Tax-Smart Planning Strategies

ANNEX WEALTH MANAGEMENT

What Is Tax Planning?

Proactive planning for *when* you will pay tax and at *what* rate.

Many people think that the goal of tax planning is to pay the least amount of taxes each year. While lowering current taxes is a consideration, proactive tax planning evaluates current circumstances while also looking ahead to determine if there are strategic opportunities to pay taxes at desired rates.

The goal is to more effectively manage tax liabilities throughout your lifetime and after death.

The tax world is complex and ever-changing. In fact, there have been hundreds of changes to the tax code in recent years. One of the most important was the enactment of the Tax Cuts and Jobs Act (TCJA) in 2017. For individual taxpayers, the TCJA reduced ordinary income tax rates and increased estate and gift tax exemption amounts. Those changes are scheduled to sunset at the end of 2025, making tax planning more important than ever.

How Will The Sunset Of The Tax Cuts & Jobs Act Impact Taxes?

2025 Tax Brackets Married Filing Jointly:

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

*Brackets will be indexed for inflation, rates are 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.

Let's take a look at various tax planning situations. Each situation describes a common fact pattern and some potential tax traps that might be encountered without tax planning. We'll then explore strategies that can be considered to address those potential traps and plan for current and future tax liabilities.

Situation 1: *Are you in the 24% ordinary income tax bracket or lower?*

2025 Threshold for 24% Ordinary Income Tax Bracket

Filing Status:	Taxable Income Under:
Single	$197,300
Married filing jointly (MFJ)	$394,600

Scenario:

- Traditional IRA or pre-tax 401(k) assets.
- Not yet subject to required minimum distributions (RMDs).

When am I subject to Required Minimum Distributions (RMDs)?

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

Source: Annex Wealth Management Financial Planning Department & United State Senate Committee on Finance

Potential Tax Traps:

- Tax rates are scheduled to increase in 2026 after the Tax Cuts and Jobs Act rates sunset.
- You might be in a higher marginal tax bracket after the TCJA sunsets.
- Additional income from RMDs could push you into a higher tax bracket.

Strategy: Roth IRA Conversions

Roth conversions are a good strategy to consider when trying to maximize legacy for younger family members or seeking tax-free income opportunities in retirement. Consider converting some of your traditional IRA to Roth if you expect your tax bracket to increase in future years. Converting and paying a lower tax now might make financial sense.

There are many factors to consider, including anticipated tax rates in retirement, time horizon, whether there are funds available outside of the IRA to pay the tax, and the tax status of beneficiaries. These factors can be considered 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

Benefits:

- Accelerates IRA distributions in lower tax bracket years.
- Future withdrawals from a Roth IRA are generally tax-free.
- RMDs are not required from a Roth IRA during your lifetime.
- Tax-efficient legacy tool for the next generation.

Considerations:

- More effective when tax liability is paid from non-IRA assets.
- Be aware of a potential increase in the net investment income tax.
- Be aware of early withdrawal penalties for converted funds.
- Understand if there is an impact on Social Security taxability and premium costs for Medicare Parts B and D.

Situation 2: Are you missing out on a tax benefit for cash donations to charities?

Scenario:

- Age 70 ½ or older.
- Making cash contributions to qualified charities.
- Have a traditional IRA.
- Typically take the standard deduction on tax return.

2025 Standard Deduction

Filing Status:	Standard Deduction:	Additional If Over 65, Blind, or Disabled
Single	**$15,000**	**$2,000**
Married filing jointly (MFJ)	**$30,000**	**$1,600**

Example: Potential Tax Savings Using A QCD Strategy

Taxable Income:	Without QCD:	With QCD:
Income before IRA	$140,000	$140,000
IRA required withdrawal	$10,000	-
Adjusted Gross Income	$150,000	$140,000
Standard Deduction*	$33,200	$33,200
Taxable Income	**$116,800**	**$106,800**
Taxable Difference		$10,000
x Tax Rate		22%
= Tax Savings		$2,200

**2025 Standard Deduction Married Individuals Filing Jointly Ages 65+*

Potential Tax Traps:

- No federal tax benefit for charitable contributions when using the standard deduction.
- Required minimum distributions (RMDs) could push you into a higher tax bracket.
- If RMDs exceed spending needs, you might have additional taxable investment income.

