IN THIS ISSUE

Taxes

The 2025 year-end tax planning season opens

OBBBA year-end tax considerations

Retirement

Roth IRA conversions after OBBBA

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INSIGHTS

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The 2025 year-end tax planning season opens

Our tax system is more complicated than ever, with the income tax law and regulations ballooning to over 70,000 pages, according to the taxfoundation.org.

Luckily, we have an industry of tax advisors to help, and software to focus on the ins and outs of deductions and credits. Some things have actually been simplified for many families in the last decade due to the doubling of the standard deduction. However, even with this simplification, there are actionable annual strategies that one should consider in order to minimize tax burdens over time, and to take into account their current and projected tax brackets.

Harvesting losses or gains if appropriate to create balance.

The government is willing to wait to collect taxes on investment gains until the crucial realization point when that investment is sold. At that moment, they will collect a share of the profits. Their share is determined by a few different factors, though, some of which are under the control of the investor. Those factors include the marginal tax rate of the investor, how long the investment has been held, and whether or not the investor has losses that offset the gains.

That's right, even investments that have gone down to zero still have some value, because their losses can offset gains made elsewhere. That value is why selling at a loss can still be referred to as a "harvest." One needs to be careful when using this strategy, as you can't do it with stocks you intend to repurchase. That is known as a "wash-sale," and the IRS rules dictate that for 30 days you cannot buy another security that is "substantially identical" to the one you sold and recognize the capital loss on the sale.

If one has purchased stocks over multiple years, each lot will have a different tax basis. One needs to specify which lot to sell based on the income and tax situation prevailing at that time. The default is "first in, first out," but to harvest more or fewer gains or losses, one can choose which lots match one's needs.

Should there be many realized losses during the year, one might make sales of some of winners in order to not pay taxes on those gains. However, missing out on gains can be bigger than the taxes saved. Additionally, one might harvest winners if income is low enough to have the lowest or lower tax rate apply.



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Consider annual partial Roth-IRA conversions.

If you are considering your income tax bracket when it comes to selling your securities, you may also consider how the government takes some of those decisions out of your hands as you get older, with required minimum distributions from tax-deferred accounts such as traditional IRAs or 401(k)s. Income taxes weren't paid on these savings initially, and the government would like to start collecting those taxes once the owner reaches 73. There are no such requirements for Roth IRAs because the income taxes on those savings are paid upfront.

So, if one is currently in a low-income bracket approaching retirement and expects to be in a higher income bracket during retirement, he or she may want to consider taking on some of those tax obligations early, through partial Roth conversions. Paying the tax early does mean less time in the market for those accounts to grow; however, it may also mean lower taxes on Social Security benefits later on.

It's about more than just taxes.

Small tax gains over time, invested with reasonable growth, can create a meaningful difference when retirement comes. That's why it's important to start these tax moves early, so the range of choices to fulfill tax obligations later on makes tax-efficient choices easier to make.

Year-end gift planning

Typically, tax considerations are not on the mind of someone making a large gift. The vast majority of gifts incur no gift taxes or even gift tax reporting requirements. It is more common to think of taxes when making bequests—and in those cases, people think of inheritance or estate taxes.

This year, the One Big Beautiful Bill Act (OBBBA) was enacted on July 4, making the federal estate tax exemption permanent starting in 2026, at $15 million (up to $30 million with portability for a married couple). Only a very small number of taxpayers must worry about federal estate and gift taxes moving forward. Even so, there is value in the gifting strategies to lower an estate tax obligation because they also have the potential of lowering income taxes. Over a long period of time and growth, that can add up to a tidy sum.

Tax pros and cons of gifting

On the pro side of things, one can gift up to $19,000 each year to any recipient (up to $38,000 for a married couple) without the need for a gift tax return. Larger gifts will require a gift tax return, and that will reduce the future estate tax exemption. As far as the IRS is concerned, up to $15 million may be gifted during a lifetime without incurring taxes.

