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# Tax Considerations for 2025: Mid-Year Update



## Change Has Come

On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act (“BBB”). While the BBB has far reaching implications from defense funding to crop insurance, this 2025 mid-year update focuses on the changes that affect individual taxpayers and how your financial planning may need to be reviewed or updated.

## BBB Provides Clarity and Opportunity

There are a myriad of income tax provisions addressed in the BBB. First, it clarifies that income tax rates and thresholds that were set to expire at the end of the year will not. The 2017 Tax Cuts and Jobs Act (“TCJA”) provisions are now “permanent.” Accordingly, the current rates will remain unchanged. That means that the top income tax bracket stays at 37%, for 2025 applying to individuals with more than \$626,350 in income; \$751,600 for married taxpayers<sup>1</sup>. For those “in the middle,” the middle tax bracket stays at the 24% rate. That rate begins at \$103,350 single/\$206,700 married in 2025. You need more than \$197,300 single/\$394,600 married to climb into the next bracket. All brackets will continue to be indexed for inflation.

Standard deductions will also remain at higher levels with some adjusted for 2025, in addition to several additional temporary changes that are generally effective for tax years 2025 – 2028, including a new standard deduction for individuals aged 65 and older, new deductions for qualified tips and overtime, and for qualified auto loan interest for purchases of new vehicles assembled in the U.S.

Capital gain rates also remain unchanged at 0%, 15% and 20%, while the most common and largest is the 15% tax rate. Even though the 15% rate is the most common, the 20% rate is still historically low. That said, even if you fall into the 20% rate, this is still well below the 37% top marginal rate on ordinary income.

For higher income earners the Affordable Care Act taxes remain unchanged. The 0.9% Medicare Health Insurance Surtax and a 3.8% Net Investment Income Tax for individuals earning more than \$200,000 and married couples earning more than \$250,000 still applies. The 0.9% surtax is levied on earned income, and the 3.8% Net Investment Income Tax applies to passive earnings like interest, dividends, capital gains, etc. These thresholds still are not indexed for inflation.

2025 LT Capital Gain Tax Rates	Single	Married, Filing Jointly
0%	< \$48,350	< \$96,700
15%	\$48,350 - \$533,400	\$96,700 - \$600,050
20%	> \$533,400	> \$600,050

<sup>1</sup> All references to “married taxpayers” will be defined as married filing jointly. An additional standard deduction applies for taxpayers who are aged 65 and older or blind.



## New SECURE 2.0 Retirement Reforms

We are now entering into the third year of retirement reforms enacted in 2022 to aid with increasing retirement savings, expanding retirement coverage and increasing access to retirement savings. Despite the slow ramp up while waiting for guidance, many highly anticipated reforms, such as “Rothification” of employer and employee contributions to workplace retirement plans, increased penalty-free access to retirement savings, and using long-term 529 savings account balances to fund a Roth IRA are now part of the landscape.

There are a few noteworthy changes that are new for 2025:

### Increased Employee Catch-Up Contribution Amounts if Aged 60-63

Most participants in workplace retirement plans, such as a 401(k), 403(b) or 457(b) plan, are familiar with catch-up contributions—the additional \$7,500 in salary deferral contributions that can be made when reaching age 50. Now, some participants can save even more with a new special catch-up contribution. For 2025, the special catch-up contribution limit is \$11,250 (instead of \$7,500) for participants who are aged 60, 61, 62 or 63. For SIMPLE plan participants, the regular catch-up contribution limit is \$3,500, while the special catch-up contribution limit is \$5,250. These new special catch-up contributions will be subject to cost-of-living adjustments in the future.

### Mandatory Automatic Enrollment and Escalation for Certain New 401(k) and 403(b) Plans

All 401(k) and 403(b) plans that are established after 2022, must now include automatic enrollment of eligible employees and automatic escalation of salary deferral contributions in their plans beginning in 2025, unless an exception applies. For new participants, a minimum salary deferral rate can be set by the employer anywhere from 3% of pay to 10% of pay. For existing participants, an automatic contribution escalation rate of 1% per year will apply at least until the rate reaches 10% (but not more than 15%). These changes should help improve retirement savings. Employees always have the ability to opt out of the automatic enrollment or escalation features. SIMPLE plans, employers with less than 10 employees, new businesses that have been in existence for less than three years, and plans that were established prior to 2023 are not required to include these new features.

