OF THE EXCESS BUSINESS LOSS RULE

Individual taxpayers who have losses as a sole proprietor or as an owner of a pass-through entity (partnerships, S corporations and, generally, limited liability companies) may inadvertently trigger the excess business loss rule when they claim bonus depreciation. The excess business loss rule allows business losses to offset income from other sources (such as salary, self-employment income, interest, dividends and capital gains) only up to an annual limit. Amounts above that limit are excess business losses. For 2025, this is the excess of aggregate business losses over \$313,000 (\$626,000 for married couples filing jointly).

BEFORE YEAR-END, SAVE TAXES BY SAVING FOR RETIREMENT

Tax-favored retirement plans can provide significant savings for small business owners, both by building retirement security and by reducing taxes. Contributions are tax-deductible (or pre-tax, if you're contributing as an employee).

One of the simplest options is a Simplified Employee Pension (SEP) IRA. If you're self-employed, you can contribute up to 20% of your net income to a SEP IRA, with a cap of \$70,000 for the 2025 tax year. If your own corporation employs you, the contribution limit is 25% of your salary, also capped at \$70,000. The tax savings can be substantial.

Other options include 401(k)s, SIMPLE IRAs and defined benefit plans. Depending on your age and income, some of these options might allow you to make even larger contributions. Ask your tax advisor for details.

Excess business losses can't be deducted in the current year and must be carried forward to the following tax year. Such losses can then be deducted under the rules for net operation loss carryforwards. As a result, an individual taxpayer's 100% first-year bonus depreciation deduction can effectively be limited by the excess business loss rule.

WRAPPING IT UP

The permanent restoration of 100% first-year bonus depreciation creates tax-saving opportunities for taxpayers while they expand their business potential. Because every situation is different, it's essential to review your business's circumstances carefully. Consult your tax advisor for help tailoring your growth strategies for 2025 and beyond. ■

5 SMART TIPS FOR INDIVIDUAL YEAR-END TAX PLANNING

Even during the last two months of the year, you can take steps to reduce your 2025 tax liability. Here are five practical strategies to consider.

1. USE BUNCHING TO MAXIMIZE DEDUCTIONS

If your itemized deductions are close to the standard deduction, consider a "bunching" strategy. This means timing certain payments (such as mortgage interest, state and local taxes, charitable gifts and medical expenses), so that they push you above the standard deduction in one year. The following year, you can take the standard deduction and, to the extent possible, defer paying deductible expenses to the following year. This alternating approach helps you capture deductions that might otherwise be lost.

2. BALANCE GAINS AND LOSSES

If you have investments in taxable accounts, keep an eye on both realized and unrealized gains and losses. Selling appreciated securities held for more than a year ensures they're taxed at your lower long-term capital gains rate (typically 15% or 20%, plus the 3.8% net investment income tax at higher income levels) rather than your higher, ordinary-income rate (which may be as much as 37%). But selling investments at a loss can offset gains. If losses exceed gains, up to \$3,000 can offset ordinary income, with



the remainder carried forward. This flexibility can reduce taxes this year and in future years.

3. GIFT APPRECIATED ASSETS TO LOVED ONES

If you want to support family members while cutting your tax bill, consider giving appreciated investments to adult children or other relatives in lower tax brackets. They can sell the assets at a lower capital gains rate — possibly even 0%. Just be cautious about the "kiddie tax," which generally applies to children under age 19 (24 if they're a full-time student), and potential gift tax implications.

4. GIVE WISELY TO CHARITIES

Instead of donating cash, consider giving highly appreciated stock or mutual fund shares. You avoid paying capital gains

tax and can deduct the full fair market value if you itemize. Alternatively, selling investments at a loss and donating the proceeds allows you to claim both the capital loss and the charitable deduction. With some tax rules set to tighten in 2026, making larger gifts before the end of the year could be especially advantageous. (But if you don't itemize, you can look forward to the limited charitable deduction that will be available to nonitemizers beginning in 2026.)

