OPTIMIZING THROUGH CHANGE

2025 YEAR-END TAX PLANNING

ANNEX WEALTH MANAGEMENT

When the Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017, it brought sweeping changes for taxable years beginning in 2018. We saw favorable changes with TCJA, such as lower tax rates and a higher standard deduction. Many provisions of the TCJA were scheduled to sunset on December 31, 2025. However, the One Big Beautiful Bill Act (OBBBA) passed on July 4, 2025 made the higher standard deduction and lower tax brackets permanent, among other tax law changes.

The graph to the right depicts how tax rates were projected to go up after the TCJA sunset. However, with the OBBBA, these tax rates are here to stay for now.

Some of the key strategies to keep in mind for the remainder of 2025 and upcoming in 2026:

1. Managing standard and itemized deductions
2. Charitable contributions and Qualified Charitable Distributions (QCDs)
3. Contributions to retirement plans
4. Roth conversions
5. Required Minimum Distributions (RMDs)
6. Tax-loss harvesting
7. Health Savings Accounts (HSAs)
8. 529 Plans
9. Gifting

How Would the Sunset of the Tax Cuts & Jobs Act Have Impacted Taxes?

2025 Tax Brackets Married Filing Jointly:

Taxable Income	Current Tax Bracket	Post-TCJA Sunset Tax Bracket*	Taxable Income
$751,600	37%	39.6%	$751,600
$501,050	35%	35%	$501,050
$394,600	32%	33%	$394,600
$206,700	24%	28%	$206,750
$96,950	22%	25%	$96,950
$23,850	12%	15%	$23,850
$0	10%	10%	$0

*Brackets will be indexed for inflation, rates were set to increase in 2026 with the expiration of the rate cuts in the Tax Cuts and Jobs Act (TCJA). Chart does not account for the Medicare surtax on high earners. Annex Wealth Management does not provide specific tax or legal advice and this information should not be considered as such. You should always consult your tax or legal advisor regarding your own specific tax/legal situation.



One Big Beautiful Bill Act Major Tax Changes

What's New? Updates for 2025

- Higher standard deduction made permanent
- Lower income tax brackets made permanent
- Increased state and local tax deduction cap
- New senior deduction
- No tax on overtime
- No tax on tips
- Increased child tax credit
- Expansion of qualified 529 expenses
- Auto loan interest deduction
- Partial deduction for cash charitable contributions of non-itemizers
- Increased estate tax exemption made permanent

*Tax code provisions are subject to change. Deductions and exemptions may be subject to various restrictions and phaseouts.

ANNEX
WEALTH MANAGEMENT

Wisconsin Tax Changes

What's New? Updates for 2025

- Expanded retirement income exclusion
  - Each individual aged 67 or older is able to exclude up to $24,000 of retirement income from WI state income tax
  - This increases to a maximum of $48,000 if Married Filing Jointly (MFJ) and if both spouses are 67+ with at least $24,000 of retirement income per spouse
  - Retirement income includes IRA distributions, Roth conversions, pension income, and workplace retirement plan withdrawals (401(k), 403(b), etc.)
  - The previous WI retirement income exclusion was capped at $5,000 ($10,000 if MFJ) with income limits and a minimum age of 65
  - The new, expanded exclusion is much higher, age-limited to 67+, and no longer income-tested
- Expansion of the 4.4% bracket
  - Wisconsin's second lowest income tax bracket has been expanded to allow more income to be taxed at the lower 4.4% rate, instead of the next tax bracket, 5.3%

ANNEX
WEALTH MANAGEMENT

Managing your Standard and Itemized deductions

The Tax Cuts and Jobs Act (TCJA) significantly increased the standard deduction and eliminated or restricted many itemized deductions in 2018 through 2025.

Standard Deduction	2025
Single	$15,750
Married Filing Jointly	$31,500
Head of Household	$23,625
Married Filing Separately	$15,750

This reduced the number of taxpayers who itemize deductions; only about 10% of people are estimated to take itemized deductions after TCJA was passed in 2017. The OBBBA has made the larger standard deduction permanent, gave an extra boost to the standard deduction in 2025, and introduced some changes to itemized deductions.