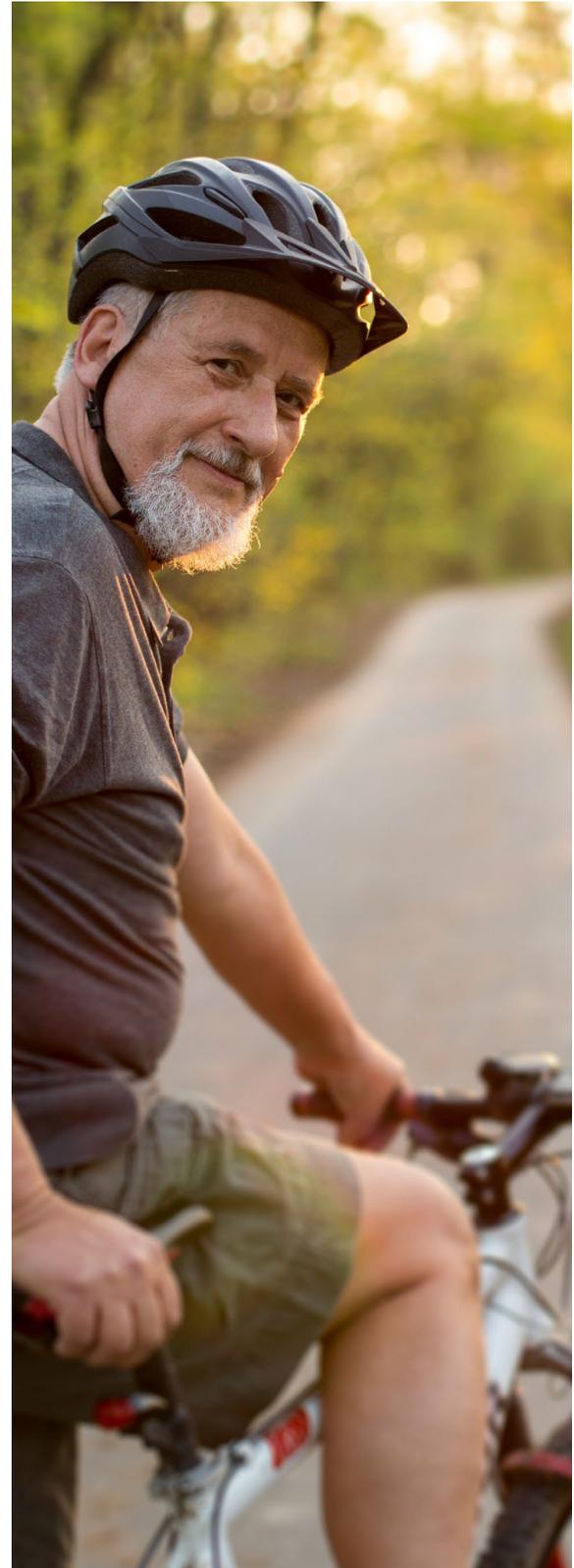


## Final SECURE Act Guidance Impacts Certain RMDs in 2025

Long-awaited guidance regarding the 10-year rule for inherited retirement accounts may impact required minimum distributions (RMDs) in 2025 for certain non-spouse beneficiaries. In 2022, we got a glimpse of how the IRS would interpret the 10-year rule when they issued proposed regulations. In July 2024, they finalized those regulations with limited modifications to the proposed rules. Below are a few of the highlights.

For any non-spouse beneficiary subject to the 10-year rule, the final rules confirm:

- If the new beneficiary inherited a retirement account from someone who was already receiving RMDs at the time of death, they must also continue to receive annual RMDs in years one through nine, in addition to making the final distribution in year 10. This is referred to as the “at least as rapidly” rule.
- There will be no extension of the automatic waiver of the excise tax penalty for missed RMDs under the 10-year rule that has applied since 2021. For tax years 2021-2024, no penalty applied if a beneficiary failed to take an RMD that would have been required due to the “at least as rapidly” rule.
- There will be no extension of time for applying the 10-year rule. For example, if the account owner died in 2020, the final distribution will be required by the end of 2030—the year containing the 10th anniversary of the account owner’s death.



In addition, there are two new RMD rules that apply for year-of-death distributions:

- Any beneficiary can now take the decedent's year-of-death RMD—it doesn't have to be shared by all beneficiaries on a pro-rata basis.
- An automatic waiver of the missed RMD excise tax penalty will apply for any year-of-death distribution that a beneficiary failed to take in the year of death, as long as the beneficiary receives the RMD by their tax filing deadline (including extensions) for the tax year of the account owner's death, or by the end of the following year.