Consider this simplified example: John has $10 million, and four grandchildren who are all currently in their teens to early 20s, and who are in the lowest income tax bracket. John is currently in the highest tax bracket, and these assets are all producing taxable income for him every year. Should John give $19,000 to each grandchild for 10 years, he will have given away $760,000 without incurring any gift tax or reducing his future estate tax exemption. The grandkids can collect the income that the assets were going to produce anyway, in their lowest tax bracket instead of the highest.

Gifted assets carry the donor's basis with them. If these are highly appreciated assets, the grandkids will have a potential capital gains tax exposure. On the other hand, if they sell assets while they are in the bottom bracket, the tax rate on long-term capital gains is 0%.

A big caveat—with the larger exemption made permanent, basis step-up planning will become more important to some families. Inherited assets have as their tax basis their fair market value as of the date of death of the owner. This rule is generous—taxes on capital gains are effectively forgiven forever.

Let's change the earlier example: John's investment portfolio is worth $10 million, with a tax basis of $4 million. He plans to divide the portfolio among the four grandchildren. If he makes a lifetime gift of the securities, and assuming that the basis is divided equally, each grandchild will have to plan for taxes on $1,500,000 worth of gains if those assets are sold. If John holds the assets until his death, the tax on the $6 million capital gain is eliminated at zero estate tax cost. The income tax savings for shifting income during John's remaining lifetime may not be worth as much as the basis step-up on his assets after he passes away if he holds onto them until death.

For the philanthropically minded, charitable gifts get a permanent tax break from the new law too.

There is good news for charitable giving in the new tax law—the increase in the deduction limit for charitable gifts, from 50% of the donor's AGI to 60%, enacted in the Tax Cuts and Jobs Act of 2017, was made permanent, so it won't expire at the end of the year. Unused deductions from larger charitable gifts may be carried forward for five tax years (but the carry forward expires at death).

One might also consider a gifting strategy of Qualified Charitable Distributions (QCDs) from IRAs if they are age 70½ and older in 2025. In 2025, QCDs can be made up to $108,000 per individual. QCDs satisfy required minimum distribution mandates from qualified retirement plans for those 73 and older.

How to ensure a long-term perspective

There are many people who can go with a DIY approach and be very successful managing a portfolio on their long-term wealth journey. However, it can be helpful to find out what all the boxes are that the professionals usually review, not just once during setup, but every year. A second opinion can be helpful even for those doing everything right, we can do just that. We can take a look and make suggestions to help you make informed decisions. Let us know if you'd like to schedule a meeting.

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OBBBA year-end tax considerations

The most significant tax change in the One Big Beautiful Bill Act, signed by President Trump on July 4, is that the big tax increase that was on the books for next January was repealed, as most of the provisions of 2017's Tax Cuts and Jobs Act were made permanent. There are many other wrinkles to take into account, including four changes that are retroactive to the first of the year. All four of these tax changes expire after 2028. After the legislation was enacted, the IRS provided a fact sheet on the new provisions, outlining the limits on and requirements for claiming the new benefits.

Deduction for seniors. An additional deduction will be available to seniors. This change substitutes for President Trump's campaign promise to eliminate income taxes on Social Security benefits. According to U.S. Treasury calculations, 36% of seniors were paying income tax on benefits under the prior law, and now only 12% will be paying that tax.

Amount. The new deduction is $6,000 per senior, so it's $12,000 for a retired married couple if they both meet the age requirement.

Phase-out. The deduction phases out for taxpayers with modified gross income greater than $75,000 ($150,000 for joint filers).

Requirements. The taxpayer must reach age 65 on or before the last day of the year. The deduction is available to both itemizing and non-itemizing taxpayers. Married couples must file jointly to claim the deduction.

No tax on tips. Employees and self-employed individuals who "customarily and regularly" receive tips are eligible for a new deduction on tipped income. These may be voluntary cash tips or charged tips from customers that are received through tip sharing. Restaurant servers and barbers, for example, are likely to qualify. The IRS published a proposed rule on September 25, 2025, outlining qualified occupations, at www.federalregister.gov/documents/2025/09/22/2025-18278/occupations-that-customarily-and-regularly-received-tips-definition-of-qualified-tips.

