FEDERAL TAX UPDATE

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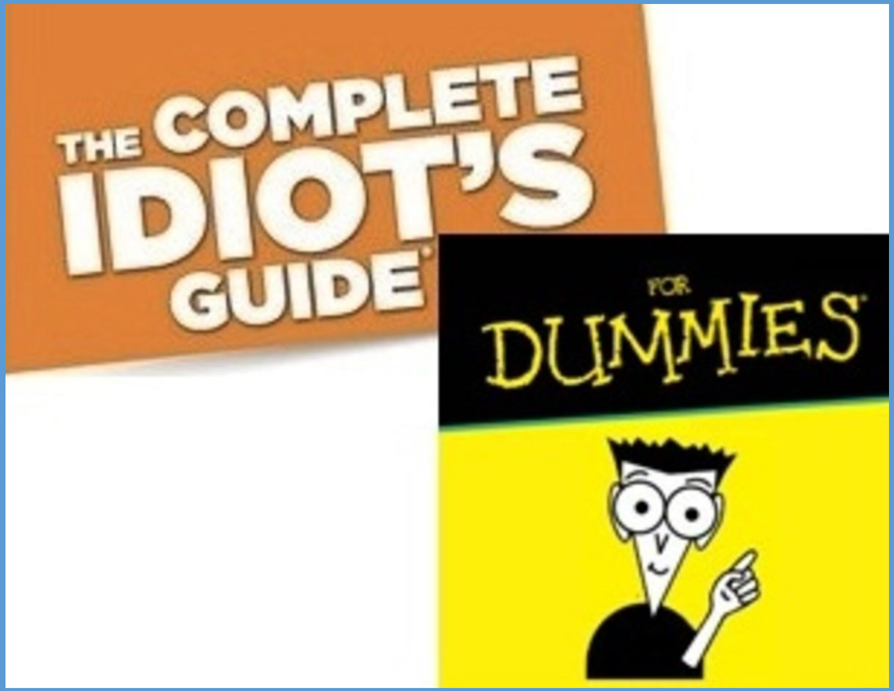

THE COMPLETE IDIOT'S GUIDE
FOR DUMMIES


ONE BIG BEAUTIFUL BILL
E PLURIBUS UNUM

Federal Wealth Transfer Tax Basic Exclusion Amount

Date of death	Basic exclusion amount
2011	$5,000,000
2012	$5,120,000
2013	$5,250,000
2014	$5,340,000
2015	$5,430,000
2016	$5,450,000
2017	$5,490,000
2018	$11,180,000

Date of death	Basic exclusion amount
2019	$11,400,000
2020	$11,580,000
2021	$11,700,000
2022	$12,060,000
2023	$12,920,000
2024	$13,610,000
2025	**$13,990,000**
2026	***$15,000,000***

2025 Federal Income Tax Brackets for Individuals

<table>
<tr><th colspan="2">Taxable Income Exceeding</th><th rowspan="2">Ordinary Income</th><th rowspan="2">Adjusted Net Cap Gain* & Qualified Dividends</th><th rowspan="2">Medicare Surtax on Earned Income**</th><th rowspan="2">Medicare Surtax on Net Investment Income</th></tr>
<tr><th>Single</th><th>Married Filing Jointly</th></tr>
<tr><td>$0</td><td>$0</td><td>10%</td><td rowspan="2">0%</td><td rowspan="6">2.9%</td><td rowspan="6">0%</td></tr>
<tr><td>$11,925</td><td>$23,850</td><td rowspan="2">12%</td></tr>
<tr><td>$48,350</td><td>$96,700</td><td rowspan="6">15%</td></tr>
<tr><td>$48,475</td><td>$96,950</td><td>22%</td></tr>
<tr><td>$103,350</td><td>$206,700</td><td>24%</td></tr>
<tr><td>$197,300</td><td>AGI over $250,000</td><td rowspan="2">32%</td></tr>
<tr><td>AGI over $200,000</td><td>$394,600</td><td rowspan="4">3.8%</td><td rowspan="4">3.8%</td></tr>
<tr><td>$250,525</td><td>$501,050</td><td rowspan="2">35%</td></tr>
<tr><td>$533,400</td><td>$600,050</td><td rowspan="2">20%</td></tr>
<tr><td>$626,350</td><td>$751,600</td><td>37%</td></tr>
</table>