While you may not have enough deductions to itemize this year, alternating and bunching some deductions could allow you to itemize. For example, you may consider bunching or timing charitable giving and real estate tax payments.

The OBBBA increased the amount of state and local income taxes (SALT) that can count towards itemized deductions. The TCJA limited the SALT deduction to $10,000, but this has been increased to $40,000, effective in 2025. This limit is set to increase by 1% annually from 2026 to 2029 and reverts back to a limit of $10,000 in 2030. The increased SALT cap is reduced as income exceeds $500,000. Once a taxpayer reaches a modified adjusted gross income (MAGI) of $600,000, the limit is reduced to $10,000, the lowest the limit can be.

Temporary Enhanced Senior Deduction

What's New?

- Temporary $6,000 deduction for individuals age 65 and older effective 2025 – 2028
- Applies per spouse, so a married couple filing jointly where both spouses are age 65+ by the end of the year could be eligible for an additional deduction of up to $12,000
- This is on top of the current standard deduction, additional age 65+ standard deduction, and can also be utilized by those that itemize
- Phase out starts with MAGI above $75,000 for single filers and $150,000 for married taxpayers filing jointly

Charitable Planning

Charitable donations can be combined with tax planning by exercising efficient strategies. Deductibility depends upon the type of gift given.

Cash donations are one of the most popular ways of donating. Donating long-term assets—especially highly appreciated securities - instead of cash can be a very effective way to support a charity. If your assets have appreciated in value, it is generally more tax-efficient to contribute the securities directly to charity instead of selling them and donating cash. With this strategy, the income tax deduction is generally based on the fair market value of the appreciated asset and you avoid paying the capital gains tax. However, be aware of limits on charitable deductions.

Type of Asset:	AGI Limitation:
Cash	60%
Long-term appreciated assets	30%
Excess deductions may be carried forward for up to five years.	

Charitable contributions must be completed by December 31, 2025 to qualify for a 2025 income tax charitable deduction. For gifts of assets, you will want to be mindful of any deadlines and requirements set by the charitable organization for accepting the asset.

ANNEX
WEALTH MANAGEMENT

What's New?
Planning for 2026

OBBBA restores a charitable deduction for non-itemizers that was initially introduced during the Covid-Era. Beginning in 2026, single taxpayers that don't itemize can take a deduction of up to $1,000 for cash charitable contributions made. The limit is $2,000 for married taxpayers filing jointly.

OBBBA also introduced a charitable deduction floor of 0.5% of adjusted gross income (AGI) beginning in 2026. This means that those who would like to itemize deductions with charitable donations can only deduct charitable donations that are above 0.5% of their AGI each year. This limits the amount of donations that can be deducted annually.

Donor-Advised Funds

If a person is expecting a high-income year, then setting up a donor-advised fund (DAF) might be a great option. A DAF is a charitable giving vehicle which may assist with “bunching” of charitable contributions into a given year. This can be useful when you are able to make a donation but have yet to determine the timing of the distributions out of the donor-advised fund or what charities will receive the gift.

A donor-advised fund allows donors to receive a deduction for contributions made to the DAF during the year. The funds grow tax free within the DAF account. In most cases, the donor maintains discretion about when the assets are distributed to charities.

You may consider front-loading or lumping charitable contributions to the DAF by making several years’ worth of charitable contributions in one tax year. Some have found front-loading a useful strategy in a high-income tax year or when a donor wants to exceed the standard deduction threshold. Itemized deduction bunching is especially useful now with the passage of the OBBBA. An increased State and Local Tax deduction cap paired with a new charitable deduction floor makes it beneficial to bunch SALT payments and charitable contributions into the same year.

Qualified Charitable Distributions

Qualified Charitable Distributions (QCDs) allow you to donate to charity directly from your IRA. You must be at least age 70 ½ to employ this strategy. If you are subject to an RMD obligation, a QCD can offset some or all of that obligation, which may help you reduce taxable income. In addition, the distribution itself is tax free – up to $108,000 in 2025 per person.