5. USE YOUR IRA FOR DONATIONS

For those age 70½ or older, making charitable donations directly from an IRA — called qualified

charitable distributions (QCDs) — offers unique advantages. You can donate up to \$108,000 in 2025 directly to qualified charities, keeping those amounts out of your taxable income. This strategy reduces adjusted gross income, which may help preserve eligibility for other tax breaks.

FINAL THOUGHT

The best tax strategies depend on your personal situation. Timing, income level, and future expectations all matter. Before taking action, consult your tax advisor to tailor these approaches to your needs. ■

THROWING A PARTY FOR YOUR WORKFORCE? KNOW THE TAX RULES

Holiday season is here once again, and for some workplaces, that means holiday parties. Although the rules for deducting business entertainment expenses changed several years ago, you may still qualify for some holiday party write-offs for this year, possibly even the entire cost. As you plan, understand the rules so you can avoid potentially costly missteps.

THE RULES BEFORE AND SINCE THE TCJA

Before the Tax Cuts and Jobs Act (TCJA), businesses could deduct 50% of certain entertainment costs, such as tickets for clients after contract negotiations. Although the TCJA permanently eliminated deductions for entertainment expenses starting in 2018, a key exception remains: If your business holds a company-wide party for employees, you may be able to deduct 100% of the cost. Some examples of potentially eligible expenses are:

- Food and beverages,
- Decorations,
- Venue and furniture rentals,
- Prizes and giveaways, and
- DJ or live band fees

However, for such expenses to be deductible, the party must not be “lavish and extravagant,” and the entire staff must be invited — not just management. Also, if your staff consists only of family members, your party costs aren't deductible. Under family attribution rules, the IRS views this as an event for owners or officers rather than employees.

NONEMPLOYEE GUESTS

Inviting friends, family, clients or business associates complicates matters. Here's an example:

In December 2025, a company invites 60 employees and their partners to a holiday party. Forty employees and their plus-ones attend. In addition, the owner invites five friends, three business associates, and two independent contractors, who all attend with their plus-ones. The total party tab is \$10,000, or \$100 per person, for 100 guests.

On its 2025 corporate return, the company may deduct \$8,000 — the \$100 cost for each of the 40 employees and their 40 partners. The \$2,000 cost for 20 social guests is personal and not deductible. Independent contractors are treated as nonemployees for this purpose, even if they perform similar work.

The takeaway is that the more nonemployees you invite, the less you can deduct.



SAFEGUARDING YOUR DEDUCTION

As always, keep detailed receipts and records. If the IRS questions your deductions, it may request documentation. Reduce audit risk by keeping expenses reasonable relative to company size and limiting social guests.

Finally, consult a tax advisor. By seeking professional guidance in advance, you can show your workforce your holiday appreciation while staying compliant with current tax law. ■

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MAKE SURE EVERY DONATION COUNTS — AND IS DEDUCTIBLE

Charities obviously benefit when you donate cash and property to them. But you can also benefit by securing a tax deduction if you comply with the tax rules.

Start by ensuring you're donating to a qualified charitable organization with tax-exempt status. A tool on the IRS website — the Exempt Organizations Select Check — allows users to search for a specific tax-exempt organization, check its federal tax status and see information returns the charity may have filed.

To be deductible in a given year, any pledges must be actually paid in that year. So, if you pledged \$5,000 early in 2025 but pay only \$1,500 by the end of the year, you can deduct only \$1,500 on your 2025 tax return. (You can deduct the rest when you pay it.)

If you receive something in return for your donation, you need to know the fair market value (FMV) of the item received. If you donated property rather than cash, you also need to know the FMV of what you donated. Suppose you donate a laptop computer to your child's



school, and, in return, you receive event tickets. You must deduct the FMV of the tickets from the FMV of the laptop to arrive at your tax deduction.

There are substantiation rules that apply when giving cash or property to charity, and they vary based on the type and amount of the donation. For example, some donated property may require you to obtain a professional appraisal of value. Before you donate, consult your tax advisor. ■

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