Moore Financial Strategies
Tax-Saving Tips

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Learn How to Beat 2025 Estimated Tax Penalties Instantly, Today

Here's an important tax planning strategy that can save you thousands in penalties if you've missed estimated tax payments for 2025.

The Penalty Problem

When you don't make your 2025 estimated tax payments on time, the IRS charges a non-deductible 7 percent penalty that compounds daily.
Because penalties are not deductible, they are considerably more costly than deductible interest.

Simply writing a check today won't erase the penalties. It only prevents them from growing further. But there is a powerful way to make them disappear entirely.

The One Perfect Solution

By using a retirement account with 60-day rollover provisions, you can eliminate estimated tax penalties instantly. Here's how:

- Withdraw funds from your IRA, 401(k), or other eligible plan, and direct the custodian to withhold federal income tax.
- Repay the full amount into the retirement account within 60 days using other funds.

The IRS treats the withheld taxes as if they were made evenly across all four estimated tax deadlines. And because you repaid the account within 60 days, the withdrawal is not taxable, and no penalty applies.

Other Options and Pitfalls

If you are age 73 or over, you can use withholding taxes from required minimum distributions (RMDs) to cover both your RMD and your estimated tax needs.

Don't use a W-2 bonus. It triggers payroll taxes and can reduce your Section 199A deduction—likely more costly (and perhaps far more costly) than the penalty itself.

Beat the OBBBA/TCJA Rules That Punish Dog Breeding Hobbies

Are you involved in a dog breeding business or considering starting one? If so, you are in the IRS's crosshairs. The IRS has long considered dog breeding to be an activity typically classified as a hobby, rather than a business, for tax purposes.

When it comes to taxes, hobbies are usually tax disasters. Unlike a business, you can't deduct your hobby expenses from hobby income (or any other income). But you must still report and pay tax on any hobby income you earn.

On the expense deduction front, there's one exception. You can deduct your costs of goods sold for each puppy you sell.

Fortunately, a dog breeder can qualify as a business. You can do this even if you lose money in some years (or even in many years). There are two ways to qualify:

1. **Profit test.** If you earn a profit in three of five years, the IRS must treat your activity as a business.

2. **Facts and circumstances test.** If you can't meet the three-of-five-years test, you can still qualify by showing that you engage in breeding with a genuine intent to earn a profit. Your goal doesn't need to appear reasonable to others, but it must be honest and bona fide.

The IRS reviews nine factors to determine profit motive. Three factors carry the most weight:

1. Operating in a businesslike manner

2. Having expertise in dog breeding

3. Devoting time and effort to the activity

To strengthen your case as a business, you should:

- Keep accurate business records

- Market your business consistently

- Consider integrating breeding with related businesses, such as a kennel or grooming service

- Create and follow a business plan

- Commit steady time and effort to breeding

Forming a legal business entity, such as an LLC or a corporation, also reinforces your profit motive.

OBBBA Revives Your Ability to Kill Capital Gains with QOFs

Since 2018, taxpayers have enjoyed significant tax benefits by investing capital gains in Qualified Opportunity Funds (QOFs). QOFs channel money into Qualified Opportunity Zones (QOZs)—government-designated low-income census tracts. Investors have embraced the program, pouring in more than $160 billion.

The program was set to expire in 2026. However, the One Big Beautiful Bill Act (OBBBA) made the program permanent and adjusted the tax benefits.

New Rules Beginning in 2027

Starting in 2027, you can invest in a new set of QOZs that meet stricter low-income standards. Expect about 25 percent fewer QOZs than under the original program.

Also, in 2027 and 2028, you can invest in the original QOFs and obtain the new QOF treatment. When you invest capital gains in a 2027-or-later QOF, within 180 days you unlock four major tax benefits:

1. You avoid tax on your capital gains for five years.

2. You get a 10 percent step-up in basis at the five-year mark, which eliminates 10 percent of your taxable gain.

3. You owe no tax on the appreciation of the QOF, as long as you hold the QOF investment for 10 years before selling.

4. You may keep your investment for up to 30 years and still avoid capital gains tax on any appreciation through the end of that year.

