

Year-End Tax Planning

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The Back Story



Timeline of Tax Laws Over the Past 10 Years

Year	President	Law / Act	Major Focus
2017	Trump	Tax Cuts & Jobs Act (TCJA)	Bracket cuts, deduction changes, corporate cut
2019	Trump	SECURE Act	Retirement plan reforms
2020	Trump	CARES Act	\$1,200/Person Stimulus
2020	Trump	Consolidated Appropriations Act	\$600/Person Stimulus
2021	Biden	American Rescue Plan Act	\$1,400/Person Stimulus, Affordable Care Act (ACA) subsidy enhancements through 2021
2022	Biden	SECURE 2.0 Act	Further retirement plan reforms
2022	Biden	Inflation Reduction Act	Energy tax credit extensions, corporate minimum tax, ACA subsidy enhancements through 2025
2025	Trump	One Big Beautiful Bill Act	TCJA extensions, expensing, SALT cap raise, charity enhancements



Tax Cuts and Jobs Act of 2017 (TCJA)

- Lower Individual Rates – 2018 - 2025
- Higher Standard Deduction – 2018 - 2025
- Elimination of Personal Exemptions – 2018 - 2025
- Higher Estate Tax Exemption Amount – 2018 - 2025
- New 20% Qualified Business Income Deduction (QBI) – 2018-2025
- Lower Corporate Tax Rates – Permanent

Made it so fewer taxpayers were better off itemizing.



Tax Cuts and Jobs Act of 2017 (TCJA) - Rates

Married Filing Jointly				Single			
Pre-2018 Rates		TCJA		Pre-2018 Rates		TCJA	
10%	\$0-\$19,050	10%	\$0-\$19,050	10%	\$0-\$9,525	10%	\$0-\$9,525
15%	\$19,050-\$77,400	12%	\$19,050-\$77,400	15%	\$9,525-\$38,700	12%	\$9,525-\$38,700
25%	\$77,400-\$156,150	22%	\$77,400-\$165,000	25%	\$38,700-\$93,700	22%	\$38,700-\$82,500
28%	\$156,150-\$237,950	24%	\$165,000-\$315,000	28%	\$93,700-\$195,450	24%	\$82,500-\$157,500
33%	\$237,950-\$424,950	32%	\$315,000-\$400,000	33%	\$195,450-\$424,950	32%	\$157,500-\$200,000
35%	\$424,950-\$480,050	35%	\$400,000-\$600,000	35%	\$424,950-\$426,700	35%	\$200,000-\$500,000
39.6%	\$480,050+	37.0%	\$600,000+	39.6%	\$426,700+	37.0%	\$500,000+



Source: Tax Foundation: <https://taxfoundation.org/research/all/federal/final-tax-cuts-and-jobs-act-details-analysis/>

Tax Cuts and Jobs Act of 2017 (TCJA) - Deductions

	Pre-2018	TCJA
Personal Exemption (per person)	\$4,050	\$0
Standard Deduction - Married Filing Jointly	\$12,700	\$24,000
Standard Deduction – Single	\$6,300	\$12,000
Additional Deduction for Age 65+ and/or Blind (per person)	\$1,250	\$1,300
Itemized Deductions:		
Medical Expenses	Allowed	Allowed
Mortgage Interest	Deductible up to \$1,000,000 of Debt	Deductible up to \$750,000 of Debt
State and Local Taxes ("SALT deduction")	Allowed	Capped at \$10,000
Charitable Donations	Cash Contributions capped at 50% of AGI	Cash Contributions capped at 60% of AGI
Miscellaneous Deductions	Allowed	Not allowed



One Big Beautiful Bill Act (OBBBA)



A Change in the Planning Landscape

Before OBBBA, planners believed there was a limited window, from 2018 to 2025, where tax rates were going to be low and the standard deduction was going to be high.

The One Big Beautiful Bill Act (OBBBA) extends the rates and standard deductions from TCJA and makes those changes “permanent”.

The bill introduces some new temporary deductions that will expire without a new law, but can provide planning opportunities while in effect.



Important Definitions

Permanent – An aspect of the law that will remain in place unless a new law overriding it is written.

