Key Wealth Institute

Top 10 2025 Year-End Planning Strategies for Business Owners

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Last year, we entered year-end planning uncertain about the outcome of an upcoming November election. We entered the beginning of the year unsure of the fate of the Tax Cuts and Jobs Act (TCJA) that was set to expire at the end of 2025. For business owners, the economic environment has been a mix of cautious optimism and persistent uncertainty. Reasons for this have included shifting government policy, the ups and downs of U.S. tariff and trade policy, and persistent inflation, with a recent shift by the Federal Reserve to begin lowering interest rates after a pause because of a strained jobs market, and changes in tax policy. All which make it more difficult to make business decisions. With the passage of the One Big Beautiful Bill Act (OBBBA or H.R. 1) in July, we have greater clarity on the tax landscape. Many provisions from the first Trump administration's tax cuts were made permanent, while some new provisions were added temporarily. Some provisions of the OBBBA are retroactive, are effective now for 2025, or effective in future years. As we approach year-end, start having those advisor conversations to make sure your business planning is where it should be.

As a reminder, we have two Key Questions articles regarding the OBBBA or H.R. 1):

- Key Questions: What Are the Top 10 Provisions in the "One Big Beautiful Bill Act" That Will Impact Businesses? | Key Private Bank
- Key Questions: What Is in the One Big Beautiful Bill Act and How Does It Compare to Current Law? | Key Private Bank

To summarize the key tax changes for business owners:

- No change in the corporate tax rate. OBBBA retains the 21% corporate tax rate.
- For 2025, the wealthiest taxpayers subject personal income to a top ordinary rate of 37% and a potential high-wage earner Medicare tax of 0.9%. Starting in 2026, the lower individual tax rates from the TCJA are made permanent.
- For capital gains and qualified dividends from pass-through entities, there are no changes in the special tax rates for individuals (0%, 15%, or 20%). Corporate capital gains are generally taxed as ordinary income at the corporate rate of 21%.
- There is still a 3.8% Medicare surtax for individuals on Net Investment Income. This does not apply to trades or business conducted as a sole proprietor, partnership, or S corporation.
- The expensing under Section 179 has been increased.
- 100% bonus depreciation for qualified property has been reinstated permanently. Under TCJA, this percentage was being phased down to zero over multiple years.
- Domestic research and experimental expenditures can be deducted immediately rather than capitalized and amortized over 15 years.
- Availability of the qualified business income deduction for non-corporate entities is still at 20% with changes to the phase-in ranges for Specified Services Trades or Business (SSTBs) as well as a new minimum deduction.
- The Qualified Small Business Stock (QSBS) exclusion has been expanded with a tiered exclusion schedule over shorter periods.

1. Review corporate structure and tax status

End of year is a good time to revisit whether your business structure is still the best fit. Closely held business owners have several options for structuring a business. Many businesses operate as a sole proprietorship with one owner servicing and managing the business. In fact, according to U.S. Census data, 73% of businesses are sole proprietorships. Other businesses — especially those with more than one owner — are structured as partnerships, limited liability companies (LLCs), S corporations or C corporations. The structure of your business also impacts how taxes are filed. With the retention of the pass-through entity tax (PTET) election discussed in #5 below and the Qualified Business Income (QBI) deduction discussed in #8 below, review whether pass-through status is still advantageous or consider entity-restructuring as needed. Tax savings aren't the only factor to consider in structuring a business, so it is important to consult your tax advisor to discuss options.

2. Review retirement plan options

Qualified retirement plans can be a powerful way to lower current tax liabilities as well as provide opportunities for owners and employees to save significantly for retirement. Individuals who already have these plans should use the end of the year as an opportunity to fully fund their contributions or at least contribute enough to receive the entire company match, if applicable. If you have a Roth option for your retirement plan, review your current tax rate and try to determine whether your tax rate will be higher in retirement. If you think it will be, it may be wise to make some of your retirement contributions to the Roth option and forego the current tax savings, as contributions to a Roth do not generate a tax deduction. Since there are many unknowns when trying to predict your tax situation years down the road, it may make sense to hedge and to have some taxable retirement accounts and some that are not subject to tax at time of distribution.

