

When income is significantly higher than normal and expected to decline in a future year, the general objective is to reduce taxable income in the high-income year. This is often achieved by accelerating deductions and, where appropriate, deferring income.¹

1 Accelerate Business Expenses

For taxpayers using the cash method of accounting, expenses are generally deductible in the year they are paid.²

- **Prepay Eligible Expenses:** Certain recurring business expenses may be prepaid and deducted currently if they satisfy the IRS 12-month rule.³
- **Purchase Necessary Supplies:** Buying ordinary and necessary business supplies before year-end may accelerate deductions.²
- **Consider Equipment Purchases:** Qualifying property may be expensed immediately under Section 179, subject to annual statutory limits.⁴
- **Evaluate Bonus Depreciation:** Bonus depreciation may allow accelerated write-offs depending on the percentage permitted under current law.⁵

2 Maximize Retirement Contributions

Retirement plans remain one of the most effective tools for managing taxable income.⁶

- **Solo 401(k):** Allows employee deferrals plus employer contributions, within statutory limits, including catch-up contributions for eligible taxpayers.⁷
- **SEP-IRA:** Provides flexibility with contributions generally based on a percentage of net self-employment income.⁸
- **Defined Benefit Plans:** May permit substantially larger deductible contributions for high-income earners, depending on age, compensation, and plan design.⁹
- **Evaluate whether participating in your employer's Non-Qualified Deferred Compensation (NQDC) plan makes sense as part of your broader tax strategy**

3 Strategically Time Itemized Deductions

Recent legislative changes increase the importance of timing itemized deductions strategically.

- **Charitable Contributions:** Accelerating planned charitable gifts into a high-income year may increase their tax value.¹⁰
- **State and Local Taxes (SALT):** Deductions for certain taxes are subject to statutory caps.¹¹
- **Medical Expenses:** Medical expenses exceeding the applicable percentage of adjusted gross income (AGI) may be deductible; timing can matter.¹²

4 Income Deferral Opportunities

- **Delay Billing (When Permissible):** Cash-basis taxpayers may defer income if payment is not constructively received.²
- **Installment Sales:** Eligible transactions may spread taxable gains across multiple years.¹³

5 Other Key 2025-Specific Deductions and Planning Considerations

- **Qualified Business Income (QBI):** Monitoring taxable income levels is critical to preserve eligibility and avoid phase-outs.¹⁴
- **Health Insurance Premiums:** Self-employed taxpayers may deduct qualifying health insurance premiums.¹⁵
- **Overall Retirement Contribution Limits:** Retirement plan deductions remain subject to annual caps.¹⁶
- Consider opening and funding a Health Savings Account (HSA) for its tax advantages.
- Explore opportunities for tax-loss harvesting to offset realized gains.
- Assess whether gifting high-income-producing assets to beneficiaries in lower tax brackets could improve overall family tax efficiency.

Peak-income years create valuable planning opportunities, but tax rules contain thresholds, phase-outs, and technical limitations. Strategies should always be evaluated based on current law and individual circumstances. Tax planning is ultimately an exercise in timing, regulation, and probability — less “quick tip,” more “strategic calibration.”

Sources

- ¹ Internal Revenue Code (IRC) §1 — Individual income tax rate structure
- ² IRC §461(a); IRS Publication 334 — Timing of income and deductions (cash vs accrual)
- ³ Treas. Reg. §1.263(a)-4; IRS guidance on 12-month rule — Prepaid expense deductibility
- ⁴ IRC §179; IRS Publication 946 — Section 179 expensing rules and limits
- ⁵ IRC §168(k); IRS Publication 946 — Bonus depreciation rules
- ⁶ IRC §404; IRS Publication 560 — Deductibility of retirement plan contributions
- ⁷ IRC §§402(g), 415(c), 414(v); SECURE Act provisions — 401(k) limits & catch-ups
- ⁸ IRC §408(k); IRS Publication 560 — SEP-IRA contribution rules
- ⁹ IRC §404(a); IRS Publication 560 — Defined benefit plan contribution framework
- ¹⁰ IRC §170; IRS Publication 526 — Charitable contribution deductions
- ¹¹ IRC §164(b)(6) — State and Local Tax deduction limitation
- ¹² IRC §213(a); IRS Publication 502 — Medical expense deduction threshold
- ¹³ IRC §453; IRS Publication 537 — Installment sale reporting
- ¹⁴ IRC §199A; IRS Publication 535 — Qualified Business Income deduction
- ¹⁵ IRC §162(l); IRS Publication 535 — Self-employed health insurance deduction
- ¹⁶ IRC §415(c) — Annual contribution limits

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