December 2025

Tax Talk

A publication of Bridges & Dunn-Rankin, LLP

Inside this issue:

Dear Clients and Friends,

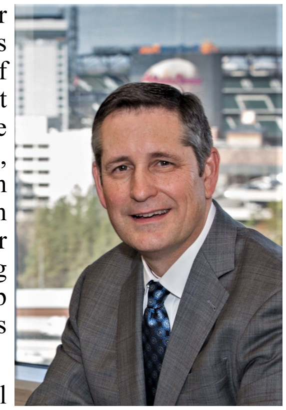
Tis the season for year-end tax planning. Tax legislation enacted in July of this year (*The One Big Beautiful Bill Act* or OBBBA) largely extended the favorable tax provisions from *The Tax Cuts and Jobs Act* (TCJA 2017) which were otherwise set to expire at the end of 2025; thus avoiding the widespread mad scramble we otherwise likely would have had with clients trying to get out ahead of tax rate increases, the expiration of favorable deductions like the 20% QBI deduction for K-1 income, and a substantial reduction in the estate tax exemption. Nevertheless, the usual planning techniques like harvesting of capital losses, deferral of income, acceleration of deductions, optimizing the 20% QBI deduction, charitable contributions, Roth conversions and taking advantage of bonus depreciation continue to apply, so we will discuss these strategies and others in this issue.

In connection with their estate planning, our clients typically employ the use of one or more trusts. We get lots of questions about the income taxation of trusts, so we will cover that in this issue, along with profiling one of our members, and providing our usual annual roundup of changes in amounts indexed to inflation.

We hope that you will enjoy this issue and gain from it some useful information.

Sincerely,

Kent Bridges



Kent Bridges,
Managing Partner

Year-end Tax Planning Strategies

Late November through year end is the time for year-end tax planning. While every client's situation is unique, here are some of the more common strategies we employ.

Acceleration or deferral of income and deductions – Businesses which use the cash basis of accounting for income tax purposes often have a great deal of control over the timing of income and deductions. Similarly, individuals can often time the recognition of significant gains or a significant deduction (e.g. charitable contributions). Shifting income from a high-rate bracket year to a low-rate bracket year can obviously result in a permanent tax savings; and, with short-term interest rates currently around 4%, deferral of the payment of tax for even a year can provide a meaningful benefit.

Harvesting of capital losses – Capital losses can, for the most part, only be deducted against capital gains. And while capital losses can be carried forward, for individuals they cannot be carried back to previous years. Accordingly, it is generally a good strategy to go ahead and recognize any potential capital losses you have.

Optimizing the "qualified business income" deduction – The *Tax Cuts and Jobs Act* included a 20% deduction for business income from most flow-through entities (other than "specified services businesses" like accounting and law firms). For individuals with taxable income over the threshold amounts ($197,300 for singles and $394,600 for married couples, with phase-outs up to $247,300 and $494,600, respectively), the deduction is generally limited to the lesser of 20% of the K-1 profit or 50% of your share of the W-2 wages paid by the business. For companies with a significant amount of payroll, this W-2 wages limitation is generally not a problem. However, for companies with few if any employees other than the owners, the deduction may be maximized by paying the optimal level of owners' compensation.

Passthrough entity tax election – Since 2018, there has been a $10,000 per year limit on individuals' deduction for state and local taxes (SALT) on Schedule A as itemized deductions (increased by recent legislation to $40,000 for those with income below $500,000). Since that time, most states with an individual state income tax (including Georgia) have enacted legislation permitting S-corps and partnerships to elect an entity level tax in lieu of the income being taxed at the level of the individual owners, thus providing a potential workaround to the $10,000 (or $40,000) limit. For S-corps and partnerships, consideration should be given each year to whether the election is advantageous and, if so, whether the entity needs to make state estimated tax payments.

Recent increase in SALT limit – For 2018 – 2024, the maximum itemized deduction which could be claimed for state and local taxes was $10,000. Recent tax legislation increases the cap (for 2025 to 2029) to $40,000; but only for those with income of $500,000 or less. For those with income over $500,000 (with such threshold increased for inflation in future years), the cap is reduced (but not below $10,000) by 30% of the amount of income over the threshold amount. If your income will be below $500,000 and you will not be in the "alternative minimum tax", then prepaying state income tax to get total SALT deduction up to the new $40,000 limit may be advantageous.