QCDs can be a tax-efficient way to give to charity for taxpayers who typically don't itemize their deductions and have a significant amount of IRA assets. Since a QCD is not counted as income, it can also have a beneficial impact on income-based thresholds used to compute the taxability of Social Security benefits, premium amounts for Medicare Parts B and D, and net investment income tax.

Key things to remember:

1. You must be at least 70½ years of age
2. Funds must be transferred directly from your IRA custodian to the qualified charity
3. The maximum annual distribution amount that can qualify for a QCD is $108,000 a year. Spouses could each do QCD strategies if they had ample IRA assets
4. Certain charities are not eligible to receive QCDs, including donor-advised funds, private foundations, and supporting organizations

Maximizing Retirement Plan Contributions

Employer-Sponsored Plans: Many financial experts estimate you may need up to 85% of your pre-retirement income in retirement. Employer-sponsored retirement accounts represent an important building block in your retirement savings. If you're employed and in a higher tax bracket, deferring the maximum amount into your 401(k) is recommended, if possible.

For year 2025, the maximum allowable contribution to an employer-sponsored deferral plan is as follows:

- $23,500 up to age 49
- $31,000 for age 50-59 and age 64+ (with $7,500 catch-up contribution)
- $34,750 for age 60-63 (with $11,250 catch-up contribution)

Another option to fund a retirement account would be through IRA and Roth IRA accounts. The maximum allowable IRA contributions in 2025 are as follows:

- $7,000 up to age 49
- $8,000 for age 50+ (with $1,000 catch-up contribution)

With a Traditional IRA, a full contribution deduction is allowed regardless of your income – if you and your spouse are not covered by a workplace retirement plan. If you or your spouse is covered by a workplace retirement plan, your deduction will phaseout based upon MAGI (Modified Adjusted Gross Income) Traditional IRA distributions are taxed as ordinary Income.

ANNEX
WEALTH MANAGEMENT

Maximizing Retirement Plan Contributions (cont.)

With a Roth IRA, contributions are not tax-deductible. Your ability to make a contribution to a Roth IRA will be phased out based on your MAGI. Qualified Roth IRA distributions are tax free, provided a Roth IRA has been open for more than five years and the owner has reached age 59 ½, is disabled, is using the first-time homebuyer exception, or the distribution has been taken by their beneficiaries due to death.

If you're not able to make a deductible IRA contribution and are beyond the income limits to directly contribute to a Roth IRA, you may be able to make a nondeductible contribution to a Traditional IRA and convert that contribution to a Roth IRA. This "backdoor" strategy of making IRA contributions makes the Roth accessible to high earners who normally would be ineligible to make contributions to a Roth IRA. If you're considering this complex strategy, certain requirements need to be met, so please consult with an advisor.
Key points to keep in mind when considering contributions to a Traditional or Roth IRA –

- The total contribution to all of your Traditional and Roth IRAs cannot be more than the annual maximum for your age or 100% of earned income, whichever is less. A person can contribute to both a Traditional and a Roth IRA, but the total contribution amount cannot exceed $7,000 (or $8,000 if age 50 and above).
- There is no maximum age for making Traditional or Roth IRA contributions, as long as you, or your spouse if filing jointly, has earned income.
- Traditional IRAs are subject to RMDs. There is no RMD requirement for the account owner of a Roth IRA.
- April 15, 2026, is the last day to establish and/or make contributions for 2025 for Traditional and Roth IRAs (no extension). Contribution deadline extensions apply to employer contributions with SEP and SIMPLE IRAs.

