

Foundational to Advanced Strategies for Individual Clients

Adding value through tax planning

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Published Agenda

Tax-Advantaged Accounts

- Contributions for IRAs, 401(k)s, SEP, SIMPLE plans
- Brief overview of HSAs
- Education funding: 529s and Coverdell ESAs

Multi-year funding; Grandparent 529s, 529-to-Roth conversions

Deductions and Credits

- Itemized vs. standard deduction strategy
- Tax bunching and charitable bundling
- Key credits: CTC, EITC, and education-related credits

Income Shifting and Splitting

- Using family trusts and gifting
- Employing family members and setting reasonable compensation

Other

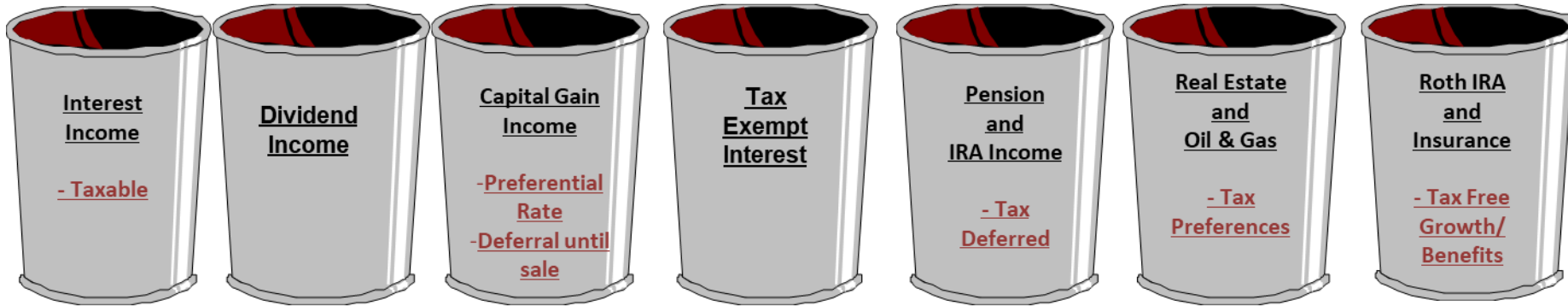
- Social Security benefits and taxes

Tax-Advantaged Accounts

Overview

- IRAs & Roth IRAs
- 401k
- SIMPLE IRAs
- SEP IRAs
- Defined Benefit Plans (Cash balance accounts)
- MSA/HSA
- QTP/ESA
- Able Accounts
- TRUMP Accounts

TAX ASSET CLASSES



- Money market
- Corporate bonds
- US Treasury bonds

Attributes

- Annual income tax on interest
- Taxed at highest marginal rates

- Equity securities

Attributes

- Qualified dividends at LTCG rate
- Return of capital dividend
- Capital gain dividends

- Equity securities

Attributes

- Deferral until sale
- Reduced capital gains rate
- Step-up basis at death

- Bonds issued by state and local governmental entities

Attributes

- Federal tax exempt
- State tax exempt

- Pension plans
- Profit sharing plans
- Annuities

Attributes

- Growth during lifetime
- RMD for IRA and qualified plans
- No step-up

Real Estate and Oil & Gas

- - Tax Preferences

Real Estate

- Depreciation tax shield
- 199A tax shield
- 1031 exchanges
- Deferral on growth until sale

Oil & Gas

- Large up front IDC deductions
- Depletion allowances

Roth IRA and Insurance

- - Tax Free Growth/ Benefits

Roth IRA

- Tax-free growth during lifetime
- No 72 RMD
- Tax-free distributions out to beneficiaries life expectancy

Life Insurance

- Tax-deferred growth
- Tax-exempt payout at death

Retirement Plan Limits

DEFINED CONTRIBUTION PLAN LIMITS

IRA / ROTH IRA CONTRIBUTION LIMIT	\$ 7,000
IRA / ROTH IRA "CATCH UP"	\$ 1,000
401k ELECTIVE DEFERRAL	\$ 23,500
401k ELECTIVE DEFERRAL "CATCH UP" (AGE 50-59)	\$ 7,500
401k ELECTIVE DEFERRAL "CATCH UP" (AGE 60-63)	\$ 11,250
SIMPLE IRA CONTRIBUTION LIMIT	\$ 16,500
SEP IRA EMPLOYEE MATCH LIMIT	25%
SEP IRA SELF-EMPLOYED MATCH LIMIT	20%
OVERALL LIMIT ON CONTRIBUTIONS TO DCPs	\$ 70,000

401k

- Elective salary deferrals:

General limit	\$23,500
Catch-up, for employees aged 50 and over	\$ 7,500
Catch-up for employees aged 60, 61, 62, & 63	\$11,250

- Employers can contribute:
 - Overall contribution limit of \$70,000 per employee
 - Limitations on discriminatory “top-heavy” plans
 - “Safe Harbor” employer match of 3%-4% of compensation is common
 - Profit sharing plan features available
- “Solo” 401k plans are possible and often effective

SIMPLE IRA

- Generally available to any small business with fewer than 100 employees
- Easily established & maintained
- Employer cannot have any other retirement plan
- Contributions
 - Employer is required to provide either:
 - A matching contribution up to 3% of compensation
 - A nonelective contribution equal to 2% of compensation
 - Employees may elect to make additional contributions
 - Total annual contribution limits per employee in 2025:

General limit	\$16,500
Small employer limit	\$17,600
Catch-up, for employees aged 50 and over	\$ 3,500
Catch-up for employees aged 60, 61, 62, & 63	\$ 5,250

SEP IRA

- Available to business of any size
- Easily established and maintained
- Only the employer contributes to the IRAs
- Contributions can be up to 25% of the employee's salary
- May be useful for taxpayers with small side-businesses who also participate in an employer sponsored plan
- Overall contribution limit of \$70,000

Education Savings

- Education Savings Accounts (ESAs) & Qualified Tuition Programs (QTPs/529s).
- Contributions made with after-tax dollars
- Both provide annual tax-free growth & tax-free withdrawals for certain education expenses—like a Roth IRA.
- Quality/consume the annual gift tax exclusion

Coverdell Savings Accounts (ESAs)

- The maximum contribution is \$2,000 per year for each beneficiary
- Contributions can be made to the account until the child reaches age 18
- Permitted contributions are reduced/eliminated for those with high AGI (phased out from AGI of \$190,000 to \$220,000 for joint filers and \$95,000 to \$110,000 for all other filers).
- Beneficiary can be changed to another member of the family as defined in 529(e)(2), but the new beneficiary must be under age 30.
- If a beneficiary reaches age 30, the account must be distributed & will be subject to income tax on the earnings and 10% penalty!
- Penalty-free distributions are allowed if the beneficiary receives a scholarship, dies, or becomes disabled

Qualified Tuition Programs (QTPs/529s)

- Age and AGI limits of ESAs do not apply.
- Effective annual contribution limit is \$19,000.
 - Contributions are considered a completed gift for transfer tax purposes.
 - However, 5 years of contributions can be made in an accelerated lump-sum: $\$19,000 \times 5 = \$95,000$ in 2025.
 - No further contributions during the 5-year period if you take advantage of this acceleration provision
- Overall contribution limit varies significantly by state
- Most states provide contribution incentives such as tax deductions, tax credits, or matching grants.