End of year is a great time for businesses to provide end-of-year bonuses or retirement contributions to their employees and potentially receive tax breaks on these funds, which can be financially appealing to business owners. Business owners may want a plan that maximizes their contributions up to the legal limit. For self-employed individuals, a simplified employee pension (SEP) IRA can be funded with 20% of self-employment earnings, with a maximum of $70,000 for 2025. There is no year-end deadline and it may be established up to the extended due date of his or her income tax return. A solo 401(k) will allow for the largest pre-tax contribution, as it recognizes that you are both employer and employee. Solo 401(k)s are suitable for sole proprietors, partnerships, C corporations, and S corporation business owners. Additionally, a business can make a profit-sharing contribution to a retirement plan, up to 25% of payroll, lowering the business's taxable income.

There may also be tax credits available for businesses with fewer than 100 employees to help defray the cost of offering retirement plans. There is an employer contributions tax credit that can be claimed for up to five years; the percentage decreases each year by 25%, beginning in year three. Eligible employers may be able to claim a tax credit of up to $5,000, for three years, for the ordinary and necessary costs of starting an SEP, SIMPLE IRA, or qualified plan (like a 401(k) plan). And an eligible employer that adds an auto-enrollment feature to their plan can claim a tax credit of $500 per year for a three-year taxable period beginning with the first taxable year the employer includes the auto-enrollment feature. This tax credit is available for new or existing plans that adopt an eligible auto-enrollment feature.

Regardless of your business structure, it is important to consult with your tax advisor to determine the effect of The Setting Every Community Up for Retirement Enhancement Act of 2019 (the "SECURE" Act) and the SECURE 2.0 Act of 2022 on any current or future employer-sponsored plan. The SECURE Act encouraged the establishment of retirement plans through expansive tax credits and administrative modifications. It also introduced the Pooled Employer Plan (PEP), which enables unrelated employers to combine their resources and participate in one plan.

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To learn more about PEPs, see our article [Pooled Employer Plans, the Next Frontier for Improving Participant Outcomes | Key]. SECURE 2.0 ushered in new provisions and opportunities for employers and employees. Many provisions were crafted primarily to benefit small- and medium-sized employers and to incentivize the establishment of a plan. The provisions of SECURE 2.0 have various effective dates, with most changes applying to all plans but some rules only applying to new plans. Included in the provisions are the introduction of student loan repayments as 401(k) contributions; Roth tax treatment for catch-up contributions of the highest earners (final guidance from the IRS and Treasury were issued in September 2025 with guidance on how to implement the Roth catch-up changes for business plan administrators and may have implications for 2026 and future years); expansion of automatic enrollment; and the addition of some emergency provisions that make it easier for employees to contribute to a plan with a safety net in case events cause the need to access funds early. With all the complexity, it is important for businesses to stay updated and adaptable in the retirement space.

3. Create and implement business transition planning strategies

Business transition planning isn't top of mind for most busy closely-held business owners focused on maintaining and growing a successful business. Unless an unexpected event occurs such as receiving an unsolicited offer to buy the business or death or incapacity of a key person in the business, many owners are too swamped or too reluctant to turn their attention to creating and implementing a plan of action for when they are no longer running the business. Unfortunately, lack of advanced planning to position your exit from your business is one of the main reasons families receive less value for their business when "that" time comes — which inevitably will happen to all business owners.

In considering your "inevitable exit," it is important to understand the different transfer channels available to transition your business. For instance, many closely-held business owners look to transfer the company to family members — especially when spouses, children, siblings, or other family members are instrumental in the daily operations of the business. Establishing, implementing, and communicating an innovative estate and tax plan that specifies roles and functions of family members can make for a smooth transition with less family strife, while at the same time providing significant income and transfer tax savings. Alternatively, if you would like to sell your business to a co-owner, employees, or to an outside third party, advance planning is key to ensuring your transition goals are met. Regardless of the transfer channel you choose to exit your business, it is important to implement and routinely review and revise exit plans at the end of year — especially if there are proposed changes in tax law that may impact your ability to save taxes and maximize the amount of sale proceeds retained by you and your family.

In 2024, the outcome of a U.S Supreme Court Case (Connelly v. United States (U.S., No. 23-146)) has made succession planning for family and closely held businesses more challenging. In light of this court case, redemption agreements should be reviewed, and other buy-sell agreements should be reviewed and possibly restructured. Insurance policies that are to be used to fund such buy-sell arrangements should be reviewed for adequacy.

If your business is a C corporation and it qualifies for the Qualified Small Business Stock (QSBS) Exclusion, you should explore this opportunity for massive tax savings. Prior laws allowed a 100% maximum gain exclusion if QSBS was held for at least five years. The OBBBA introduced a new tiered exclusion schedule for QSBS held over shorter periods, rather than five years, to receive any exclusion at all. The per-issuer cap has been increased and the eligible gross asset limit has been increased as well. Also consider that a non-grantor trust is considered a separate taxpayer and may claim its own deduction for the QSBS that it holds.