Use of tax credits to minimize state income tax – There are various tax credits which can be utilized to minimize state income tax. Some must be generated by a business entity (e.g. the Georgia jobs credit, research credit and retraining credit), some can essentially be purchased (e.g. the Georgia low-income housing credit and film credit), and others are based on taking some action which the government is encouraging (e.g. the Georgia credits for donations to provide private school

(Continued on page 2)

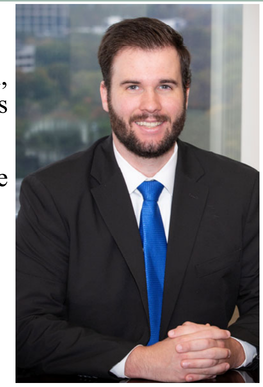
Member in the Spotlight — Thomas Ryerse

Thomas holds Bachelor of Science in Business Administration degrees in Accounting and Finance from Christopher Newport University. Prior to joining Bridges & Dunn-Rankin, he worked with a CPA firm in Richmond, Virginia.

His practice focuses on providing tax planning and compliance for individuals, partnerships, corporations and trusts.

Professional affiliations include the American Institute of Certified Public Accountants and the Virginia Society of Certified Public Accountants. On a personal level, Thomas enjoys woodworking, playing tennis and pickleball, and trying new restaurants.

Bridges & Dunn-Rankin is proud to have Thomas Ryerse as a member of our firm.



Thomas P. Ryerse, CPA

Year-end Tax Planning Strategies — continued

(Continued from page 1)

scholarships, and assistance to charter schools, foster child support organizations, law enforcement foundations, and rural hospitals).

Timing of charitable donations – It is generally advantageous to time significant charitable donations to coincide with a year in which you have significant income and are in a higher rate bracket. Because of the percentage of income limitations on charitable deductions and the inability to carry the deduction back to earlier years, making a substantial donation in the year after a big gain can potentially result in the permanent loss of a tax benefit versus having made the donation in the same year as the substantial gain. On the other hand, if you have charitable carryforwards that are in danger of expiring, deferring additional donations to the next tax year may be prudent. For those who want a charitable donations tax deduction in the current year, but want to control the donated assets for a while longer or have a number of years over which to distribute the funds to the ultimate charities, a private foundation or a donor advised fund may work well. A charitable remainder trust can work well where you have an appreciated asset you wish to sell and desire to retain an income stream from the proceeds but are willing to commit the remainder to charity at your death. Those age 70 ½ or older can make charitable gifts directly from their IRA, and have such count towards their IRA required minimum distributions; with a limit of $108,000 per year for each eligible spouse.

New limits on charitable deductions – Recent tax legislation provides that, beginning in 2026, charitable donations must exceed 0.5% of income before the deduction kicks in, and another provision in the legislation provides for itemized deductions to be reduced by 2/37th of the lesser of the amount of the deductions or the amount by which taxable income exceeds the dollar amount at which the 37% rate bracket kicks in. Accordingly, some clients may find it advantageous to accelerate charitable into 2025.

Estimated tax payments – In order to avoid a penalty, you are generally required to pay in through withholding or quarterly tax payments the lesser of 90% of your current year tax liability or 110% of your prior year tax liability. With respect to estimated tax payments, you get credit the day you actually make the payment. Withholding, however, is generally deemed to have occurred ratably throughout the year. Accordingly, if you realize late in the year that you have a shortfall for earlier quarters, you can sometimes avoid the penalty by increasing your withholding late in the year (e.g. having all of a year-end bonus withheld for taxes).

S-corp and LLC basis and at-risk limitations – In general, you can deduct your share of losses from S-corps and LLCs, and distributions from such entities are generally tax-free. However, the ability to deduct losses or receive tax-free distributions is limited by the "basis" and "at-risk" rules. Basically, the amount of loss you can deduct or distributions you can receive tax-free is limited to your unreturned investment in the entity (including past undistributed profits and, in the case of partnerships and LLCs, your share of the entity's liabilities which are either bank debt on a real estate project or debts for which you are personally liable). With respect to flow-through entities in which you own a stake, you should review your basis and at-risk amounts prior to year end to determine whether any tax advantage can be gained by increasing such amounts and whether such is prudent from an economic standpoint.