ABLE Accounts

- Achieving a Better Life (ABLE) accounts are meant to provide tax-advantaged savings vehicle to provide for disabled persons.
 - In 2025, the accounts are available to individuals who become disabled before age 26
 - Starting in 2026, the accounts are available to individuals who become disabled before age 46
 - Exempt from SSI asset limits (up to \$100,000 of accumulations) and Medicaid asset limits
- Earnings are exempt from income tax.
 - Qualified distributions are exempt from income tax
- Effective annual contribution limit is \$19,000.
 - The beneficiary can also contribute a from work-compensation (up to \$15,560 in 2025 for a one-person household)
 - The OBBBA also expands the Savers Credit to ABLE Account contributions
 - Rollovers from 529 Plans are allowed

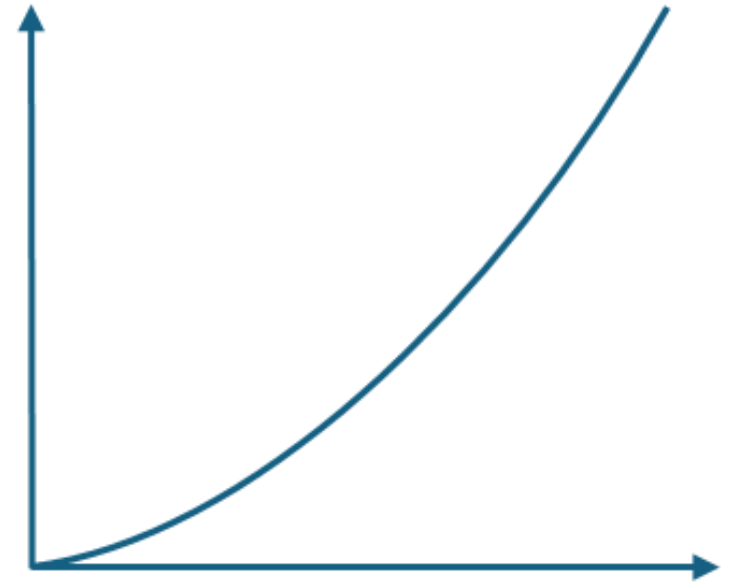
TRUMP Accounts

- New tax-exempt account (like an IRA)
- Beneficiary must not have yet attained age 8 at the establishment of the account
- Contribution limits
 - Cash contributions will be accepted starting 1/1/26
 - \$5,000 per year (contributions from tax exempt entities can exceed the limit)
 - Contribution limit adjusted annually for inflation
 - No further contributions after the beneficiary attains age 18
 - Broad eligibility regarding who contribute to the account, including federal, state, local and tribal governments and private foundations
 - Employer contributions to accounts excluded from income up to \$2,500 annually

OBBBA § 70204

TRUMP Accounts

- Investment Limitations
 - Must track a well-established index or diversified portfolio of US equities
 - No leverage
 - Minimal fees and expenses
 - Other criteria will be established by Treasury



TRUMP Accounts

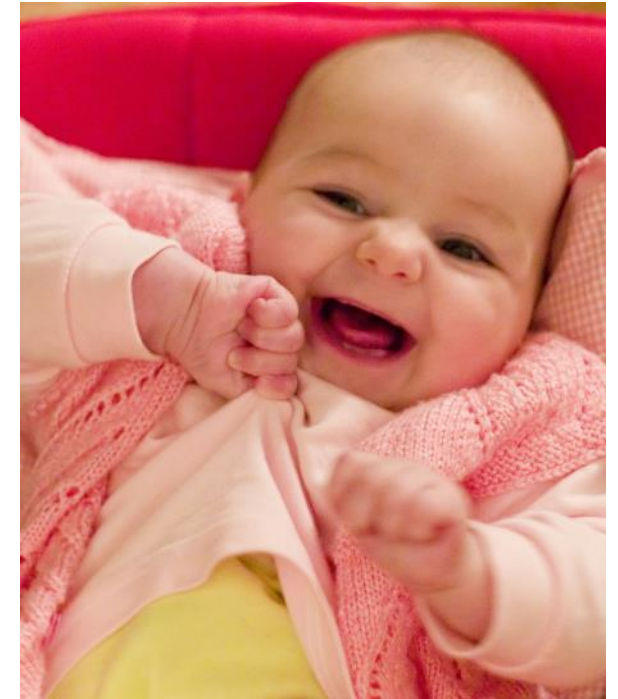
- Distributions
 - Distributions of basis are tax-free (529 rules)
 - Distributions for Qualified Expenses are treated as net capital gains
 - Qualified higher education
 - Qualified post-secondary credentialing
 - Amounts paid or incurred with respect to any small business for which the beneficiary has obtained a small business loan or small farm loan
 - Amounts paid for the purchase of a first home
 - Distributions which are not qualified expenses
 - Taxed as ordinary income
 - Tax paid on the distribution increased by 10% if the distribution occurs before the beneficiary attains age 30
 - No distributions may occur before the account beneficiary attains age 18
 - Only ½ of the account value when the beneficiary obtained age 18 can be distributed before age 25
 - Full, automatic distribution age 31

TRUMP Accounts

- Trustee-to-trustee rollovers allowed
- If the beneficiary dies before distribution, the account is immediately recognized as taxable income by the successor beneficiary or on the beneficiary's final 1040 (HSA rules)
- Duplicate accounts subject to an excise tax equal to 100% of account income
- Excess contribution taxes apply

TRUMP Accounts

- Contributions by the federal government
 - One time account credit of \$1,000
 - Eligible individuals born in: 2025, 2026, 2027, & 2028



OBBBA § 70204

Deductions & Credits

Standard Deduction

2025 Figures – Before the OBBBA

Single	HoH	MFJ	MFS
\$15,000	\$22,500	\$30,000	\$15,000

Additional Standard Deduction	
S or HoH, Over 65 or Blind	\$2,000
MFJ, One over 65 or Blind	\$1,600
MJF, Both over 65 or Blind	\$3,200

Recall, itemized deductions have zero value unless total itemized deductions exceed the standard deduction.

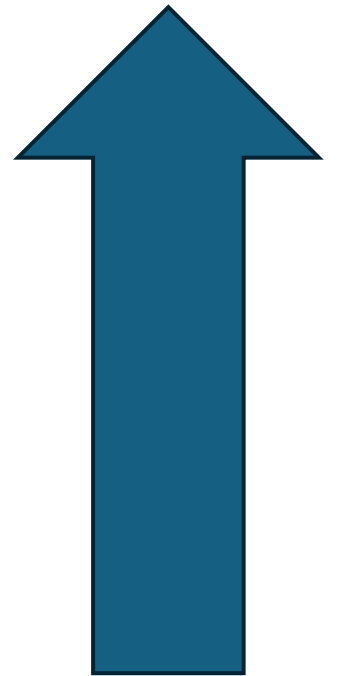
One Big Beautiful Bill

Standard Deduction

- TCJA standard deduction increase made permanent
- Slight additional permanent increase as well
- **Effective in 2025**

	2025 TCJA	2025 OBBBA
Single	15,000	15,750
HoH	22,500	23,625
MFJ	30,000	31,500
MFS	15,000	15,750

OBBBA § 70102



One Big Beautiful Bill

Personal Exemptions

- Permanent repeal of personal exemptions
- Except for a temporary senior deduction to fulfill the President's promise of no tax on Social Security (in part)



OBBBA § 70103

Common “Above-the-Line” Deductions

Deduction	Limitation
Educator Expenses	\$300 (\$600 if both spouses eligible)
HSA	\$0 - \$8,550; limited by plan deductible
SE Tax	50% of SE Tax
Self-Employed Retirement Plans	\$0-\$70,000; depends on plan selected and business income
Self-Employed Health Insurance	Medical, dental, vision, & long term care for taxpayer, spouse, & dependents (must be self-employed; deduction limited to SE income)
Saving Withdrawal Penalties	Penalties reported on 1099-INT / 1099-OID
Alimony Paid	Only available for agreements entered into before 12/31/18
IRA Deduction	\$0 - \$7,000; MAGI limits apply
Student Loan Interest	\$0 - \$2,500; MAGI limits apply
Archer MSA	\$0 - \$6,263; up to 75% of plan deductible
Variety of other deductions/adjustments	