Strategy: Qualified Charitable Distributions (QCDs)

Qualified Charitable Distributions (QCD's) allow you to donate to charity directly from your IRA. You must be at least age 70 ½ to employ this strategy. In 2025, up to $108,000 a year can be distributed directly to charity from an IRA. If you are subject to RMDs, a QCD can satisfy all or a portion of your RMD, which may help you reduce taxable income. In addition, the distribution itself is tax free.

In addition to the potential current tax savings, any QCD's made now will reduce the value of the IRA for calculation of annual RMDs going forward. This might ultimately help to reduce taxable income in future years.

Benefits:

- QCDs are not counted as income, which can have a beneficial impact on other income-based thresholds, such as taxability of Social Security benefits, premium amounts for Medicare Parts B and D, and net investment income tax.
- May lower future RMDs, which could also lower future taxes.
- Can offset some or all of your RMD obligation.

Considerations:

- Review overall financial plan's success if RMDs are needed for personal cash flow.
- QCDs cannot be contributed to private foundations or Donor Advised Funds (DAFs).
- Follow the rules: the payment must be made direct to charity from the IRA.
- Annual limit is reduced by any deductible IRA contributions made after age 70 ½.

Situation 3: Are you expecting a high-income year?

Scenario:

- Income in the current year is expected to be higher due to an income event, such as a sale of a business or receipt of deferred income.
- Typically use standard deduction on tax return.
- Expenses in year that could potentially be itemized, such as:
    - State and local taxes
    - Mortgage interest
    - Charitable contributions

Potential Tax Traps:

- High income years might push you into a higher marginal tax bracket.
- No federal tax benefit for the itemizable expenses when using the standard deduction.

Strategy: Contribute to a Donor Advised Fund (DAF)

With a DAF, the donor receives 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.

Consider front-loading or lumping charitable contributions to the DAF by making several years' worth of charitable contributions in one tax year. This strategy is useful in a high-income tax year or when a donor wants to exceed the standard deduction threshold.

Example: Your goal is to give up to $20,000 to charity each year for 5 years:

		Without DAF:		With DAF:
2025 charitable contribution		$20,000		$100,000
State and local taxes (SALT)	+	$10,000	+	$10,000
Total itemized deductions		$30,000		$110,000
Standard deduction*		$33,200		$33,200
Charitable contributions - 2025 - 2030		$100,000		
Distributions from DAF - 2025 - 2030				$100,000
Total amount to charity		$100,000		$100,000

**2025 Standard Deduction Married Individuals Filing Jointly Ages 65+*

Benefits:

- Income tax deduction up front.
- Giving can be stretched out over multiple years.
- Can avoid capital gains tax by donating appreciated assets.

Considerations:

- Consider overall financial plan and cash flow needs.
- Be aware of limits on the income tax charitable deduction:

Type of Asset:	AGI Limitation:
Cash	60%
Long-term appreciated assets	30%

Excess deductions may be carried forward for up to five years.

Situation 4: *Would taking realized capital gains be a good thing for you?*

Scenario:

- Hold investments in a taxable account with unrealized capital gains.
- Low taxable income.

Potential Tax Traps:

- If future income will be higher, capital gains could be taxed at a rate as high as 20%.
- Net investment income tax might also apply, which increases the top tax rate to 23.8%.

What is the capital gains tax?

- Short-term capital gains tax
  - Tax on profits from selling an asset held under a year
  - Paid at ordinary income rate
- Long-term capital gains tax
  - Tax on profits from selling an asset held more than a year
  - Long-term capital gains tax rates: 0%, 15% or 20%
  - Applicable capital gains rate depends on taxable income and filing status

Long-Term Capital Gains Tax Rates For The 2025 Tax Year (Based On Taxable Income)

Filing Status:	0% Rate:	15% Rate:	20% Rate:
Single	Up to $48,350	$48,350 - $533,400	Over $533,400
Married filing jointly (MFJ)	Up to $96,700	$96,700 - $600,050	Over $600,050

Source: Annex Wealth Management Financial Planning Department & IRS.gov

Strategy: Capital Gains Harvesting

Capital gains harvesting involves selling appreciated assets to realize long term capital gains. This strategy can allow you to pay capital gains at a lower – potentially even 0% - tax rate by realizing capital gains during years where your taxable income is lower or where you have capital losses that can be used to offset the gains.

