



## 2025 Year-end wealth planning considerations

As 2025 draws to a close, we look at some basic but important points regarding income tax, charitable giving, retirement planning, and estate and gift taxes for high income earners and high net worth individuals.

### Income tax

- **Accelerate deductions** – The One Big Beautiful Bill Act (OBBBA) has permanently reduced the maximum income tax rate to 37%. When tax rates will remain the same from one year to the next, as they will between 2025 and 2026, the established wisdom is to consider accelerating deductions into the current year, which could reduce your 2025 income tax liability. Moreover, as described below under “Changes in deductions,” there are new limitations on deductions that will take effect beginning in 2026, making certain deductions more tax-efficient in 2025.
- **Harvest “losses”** – Now is a good time to review your investment portfolio and consider selling depreciated securities to help offset any capital gains realized this year.
- **Beware the “wash sale rule”** – A taxpayer who sells a security to realize a loss in 2025, but still wants exposure to that security should be mindful of the “wash-sale rule” which disallows a loss if “substantially identical” securities are purchased within 30 days before or after the sale. If the taxpayer can’t take the current loss, the amount of the unused loss is added to the cost basis of the re-purchased security. When counting days, note that the trade date, not the settlement date, governs when the transaction is deemed to occur. Two methods to avoid a wash sale on an individual stock while maintaining your exposure to the same industry are: 1) invest in a mutual fund that targets the same industry; and 2) buy an individual security with similar exposure.
- **Changes in deductions** – The Tax Cuts and Jobs Act of 2017 (TCJA) significantly changed deductions, basically doubling the “standard” deduction and limiting itemized deductions by capping the state and local tax (SALT) deduction at \$10,000 and suspending miscellaneous itemized deductions. Many taxpayers now simply take the standard deduction. For 2025 the standard deduction is \$15,750 for single taxpayers and \$31,500 for married couples filing jointly. By taking the standard deduction in lieu of itemizing, however, taxpayers don’t get “direct” recognition for deductions such as mortgage interest payments and charitable contributions because they are subsumed within the standard deduction. Under OBBBA, the SALT cap limit has been increased to \$40,000 with a 30% phase-out for those with over \$500,000 in modified adjusted gross income. The deduction is phased out by 30% of the excess income over \$500,000, but the deduction will not be reduced below \$10,000. OBBBA also limits the benefit of itemized deductions for individuals in the 37% bracket to 35%.

### Charitable giving

- **Gifts to charities** – Assuming the taxpayer will be itemizing deductions (as discussed above), last-minute charitable gifts made by check will be treated as having been made in 2025 if the check is post-marked before January 1, 2026 (a check to a charitable organization need not be cashed before then). Gifts made by credit card can presumably be made until 11:59 p.m. on

December 31, 2025. If gifting appreciated securities instead of cash, aim for those that have been held for more than a year because the deduction for such long-term securities is based on full fair market value and not limited to cost basis. Additionally, by donating such appreciated positions, you can also eliminate potential liability for capital gains tax attributable to the contributed shares.

- **“Bunching” charitable gifts** – Those who are philanthropically inclined might want to “bunch” their charitable contributions so that they are large enough to make itemizing worthwhile. A donor-advised fund (DAF) is a charitable vehicle that may facilitate this approach. A contribution to a DAF garners a current charitable deduction and the donor can then advise the fund to make

gifts to their favorite charities in the ensuing years, or in the current year if time permits.

- **Qualified charitable distribution (QCD)** – Taxpayers who are at least 70½ can direct up to \$108,000 from their IRA to a qualified public charity such as the taxpayer’s favorite museum or alma mater (DAFs, supporting organizations and private foundations are ineligible for the gift). For taxpayers who are age 73 or older, the distribution counts toward their Required Minimum Distribution (RMD). QCDs are not subject to federal income tax and are not deductible. (Even though the charitable contribution is not deductible, the taxpayer receives a direct reduction in taxes because there is no income tax imposed on the distribution.) The taxpayer cannot receive anything in exchange for the contribution.

## Retirement planning

- **IRAs** – The 2025 contribution limit is \$7,000 and taxpayers who are age 50 or older can make a “catch-up” contribution of up to \$1,000 for a total of \$8,000 in contributions. The Secure 2.0 Act provides a special carve-out beginning in 2025 for individuals who are age 60 to 63 granting an enhanced catch-up limit of \$11,250 for those in this age bracket. Taxpayers have until April 15, 2026 to make their 2025 contribution.
- **Roth IRAs** – These retirement accounts have the same contribution limits as “traditional” IRAs (see above). Taxpayers with “too much” income, however, can’t contribute to a Roth IRA. The 2025 Roth income phase-out is between \$236,000 and \$246,000 for married couples filing jointly and \$150,000 and \$165,000 for single taxpayers. Nevertheless, under current law any taxpayer can convert a traditional IRA into a Roth regardless of income; however, this will likely trigger income tax. Proposals to eliminate Roth conversions after 2031 did not become law. Roth IRAs can only be funded with after-tax dollars (i.e., contributions are never deductible unlike with traditional IRAs).