One Big Beautiful Bill

Above-the-Line Charitable Deduction

- Covid-relief provided short-lived above-the-line charitable deduction for non-itemizers
- The bill reinstates that deduction with a limit of \$1,000 (\$2,000 MFJ)
- Effective after 12/31/25



OBBBA § 70424

Itemized Deductions

Itemized Deduction	Limitation
Medical expenses	7.5% floor
State & local taxes	\$10,000 - \$40,000 cap
Mortgage interest paid	Interest on up to \$750,000 of acquisition indebtedness (note, certain higher limits are grandfathered)
Investment interest	Limited to investment income
Gift to charity	Variety of percentage limitations
Casualty losses	Limited to declared disasters
Other miscellaneous itemized deductions	Generally suspended / repealed

One Big Beautiful Bill

Mortgage Interest

- The TCJA reduced the loan principal which could incur deductible interest from \$1,000,000 to \$750,000
- The TCJA also eliminated the deductibility of mortgage interest not attributable to acquisition indebtedness (e.g., HELOC used to pay bills)
- The bill generally makes the TCJA modifications permanent
- It also restores the deductibility of mortgage insurance premiums.

One Big Beautiful Bill

State & Local Tax Deduction

- The bill Increases the deduction cap as follows:

2025	\$40,000
2026	\$40,400
2027	\$40,804
2028	\$41,212
2029+	\$10,000

- The bill also provides the deduction cap is reduced by 30% of modified AGI over \$500,000;
 - The deduction is not reduced below \$10,000 (i.e., a \$100,000 phase-out range)
 - The income-based limitation applies 2025+

One Big Beautiful Bill

0.5% Floor for Itemized Charitable Deductions

- The adds a new limitation – contributions must exceed 0.5% of the taxpayer's contribution base to be deductible
- The bill also permanently increases the cash contribution to 60% (recall, it was 50% before the TCJA)
- Effective to taxable years beginning after 12/31/25

One Big Beautiful Bill

Miscellaneous Itemized Deduction

- The TCJA suspension of the deduction for miscellaneous itemized deductions is extended by permanent repeal.
- These deductions included, for example, investment management fees and tax preparation fees.
- The bill also adds a provision for deductibility of “educator expenses”

One Big Beautiful Bill

NEW PEASE Limitation

- The TCJA suspended the overall limitation on itemized deductions (the PEASE limitation)
- The bill re-introduces and modifies the limitation (effective 2026+)
 - The new formula is as follows:

$$\text{Reduction} = \frac{2}{37} \times \text{the } \textit{lessor of} \left\{ \begin{array}{l} \textit{Total Itemized Deductions} \\ \textit{Total taxable income, plus} \\ \textit{itemized deductions, subject} \\ \textit{to the 37\% bracket} \end{array} \right.$$

OBBBA § 70111

Itemized Deductions

Bunching

- Art and Alice are married taxpayers filing a joint return.
- They typically give about \$15,000 to charity annually.
- The SALT deduction, capped at \$10,000, is the only other itemized deduction they claim.

Itemized Deductions

Bunching

- If they make their annual donation as usual, they will have \$25,000 of itemized deductions, which results in no additional tax benefit because the standard deduction is \$31,500 in 2025.
- However, if they lump together two years of charitable gifts in 2025, their itemized total deductions will be \$40,000 thereby decreasing their taxable income by \$8,500. If their marginal tax rate is 35%, the tax benefit is about \$2,720.

Bracket Management

2025 Ordinary Income Rates

TOP OF EACH BRACKET

	S	MFJ/QW	MFS	HOH	T&E
10%	\$ 11,925	\$ 23,850	\$ 11,925	\$ 17,000	\$ 3,150
12%	\$ 48,475	\$ 96,950	\$ 48,475	\$ 64,850	-
22%	\$ 103,350	\$ 206,700	\$ 103,350	\$ 103,350	-
24%	\$ 197,300	\$ 394,600	\$ 197,300	\$ 197,300	\$ 11,450
32%	\$ 250,525	\$ 501,050	\$ 250,525	\$ 250,500	-
35%	\$ 626,350	\$ 751,600	\$ 375,800	\$ 626,350	\$ 15,650
37%					

Common Credits

- Foreign tax credit
- Retirement savings contribution credit
- **Child & dependent care credit**
- Energy efficient home improvement credit
- Residential clean energy credit
- Clean vehicle credit
- Education tax credits
- **Earned income credit (EIC)**
- **Child tax credit**

Common Credits

Credit	Limitation
Foreign tax credit	Lessor of total foreign tax paid, US income tax, or the fraction of total income which is foreign income (Form 1116)
Retirement savings credit	10% - 50% of retirement plan contributions for a credit of up to \$2,000 for lower-income savers (Form 8880)
Child & dependent care credit	20% - 35% of qualified child & dependent care expenses for a credit of up to \$2,100 (Form 2441)
Energy efficient home improvement credit	30% of qualified expenses up to \$3,200 (Form 5695)
Residential clean energy credit	30% of qualified energy property (Form 5695)
Clean vehicle credits	\$0 - \$7,500 (Form 8936)
Education tax credits (LLC/AOTC)	20% - 100% of qualified education costs up for a credit of up to \$2,000 - \$2,500 (Form 8863)
Earned Income Tax Credit (EITC)	\$0 - \$7,830 depending on income and family size (Schedule EIC)
Child Tax Credit (CTC)	Up to \$2,000 per qualifying child (Schedule 8812)

Capital Gains “Stacking”

- Capital gain “floats” on the top of ordinary income like oil on water to determine which capital gains rate applies.
- Deductions first reduce ordinary income and then capital gains.

TOP OF EACH CAPITAL GAINS BRACKET

	S	MFJ/QW	MFS	HOH	T&E
0%	\$ 48,350	\$ 96,700	\$ 48,350	\$ 64,750	\$ 3,250
15%	\$ 533,400	\$ 600,050	\$ 300,000	\$ 533,400	\$ 15,900
20%					

TOP OF EACH BRACKET

	S	MFJ/QW	MFS	HOH	T&E
10%	\$ 11,925	\$ 23,850	\$ 11,925	\$ 17,000	\$ 3,150
12%	\$ 48,475	\$ 96,950	\$ 48,475	\$ 64,850	-
22%	\$ 103,350	\$ 206,700	\$ 103,350	\$ 103,350	-
24%	\$ 197,300	\$ 394,600	\$ 197,300	\$ 197,300	\$ 11,450
32%	\$ 250,525	\$ 501,050	\$ 250,525	\$ 250,500	-
35%	\$ 626,350	\$ 751,600	\$ 375,800	\$ 626,350	\$ 15,650
37%					

Capital Gains “Stacking” – Example

- Your favorite client (MFJ) has \$100,000 of taxable ordinary income and \$50,000 of capital gain / qualified dividends
 - Most of their ordinary income will be taxed at a 10% or 12% rate.
 - The last \$3,150 of ordinary income will be subject to a 22% tax rate
 - The entire \$50,000 of capital gain / qualified dividends will be taxed at a 15% tax rate.