Exercise of ISOs in year not in AMT and sale of ISO shares that have fallen in value – "Incentive stock options" (ISOs) hold out the promise of being able to potentially convert what would otherwise be ordinary income into long-term capital gain. However, because the bargain element is an "alternative minimum tax" (AMT) adjustment on the date of exercise, the AMT often eliminates much of the hoped-for benefit. A tax year in which you will not be in the AMT represents an opportunity to exercise some ISOs at no tax cost, meaning a potential permanent tax savings if you hold the stock for the requisite period. Also, if you exercise ISOs and sell in the same tax year, then the AMT issue goes away. Accordingly, we typically advise our clients who want to exercise and hold ISOs to do so early in the year, giving us almost a full year to watch the stock price and to sell the stock before year end if necessary in order to cure the AMT problem. If you exercised ISOs earlier this year, you still hold the shares, and the value of the shares has fallen dramatically, then now may be the time to sell.

Bonus first-year depreciation and Section 179 expense – For most depreciable assets (other than most buildings and with some limitation on "luxury automobiles"), 100% of the cost can be deducted immediately.

Selection of accounting methods – New businesses can, within certain limitations, select the tax accounting methods (e.g. cash or accrual) which are most beneficial for them; and existing businesses have some latitude to later change their accounting methods. Your situation should be reviewed each year in order to determine which accounting methods are most advantageous for you.

Conversion of IRA to Roth status - With a traditional deductible IRA, you get a tax deduction on the front end when you make the contribution, but then are subject to ordinary income tax rates on withdrawals. With a nondeductible traditional IRA, you get no tax deduction on the front end, but then a portion of your withdrawals is tax-free recovery of basis. With a "Roth IRA", you get no front

(Continued on page 3)

Year-end Tax Planning Strategies — continued

(Continued from page 2)

-end tax deduction but the appreciation in value permanently escapes tax. Traditional IRAs can be converted to Roth IRAs. The conversion is a taxable event (unless you have tax basis from nondeductible contributions equal to value), so careful planning is necessary to determine if a conversion makes sense for you.

IRA Required Minimum Distributions (RMDs) – Once you attain age 72 (or 73 if you reach age 72 after 2022), and for each year thereafter, you are required to take distributions from your IRAs (and other qualified retirement plans) at least equal to a minimum amount computed using IRS-provided tables. Failure to take at least this minimum amount can subject you to a significant penalty on the shortfall (previously 50%, now 25%, and possibly only 10% if corrected within 2 years). For the year you first reach the RMD age, you have a grace period up through the first three months of the next tax year in which to take your RMD. However, utilizing the grace period will mean doubling up your RMD amount in that next calendar year, which could force some of the income into a higher rate bracket. The years between age 59 ½ (the earliest date at which you can take IRA distributions without incurring an early distribution penalty) and 73 may represent a good time to begin taking some IRA distributions (even though not required) if you are otherwise in a very low-rate bracket for those years or have excess deductions which may otherwise be wasted. Charitable distributions made directly from an IRA can count towards your RMD (up to $108,000 per year for each eligible spouse).

Relocation to a tax-friendly state – Most states subject their residents to tax on their worldwide income (while permitting them a credit or partial credit for tax properly paid to other states), whereas non-residents pay tax only on income sourced to the state (e.g. from business conducted in the state or real estate located in the state). State income tax rates on individuals can range from 0% to 13%. Accordingly, substantial savings can often be generated from establishing domicile in a state with no state income tax (while minimizing contact to the extent possible with those states which have an individual income tax). While it is probably too late now to avoid 2025 state income tax, now is an optimal time to position yourself for 2026.

Utilization of annual gifting exclusion – With respect to the estate and gift tax, there is an annual exclusion which permits you to give up to $19,000 per year per donee without incurring any tax or eating into your lifetime exemption. For married couples, this amount is effectively doubled to $38,000. For those with a significant number of potential heirs, this represents an opportunity to remove a significant amount of value from the taxable estate, especially when gifting assets that may be subject to discounted valuation. The annual exclusion is on a use-it-or-lose-it basis with no carryover, so if you haven't maximized your annual exclusion gifts yet for 2025, consider doing so before year end.