Limit. The maximum deduction is $25,000. For the self-employed, the deduction may not exceed the net income from the trade or business without regard to the tips.

Phase-out. The deduction phases out for those taxpayers with modified adjusted gross income greater than $150,000 ($300,000 for joint filers).

Requirements. Taxpayers who are married must file jointly to claim this deduction, which is available to non-itemizers and itemizers alike. The Social Security Number must be included on the return. Employers will have to file information returns with the IRS.

No tax on overtime. Individuals who receive overtime compensation required by the Fair Labor Standards Act (FLSA) may deduct the extra wage element—the "half" in "time and a half." However, individuals who are covered by other overtime laws, such as railroad workers and airline employees, may not be eligible under a narrow reading of the law. Workers specifically exempted from FLSA won't be included.

Limit. The maximum deduction is $12,500 ($25,000 for joint filers).

Phase-out. The deduction phases out for taxpayers with modified adjusted gross income greater than $150,000 ($300,000 for joint filers).

Requirements. The deduction is available to both itemizers and non-itemizers. Married taxpayers must file jointly to claim the deduction. Employers will be required to furnish statements to taxpayers showing their total amount of qualified overtime compensation for the year.

New tax breaks at a glance

	Maximum deduction	Phase-out starts at MAGI
No tax on tips	$25,000	$150,000 ($300,000 joint filers)
No tax on overtime	$12,500 ($25,000 for joint filers)	$150,000 ($300,000 joint filers)
No tax on car loan interest	$10,000	$100,000 ($200,000 joint filers)
Deduction for seniors	$6,000 ($12,000 for joint filers if both over 65)	$75,000 ($150,000 joint filers)

Source: IRS Fact Sheet FS-2025-3; M.A. Co.

No tax on car loan interest. The interest on a loan used to buy a new vehicle for personal use may be deductible. Used vehicles don't qualify. A qualified vehicle is a car, minivan, SUV, pick-up truck or motorcycle with a gross vehicle weight of less than 14,000 pounds, and that has undergone final assembly in the United States.

Limit. The maximum deduction is $10,000, which should be high enough for most new car purchases. Leases do not qualify. The loan must be secured by a lien on the vehicle.

Phase-out. The deduction phases out for taxpayers with modified adjusted gross income over $100,000 ($200,000 for joint filers).

Requirements. The deduction is available to itemizers and non-itemizers alike. The taxpayer must include the Vehicle Identification Number of the qualified vehicle on the tax return for any year in which the deduction is claimed. Lenders must file information returns with the IRS and provide statements to taxpayers showing the total amount of interest paid on the loan during the tax year.

These new tax breaks will have an indirect impact on year-end tax planning. A taxpayer either meets the age requirement for the senior deduction or doesn't, either earns tips or overtime pay or does not. However, the taxpayer who qualifies for any of these benefits will want to keep an eye on the phase-out boundaries. One who is close to a tax benefit income boundary will want to avoid a voluntary increase in taxable income. For example, by realizing a capital gain or taking an unrequired retirement plan distribution, that might jeopardize the deduction.

Roth IRA conversions after OBBBA

Some 58 million households owned an IRA as of year-end 2024—more than 40% of households. However, about 88% of IRA assets are held in traditional IRAs—over $14 trillion. The reason for the disparity is that traditional IRAs have been used, through a rollover of the funds, to preserve the tax deferral for distributions from 401(k) plans and other qualified retirement plans. The contribution limit for such plans is far higher than the limits for IRAs.

A traditional IRA may, at the option of the account owner, be converted to a Roth IRA. There are no income restrictions on who may exercise the conversion option. However, there is a price to be paid, as the entire amount of the conversion must be included in ordinary income. The prospect of an increase in federal income tax rates next year made the decision more urgent in 2025, but that incentive was eliminated in July.