Gifting at year-end — whether outright or in trust to individuals or charities — is a planning strategy available to reduce income tax and/or estate tax liability.

4. Establish or revise wealth transfer strategies

As circumstances change throughout the year, it is prudent to establish or revise wealth transfer planning strategies available to minimize federal and state income and transfer taxes (estate, gift and generation skipping). As always, gifting at year-end — whether outright or in trust to individuals or charities — is a planning strategy available to reduce income tax and/or estate tax liability. You have until year-end to make annual exclusion gifts of up to $19,000 per person. If you are married, you may "gift split" and gift $38,000 to one person. Keep in mind, the gift must be out of your control by year-end.

As annual exclusion gifts do not count against your lifetime gift tax exemption, such gifting is a great way to transfer assets without subjecting the transfer to taxes. As mentioned previously, the current Federal Estate and Gift Tax Exemption in 2025 is $13.99 million with an increase to $15 million in 2026, as a result of the OBBBA. Creating an estate plan to establish long-term lifetime trusts or trusts at death via your last will that hold business interest may significantly maximize your income and transfer tax savings — especially if looking to transition your business to the next generation. Once such plans are created, it is always prudent to periodically review and revise estate plans as circumstances change. Additionally, considering state residency changes may be a strategy to significantly decrease state income tax liability — especially if your business assets are held in long-term trusts that permit you to control the disposition or sale of the business and your business isn't physically tied to your home state of residency. Consult estate and tax planning professionals prior to year-end to determine whether such tax saving strategies work for you and your business.

5. Take advantage of the pass-through entity tax deduction for state and local taxes

For business owners of pass-through entities (partnerships or S corporations), the Pass-through Entity Tax (PTET) survived the OBBBA! After the passage of the TCJA and the initial SALT limitation of $10,000, many states implemented an unlimited pass-through entity tax SALT deduction that was approved by the IRS. The new law did not eliminate this strategy for payment of state income taxes. Business owners in pass-throughs can elect for the entity to pay state and local income tax at the entity level. The taxes are deductible by the entity for federal tax purposes and reduce the flow-through income taxed to the business owner personally. This treatment allows the effective deduction of state and local taxes without being subject to the federal SALT limitations, saving the owner significant federal income tax.

6. Take advantage of the business expensing election (Section 179 election)

For qualified property placed in service after December 31, 2024, the maximum amount that may be expensed under the dollar limitation of Code Sec. 179 has been significantly increased under OBBBA and is now $2.5 million, and the beginning-of-phaseout amount starts at $4 million. The expensing deduction can be claimed regardless of how long the property is held during the year. Therefore, property acquired and placed in service in the last days of the tax year, rather than at the beginning of the following year, can result in a full expensing deduction for the earlier year. The deduction includes both new and used qualified equipment. The definition of section 179 qualified includes qualified improvements to nonresidential real property, including certain improvements to a building's interior and improvements such as roofs, HVACs, fire protection systems, alarm systems, and security systems. It also now applies to non-customized computer software available to the public.

7. "Bonus" Depreciation (Section 168(k) deduction)

Business owners electing to take advantage of the bonus depreciation deduction in the first year new or used machinery and equipment are purchased and placed in service has been a common income tax savings strategy for the past several years. Unlike standard amortization, bonus depreciation immediately facilitates tax savings — which can be a valuable business incentive when costs are rising. Bonus depreciation deduction is permitted without any proration based on the length of time that an asset is in service during the tax year. Prior to the passage of the OBBBA, bonus depreciation was scheduled to be phased out over multiple years, eventually reaching 0% in 2027. However, the OBBBA made the 100% bonus depreciation permanent. The OBBBA did not alter the types of property eligible for bonus depreciation. This provision is effective for property acquired after January 19, 2025.

Also new under the OBBBA is the elective 100% bonus depreciation deduction in the year it is placed in service for Qualified Production Property (QPP), defined as the portion of any nonresidential real property that is used by a taxpayer as an integral part of a qualified production activity (QPA). A QPA is the manufacturing, production, or refining of a qualified product; such activities must result in a substantial transformation of the property comprising the product. QPP does not include any portion of nonresidential real property that is used for offices for sales, or research activities or other functions unrelated to the manufacturing, production, or refining of tangible personal property. This enables companies that invest in U.S. production facilities to deduct the full cost of qualified property, encouraging onshoring and capital investment in manufacturing. This provision is effective for property placed in service after July 4, 2025.