STRATEGIES FOR CONCENTRATED LOW BASIS STOCK POSITIONS

- Sell stock and Reinvest in a Diversified Portfolio
- Short Sale against the Box
- Buy a Protective Put
- Charitable Remainder Trust
- “Cashless” Collar
- Monetizing (Income-Producing) Collar
- Variable Forward Sale
- Exchange Fund

Comparison of Tax-Advantaged Structured Transactions

Strategy	Capital Gains Tax Trigger	Liquidity	Diversification	Irrevocable?	Best For
Charitable Remainder Trust	✗ Deferred/avoided	✓ Income stream	✗ Trust holds	✓ Yes	Charitable + tax savings
VPFC	✗ Deferred	✓ High	✗	✗ No	Tax deferral + liquidity
Exchange Fund	✗ Deferred	✗ Low	✓ Yes	✗ No	Diversification, long-term
Monetization + Collar	✗ Deferred	✓ High	✗	✗ No	Hedging + borrowing

Sources:

1. Charitable Remainder Trust (CRT):

- IRC §§ 664, 170(f)(2)
- IRS Publication 526

2. Variable Prepaid Forward Contract (VPFC):

- IRC §1259
- Rev. Rul. 2003-7
- PLRs: 200303023, 200409005

3. Exchange Fund:

- IRC §721
- Used by investment firms like Goldman Sachs, Bernstein, etc.

4. Monetization + Collar:

- IRC §1259 (Constructive Sale Rules)
- IRS Notice 2008-41

Additional Commentary:

- BNA Tax Management Portfolios
- LSI (Leimberg Information Services)
- WealthCounsel and PPC Tax Planning Guides

Income Shifting & Splitting

Overview

- Family members on payroll
- Gifts to family members
- Family partnerships
- Charitable remainder trusts
- Non-grantor trusts

Family Members on Payroll

- Small business often employ multiple family members for a variety of legitimate reasons:
 - Need for employees
 - Lack of other suitable employment
 - Ease of collaboration
 - Long-term business transition planning

Family Members on Payroll

- **What is reasonable compensation:**
 - A fair wage paid to a non-family member for comparable services
 - Excessive employee-owner compensation is an issue for C-corporations
 - Insufficient employee-owner compensation is an issue for S-corporations
 - Partners cannot be employees
 - The gift tax will not apply to properly reported wages to family members

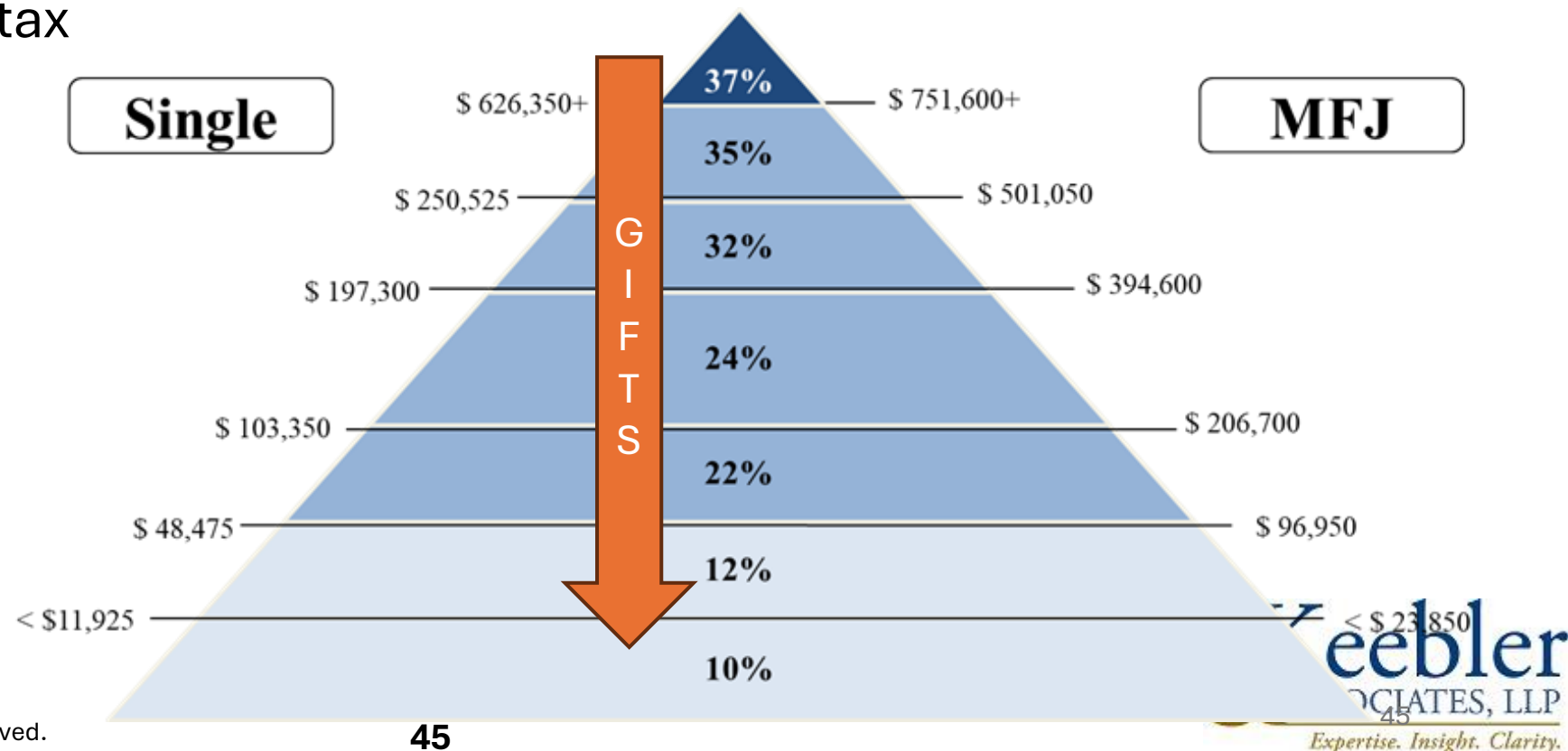


Family Members on Payroll

- Tax Savings for the Business Owner
 - May reduce income tax
 - May reduce payroll tax (but is perhaps more likely to increase it)
- Tax savings for parents who own a sole proprietorship and employ their children:
 - Children under 18 might not be subject to FICA
 - Children under 21 might not be subject to FUTA
- Additional tax advantages
 - Health insurance deductions and other employee benefits
 - Earned income for retirement savings
 - *Related party rules will add complications

Gifts to Family Members

- Gifts to family members can serve two tax-saving purposes:
 1. Reduce income tax
 2. Reduce estate tax



Gifts to Family Members

- Income Tax Savings Example
 - Your favorite client's child just graduated from college
 - The kid has a great career building opportunity in the big-city, but can't make the numbers work; the rent is too high
 - The client's plan is to supplement the kid's starting salary with cash gifts of \$2,000 per month
 - They ask you what are the tax consequences and whether you have a better idea?