## Review your Planning for 2025 and Beyond

Anytime you have a major change in circumstances, it's time to review your financial plan. With the passage of the BBB, the law has significantly changed. Some of the bigger modifications are:

### Standard Deductions Stay High While Most Itemized Deductions Remain Eliminated

The high standard deductions were also made permanent and have been bumped up slightly for tax year 2025 to \$15,750 single/\$31,500 for married taxpayers. This too will be indexed for inflation going forward.

While the standard deductions are higher, most itemized deductions remain eliminated. A few specialized deductions remain including educator classroom expenses. All miscellaneous itemized deductions that used to be subject to the "2% floor" remain repealed.



### **State and Local Tax (“SALT”) Deductions Increased**

One of the most often debated provisions from the TCJA was the SALT limitation, which limited the deduction for state and local taxes to \$10,000. The BBB temporarily increases the SALT cap to \$40,000 in 2025, with an increase of 1% going forward each year until 2029. In 2030, the SALT cap will revert to \$10,000.

While this increase is helpful, it starts to phase out with modified adjusted gross income (“MAGI”) over \$500,000. The deduction is reduced by 30% of MAGI that exceeds \$500,000, but the SALT deduction cannot go below \$10,000. For most that could benefit from a higher SALT deduction, their income will likely limit the increased value.

### **No Tax on Certain Tips or Overtime**

A new provision in the BBB allows a deduction of up to \$25,000 for qualified tips for a taxpayer in an occupation that customarily and regularly receives tips. Moreover, there is a deduction of \$12,500 single/\$25,000 married for qualified overtime compensation. These deductions are allowed whether you itemize or not.

Each of these deductions are available from 2025 through 2028 and are subject to phaseout. They both begin phasing out when MAGI exceeds \$150,000 single/\$300,000 married. Both require specific documentation to identify the compensation as well for tax reporting purposes, and those looking to take these deductions should collaborate with their employer and their tax advisor to meet these documentation requirements.

### **Personal Exemptions Remain at Zero, with a New Standard Deduction for Seniors**

The TCJA eliminated personal exemptions, and that is now permanent. However, some seniors will receive an increased, albeit temporary, standard deduction. Although this is not the same as the campaign promise for eliminating federal income taxes on Social Security, the enhanced tax deduction can indirectly impact the taxation of Social Security benefits for those that qualify to receive it. The enhanced standard deduction of \$6,000 will be available for seniors aged 65 and older if their income is \$75,000 or less (\$150,000 or less, if married). The deduction is phased out above these limits and eliminated for seniors with income above \$175,000 (\$250,000, if married). The enhanced senior standard deduction is stacked on top of the extra standard deduction for taxpayers aged 65 and older, bringing the total available standard deduction to \$23,750 for individuals and \$46,700 for married couples if both spouses are 65 years of age or older. This enhanced senior standard deduction applies only for tax years 2025–2028.

### **The Child Tax Credit Increases**

The BBB increases the non-refundable child tax credit to \$2,200 per child, beginning in 2025. This credit will also be indexed for inflation going forward. The BBB also makes permanent the \$1,400 refundable child tax credit, and this is also indexed for inflation going forward. There is still a \$500 non-refundable credit for a dependent of the taxpayer who is not a qualifying child. The bill continues to have phaseout thresholds for these credits, but they have been increased to \$200,000 single/\$400,000 married.



### **New Auto Loan Interest Deduction and Elimination of Electric Vehicle Tax Credit**

Individuals can now deduct up to \$10,000 in new passenger vehicle loan interest if the vehicle was assembled in the United States and purchased between January 1, 2025 and December 31, 2028. In addition, the \$7,500 tax credit for electric vehicles has been eliminated.

### **Charitable Contribution Rules are Modified**

The BBB makes significant changes to charitable contribution rules for 2026. Now, for those that do not itemize, you can deduct up to \$1,000 single/\$2,000 married in charitable contributions “above the line” meaning the deduction lowers your taxable income dollar for dollar before applying the standard deduction. This is akin to the brief deduction allowed during COVID, which at the time was a \$300/\$600 deduction.

For itemizers, the new charitable deduction rules are much more complex. While the qualifying requirements to take a charitable deduction remain, there is a new floor that must be met to take the deduction. Now deductions are only allowed for contributions exceeding 0.5% of your MAGI. As such, if you have a \$1,000,000 MAGI, and you make a \$20,000 gift, you can only deduct \$15,000 of the gift as your floor ( $\$1,000,000 \times .005$ ) is \$5,000. This may lead those who itemize to readdress their charitable planning strategies before the end of the year.