Benefits:

- Can be part of a strategy to diversify out of a concentrated position.
- Obtain a higher cost basis by selling an appreciated security and buying it back.
- Protect against paying higher taxes if income or tax rates increase in the future.

Considerations:

- Capital gains harvesting is a complex strategy and is not suitable for everyone.
- The amount of your total income, which includes ordinary income and capital gains, impacts your capital gains tax rates.
- It is important to understand your overall tax picture when considering capital gains harvesting.
- Be aware of the wash sale rules when offsetting capital gains and capital losses.

Situation 5: Are you missing the long-term benefits of an HSA?

Scenario:

- Enrolled in a high deductible health insurance plan.
- Eligible to contribute to a Health Savings Account (HSA).
- Sufficient cash flow to cover out-of-pocket medical expenses.
- Sufficient cash flow to make long-term HSA savings contributions.

2025 Contributions Limits

HSA Contribution Limit (Employer & Employee)	HSA Catch-Up Contributions (Age 55 or older)
Self-only: $4,300 **Family: $8,550**	**$1,000**

Source: Annex Wealth Management Financial Planning Department & IRS.gov

Potential Tax Trap:

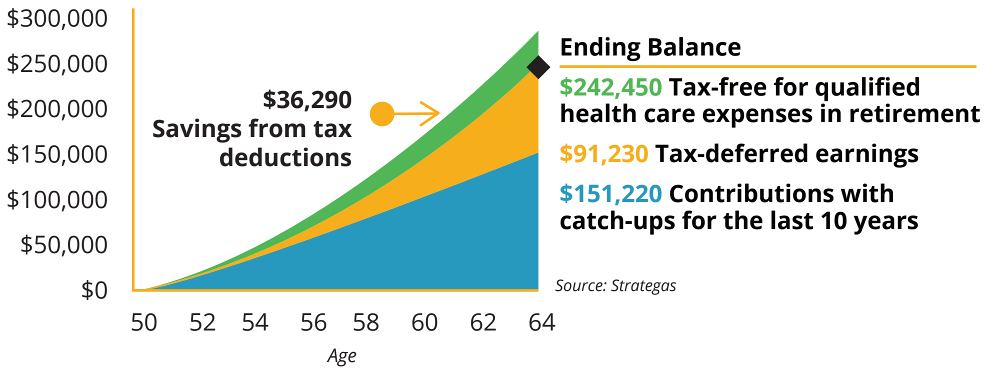
- Liquidating investments or taking distributions from IRAs to pay medical expenses during retirement could result in higher taxes.

Strategy: HSA as a long-term investment account

Many people use an HSA account to cover medical expenses as they occur. Instead, consider treating your HSA as a long-term, tax-advantaged savings vehicle. Make the maximum contributions now to receive the tax deduction but cover current year expenses out of pocket. This allows the HSA to accumulate for the future. The HSA can then be used to pay for health care expenses in retirement.

Health Savings Accounts (HSA) Savings Are Triple Tax Advantaged

Maximum Family Contribution With Catch-Ups, 6.25% Return & 24% Marginal Tax Rate



Source: Strategas

Benefits:

- HSAs are triple tax advantaged:
  - Current tax deductions
  - Tax-deferred investment growth
  - Tax-free when used for qualified medical expenses
- Retiring prior to Medicare? Your HSA can help bridge the gap with tax-free money to pay for medical insurance and expenses in retirement.

Considerations:

- Annual contribution limits include employer contributions.
- Can contribute pre-tax through payroll deduction or post-tax by taking a deduction on your tax return.
- Not eligible to contribute to an HSA once you are covered by Medicare Part A.
- Distributions for non-qualified expenses are subject to income tax at all ages and an additional 20% penalty before age 65.

Situation 6: *Do you own employer stock in your 401(k)?*

Scenario:

- Your company stock is publicly traded on the stock market.
- The company stock in your employer-sponsored plan is highly appreciated.
- You are eligible to take a lump-sum distribution from your plan.

Potential Tax Trap:

- If rolled over to an IRA, the employer stock will be taxed as ordinary income.
- Future required minimum distributions (RMDs) could push you into higher tax bracket.