Prior to the passage of the OBBBA, bonus depreciation was scheduled to be phased out over multiple years, eventually reaching 0% in 2027. However, the OBBBA made the 100% bonus depreciation permanent.

8. Maximize the pass-through business income deduction (Section 199A deduction)

The qualified business income (QBI) deduction is available up to 20% of QBI from a qualified trade or business. The QBI deduction was temporary and was set to expire at the end of 2025. The OBBBA has made permanent the deduction for QBI after 2025. Owners of qualified businesses structured and operated as pass-through entities, including trusts and estates, may be eligible for the QBI deduction. To take advantage of the deduction in 2025, specified service trade or businesses (SSTBs) qualify if your taxable income is under a threshold amount. The deduction is phased out if over the threshold amount and eventually you will not get the 20% deduction if it exceeds the upper limit of the phaseout range. The OBBBA also expanded the deduction limit phase-in range for non-SSTBs subject to the wage and capital limitation, supporting small- and medium-sized companies.

The heart of planning for the QBI deduction is managing taxable income by accelerating deductions or deferring income for those in SSTBs, and for non-SSTBs managing the wage/capital limitation. To reduce taxable income below the threshold amount, a few ideas to consider are making pension plan contributions, increasing payroll, accelerating business expenses, recognizing losses, avoiding recognizing gains, and making charitable contributions. If you are in a non-specified service trade or business, but you exceed the income limitations and thus are subject to the additional W-2 wage and capital (qualified property) limitation, you should consider making additional qualified capital purchases or increasing wages to increase your available QBI deduction.

Note that for years after 2025, the OBBBA sets a new minimum deduction for active QBI at $400 and provides that a taxpayer must have a minimum of $1,000 QBI to claim the deduction. Also, the phase-in thresholds are increased.

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9. Domestic Research & Experimental (R&E) Expenditures

Under prior law, such expenditures were required to be capitalized and amortized over five years. The OBBBA provides that domestic R&E expenditures paid or accrued in 2024 or thereafter are immediately deductible. There are also some transition rules that allow taxpayers who previously capitalized domestic R&E expenditures and began amortizing them between 2022 and 2024 the option of expensing their remaining unamortized domestic R&E costs over a one- or two-year period beginning in 2025, or they can continue amortizing the costs over their current schedule. Furthermore, small business taxpayers (those with average annual gross receipts of $31 million or less who are not tax shelters) can electively apply the law change retroactively beginning in 2022 by filing amended returns to deduct their respective domestic R&E expenditures for each of those years, as long as the election is made before July 5, 2026. Reach out to your tax advisor if this may apply to you and filing amended returns could be an option.

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10. Take advantage of expiring energy credits

There has been increased focus on environmental, social, and governance (ESG) concerns for business owners. Your business may be considering turning to clean commercial vehicles for savings via tax credits, as well as for being better for the environment. Many of the key federal energy tax credits were extended under the Inflation Reduction Act of 2022. However, the OBBBA shortened some of the expiration dates and modified other credits. The following credit now expires June 30, 2026: Alternative Fuel Vehicle Refueling Property Credit, which covers EV charging stations and clean fuel infrastructure installed at commercial sites. The following credits for energy-efficient commercial buildings now expire December 31, 2027: the Clean Electricity Investment Credit (ITC), which covers solar, wind, and other zero-emission energy generation technologies, and the Clean Electricity Production Credit (PTC), which covers the production of electricity from zero-emission sources. Consider changes to the phaseouts and eligibility rules when evaluating current plans and construction timelines for ITC- and PTC-eligible facilities.

The Clean Fuel Production credit was extended through 2029 with adjustments to the eligibility and the credit amount.

11. Charitable deduction planning (bonus planning idea)

Corporate charitable planning involves strategic giving to meet both business and philanthropic goals. Corporations can deduct charitable contributions up to 10% of their taxable income (as computed without the charitable contribution). Contributions in excess of that limit in any year can be carried forward and deducted over the next five years. The OBBBA introduced a 1% “floor” on deductible donations starting in 2026. Companies should consider “bunching” donations to exceed this threshold.

Year-end is a busy time of year for business owners for many reasons. Despite the hustle and bustle, it is important to consider the year-end tax planning strategies mentioned above to minimize taxes and protect and preserve your business and personal assets. It is also important to stay aware of any new laws enacted that affect reporting requirements for your business. Your Key Bank Advisor can work with you and your legal and tax advisors to take decisive actions that best fit you, your business, and your family.

For more information, please contact your advisor.

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