- Will only go away with the passage of a new bill overriding it.

Temporary – An aspect of the law that has a specified end date after which time it will no longer be available.

- Will go away with the passage of time.
- Will only remain in place if a new law is passed extending it.



One Big Beautiful Bill Act of 2025 (OBBBA)

Permanent

- Keeps rates roughly where they are.
- Slight increase in the standard deduction.
- Qualified Income Deduction made permanent.
- Increase in Federal Estate tax exemption amount (and made permanent)

Temporary

- “No tax on Social Security”
- “No tax on tips”
- “No tax on overtime”
- Max State And Local Tax (SALT) deduction increase from \$10,000 per year to \$40,000 per year for itemizers.



Deductions 101

Above the line deduction – A deduction that reduces your Adjusted Gross Income (AGI).

Below the line deduction – A deduction that reduces your taxable income, after your AGI has been calculated (standard deduction, itemized deductions, qualified business income deduction)

Above the line is generally more impactful because AGI is the basis for many calculations.

- Taxability of Social Security
- Deductibility of Health Costs
- Medicare Premiums (Income Related Monthly Adjustment Amount - IRMAA)
- ACA Health Insurance Subsidies
- College Financial Aid eligibility
- Deduction phase outs
- And many others



Standard Deduction vs. Itemizing

Standard Deduction

- Single \$15,750 (was \$15,000 previously)
- MFJ \$31,500 (was \$30,000 previously)
- Additional amount of \$1,600 MFJ/ \$2,000 Single for taxpayers who are over 65 and/or blind.

Itemizing Deductions

- Medical Expenses to the extent they exceed 7.5% of AGI
- Charitable deductions
- Mortgage Interest
- State and Local Taxes (SALT) – was capped at \$10,000, temporarily increased to \$40,000, subject to phase-outs as part of OBBBA.

Pre-2017 vs. Post-2017

- Pre-2017 - 46.5M Itemizers (~30% of all personal tax returns filed)
- Post-2017 - 15.4M Itemizers (~10% of all personal tax returns filed)
- Post-OBBBA – Certainly more than under TCJA due to SALT cap increase.



Sources: Tax Foundation - <https://taxfoundation.org/research/all/federal/one-big-beautiful-bill-act-tax-changes/>
Tax Policy Center - <https://taxpolicycenter.org/briefing-book/how-did-tcja-change-standard-deduction-and-itemized-deductions>
Foundation - <https://taxfoundation.org/research/all/federal/one-big-beautiful-bill-act-tax-changes/>

Increased State and Local Tax (SALT) Deduction Cap

State and Local Taxes (SALT) were deductible but capped at \$10,000/yr. OBBBA temporarily increases that amount to \$40,000/yr.

The additional \$30,000 phases out between \$500,000 - \$600,000 (for Single and MFJ).

\$40,000 will be increased by 1% per year from 2026-2030.

Reverts back to \$10,000 in 2030.



“No Tax on Social Security”

Enhanced Senior Deduction

Additional \$6,000/person deduction for each taxpayer age 65+.

- Married Filing Jointly - \$12,000 (assuming both spouses are over 65)
- Single - \$6,000

Acts as an additional “below the line” deduction that can be claimed regardless of whether you itemize or take the standard deduction.

Phases out for MFJ with income between \$150,000-\$250,000 and \$75,000-\$175,000 for single taxpayers.



“No tax on Social Security”

Doesn't really have anything to do with Social Security, other than people over age 65 are more likely to be collecting Social Security. For example:

- If you're 62 and collecting Social Security, you **don't** get the deduction.
- If you're 65 and waiting to 70 to turn on Social Security, you **do** get the deduction.

Social Security was already not fully taxed. Max portion of Social Security that is considered taxable is up to 85% of it.

- Based on a complicated formula that calculates your income three different ways and uses the lowest value of the three income calculation methods.
- General rule: the more other income you have, the more of your Social Security will be taxable.



“No tax on overtime”

Above the line deduction equal to the amount of premium overtime received.