Strategy: Net Unrealized Appreciation (NUA):

With an NUA distribution strategy, you can withdraw the shares of employer stock and put them into a taxable account. Generally, you must pay ordinary income taxes on the cost basis of the stock in the plan when they are distributed from the employer-sponsored plan. There are alternative methods such as Frank Duke NUA where tax on the cost basis can be avoided.

The difference between the fair market value of the stock at the time of the transfer and the cost basis is the NUA. NUA is taxed at long-term capital gains rates at the time it is sold.

The NUA strategy must be done as part of a lump sum distribution of the employer-sponsored plan account. The balance of the assets in the account can be rolled over to an IRA.

Strategy: Net Unrealized Appreciation (NUA)

Example: Net Unrealized Appreciation

Total 401(k) Account Balance: $1,250,000

Mutual Funds: $1,000,000 → Rollover to IRA

Company Stock: $250,000

	Rollover Stock to IRA		Transfer Stock to Taxable Account
Cost Basis of Stock:	$50,000		$50,000
Basis Taxed As:	Ordinary Income	vs.	Ordinary Income
NUA:	$200,000		$200,000
NUA Taxed As:	Ordinary Income		Long-Term Capital Gain

Benefits:

- Stock might be sold at a 0% capital gain tax rate if income is low enough.
- Reduces future RMDs and potential tax liability.
- NUA shares are not subject to the 10% early withdrawal penalty.
- Stock dividends can supplement cashflow needs.
- Low basis stock can be transferred to charities or donor-advised fund.

Considerations:

- NUA strategies are complex and may not be appropriate in every situation.
- In-service distributions do not qualify for NUA treatment.
- Consider overall stock/sector concentration and risk.
- Shares held as an NUA transaction do not get a step-up in basis upon death.

Situation 7: Are you looking to leave a tax-efficient legacy for your family?

Scenario:

- Net worth above $5 million for an individual or $10 million for a married couple.
- Income and assets above lifestyle goals.

Potential Tax Traps:

- Pay federal estate taxes if your estate exceeds the exemption amount.
- The exemption amount is scheduled to decrease when the Tax Cuts and Jobs Act sunsets in 2026.
- Some states also have a separate state estate or inheritance tax.

Estate & Gift Taxes (Per Person)

Year:	Lifetime Exemption:	Maximum Gift & Estate Tax Rate	Annual Gift Tax Exclusion
2025	$13,990,000	40%	$19,000
2026	$5,000,000 (indexed for inflation)	40%	

The Strategy: Making Gifts:

Making gifts during your lifetime can help minimize estate taxes. For 2025, each individual may transfer up to $19,000 per person per year without paying gift tax or using up any available gift tax exemption amount. Married couples can make gifts of up to $38,000 per person.

In addition to annual exclusion gifts, each individual has a federal lifetime gift tax exemption amount, which is the cumulative total of gifts that an individual can make during his or her lifetime without paying gift tax. In 2025, this exemption amount is $13.99 million per person. With proper planning, it is possible for a married couple to give away $27.98 million during life without paying gift tax.

There are many different approaches for making larger gifts, including outright gifts to family members, forgiving outstanding intrafamily loans, or using more complex gift strategies involving irrevocable trusts.

Benefits:

- When done over several years, annual exclusion gifts can be an effective way to remove assets from your estate.
- Appreciation on the gifted assets is removed from your estate.

Considerations:

- Be aware of gift tax reporting rules for gifts in excess of annual exclusion amounts.
- Recipient will take your basis in non-cash assets for income tax purposes.
- Gifted assets do NOT get a step-up in basis on the death of the donor.
- Consider overall financial plan and cash flow needs.
- Work with your advisors to determine which assets and gifts strategies might be appropriate.

Conclusion

Tax laws are not permanent, they are constantly changing.

Tax strategies that are appropriate one year might not be advisable the following year. In addition, tax strategies should not be considered in a vacuum. Navigating tax planning requires a thorough understanding of your circumstances as part of a comprehensive financial plan. While this piece highlights many important considerations, it is not an exhaustive list and circumstances over time can impact the analysis. Working with your tax and financial advisor is highly recommended to determine whether a particular tax strategy is appropriate for you.

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