ANNEX WEALTH MANAGEMENT

2025 CONTRIBUTION LIMITS & PHASE-OUTS	
Elective deferrals 401(k), 403(b), 457, and SARSEPS	$23,500
50-59 and 64+ catch-up contribution	$7,500
Age 60-63 catch-up	$11,250
Defined contribution limit	$70,000
SIMPLE plan elective deferral limit	$16,500
SIMPLE age 50-59 & 64+ catch-up	$3,500
Age 60-63 catch-up	$5,250
Highly compensated employee	$160,000
Maximum compensation considered	$350,000
Family/Individual HSA contribution limit	$8,550 / $4,300
HSA catch-up contribution	$1,000
SEP contribution limit	25% of compensation, up to $70,000
IRA or Roth IRA contribution limit	$7,000
IRA or Roth IRA catch-up contribution	$1,000
IRA deduction phaseout for active participants	
Single, Head of household	$79,000 — $89,000
Married filing jointly	$126,000 — $146,000
Married filing separately	$0 — $10,000
Spousal IRA	$236,000 — $246,000
Roth IRA phaseout	
Single	$150,000 — $165,000
Married filing jointly	$236,000 — $246,000
Married filing separately	$0 — $10,000

Roth Conversions

A Roth conversion refers to taking all or part of the balance of an existing Traditional IRA and moving it into a Roth IRA. A Roth conversion is a good strategy to consider when trying to maximize legacy for heirs or seeking tax-free income opportunities in retirement. A Roth conversion comes with a 'cost': the upfront tax liability on the conversion.

With the tax rates from the TCJA being extended for the foreseeable future with the enactment of OBBBA, Roth conversions can lock in the current income tax rates, which are historically low. Roth conversions can also help with reducing the amount of the RMD in the future.

If you're considering a Roth conversion, planning around long term goals, timing, and leveraging the available tax laws are the key considerations for Roth conversion strategies. To help you decide if a conversion is right at this time, research and deliberate on the following factors along a spectrum:

No Conversion — **Roth Conversion**

HIGHER TAX RATE IN RETIREMENT

RELATIVELY HIGH-INCOME BENEFICIARY

AVAILABLE FUNDS OUTSIDE OF YOUR RETIREMENT ACCOUNT

LONGER TIME HORIZON

Source: IRS Publication 590-A, JP Morgan Asset Management

ANNEX
WEALTH MANAGEMENT

Roth Conversions

In addition, think about how you'd answer these questions:

How will you pay? The conversion will create a tax liability. If you haven't already, make arrangements to pay that tax liability with funds outside of an IRA.

Where will you live? If planning to retire in a state with no income tax, converting now may cost more.
Can you live without a withdrawal for an extended period of time? If you do a Roth conversion, calculate if you can comfortably maintain your lifestyle without taking any withdrawals from the Roth IRA for the next 5 years.

Will the conversion push you into a higher tax bracket affecting taxability of social security benefits, lead to increased Medicare premiums, or phase you out of credits or deductions?

Roth conversions for tax year 2025 need to be completed by December 31, 2025.

Required Minimum Distributions

The SECURE Act of 2019 changed the age at which RMDs begin from 70½ to 72. Secure Act 2.0 increases the age at which RMDs begin to age 73 for those individuals who turn 72 on or after January 1, 2023. The RMD age changes again in 2033 from 73 to 75.

Birth Year:	Beginning Age for RMDs
<1951	Currently subject to RMDs
1951 - 1959*	RMDs begin at age 73
1960+	RMDs begin at age 75

What's New? Updates for 2025

Final IRS regulations issued in 2024 have confirmed the requirement for Non-Eligible Designated Beneficiaries to take RMDs from their inherited retirement accounts annually in addition to the 10-year rule if the original account owner passed away after their required beginning date (RBD) for RMDs. The RBD is April 1 of the year following the year in which the account owner attained RMD age (see RMD table above). The IRS waived such RMD requirements for inherited accounts in 2021– 2024. If you've inherited an IRA in 2020 or later, check to see if you might have an annual RMD requirement and ensure your RMD is satisfied if so.

ANNEX WEALTH MANAGEMENT

Tax-Loss Harvesting

Tax-loss harvesting is a strategy in which you intentionally sell positions with unrealized capital losses. These losses can offset other realized capital gains and can even offset up to $3,000 of ordinary income per year. Any unused losses can be carried forward to future tax years.

Beware of the “wash sale” rule that disallows losses if similar positions are acquired within 30 days before or 30 days after the sale date. A wash sale can be avoided by purchasing the identical security more than 30 days before the loss sale or more than 30 days after the loss sale. A security within the same sector but that is not substantially identical may be purchased at any time before or after the loss sale and will not trigger the wash sale rules.