2025 Federal Income Tax Brackets for Trusts & Estates

<table>
<tr><th>Taxable Income Exceeding</th><th>Ordinary Income</th><th>Adjusted Net Cap Gain* & Qualified Dividends</th><th>Medicare Surtax on Net Investment Income</th></tr>
<tr><td>$0</td><td>10%</td><td rowspan="2">0%</td><td rowspan="5">0%</td></tr>
<tr><td>$3,150</td><td rowspan="2">24%</td></tr>
<tr><td>$3,250</td><td rowspan="3">15%</td></tr>
<tr><td>$11,450</td><td>35%</td></tr>
<tr><td>$15,650</td><td rowspan="2">37%</td></tr>
<tr><td>$15,900</td><td>20%</td><td>3.8%</td></tr>
</table>

Understanding the OB3 Act

Standard Deduction

Year	Married Filing Jointly	Head of Household	Unmarried and Married Filing Separately
2017	$12,700	$9,350	$6,350
2018	$24,000	$18,000	$12,000
2019	$24,400	$18,350	$12,200
2020	$24,800	$18,650	$12,400
2021	$25,100	$18,800	$12,550
2022	$25,900	$19,400	$12,950
2023	$27,700	$20,800	$13,850
2024	$29,200	$21,900	$14,600
2025	~~$30,000~~ **$31,500**	~~$22,500~~ **$23,625**	~~$15,000~~ **$15,750**

Understanding the OB3 Act
Personal Exemptions

<u>Pre-2018</u>

- $2,000 per taxpayer or dependent, adjusted for inflation
- Was set to be $4,150 in 2018
- Would have been $5,200 in 2025

<u>2018 - 2024</u>

DISALLOWED

<u>2025 – forward</u>

DISALLOWED

But see new Senior Deduction for 2025 – 2028 !

New Rule!

Understanding the OB3 Act
Temporary Senior Deduction

- Think: Personal exemption for seniors
- Taxpayers **age 65+** on last day of the year may claim a **$6,000 deduction** ($12,000 for joint filers if both qualify)
- Effective for **2025 – 2028**
- Phaseout once adjusted gross income > $75,000 ($150,000 for joint filers)
- No deduction if adjusted gross income > $175,000 ($250,000 for joint filers)
- No deduction for married couples filing separately

Understanding the OB3 Act
Miscellaneous Itemized Deductions

Pre-2018	**2018 - 2025**	**2026 – forward**
Deduct to the extent they exceed 2% of adjusted gross income	*Disallowed*	*Disallowed* (but "**educator expenses**" are not miscellaneous)

Examples: Safe deposit box rentals for storing investments, net hobby expenses, fees for appraising charitable contributions, fees for tax advice and return preparation, unreimbursed employee expenses

Understanding the OB3 Act
Deduction for Personal SALT

Deduction limit temporarily increased

Year	Personal SALT Deduction Cap
2025	$40,000
2026	$40,400
2027	$40,804
2028	$41,212
2029	$41,624
2030 and later	$10,000

Limit reduced by 30% of (AGI – “threshold amount”)

($10,000 minimum)

Year	“Threshold Amount”
2025	$500,000
2026	$505,000
2027	$510,050
2028	$515,151
2029	$520,302

Understanding the OB3 Act
Charitable Contributions

- **Non-itemizers** can deduct up to **$1,000 in cash contributions** <u>starting in 2026</u> ($2,000 for joint filers)

- Can still deduct **cash contributions** up to **60% of contribution base** (adjusted gross income)

- **0.5% floor** on donations by **individuals**, <u>starting in 2026</u>, with disallowed amounts carrying over up to 5 years

Understanding the OB3 Act
Overall Limit on Itemized Deductions

- New §68 <u>starts in 2026</u>

- Reduces total itemized deductions by <u>lesser of</u>:
  - 2/37 of total itemized deductions, <u>*or*</u>
  - 2/37 of the amount by which (taxable income + total itemized deductions) exceeds 37% bracket threshold

- Applies to individuals and trusts

Understanding the OB3 Act
Example of 2026 Charitable Contribution

- T, an individual with a 2026 adjusted gross income of $1,000,000, donates $105,000 to charity. This is T's only itemized deduction for 2026. Assume the 37% tax bracket for individuals in 2026 starts when taxable income exceeds $650,000.

