

## TIMING OF INCOME AND DEDUCTIONS

Taxpayers should consider whether they can reduce their tax bills by shifting income or deductions between 2025 and 2026. Ideally, income should be received in the year with the lower marginal tax rate, and deductible expenses should be paid in the year with the higher marginal tax rate. If the marginal tax rate is the same in both years, deferring income from 2025 to 2026 will produce a one-year tax deferral, and accelerating deductions from 2026 to 2025 will lower the 2025 income tax liability.

Actions to consider that may result in a reduction or deferral of taxes include:

- ☐ Delaying closing capital gain transactions until after year-end or structuring 2025 transactions as installment sales so that gain is deferred past 2025 (see also Long-Term Capital Gains).
- ☐ Triggering capital losses before the end of 2025 to offset 2025 capital gains.
- ☐ Delaying interest or dividend payments from closely held corporations to individual business-owner taxpayers.
- ☐ Deferring commission income by closing sales in early 2026 instead of late 2025.
- ☐ Accelerating deductions for expenses such as mortgage interest and charitable donations (including donations of appreciated property) to 2025 (subject to adjusted gross income (AGI) limitations).
- ☐ Evaluating whether non-business bad debts are worthless — and should be recognized as short-term capital losses — by the end of 2025.
- ☐ Shifting investments to municipal bonds or investments that do not pay dividends to reduce taxable income in future years.

Taxpayers that will be in a higher tax bracket in 2026 may want to consider potential ways to move taxable income from 2026 to 2025, so that the taxable income is taxed at a lower tax rate.

Current-year actions to consider that could reduce 2026 taxes include:

- ☐ Accelerating capital gains to 2025 or deferring capital losses until 2026.
- ☐ Electing out of the installment sale method for 2025 installment sales.
- ☐ Accelerating deductions such as large contributions to 2025.
- ☐ Accelerating residential and clean energy expenditures.