### **Increased Alternative Minimum Tax (“AMT”) Exemption is Permanent**

The TCJA significantly increased the AMT exemptions, and those are now permanent at \$500,000 single/\$1,000,000 married, and will be indexed for inflation. This eliminates the AMT concern for most taxpayers. The phaseout of the exemption is 50% of the amount by which the AMT income exceeds the threshold.



### **Estate Tax Exclusions Made Permanent**

The higher estate tax exclusions introduced by the TCJA are also made permanent. The 2026 exclusion will be \$15,000,000 per person, meaning a married couple can protect up to \$30,000,000 from estate tax with proper planning. Portability of an unused exclusion of a deceased spouse also remains. The estate tax rate stays at 40%, and the exclusions will index for inflation.

### **529 Education Savings Plans Expanded for K-12 and Occupational Credentials**

529 plans can now pay tax-free benefits for a broader range of expenses beginning July 4, 2025. Qualified K-12 expenses now include curriculum, books and instructional materials, online education, certain tutoring expenses, and fees for standardized achievement and advanced placement testing in addition to tuition. The K-12 expense limit will also increase from \$10,000 to \$20,000 in 2026. In addition, qualified 529 plan withdrawals now also include tuition, fees, books, supplies and equipment necessary for a post-secondary workplace credential program, including fees for any testing to obtain or maintain a professional license.

## **Ongoing Considerations**

While the new retirement savings rules may provide new opportunities, stabilized tax rules allow for more concrete planning considerations. Discuss with your tax advisor whether one or more of the following actions could be beneficial for your specific situation:

### **Itemize or Not?**

Should you itemize or use the standard deduction this year? With the higher standard deduction, coupled with limited itemized deductions, you may need to review tax planning opportunities for 2025. With the changes in charitable gifting, for example, you may want to consider “bunching” a large gift in 2025 before the new “floor” on deductibility begins in 2026.

### **For Higher Income Earners: Be Mindful of Those Taxes That Do Not Index**

Recall that the Affordable Care Act implemented a 0.9% Medicare Health Insurance Surtax and a 3.8% Net Investment Income Tax for individuals earning more than \$200,000 and married couples earning more than \$250,000. The 0.9% surtax is levied on earned income, and the 3.8% Net Investment Income Tax applies to passive earnings like interest, dividends, capital gains, etc.

Neither of these thresholds index for inflation. Consequently, if your income has increased, you may become subject to these taxes. If you may be subject to these additional taxes, be sure to review your estimated income and adjust your payroll exemptions accordingly. You should also review your portfolio to determine whether your investment decisions may subject you to these surtaxes.



### **Higher-Income Earners Should Also Review Medicare IRMAA Limits**

Receiving a high income when you are age 65 or older can have unexpected implications when it comes to Medicare premiums. While your financial plan should include an allocation for healthcare expense in retirement, many forget to include the impact of the “Income-Related Monthly Adjustment Amount” or IRMAA. IRMAA is a surcharge that is added to Medicare Part B and Part D premiums. This extra cost you pay on top of the Medicare standard premiums impacts individuals with a modified adjusted gross income (MAGI) greater than \$106,000 and married couples with a MAGI greater than \$212,000. The premium surcharge is capped for MAGIs above \$500,000 for individuals and \$750,000 for married couples. Because the additional premiums can significantly impact your Medicare costs, managing your income and taking appropriate steps to control your MAGI can help you reduce or avoid future IRMAA surcharges. Many of the new, temporary BBB deductions are “below the line” deductions which mean they may reduce your taxable income, but will not reduce your AGI. Your MAGI from this year will impact your Medicare premiums two years from now. As an example, your MAGI from your 2025 income tax return determines your Medicare premiums in 2027.

### **Review Your Gift and/or Estate Planning Situation**

With the larger federal exclusions made permanent, you want to make sure your existing plan meets your legacy goals, as many plans divide assets based on the applicable exclusion amount. While this eliminates the concern for estate taxes for most Americans, there are still dozens of reasons to implement estate planning techniques to protect assets from creditors, control potential beneficiary spending, and address possible income tax concerns. Consider reviewing your plan to ensure your legacy goals are intact with these changes.