- Apply §170(b)(1)(I) 0.5% floor:

Contribution	$105,000
0.5% of $1,000,000 contribution base	($5,000)
Deduction amount	$100,000

- Apply §68 overall limit on itemized deductions

Lesser of –

(1) 2/37 of $100,000 itemized deductions	$5,405
or (2) 2/37 of $350,000 excess of AGI over $650,000 threshold	vs. $18,519

Deduction thus reduced to $100,000 - $5,405 = **$94,595 total deduction**

New Rule!

Understanding the OB3 Act
"No Tax on Tips"

- Individuals can **deduct up to $25,000** in "**qualified tips**" received in jobs listed by IRS as those where tipping was customary and regular
- Effective for **2025 – 2028**
- Phaseout once adjusted gross income > $150,000 ($300,000 joint)
- Deduction available to both itemizers and non-itemizers, but "**below the line**"
- "Qualified tips" = <u>voluntary</u> <u>cash or credit card</u> tips received from customers or though tip sharing
- No deduction for tips received in specified service businesses
- No deduction for married filing separately

New Rule!

Understanding the OB3 Act

“No Tax on Tips” – Jobs w/ customary tipping

Beverage & Food Service

- Bartenders
- Wait Staff
- Cafeteria Attendants
- Chefs and Cooks
- Food Preparation Workers
- Fast Food and Counter Workers
- Dishwashers
- Host Staff, Restaurant, Lounge, and Coffee Shop Staff
- Bakers

New Rule!

Understanding the OB3 Act

"No Tax on Tips" – Jobs w/ customary tipping

Entertainment and Events

- Casino Dealers, Change Persons, Cashiers, Cage Workers
- Casino Sports Book Writers and Runners
- Dancers
- Musicians and Singers
- Disc Jockeys (except radio)
- Entertainers and Performers
- Digital Content Creators
- Ushers, Lobby Attendants, and Ticket Takers
- Locker Room, Coatroom, and Dressing Room Attendants

New Rule!

Understanding the OB3 Act

"No Tax on Tips" – Jobs w/ customary tipping

Hospitality and Guest Services

- Baggage Porters and Bellhops
- Concierges
- Hotel, Motel, and Resort Desk Clerks
- Maids and Housekeeping Cleaners

Home Services

- Home Maintenance and Repair Workers, Landscapers, Groundskeepers, Electricians, Plumbers
- Home Appliance Installers and Repairers
- Home Cleaning Service Workers
- Locksmiths
- Roadside Assistance Workers

New Rule!

Understanding the OB3 Act
"No Tax on Tips" – Jobs w/ customary tipping

Personal Appearance and Wellness

- Skincare Specialists
- Massage Therapists
- Barbers, Hairdressers, Hairstylists, and Cosmetologists
- Shampooers
- Manicurists and Pedicurists
- Eyebrow Threading and Waxing Technicians
- Makeup Artists
- Exercise Trainers and Group Fitness Instructors
- Tattoo Artists and Piercers
- Tailors
- Shoe and Leather Workers and Repairers

New Rule!

Understanding the OB3 Act
“No Tax on Tips” – Jobs w/ customary tipping

Recreation and Instruction

- Golf Caddies
- Self-Enrichment Teachers
- Recreational and Tour Pilots
- Tour Guides and Escorts
- Travel Guides
- Sports and Recreation Instructors

New Rule!

Understanding the OB3 Act

"No Tax on Tips" – Jobs w/ customary tipping

Transportation and Delivery

- Parking and Valet Attendants
- Taxi and Rideshare Drivers and Chauffeurs
- Shuttle Drivers
- Goods Delivery People
- Personal Vehicle and Equipment Cleaners
- Private and Charter Bus Drivers
- Water Taxi Operators and Charter Boat Workers
- Rickshaw, Pedicab, and Carriage Drivers
- Home Movers

New Rule!

