



## **Executive Summary – Tax Act of 2025**

The main outcome of the Tax Act of 2025 (the “Act”) was that it extended many of the current tax law provisions that were set to expire at year end. There were some changes to the tax law and in this summary we are highlighted just a limited number of the changes that we believe are most relevant to our clients.

### **Individual Deductions**

#### **Individual SALT Limitation**

Under the prior tax law, the individual deduction for state and local taxes at \$10,000 (\$5,000 for married filing separately).

*The Act retroactively increases the individual SALT deduction cap from \$10,000 to \$40,000 for 2025. It further increases the cap to \$40,400 in 2026, and by an additional 1% in 2027, 2028, and 2029.*

The Act phases out the deduction for taxpayers with modified adjusted gross income (MAGI) greater than \$500,000 in 2025. The phaseout threshold increases to \$505,000 in 2026, and by an additional 1% after. For higher-income taxpayers, in tax years before January 1, 2030, the cap is reduced by 30% of the excess of the taxpayer's MAGI over the threshold amount. The Act provides, however, that the deduction will not be reduced below \$10,000.

**Planning Action** – Looking at your income level and the combination of your state income tax and real estate tax payments to date, consider make an additional state income tax or real estate tax payment by year end to make sure you maximize the deduction this year.

#### **Charitable Contributions**

There are two changes to the tax benefit that take effect in 2026. They are:

- **Contribution floor:** Starting in 2026, itemizers can only deduct charitable contributions that exceed 0.5% of their Adjusted Gross Income (AGI).
- **Rate cap:** High-income taxpayers who itemize will have their charitable deductions capped at a 35% marginal rate, down from 37%.

The first item, the Contribution Floor, is just a negative adjustment to the deduction amount back on a taxpayers AGI. This change does not impact the decision of whether to take a deduction in 2025 or 2026. For those in the highest tax bracket (single with taxable income over \$626k and joint over \$751k) there is a slight tax benefit for having the deduction in 2025 versus 2026. The tax benefit is 2% of the charitable contribution.

**Planning Action** - With the rule change in mind, and considering the rebound in equity values, we continue to advocate for funding a Donor Advised Fund as the most tax efficient means to manage your charitable giving. These accounts are simple to set up, provide a deduction equal to the value of the stock transferred to the account (long term holding shares only) and provide an organized way to track and manage your charitable gifts.

#### **Senior deduction**

Taxpayers aged 65 and older can claim an additional \$6,000 deduction (\$12,000 for qualifying married couples) if their modified adjusted gross income (MAGI) is below \$75,000 (single) or \$150,000 (joint).

**Planning Action** – continue to age

## Capital Gains and Losses

### Qualified Small Business Stock (QSBS)

The ability to exclude some or all of the gain from the sale of stock that qualifies as QSBS has been expanded in two ways. The threshold for a company to qualify as a small business has increased \$75 million from \$50 million. Also, there is a tiered exclusion – 50% for three years, 75% for four year and 100% for five years.

**Planning Action** – If making an investment in a small company inquire if it qualifies as a qualified small business for the sake of this exclusion and retain for your records any documents that support that qualification.

### Qualified Opportunity Zones

The Act has re-introduced Qualified Opportunity Zones (“OZ 2.0”) as a means to invest in real estate development projects in designated areas. Investments in OZ allow taxpayers to defer gains from stock sales or other sources. These provisions will not take effect until 2027. That is when OZ 1.0 will expire.

**Planning Action** – Know that this planning opportunity will exist in the future as you evaluate the timing of when you may sell positions with large gains. If participated in OZ 1.0 be prepared for tax on gain that will be recognized at the end of 2026 from prior deferral.

## Energy Credits

### Sunsetting Energy Efficient Home Improvement Credit by December 31, 2025

Under pre-Act law, taxpayers were eligible for a credit equal to 30% of expenditures on energy efficient home improvements. Energy efficient home improvement expenditures include qualified energy efficiency improvements, residential energy property expenditures, and home energy audits. The credit was limited to \$1,200.

### Sunsetting Residential Clean Energy Credits by December 31, 2025

Under pre-Act law, taxpayers were eligible for a credit for residential clean energy credit for expenditures. Residential clean energy expenditures included expenditures for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, qualified geothermal heat pump property, and qualified battery storage technology.

**Planning Action** – In both cases, if you were planning these improvements, it is important to start work soon.

## Estate Exemption

### Extension and Increase of Basic Exclusion Amount

U.S. citizens and residents are allowed a unified credit of the applicable credit amount against any estate and gift tax imposed on transfers during life or at death. The applicable credit amount is the amount of tentative tax that would be imposed on transfers that value the applicable exclusion amount. For estates of decedents dying and gifts made after 2009, the applicable exclusion amount is the sum of the basic exclusion amount and, if applicable, the deceased spousal unused exclusion amount.

Effective 2026, the basic exclusion amount will increase to \$15 million. The basic exclusion amount is adjusted for inflation after 2025. This provision is effective for estates of decedents dying and gifts made after December 31, 2025.

**Planning Action** – Review current estate planning documents. If you have “older” documents that create a Bypass Trust upon the passing of the first spouse, consider whether that is still needed due to the increase in the exclusion amount and the portability provisions.