- Only the premium portion of overtime (i.e. if they get time and a half, it's only the “and a half” portion that qualifies).
- Still subject to Social Security and Medicare Tax.
- Deductible up to \$12,500 for Single filers or \$25,000 MFJ filers from 2025-2028.
- Phases out:
 - Single filers \$150,000 – \$275,000
 - MFJ filers \$300,000 - \$450,000



“No tax on tips”

Above the line deduction equal to the amount of tip income received.

- Max Deduction of \$25,000.
- Phase out:
 - Single filers MFJ \$150,000 - \$400,000
 - MFJ filers \$300,000 - \$550,000
- Still subject to Self-Employment Income
- The Treasury Department will offer guidance about which professions count.



Who itemizes anymore?

Only filers whose itemized deductions exceed the Standard Deduction (\$15,750 single/\$31,500 MFJ) are eligible.

Examples:

- Taxpayers with fairly large mortgages (for example: \$600,000 house with 20% down = \$480,000 mortgage @ 6.5% rate is ~\$31,200 of mortgage interest a year).
- Extremely charitable taxpayers.
- Taxpayers in high property tax states or with multiple homes.
- Single people who live in a senior living community where part of their monthly fee is considered a medical expense.



Charitable Giving Changes

Non-itemizers

- Starting in 2026, an additional deduction for non-itemizers of:
 - \$1,000 Single
 - \$2,000 MFJ
- Contributions to donor-advised funds or supporting organizations do not qualify.

Itemizers

- Starting in 2026, charitable deductions for itemizers will only be deductible to the extent they exceed 0.5% of AGI.
- Result is likely to be a slight reduction in how much of a charitable contribution is deductible.
- Accelerate charitable contributions into 2025.

Sources:

Tax Foundation - <https://taxfoundation.org/research/all/federal/one-big-beautiful-bill-act-tax-changes/>

Lowenstein Sandler - <https://www.lowenstein.com/news-insights/publications/client-alerts/obbba-provisions-impact-charitable-contribution-deductions-te>



Increase in Federal Estate Tax Exemption

Permanently increased to \$15,000,000 per taxpayer (indexed to inflation starting in 2026)

- Had TCJA been allowed to expire, it would have reverted down to \$7,000,000 per taxpayer.
- Almost no one pays Federal Estate tax anymore. Exemption amounts were just \$675,000 in 2000.
 - Clients who drafted their documents back in 2000 likely have much more complexity than is required under the current laws and should consider revising their documents (ex. complex trusts with a primary goal to avoid Federal Estate tax).



Deduction for Car Loan Interest

- Capped at \$10,000
- Below the line deduction
- Phases out
 - Single filers \$100,000 - \$150,000
 - MFJ filers \$200,000 - \$250,000
- Temporary 2025-2028
- If you're paying \$10,000 in car loan interest, that's probably a bad sign.
 - Unlike a mortgage, where a significant portion of the payments is interest, car loans are primarily paid off with principal because the repayment periods are much shorter than those of mortgages.
 - To receive the full \$10,000 deduction on a car loan with a 7% interest rate, you would need to borrow around \$140,000.
 - I would not recommend that a married couple earning less than \$200,000 take on \$140,000 of car loans.



No Affordable Care Act Extensions

OBBA Act did not extend the subsidy enhancements included in the American Rescue Plan or the Inflation Reduction Act.

This would mean the return of the subsidy cliff starting in 2026.

- If you received subsidies for your health insurance, if you go over 400% of the Federal Poverty Level by \$1 you would be expected to repay all of the subsidies you received.
- For a married couple, that could be upwards of \$20,000 of subsidies that they'd have to repay.
- There are subsidies for health insurance before you're eligible for Medicare. This affects many people: Early retirees, workers without health insurance.
- Married couple who earn \$80,000 would be eligible for subsidies, but if they makes \$85,000 would be required to pay all of the subsidies back.
- Planning will need to be even more precise and avoiding surprise income



New Planning Considerations

- Lower rates for longer – can consider more gradual Roth conversion strategy.
- Extra deductions for most seniors for now.
- Possibly fewer concerns about the Federal Estate tax for the “merely affluent” (i.e., single taxpayers with less than \$15M or MFJ taxpayers with less than \$30M).
- Any of these things can change under future administrations.



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Questions?

Thank You!

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