Understanding the OB3 Act
"No Tax on Overtime"

- Individuals can **deduct up to $12,500** in "**qualified overtime compensation**"
- Effective for **2025 – 2028**
- Phaseout once adjusted gross income > $150,000 ($300,000 for joint filers)
- Deduction available to both itemizers and non-itemizers, but "**below the line**"
- "<u>Qualified overtime compensation</u>" = any compensation required by the Fair Labor Standards Act that is reported on Form W-2, Form 1099, or other statement
- No deduction for married filing separately

New Rule!

Understanding the OB3 Act
Trump Accounts

- Think: <u>Traditional IRAs created for kids under age 18</u>
- Contributions (which can start July 4, 2026) up to $5,000 per year (adjusted for inflation as of 2028)
  - Must be made in calendar year (no retroactivity)
  - Employer-made contributions excludable up to $2,500
- "Contribution pilot program" will fund account with $1,000 for kids born in 2025 – 2028
- Funds must be invested in low-cost index fund
- No distributions until age 18
- Distributions after age 18 treated like regular IRA

Fun with QTIP Trusts!

McDougall (Tax Court, September 17, 2024)

Distribution of all assets to surviving upon early termination of QTIP trust, followed by spouse’s sale of those assets to irrevocable trusts, is not a deemed gift by the spouse.

But it is a deemed gift by the QTIP remainder beneficiaries!

Fun with QTIP Trusts!

PLR 2025509010 (February 28, 2025)

Commutation of dynasty trust treated as sale by the beneficiaries of their zero-basis interests in the trust, meaning entire amount received is long-term capital gain.

Theory would seem to apply to QTIP trusts as well, but if there is no gift, where is the exchange?

Fun with QTIP Trusts!

Estate of Kalikow (2d Circuit, March 4, 2025)

- Settlement agreement requires a QTIP trust to pay $9.2 million to the surviving spouse's estate.
  - $6.5 million for undistributed income that should have been paid
  - $2.7 million for legal fees and trustee commissions
- Surviving spouse's estate argues, alternatively:
  - The gross estate should be reduced by $6.5 million, *OR*
  - The estate should be allowed to deduct $6.5 million as an administration expense

Fun with QTIP Trusts!

Estate of Griffin (Tax Court, May 19, 2025)

Pour-over will gift to pre-existing (non-QTIP) trust still eligible for marital deduction because gift created a separate trust that qualified for the marital deduction.

Estate of Galli v. Commissioner (T.C., March 5)

- 2013: Mom loans $2.3 million to Son, both signing a 9-year promissory note with interest at 1.01% (the AFR).
- 2014 – 2016: Son makes annual payments of interest, which Mom includes in gross income.
- 2016: Mom dies, and note is distributed to Son. Mom's estate tax return includes the value of the unpaid loan.

IRS = Mom made gift in 2013!

Form **8971**
(January 2016)
Department of the Treasury
Internal Revenue Service

Information Regarding Beneficiaries Acquiring Property From a Decedent

▶ Information about Form 8971 and its separate instructions is at *www.irs.gov/form8971*.

OMB No. 1545-2264

Check box if this is a supplemental filing ☐

Part I Decedent and Executor Information

1 Decedent's name	2 Decedent's date of death	3 Decedent's SSN
4 Executor's name (see instructions)	5 Executor's phone no.	6 Executor's TIN

7 Executor's address (number and street including apartment or suite no.; city, town, or post office; state or province; country; and ZIP or foreign postal code)

8 If there are multiple executors, check here ☐ and attach a statement showing the names, addresses, telephone numbers, and TINs of the additional executors.

9 If the estate elected alternate valuation, indicate the alternate valuation date:

Part II Beneficiary Information

How many beneficiaries received (or are expected to receive) property from the estate? For each beneficiary, provide the information requested below. If more space is needed, attach a statement showing the requested information for the additional beneficiaries.