The annual gift tax exclusion amount also increases in 2025 from \$18,000 to \$19,000 per person per year (or \$38,000 if you are married). This is the fourth year in a row the annual exclusion has increased, which is unprecedented. The increase in the gift limit also allows more impactful funding of 529 Education Savings Plans. For individuals looking to use the five-year advance gifting available for 529 plans, that's \$95,000 per individual (\$190,000 for a married couple).

### Explore Retirement Savings Opportunities

Consider fully funding your employer-sponsored plans and/or tax-deductible IRAs. Maximizing these contributions may lower your tax bracket. Below are the contribution limits that are in place for this year.

Employee salary deferral contribution limits for 401(k)s, 403(b)s and governmental 457(b) plans increased to \$23,500. The base catch-up contribution for individuals aged 50 or older remains at \$7,500. For individuals aged 60-63, the special catch-up contribution limit is \$11,250.

For SIMPLE IRAs, the standard employee salary deferral limit increased to \$16,500, while for SIMPLE IRAs with no more than 25 employees, the salary deferral limit is \$17,600. SIMPLE IRA catch-up contributions remain at \$3,500 unless your plan covers no more than 25 employees, in which case it increases to \$3,850. The special catch-up contribution limit for individuals aged 60 – 63 is \$5,250.

Traditional and Roth IRA contributions remain at \$7,000 (plus an additional \$1,000 for individuals aged 50 or older). Individuals can contribute to a traditional IRA if they (or their spouse, if married) have earned income. To make Roth IRA contributions, in addition to the earned income requirement, you must also fall below modified AGI limits.

### QCDs Can Reduce Tax Impact of RMDs

If you are age 70½ or older and are charitably inclined, tax-free qualified charitable distributions (QCDs) can be a great way to satisfy your charitable giving from your IRA without increasing your taxable income. In 2025, the annual QCD gift limit increased to \$108,000. A one-time QCD can also be made to a split-interest entity of up to \$54,000.

QCDs can only be made by individuals who are at least age 70½ (six months past your 70th birthday), even if your RMD start age is later, and are income tax free—even if you are using the standard deduction and do not itemize. If you are aged 73 or older or have a beneficiary IRA with an RMD, QCDs also count toward your RMD, but are not limited to the amount of the RMD if less than the limits described above. Keep in mind that if you have also made deductible IRA contributions after the age of 70½, you must adjust the amount of the tax-free QCD by the aggregate amount of your deductible IRA contributions.



### Roth Savings Can Provide Tax Diversification in Retirement

Roth retirement planning options are also a strategy to consider, whether you save through annual Roth IRA contributions, through Roth features in your workplace retirement plan or by converting existing pre-tax retirement savings to Roth. The tax-free nature of Roth IRA qualified distributions is a way to provide more after-tax cash flow during retirement and a way to manage AGI. In turn, that can impact the taxation of Social Security benefits you receive and the Medicare premiums you pay. Roths also may be a more beneficial way to transfer wealth now that distributions for most non-spouse beneficiaries are limited to 10 years.

While Roth IRA contributions are subject to modified AGI limits, contributing to Roth accounts through a workplace retirement plan, if your employer makes them available to you, are not. There are no income restrictions for salary deferral contributions you make to designated Roth accounts in your employer's 401(k), 403(b) or 457(b) plan.

Converting existing pre-tax retirement assets to a Roth IRA does create taxable income in the year you convert and will increase your AGI. Because many of the new BBB tax features are tied to AGI, and may not be available to you if your AGI is high, consider the tax consequences of a conversion carefully. A conversion cannot be undone.

### Consider the Benefits of Life Insurance

If you have a large traditional IRA or 401(k) and you are concerned about the taxes your heirs will have to pay after your death, adding permanent life insurance as part of your legacy plan may also be a strategy to consider. Upon the death of an insured person, life insurance provides a leveraged income tax-free death benefit as a lump-sum for beneficiaries. In addition, some policies offer an option to pay out the death benefit over time for any long-term care expenses, income tax-free. Keep in mind that to purchase life insurance you must be able to qualify via medical underwriting with an insurance company.

## Work With Your Tax Professional and Your Financial Advisor

We expected change in tax year 2025, and the BBB delivered. While the old saying of "Don't let the tax tail wag the dog" still applies to your long-term investment goals, this year the tail may have a little more influence. Accordingly, plan on working closely with your tax professional and your financial advisor to address your specific situation and seek the most flexibility possible to meet your goals. ■

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