Utilization of life-time estate and gift tax exemption – For 2025, each person has a lifetime exemption from estate and gift tax equal to an exclusion of $13,990,000 (i.e. $27,980,000 for a married couple). For 2026, the amount increases to $15,000,000 ($30,000,000 for a married couple). While recent legislation made this amount "permanent" (with inflation-based increases each year), there can be no assurance that future legislation will not substantially reduce this amount. Accordingly, those who intend to leave their heirs a significant inheritance, may want to go ahead and move a significant amount of assets to trust now in order to take advantage of the high current exemption. Also, by removing assets from your taxable estate now, you are also removing the future appreciation on those assets from your taxable estate.

Setting expectations and avoiding surprises – One of the key advantages to engaging in year-end planning is that it enables you to appropriately plan your required cash outlay for taxes and avoid any unpleasant surprises at April 15 or any regrets as to actions that could have been taken by year end but were not.

Income Taxation of Trusts and Estates

Trusts can minimize estate tax, provide creditor protection, separate the management and control over assets from their beneficial enjoyment, avoid probate and ensure privacy. Accordingly, our clients typically employ the use of one or more trusts in their estate planning.

Trust taxation is essentially a hybrid of partnership taxation (i.e. flow-through) and individual taxation. As a general rule, if the trust retains the income it pays the tax on the income; whereas if the trust distributes its income to its beneficiaries, the beneficiaries pay tax on the income. For income tax purposes, a noncharitable trust falls into one of three categories: (1) simple trust, (2) complex trust, or (3) grantor trust.

The words "simple" and "complex" here are misnomers, as it has nothing to do with the simplicity or complexity of the trust. A "simple trust" can be quite complex, and, conversely, a "complex trust" can be quite simple. "Simple" for these purposes simply means that the trust agreement requires that all income (but not necessarily capital gains) be distributed to the beneficiary(s) each year, whereas a "complex trust" is one whose agreement provides the trustee discretion as to whether to distribute or retain the income.

A simple trust and a complex trust are each required to file an annual Federal 1041 if the trust has any taxable income for the year or gross income of $600 or more. Many of the trusts formed by our clients will be irrevocable life insurance trusts (ILIT). An ILIT typically has no assets other than a life insurance policy. Since a life insurance policy typically produces no current income, an ILIT typically is not required to file an income tax return.

Jacquelyn B. Gibson, CPA

Most trust agreements provide for realized capital gains to be allocated to corpus, rather than be considered current income. Accordingly, most simple trusts will incur tax on any net realized capital gains. A simple trust typically will not incur tax on noncapital gain income, since it is required to distribute such to its beneficiary(s). The simple trust will report income, then take a distributions deduction against such, and report the income items (typically interest and dividends) on the K-1 of the beneficiary(s), who will be taxed on the income on their personal return.

A complex trust will typically be taxed on both its net realized capital gain and also any other income it receives during the year above and beyond amounts distributed to beneficiaries. Any distributions to beneficiaries up to the amount of current year income (other than capital gains and as reduced by other

(Continued on page 4)

Income Taxation of Trusts and Estates — continued

(Continued from page 3)

deductions) will be taxable to the beneficiaries as K-1 income.

Trusts move into the highest tax rate brackets very quickly. Accordingly, no tax rate bracket benefit can typically be obtained from retaining income in a trust. Distributions to beneficiaries which exceed current year income are generally considered to come from corpus and are not taxable to the beneficiaries.

It should be noted that the charitable contribution deduction rules for trusts are very different from that of individuals. Unless a trust was formed for charitable purposes, the trustee generally has a duty to use the trust assets only for the benefit of the beneficiaries and therefore generally does not have the authority to make charitable donations. However, where a trust is permitted (or required) to make charitable contributions, such are generally not subject to the percentage of income limitations which apply to individuals.

A "grantor trust" is essentially a disregarded entity for income tax purposes, with any income of the trust being reported directly on the personal return of the grantor. Similarly, the grantor can engage in transactions with the trust (e.g. a sale of appreciated assets) without triggering any taxable gain. Grantor trusts can be revocable (in which case the assets remain in the grantor's taxable estate for purposes of estate tax) or irrevocable (in which case the assets are generally outside of the grantor's taxable estate). Revocable trusts are generally used primarily to avoid the probate process and are more common in states where probate is expensive. Our clients generally tend to use irrevocable trusts in order to remove assets from their taxable estate and the potential reach of creditors.