A Name of Beneficiary	B TIN	C Address, City, State, ZIP	D Date Provided

Form 8971 (1-2016)

SCHEDULE A—Information Regarding Beneficiaries Acquiring Property From a Decedent

▶ Information about Form 8971 (including Schedule A) and its separate instructions is at *www.irs.gov/form8971*.

Check box if this is a supplemental filing ☐

Part 1. General Information

1 Decedent's name	2 Decedent's SSN	3 Beneficiary's name	4 Beneficiary's TIN
5 Executor's name		6 Executor's phone no.	
7 Executor's address			

Part 2. Information on Property Acquired

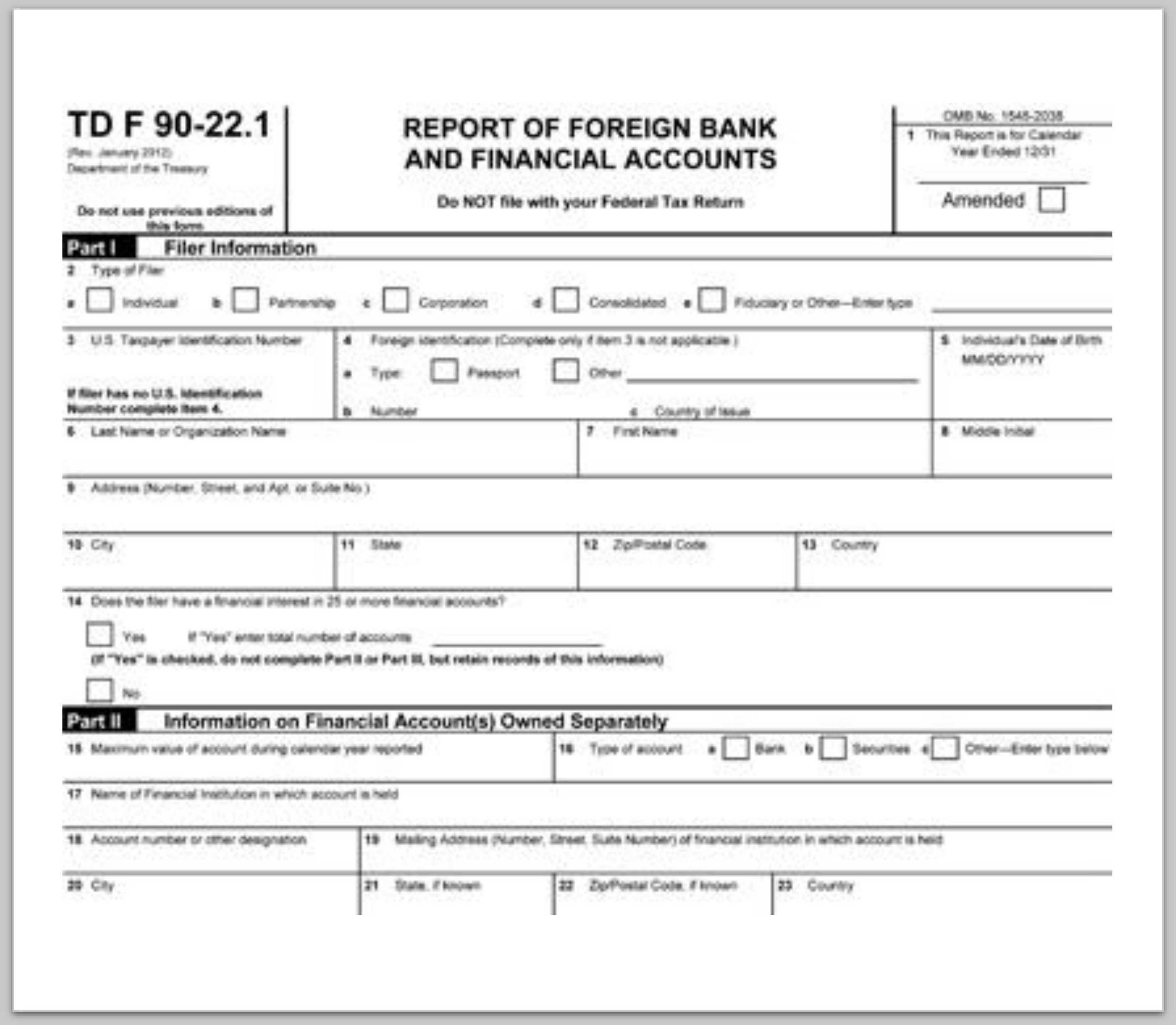
A Item No.	B Description of property acquired from the decedent and the Schedule and item number where reported on the decedent's Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return. If the beneficiary acquired a partial interest in the property, indicate the interest acquired here.	C Did this asset increase estate tax liability? *(Y/N)*	D Valuation Date	E Estate Tax Value *(in U.S. dollars)*
	Form 706, Schedule ____ , Item ____ Description –			

