Financial Foundations – Powered by Newtown Savings Bank

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2025 Retirement and Tax Changes: Key Numbers Announced

As we step into 2025, significant updates in retirement and tax figures present new opportunities for individuals to enhance their financial strategies. The changes include increased exclusions for estate and gift taxes, adjusted standard deductions, and updated contribution limits for retirement plans. These updates are designed to offer more flexibility and benefits to taxpayers.

Estate and Gift Tax Adjustments

The annual gift tax exclusion has increased to $19,000 for 2025, up from $18,000 in 2024. This adjustment allows individuals to gift more without incurring tax penalties. Additionally, the gift and estate tax basic exclusion amount has risen to $13,990,000, a slight increase from $13,610,000 in the previous year. These changes aim to facilitate smoother wealth transitions across generations.

Standard Deduction and IRA Contributions

Taxpayers can look forward to a higher standard deduction in 2025, which simplifies the filing process for many. Single filers can now claim a deduction of $15,000, while married couples filing jointly can claim $30,000, and heads of households can benefit from a $22,500 deduction. Individuals aged 65 or older may see a modest increase in additional deduction amounts, providing enhanced support.

For those investing in Individual Retirement Accounts (IRAs), the contribution limits for traditional and Roth IRAs remain at $7,000, with an additional $1,000 for individuals aged 50 or older. This consistency allows for continued strategic retirement planning and investment growth.

Employer-Sponsored Retirement Plans and Kiddie Tax

Employees participating in 401(k), 403(b), and most 457 plans can now defer up to $23,500, with additional catch-up contributions for those aged 50 and older. Furthermore, those aged 60 to 63 can defer even more, up to $11,250. SIMPLE retirement plans also see an increase, with deferral limits rising to $16,500, providing more room for savings as retirement approaches.

Regarding the kiddie tax, a child's unearned income above $2,700 will be taxed at the parent's rate, ensuring families can plan more effectively for their children's financial futures.

Individuals should review these updates and consult with financial advisors to optimize their financial plans for 2025. By participating in these programs, they can take control of their financial future and safeguard their investments.

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