The grantor trust rules were originally designed to prevent taxpayers from putting assets into trust in order to take advantage of the lower tax rate brackets. Under current law, trusts move very quickly into the highest rate brackets, so a trust would no longer be used for this purpose. In more recent years, the grantor trust rules have been used very intentionally by estate planners as a way to remove assets (and the future appreciation thereon) from the taxable estate and the reach of creditors, while also enabling the grantor to essentially make additional gifts (outside of the gift tax rules) equal to the amount of income tax on the income of the trust (since the tax on income of a grantor trust falls on the grantor, not the beneficiaries).

Most of the grantor trusts we see can be described as IDGTs (intentionally defective grantor trust). Typically, the intentional "defect" which causes the irrevocable trust to be a grantor trust is the right of substitution, whereby the grantor has retained the right to substitute assets of equal value (e.g. give the trust cash in exchange for an asset held by the trust). This provision can be very beneficial from the perspective of enabling the grantor to move back into his or her estate a low-basis/ high-value asset that will likely be held until death and achieve step-up in tax basis to the value on date of death (enabling the grantor's heirs to sell the asset without incurring any income tax on the appreciation in value). A grantor trust will lose such status upon the passing of the grantor, or possibly sooner based on the terms of the trust.

The state taxation of trusts can be tricky. If the grantor, trustee and beneficiary(s) all reside in the same state, then it is generally a safe bet that the trust will be considered to be sitused in that state. However, in situations where not all three are resident in the same state, careful consideration of the state tax filing requirements may be necessary.

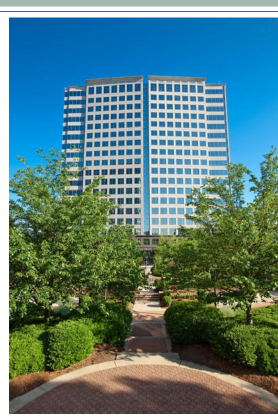
For income tax purposes, an estate is the collection of assets owned by a decedent from the moment of death until such time as the assets are distributed to heirs (or, more typically, a trust for the benefit of heirs). The estate will typically adopt a fiscal year which ends as of the last day of the month preceding the date of death. The estate must file a 1041 each year, subject to the same rules which apply to complex trusts. One distinction is that estates are not subject to the estimated tax payment rules for the first two years of existence. An estate will typically go out of existence once the last of its assets have been distributed to beneficiaries.

Quick Notes

- For 2026, the Social Security wage base increases to $184,500, the maximum wage base for computing retirement plan contributions increases to $360,000, the maximum benefit amount for a defined benefit plan increases to $290,000, the maximum amount which may be contributed to a defined contribution plan increases to $72,000, the maximum permissible elective 401(k) deferral increases to $24,500 ($32,500 for those age 50 and older and potentially $35,750 for those 60 - 63), and the maximum permissible contribution to an IRA increases to $7,500 ($8,600 for those age 50 and older). Also, for 2026, the maximum amount which can be contributed to an HSA plan increases to $4,400 for individual coverage and $8,750 for family coverage. Those over age 55 can contribute an additional $1,000.
- The annual gift tax exclusion remains at $19,000 for 2026, and the lifetime estate and gift tax exclusion amount will increase to $15,000,000 (per spouse).
- The IRS has not yet announced the business mileage rate for 2026, but it will likely be in the range of 71 - 73 cents per mile.

Bridges & Dunn-Rankin, LLP
CERTIFIED PUBLIC ACCOUNTANTS

400 Galleria Parkway, Suite 1050
Atlanta, GA 30339
Phone: 770-563-8888
Fax: 770-563-8885
www.bridgesdunnrankin.com



Bridges & Dunn-Rankin, LLP is an Atlanta-based full-service accounting firm serving clients in the technology, real estate, services, manufacturing, distribution, construction and healthcare industries, as well as high net worth families.

The information provided in this newsletter is presented for educational and informational purposes only, and is not intended to constitute legal, tax or accounting advice. The articles provide only a very general summary of complex rules. For advice on how these rules may apply to your specific situation, contact a professional tax advisor.