Final Regs on Basis Reporting & Duty of Consistency (Sep. 17)

- Does not apply to marital & charitable property or to household & personal effects
- Repeal of zero-basis rule for omitted property
- Only trustees required to issue supplemental forms on transfer

FBAR Cases

- *Hendler* (S.D. New York, 9/17/24) → Penalties don't die with decedent
- *Hughes* (9th Cir. 8/21/24) → Reckless failure is "willful"
- *Schwarzbaum* (11th Cir.,8/30/24) → "Willful" penalty subject to Excessive Fines Clause
- *Leeds* (D. Idaho, 3/7/25) → All of the above!



TD F 90-22.1
(Rev. January 2012)
Department of the Treasury
Do not use previous editions of this form

REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS

Do NOT file with your Federal Tax Return

OMB No. 1545-2038
1 This Report is for Calendar Year Ended 12/31

Amended

Part I Filer Information

2 Type of Filer
a Individual b Partnership c Corporation d Consolidated e Fiduciary or Other—Enter type

3 U.S. Taxpayer Identification Number
If filer has no U.S. Identification Number complete Item 4.

4 Foreign identification (Complete only if item 3 is not applicable.)
a Type: Passport Other
b Number c Country of Issue

5 Individual's Date of Birth MM/DD/YYYY

6 Last Name or Organization Name
7 First Name
8 Middle Initial

9 Address (Number, Street, and Apt. or Suite No.)

10 City
11 State
12 Zip/Postal Code
13 Country

14 Does the filer have a financial interest in 25 or more financial accounts?
Yes If "Yes" enter total number of accounts
(If "Yes" is checked, do not complete Part II or Part III, but retain records of this information)
No

Part II Information on Financial Account(s) Owned Separately

15 Maximum value of account during calendar year reported
16 Type of account a Bank b Securities c Other—Enter type below

17 Name of Financial Institution in which account is held

18 Account number or other designation
19 Mailing Address (Number, Street, Suite Number) of financial institution in which account is held

20 City
21 State, if known
22 Zip/Postal Code, if known
23 Country

Charitable Contribution Cases of Note

- ***Leo v. Commissioner*** (T.C., Jan 29): Bargain sale of furniture factory yielded $4 million deduction, not $12.4 million (court noting appraiser committed to value the property at >$15 million before any inspection)
- ***Cade v. Commissioner*** (T.C., Mar 10): $89,000 deduction for donation of clothing to church disallowed for want of acknowledgment and qualified appraisals (Form 8283 not enough)
- ***Glade Creek Partners, LLC v. Commissioner*** (11th Cir., Jun 6): Deduction for conservation easement on land that is inventory limited to basis ($3.86 million), not its value ($8.9 million) or amount deducted ($17.5 million)

OTHER CASES OF NOTE

- ***Hubbard v. Commissioner*** (6th Cir., March 19) → Imprisoned taxpayer does not owe tax on forfeited IRA

- ***Trail King Industries, Inc. v. U.S.*** (S. Dakota, July 24) → Taxpayer cannot rely on unrevoked technical advice memo based on outdated law

- ***PLR 202505002*** (January 31) → IVF and surrogacy fees not deductible as medical expenses because they don't affect the "structure of function" of the taxpayer's body


Thank you.