Gifts to Family Members

- Client's Plan: \$2,000 per month cash gifts
 - Requires annual filing of a gift tax return ($\$2,000 \times 24 > \$19,000$)
 - No income tax benefit
- Alternate Plan (your idea): Gift high-yield appreciated stock from your client's portfolio (TROW, USB, VZ, MO, KHC, UPS, CVX, D, etc.)
 - One large gift requires the filing of only one gift tax return
 - Dividends are taxed on the child's return at a lower tax rate
 - Sales are taxed on the child's return at the lower tax rate
 - Carryover basis shifts gain from the parents to the child's tax return
 - Any further appreciation/yield is shifted to the child

Kiddie Tax

- Income requirements for the kiddie tax to apply:
 - Unearned income in excess of \$2,600
- Age requirements for the kiddie tax to apply:
 - Under 18 at the end of the tax year, or
 - Full time student at least 19, but under 24 at the end of the tax year
- Other requirements for the kiddie tax to apply:
 - At least one parent alive
 - Child does not file a joint return

Kiddie Tax

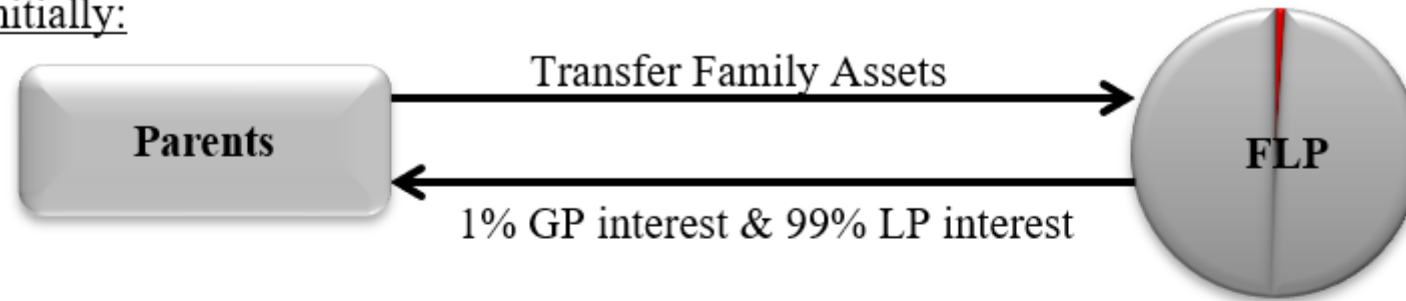
- The kiddie tax increases the child's tax rate on unearned income to that of the parents
- Child is required to file Form 8615
- Alternatively, the parent's may elect to report the child's unearned income on their own return (Form 8814; variety of conditions apply)

Family Partnerships

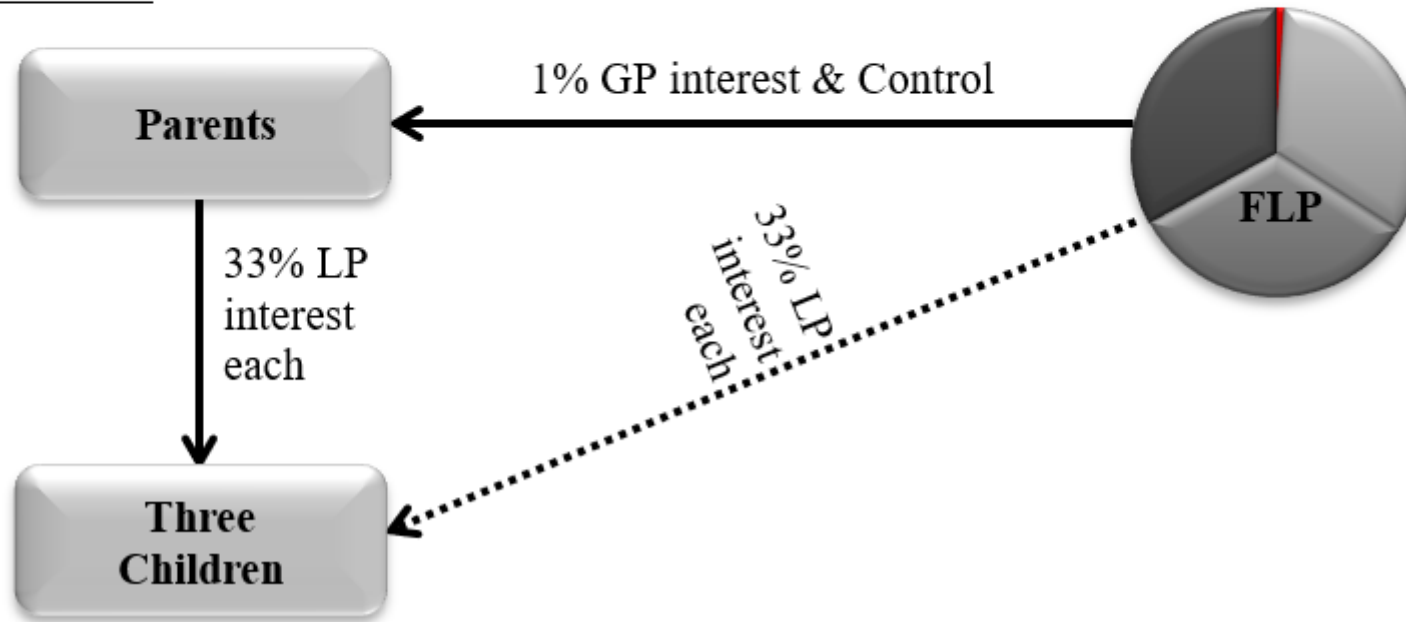
- Another tax efficient way to shift income (& wealth) to future generations is by using a family limited partnership (FLP).
- By transferring family assets to a FLP, the senior members of a family are able to share the value of the assets with the younger members of the family while simultaneously maintaining control.

Family Partnerships

Initially:



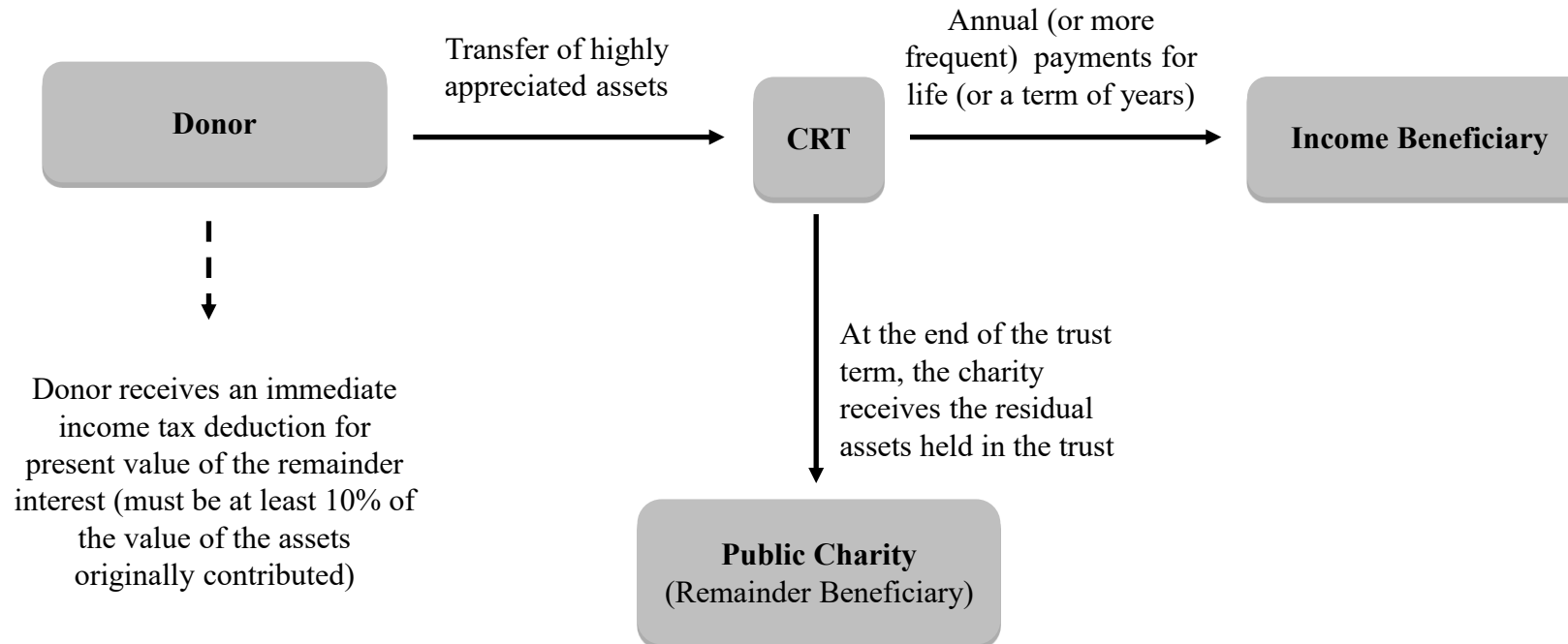
End Goal:



Charitable Remainder Trusts

- An inter vivos charitable remainder trust (CRT) is an irrevocable trust created by a donor during the donor's life with a lead annuity or unitrust interest and a charitable remainder interest.
- The lead interest can be for life or a term of years (not to exceed twenty).
- The donor generally retains the lead interest and any property left in the trust at the end of its term passes to charity. However, the donor can gift the lead the interest to others.

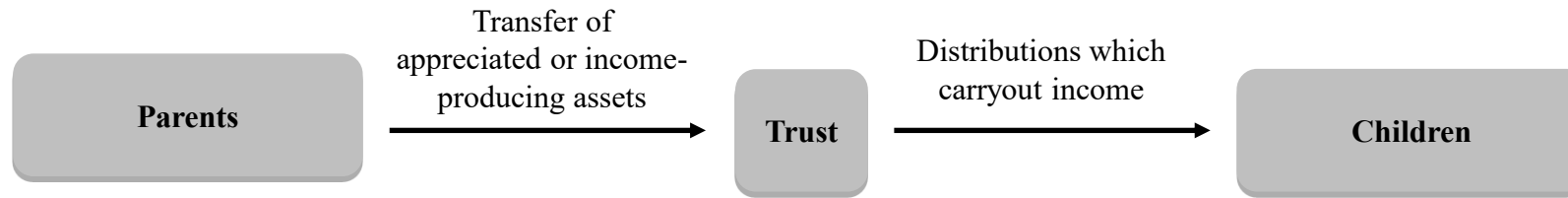
Charitable Remainder Trusts



Non-Grantor Trusts

- Creating a trusts to hold family assets can provide income tax advantages.
- Non-grantor trust (Form 1041) income tax brackets are highly compressed and therefore income is generally subject to a higher tax rate. However, income can be shifted to beneficiaries by making distributions.
- Trusts can also provide other income tax advantages such as different charitable deduction rules, additional SALT deductions, and additional 199A deductions (among others)

Non-Grantor Trusts



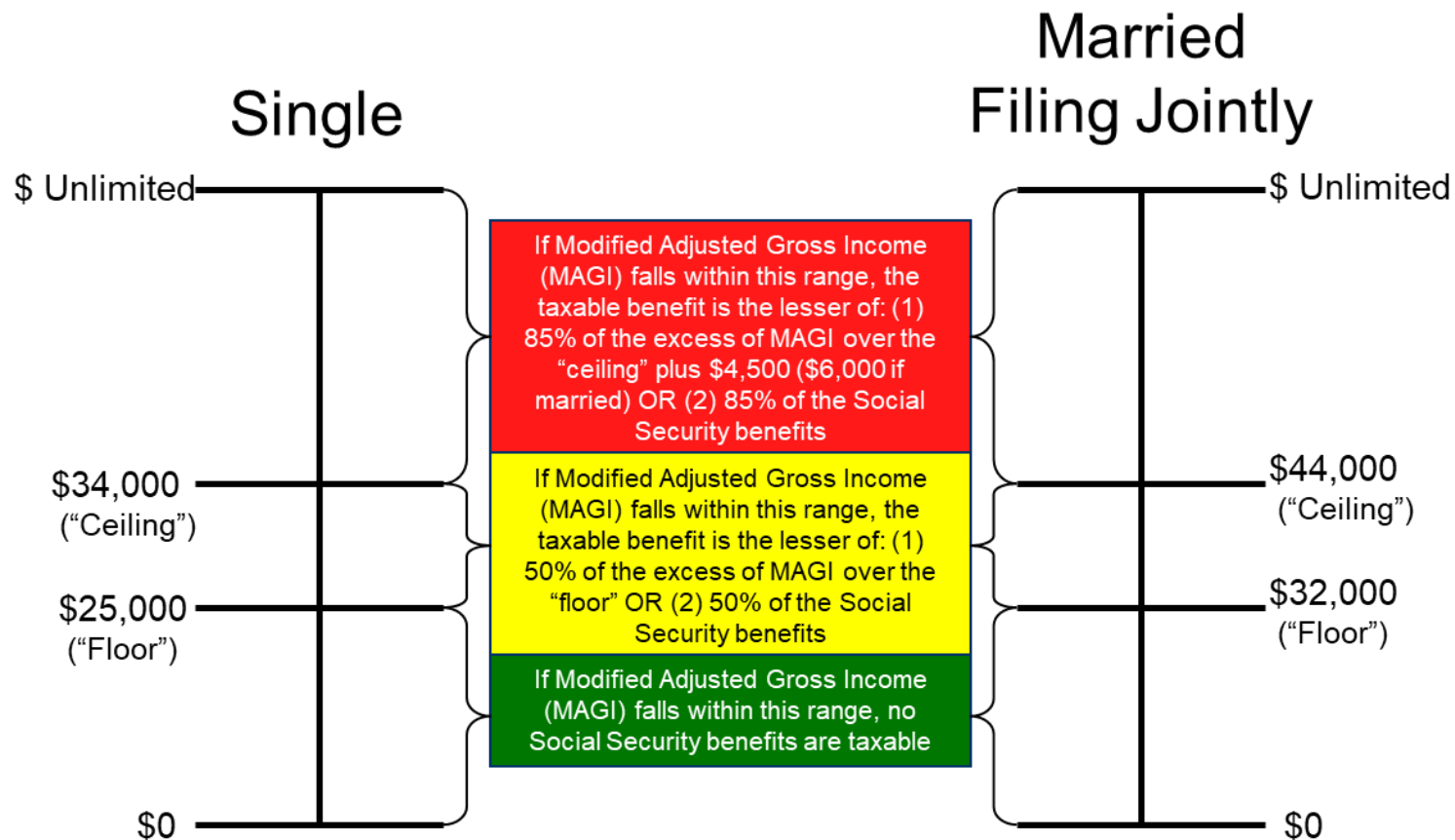
Other

Senior Personal Exemption

- For years **2025**, 2026, 2027, & 2028 seniors are entitled to an additional \$6,000 exemption.
- Limitations in the bill
 - Available to taxpayers who have attained age 65
 - Reduced by 6% of the amount modified AGI exceeds \$75,000 (\$150,000 MFJ)
 - AGI is modified, increased, for income excluded under Sections 911, 931, & 941 (foreign income basically)
 - Available for the following tax years: 2025, 2026, 2027, & 2028

Senior Personal Exemption

- The Tax Code already provides for an income-based exclusion of benefit taxation
- So the question is, what is the true effect of the new exclusion?