Benefits

There are three benefits offered by the Roth IRA:

Planning flexibility. Minimum annual distributions are required from traditional IRAs once the owner reaches age 73. There are no such requirements for Roth IRAs. The required minimum distributions are not large in the early years on a percentage basis, but the only way to mitigate them is to arrange for a direct distribution to charity.

Tax freedom. After five years, distributions from the Roth IRA during retirement are not included in income. The income taxes have effectively been prepaid.

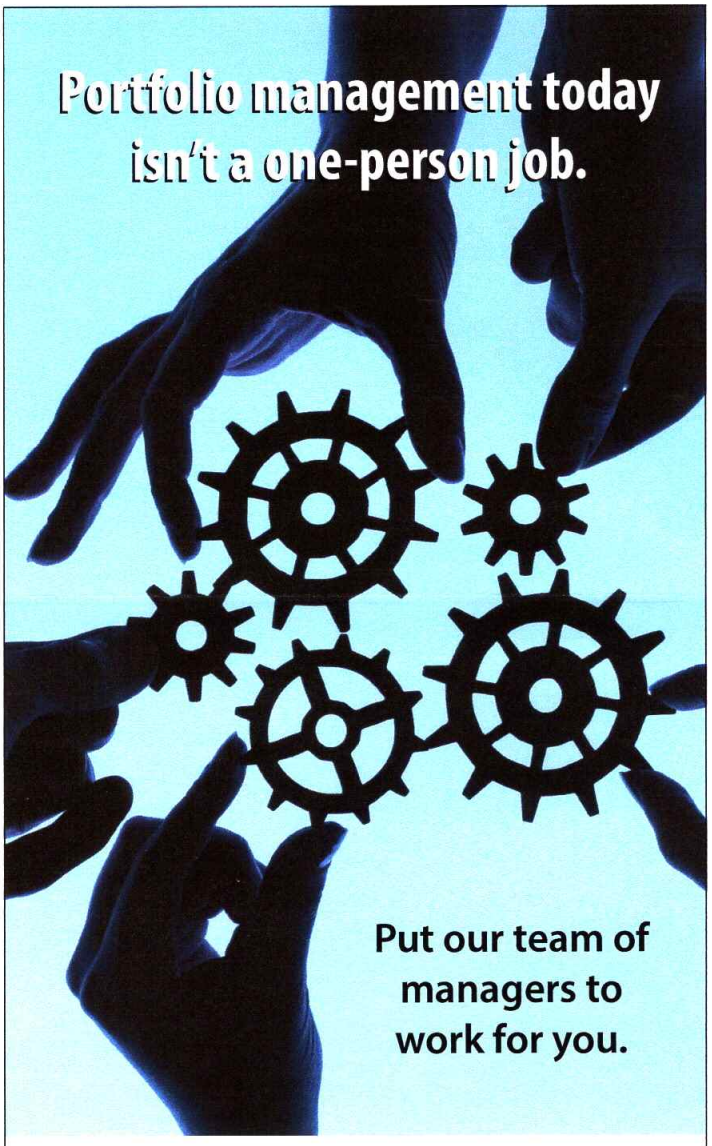
Lower taxes. Those required minimum distributions from traditional IRAs may have the side effect of increasing the taxes the retiree must pay on Social Security benefits received. They may also boost capital gain tax rates and Medicare premiums.

OBBBA effects

The increase in the cap on deductions for state and local taxes (SALT) to $40,000 this year may mean that more taxpayers will itemize deductions, providing some shelter for the tax on the Roth conversion. However, the larger deduction phases out as income goes above $500,000.

The new $6,000 deduction for seniors will be helpful for many, but a conversion to a Roth IRA risks moving the taxpayer into the phase-out range for that tax benefit—$75,000 for singles and $150,000 for joint filers.

Next year, a new limit on charitable contribution deductions goes into effect. The deduction will be reduced by 0.5% of modified adjusted gross income (MAGI). The change may cause philanthropically minded taxpayers to accelerate charitable giving into 2025, which also argues for accelerating a Roth IRA conversion.



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