- **401(k) contributions** – The 2025 contribution limit for retirement accounts such as a 401(k) is \$23,500. Taxpayers who are age 50 or older can make a catch-up contribution of up to \$7,500. In 2026, the contribution limit will be increased by \$1,000 to \$24,500 and the catch-up allowance will increase to \$8,000. As described above, under the Secure 2.0 Act individuals who are 60 to 63 can make enhanced catch-up contributions of up to \$11,250 starting in 2025.
- **Required Minimum Distributions (RMD)** – The Secure 2.0 Act raised the RMD age to 73 (or 75 for people born in 1960 or later). Individuals who reach age 73 in 2025 can delay their first RMD until April 1, 2026; however, a second RMD must be taken by the end of 2026. The penalty for failure to take an RMD has been reduced from 50% to 25% and may be decreased to 10% if the failure is rectified within 2 years. Roth IRAs are not subject to the RMD requirements. Retirees may withdraw more than the RMD without penalty.

## Estate and gift taxes

- **Annual exclusion gifts** – In 2025 and 2026 donors may give \$19,000 per year to as many individuals as they wish (\$38,000 if splitting the gift with a spouse) without using any of their estate tax exemption (discussed below). Cash gifts may be given up to 11:59 p.m. on December 31st to count

as a gift for 2025. Gift checks must be cashed or deposited and cleared before January 1, 2026 to be treated as a gift in 2025. In addition to annual exclusion gifts, donors may also make direct payments of tuition, medical expenses, and health insurance premiums for the benefit of another

person. The annual gift tax exclusion is also available to non-domiciled, non-citizens of the US when gifting US situs assets.

- **Annual exclusion gifts to non-US citizen spouses** – In 2025 an individual can give \$190,000 free of gift tax to his or her non-US citizen spouse. This amount will increase to \$194,000 in 2026.
- **Estate and gift tax exemption** – This represents the total amount of property an individual can transfer free from estate and gift taxes during life and through his or her estate at death. The 2025 exemption amount is \$13.99 million per person or \$27.98 million between spouses. The exemption will rise to \$15 million per person or \$30 million between spouses in 2026. The increased exemption amount is now permanent under OBBBA and will be indexed for inflation each year. A separate generation-skipping transfer tax exemption (GSTT exemption) can be applied against gifts to individuals more than one generation below that of the donor. The GSTT exemption is equal to and moves in lockstep with the normal estate tax exemption. The GSTT exemption is available to nondomiciled, non-citizens of the US when gifting US situs assets.
- **Limited estate tax exemption for US non-resident aliens (NRAs)** - While a “US person” (generally a citizen or a US domiciled person) is entitled to a \$13.99 million lifetime exemption for both Federal estate and gift taxes in 2025, NRAs generally only have a \$60,000 estate tax (but not gift tax) exemption available depending on the NRA’s country of residence and applicable tax treaties. (The annual gift tax exclusion, described above, is separate from the lifetime exemption and is available to NRAs if the gift is comprised of US situs assets as defined for gift tax purposes.)
- **Sophisticated planning considerations** – Individuals whose wealth exceeds the exemption amount will want to consider using their exemption now in order to freeze the value of their estate and shift future appreciation to the next generation. Specially drafted trusts may provide a tax-efficient and flexible solution for all families of wealth, no matter how they are situated.
  - Taxpayers with substantial wealth may consider the benefits of a “Dynasty Trust,” established in a jurisdiction such as Delaware, which can last for several generations without the imposition of further estate or gift tax.
  - A Spousal Lifetime Access Trust (SLAT) (which is often designed as a Dynasty Trust) allows a taxpayer to make a gift that will remove assets from his or her estate for estate tax purposes; however, there is flexibility in that distributions can be made to the beneficiary-spouse if the funds are needed in the future. The biggest risks, which must be addressed at the drafting stage, are the divorce or death of the beneficiary-spouse.
  - Another strategic way to utilize the exemption is to make gifts to a properly drafted Irrevocable Life Insurance Trust (ILIT) which then purchases “second-to-die” life insurance on a married couple. This type of insurance matures upon the death of the second spouse (typically when estate taxes will be payable) and is often used to provide a source of liquidity for the estate. Because the life insurance policy is held outside the estate of the insured, the proceeds are not subject to the reach of the estate tax when the policy matures.

## Expatriation tax

**US exit or expatriation** – An individual who renounces his or her US citizenship and/or long-term US green card holder status (meaning that the green card has been held for at least 8 of the last 15 years) and is classified as a covered expatriate under any of the three tests included in the Internal Revenue Code may face substantial US tax triggered by a “deemed disposition” under which the worldwide assets of the covered expatriate are treated as having been sold at fair market value on the day before expatriation. Capital gains tax liability may be triggered on the calculated, but unrealized, net gain even though there is no actual sale.

## Next steps

It’s never too early to start the planning conversation and, if you already have planning in place, it’s a good time to review your current documents in light of the recent changes in tax law to be sure you are optimizing all available benefits. Contact your Deutsche Bank Wealth Management Relationship Manager about working with our Wealth

Planning Group to design an estate plan that meets your goals and objectives, or to review your existing estate planning documents.

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