OBBBA § 70103

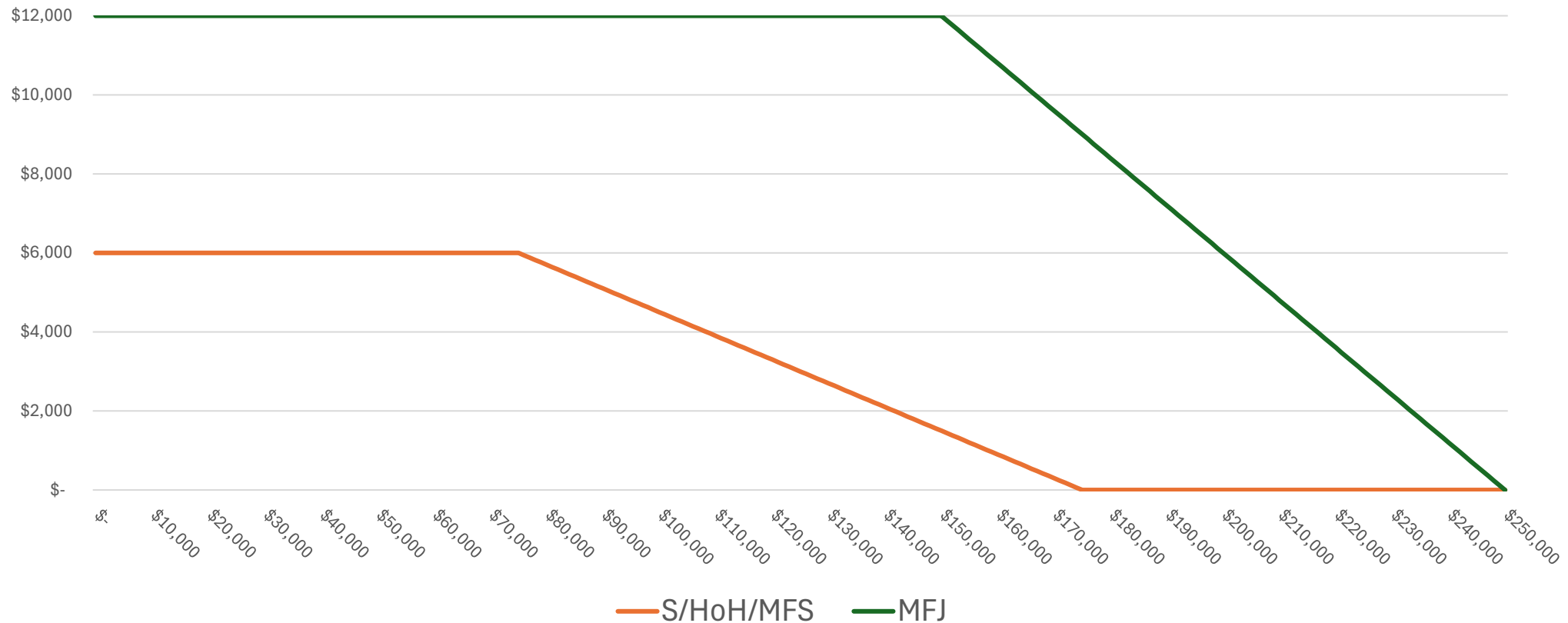
Senior Personal Exemption

- According to the Social Security Administration the current average monthly benefit is \$1,976 (or \$23,712 per year)¹.
- Consider a married couple, both over age 65, each receiving the average Social Security benefit:
 - Under pre-OBBBA 2025 law, they could have an additional income of \$20,288 of income and not be subject to any income tax
 - Under OBBBA 2025 law, they could have an additional income of \$21,750 and not be subject to any income tax; the zero-tax range is not significantly increased
 - Mathematically, at any income level thereafter, the tax benefit of each \$6,000 deduction ranges from \$0 to \$1,320 ($\$6,000 \times 22\% = \$1,320$); the most common benefit will be either \$600 ($\$6,000 \times 10\%$) or \$720 ($\$6,000 \times 12\%$),

OBBBA § 70103

Senior Personal Exemption

Exemption Phaseout



OBBBA § 70103

*MFJ line assumes both spouses qualify

Example: MFJ Couple with High Income

- AGI (excluding Social Security): \$240,000
 - Social Security Benefits: \$50,000
 - Provisional Income = \$265,000
(\$240,000 + $\frac{1}{2}$ of Social Security)
- 85% of \$50,000 SS Benefits are taxable
i.e. \$42,500

Category	Pre-OBBBA
Taxable Income	\$240,000
50% of Social Security Benefits	\$25,000
Provisional Income	\$265,000

Art and Alice – MFJ as SENIORS (Both 67 YO)

\$240,000 Income + \$50,000 in Social Security benefits.

Category	Pre-OBBBA		OBBBA
AGI (excluding Social Security)	\$240,000		\$240,000
Taxable Portion of Social Security (85% of \$50,000)	\$42,500		\$42,500
AGI	\$282,500		\$282,500
OBBBA Senior Exemption Note: Reduced by 6% of AGI over \$150,000			(\$4,050)
Standard Deduction	(\$29,200)		(\$31,500)
Additional Standard Deduction (for seniors)	(\$3,200)		(\$3,200)
Taxable Income	\$250,100	Taxable Income	\$243,750
\$23,850 @ 10%	\$2,385	\$23,850 @ 10%	\$2,385
\$73,100 @ 12%	\$8,772	\$73,100 @ 12%	\$8,772
\$109,750 @ 22%	\$24,145	\$109,750 @ 22%	\$24,145
\$43,400 @ 24%	\$10,416	\$37,050 @ 24%	\$8,892
Total FEDERAL Taxes Due	\$45,718		\$44,194

Art and Alice – MFJ as SENIORS (Both 67 YO)

\$240,000 Income + \$50,000 in Social Security benefits + **SALT \$40,000.**

Category	Pre-OBBBA		OBBBA
AGI (excluding Social Security)	\$240,000		\$240,000
Taxable Portion of Social Security (85% of \$50,000)	\$42,500		\$42,500
AGI	\$282,500		\$282,500
OBBBA Senior Exemption Note: Reduced by 6% of AGI over \$150,000			(\$4,050)
Standard Deduction	(\$29,200)		NA
Additional Standard Deduction (for seniors)	(\$3,200)		NA
SALT Deduction	NA		(\$40,000)
Taxable Income	\$250,100	Taxable Income	\$238,450
\$23,850 @ 10%	\$2,385	\$23,850 @ 10%	\$2,385
\$73,100 @ 12%	\$8,772	\$73,100 @ 12%	\$8,772
\$109,750 @ 22%	\$24,145	\$109,750 @ 22%	\$24,145
\$43,400 @ 24%	\$10,416	\$31,750 @ 24%	\$7,620
Total FEDERAL Taxes Due	\$45,718		\$42,922

Capital Gains

Home Sales

- \$250,000 per taxpayer exclusion
- Core Eligibility Test: The taxpayer must own the home and use the home as their residence for at least 2 years out of the last 5 years leading up to the sale.
- Many special rules for:
 - Married couples
 - Vacant land
 - Certain government employees
 - Business or rental use
 - Qualifying for partial exclusions of gain

IRS PUBLICATION 523
is a critical resource to anyone helping
a client comply with Section 121.