Qualified Rural Opportunity Funds

The OBBBA also created a new vehicle: the Qualified Rural Opportunity Fund. These funds must invest at least 90 percent of their assets in rural QOZs. If you invest capital gains in one of these funds, you gain a 30 percent step-up in basis after five years.

QOZ 1.0: The Original Program

The original QOZ program remains in effect through 2026. If you invest in 2025 or 2026, you defer tax on your capital gains only until December 31, 2026, when you must pay the tax on your 2026 return. You also lose the five-year, 10 percent step-up in basis.

Still, the most powerful benefit remains: you owe no tax on appreciation if you hold the investment for 10 years. You can even hold it through December 31, 2047, without paying tax on appreciation.

A Word of Caution

Treat QOF investments with care. Before you commit money, make sure you feel confident about the fund’s management team, investment strategy, projected returns, and fees.

OBBBA’s Secret Gift: Bigger Tax Breaks for QCDs from Your IRA

If you’re age 70 1/2 or older, the IRS allows you to make charitable contributions directly from your IRA to approved organizations, such as your church. These transfers, known as qualified charitable distributions (QCDs), have become even more powerful under the new One Big Beautiful Bill Act (OBBBA)—and could be one of the most effective ways to give.

How QCDs Work

A QCD allows you to transfer funds directly from your IRA trustee to a qualified charity. The money never touches your hands, and the transfer is wholly excluded from your taxable income. While this means you cannot claim the gift as an itemized deduction, you don’t need to—because avoiding taxation is the best. It’s far better than a 100 percent deduction.

For 2025, the annual QCD limit is $108,000 per person. If both you and your spouse have IRAs, each of you may contribute up to that amount separately.

Tax-Saving Advantages

QCDs provide you with many distinct benefits, including the five below:

1. **Lower taxable income.** Unlike regular IRA withdrawals, QCDs do not increase your adjusted gross income (AGI) or modified AGI (MAGI). This helps you stay out of higher tax brackets and avoid triggering phaseouts of other deductions and credits.

2. **Avoid new OBBBA restrictions.** Starting in 2026, the OBBBA reduces itemized charitable deductions by floors and limits tied to income levels. QCDs are exempt from these rules.

3. **Meet required minimum distributions (RMDs).** If you are age 73 or older, QCDs can count toward your annual RMD, allowing you to satisfy the requirement without adding taxable income.

4. **Preserve other tax breaks.** By keeping AGI and MAGI lower, QCDs can help you avoid Medicare premium surcharges, the 3.8 percent net investment income tax, and the loss of valuable deductions such as those for state and local taxes.
5. **Achieve estate planning benefits.** QCDs reduce the size of your taxable estate, potentially lowering future estate tax exposure.

Takeaway

If you are charitably inclined and have reached age 70 1/2, QCDs may be your path to give generously and cut your tax bill. The OBBBA makes them even more attractive in 2025 and beyond.

Selling a Term Life Insurance Policy Creates Thorny Tax Issues

Are you considering cashing out your term life insurance policy? Unfortunately, selling a term life policy to investors is nearly impossible unless you are terminally ill and unlikely to outlive the policy.

You do have one potential option: you could name a relative as the beneficiary in exchange for a payment and their agreement to take over all future premium payments.

This type of arrangement creates significant tax consequences:

- **Taxable transfer.** The IRS will likely treat the transaction as a "transfer for value." You, as the transferor, must recognize taxable income if the payment you receive exceeds your basis in the policy. Your basis equals the total premiums you paid before the transfer. If you owned the policy for more than one year, you'll pay tax at long-term capital gains rates.

- **Taxable death benefit.** If you die while the policy is still in effect, the beneficiary will be required to pay tax on the death benefit. Typically, life insurance proceeds are tax-free. However, in this situation, the beneficiary can exclude only the amount equal to what they paid for the policy, plus any premiums paid after the transfer. The IRS taxes the rest at ordinary income rates.

- **No deductible loss.** If you outlive the policy and the beneficiary receives nothing, the IRS will not allow a deductible loss.