Tax-loss harvesting is not suitable for everyone. Because of its complexity, consider working with an advisor you can trust to review your options. Consult with your advisor to determine which cost basis method optimizes your capital gains/losses.

What’s New?

Rules governing tax-loss harvesting have not changed, but markets have experienced significant volatility. Down markets could create opportunities for tax-loss harvesting.

Education Funding

A 529 college savings plan works much like a Roth 401(k) or Roth IRA by investing your after-tax contributions in mutual funds, ETFs and other similar investments. Your investment grows on a tax-deferred basis and can be withdrawn tax-free if the money is used to pay for qualified higher education expenses. Contributions are not deductible from federal income taxes; however, you may qualify for a state tax benefit, depending on where you live.

Anyone can open and contribute to a 529 plan, which can be helpful when friends and family need ideas for holiday or birthday gifts. 529s can be a great way to save for college whether you're a grandparent, family member, or family friend since there are no limits on age, income, or relationship to the beneficiary.

Some families use 529 plans as an estate planning vehicle since contributions are considered completed gifts to the beneficiary. Up to $19,000 per donor, per beneficiary, qualifies for the annual gift tax exclusion in 2025.

529 plans can avoid gift tax by front loading the plan. Essentially, one could contribute up to $95,000 ($19,000 *5 years) worth of gifts into one year. Contributions in excess of annual exclusions should be filed on a gift tax return (Form 709) to report use of the donor’s available lifetime exclusion or the election to superfund five years’ worth of annual contributions.

Education Funding (cont.)

What's New? Updates for 2025 and planning for 2026

- Expansion of qualified expenses for tax-free distribution now includes:
- Tutoring fees
- K-12 non-tuition expenses such as books and online learning materials
- Standardized test fees (ACT/SAT)
- Dual enrollment fees for college courses taken in high school
- Education therapies (physical, occupational, behavioral, and speech-language) for individuals that need these services
- Certain credential programs, including those for testing to maintain or renew a certification or license
- K-12 expense annual limit is doubled to $20,000 beginning in 2026

ANNEX WEALTH MANAGEMENT

Estate and Gift Taxes

The current gift and estate tax exemption amount is $13.99 million per person ($27.98 million for a married couple). In 2026, the exemption amount will be $15 million ($30 million for a married couple).

The estate tax exemption amount establishes a threshold for the taxation of estates at death. The estate tax rate is 40% for any amount exceeding $13.99 million in 2025. With proper planning, married couples can take advantage of both spouse's exemption amounts, which puts the threshold for married U.S. residents or citizens at $27.98 million.

This heightened exemption level was set to sunset at the end of 2025, but is now extended to 2026 and beyond with the passage of the OBBBA.

Annual Gifting

For 2025, each individual may transfer up to $19,000 per person per year to any number of beneficiaries (family or nonfamily) without paying gift tax or using up any available applicable exclusion during one's lifetime. Gifts at this level do not need to be reported.

Any gifts that exceed the annual exclusion amount count towards the lifetime exemption. Also, if you make a payment on behalf of another person for medical expenses and tuition, it is not counted towards annual gifts or GST tax exclusion or lifetime estate tax exemption.

Bottom line

Benjamin Franklin's assertion that "...in this world, nothing is certain except death and taxes" may ring true, but tax laws are less reliable. Because of ever-changing tax law and the internet's ability to deliver an abundance of new information, it's important to recognize what suits your situation and your goals.

Tax strategies appropriate one year might not be advisable the following year. The key word: "advisable." Find an advisor you can trust who can dig into your situation and help you understand your options without giving you a sales pitch. Navigating tax planning requires a thorough understanding of your circumstances as part of your financial plan.

If you're looking for a comprehensive review of your tax plan, contact Annex for a Tax-Smart Strategy Review. Our team of experts can identify any impactful tax strategies and help you build a framework to help you prioritize what's right for you and your goals.

ANNEX WEALTH MANAGEMENT