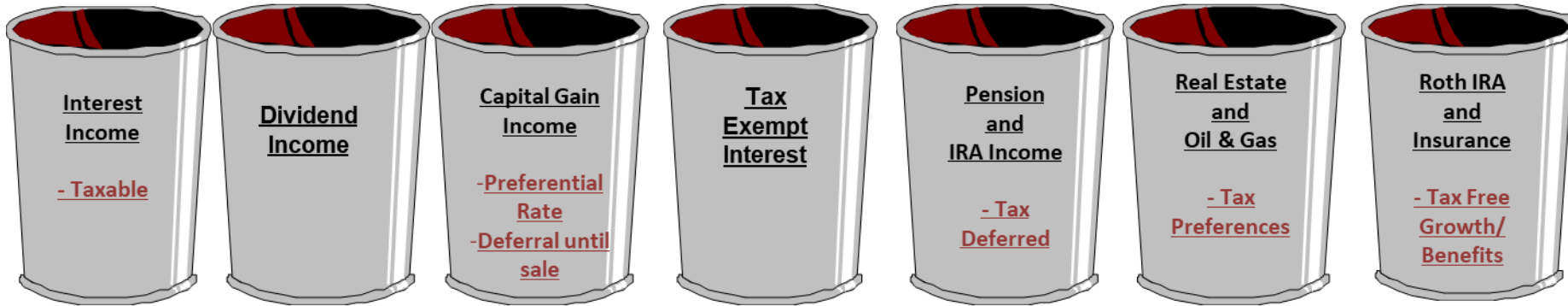
Additional Concepts

Time Permitting



Investment Tax Planning

TAX ASSET CLASSES



- Money market
- Corporate bonds
- US Treasury bonds

Attributes

- Annual income tax on interest
- Taxed at highest marginal rates

- Equity securities

Attributes

- Qualified dividends at LTCG rate
- Return of capital dividend
- Capital gain dividends

- Equity securities

Attributes

- Deferral until sale
- Reduced capital gains rate
- Step-up basis at death

- Bonds issued by state and local governmental entities

Attributes

- Federal tax exempt
- State tax exempt

- Pension plans
- Profit sharing plans
- Annuities

Attributes

- Growth during lifetime
- RMD for IRA and qualified plans
- No step-up

Real Estate and Oil & Gas

- Tax Preferences

Real Estate

- Depreciation tax shield
- 199A tax shield
- 1031 exchanges
- Deferral on growth until sale

Oil & Gas

- Large up front IDC deductions
- Depletion allowances

Roth IRA and Insurance

- Tax Free Growth/Benefits

Roth IRA

- Tax-free growth during lifetime
- No 72 RMD
- Tax-free distributions out to beneficiaries life expectancy

Life Insurance

- Tax-deferred growth
- Tax-exempt payout at death

LOSS HARVESTING

- A common year-end strategy is to sell off stocks that have declined in value to generate tax losses that can be used to offset capital gains
- If the taxpayer believes the stock will continue to perform poorly and can use the losses to offset capital gains , selling it raises no tax planning issues
- If the taxpayer believes the stock will bounce back, however, and is concerned about being out of the market, she must plan around the wash sale rules

WASH SALE RULES

- Loss deduction postponed on a sale of stock or securities if the taxpayer acquires, or enters into a contract or option to acquire--
 - Substantially identical securities,
 - Within a period beginning 30 days before the sale date and ending 30 days after the sale date (IRC §1091)(a))
- Designed to delay recognition of paper losses

WASH SALE RULES--EXAMPLE

- Facts
 - S buys 1,000 shares of ABC stock for \$100,000 in 2007 (Lot A)
 - S sells the 2007 stock for \$70,000 on February 20, 2011
 - S buys 100 shares of the same ABC stock (Lot B) on March 10, 2011 for \$65,000
 - S sells Lot B for \$68,000 on May 25, 2011

WASH SALE RULES EXAMPLE, CONT'D

- S's \$30,000 loss on the sale of Lot A is disallowed
- S takes a basis of \$95,000 in the Lot B shares (cost basis of \$65,000 + \$30,000 disallowed loss)
- S recognizes a loss of \$27,000 on the sale of Lot B
- This is the correct economic result--
 - Total investment = \$165,000 (\$100,000 + \$65,000)
 - Total sale proceeds = \$138,000 (\$70,000 + \$68,000)
 - Net = - \$27,000
- S tacks her holding period from the Lot A stock, so the \$27,000 is a LTCL

Loss Harvesting Strategies

- Buy stock of similar company
- Double-up “loss stock” – wait 31 days
- Double-up “loss stock” – enter into “cashless collar”
- Double-up “loss stock” – buy call option at-the-money

Diminishing Value of Capital Losses

Over time capital losses lose their value as a result of a taxpayer's cost of capital

Example

Taxpayer has a \$100,000 capital loss in the current tax year. Assuming a 5% discount rate, the following chart illustrates the diminished value of the capital loss carryover if the loss is recognized ratably over a ten-year period (vs. recognizing the loss all in the current year).

	Loss Used in <u>Current Year</u>	Loss Used <u>Over 10 Years</u>
Present value	\$20,000	\$15,443

NOTE: The above comparison assumes that the \$100,000 capital loss is offset by long-term capital gain taxed at a 20% combined capital gains tax rate.

Efficiency of Capital Loss Offsetting

- In general, capital losses are more tax effective if they can be used to offset income taxed at higher tax rates (e.g. short-term capital gains and ordinary income)
 - Thus, long-term losses used against short-term gains are more tax-efficient than short-term losses being used against long-term capital gains

	Short-Term Gain	Long-Term Gain
Short-Term Loss	NEUTRAL	INEFFICIENT
Long-Term Loss	EFFICIENT	NEUTRAL

One Big Beautiful Bill

Personal Casualty Losses

- The TCJA eliminated most casualty loss deductions
(except for losses in presidentially declared disaster areas)
- The bill generally makes the TCJA modifications permanent
 - It also allows governors to declare state disaster areas in 2026+



OBBBA § 70109

Capital Gains

Home Insurance Proceeds

- Generally, insurance claim proceeds for home property repairs are not considered taxable income.
 - However, if insurance proceeds exceed the adjusted basis of the property, the excess may be taxable capital gain.
 - Different rules will apply if business use of the property is involved or if the taxpayer claims a casualty loss deduction.
- Personal property losses have varied treatment:
 - Insurance proceeds equal or less than the fair market value of the property are generally not taxable.
 - However, if insurance proceeds are greater than the fair market value of the property (e.g., replacement cost insurance), the excess could be considered taxable income.
- Many policies provide for additional living expenses when a homeowner is displaced
 - Generally, these claim proceeds are considered a reimbursement and not taxable income.
 - However, to the extent the claim proceeds exceed additional living expenses the taxpayer may have additional income.

Capital Gains & Casualty Losses

Home Insurance Proceeds

1. Determine fair market value of property before the loss
2. Subtract the value of the property after the loss
3. Subtract the value of any tort or insurance recovery
4. Compare the result of steps 1-3 with the adjusted basis of the property; if adjusted basis is less, adjusted basis is used to compute any casualty loss deduction
5. If the result of steps 1-3 is negative (i.e. recovery is greater than loss) the taxpayer may have a casualty gain

Reference Materials to Follow



Provisional income

Federal tax on benefits



Percentage of Benefits Subject to Tax	Single Filers' PI	Married Filers' PI
0%	\$25,000	\$32,000
Up to 50%	\$25,000–\$34,000	\$32,000–\$44,000
Up to 85%	Above \$34,000	Above \$44,000

Source: [Social Security Administration](#), 2024.

Provisional income typically includes

- ✓ **50% of Social Security benefits**
- ✓ **Income from municipal bonds**
- ✓ **Wages**
- ✓ **Business income**
- ✓ **Interest**
- ✓ **Capital gains**
- ✓ **Dividends**
- ✓ **Traditional IRA distributions**
- ✓ **Rental income**

May Not Include:

- Tax-deferred buildup inside IRAs, 401(k)s, and annuities
- Income from Roth IRAs
- Non-taxable income from life insurance
- HSA distributions when used for qualified medical expenses