BMSS PRESENTS:

THE OBBBA & YEAR-END TAX PLANNING:

WHAT INDIVIDUALS NEED TO KNOW

OCTOBER 28TH

8:30 A.M.

DALTON BRADSHAW
BMSS ADVISORS & CPAS

BRAD BROWN
BMSS ADVISORS & CPAS

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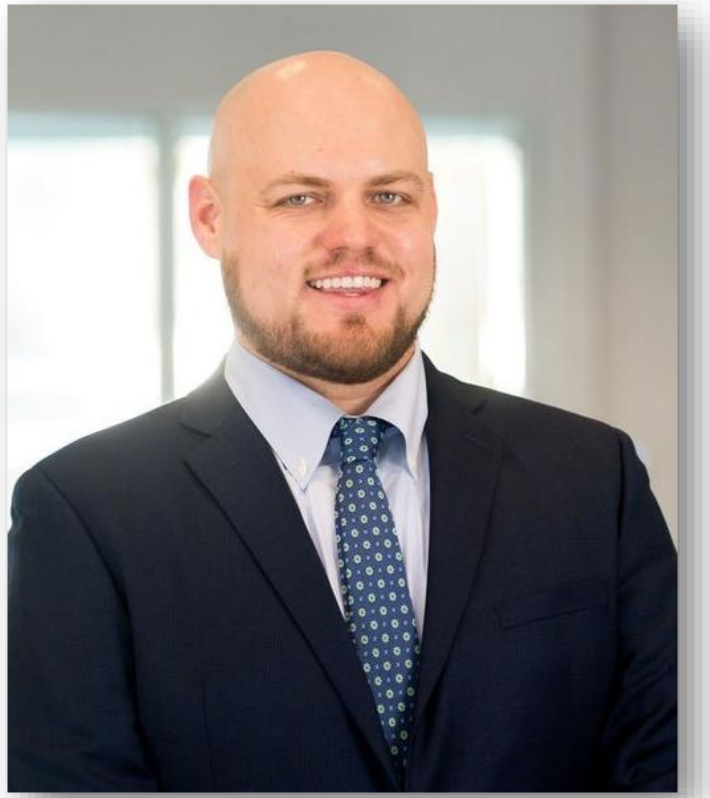
INTRODUCTION AND ESTATE & GIFT TAX



Dalton Bradshaw, CPA

BMSS Advisors & CPAs

Senior Manager

205.202.9934

dbradshaw@bmss.com

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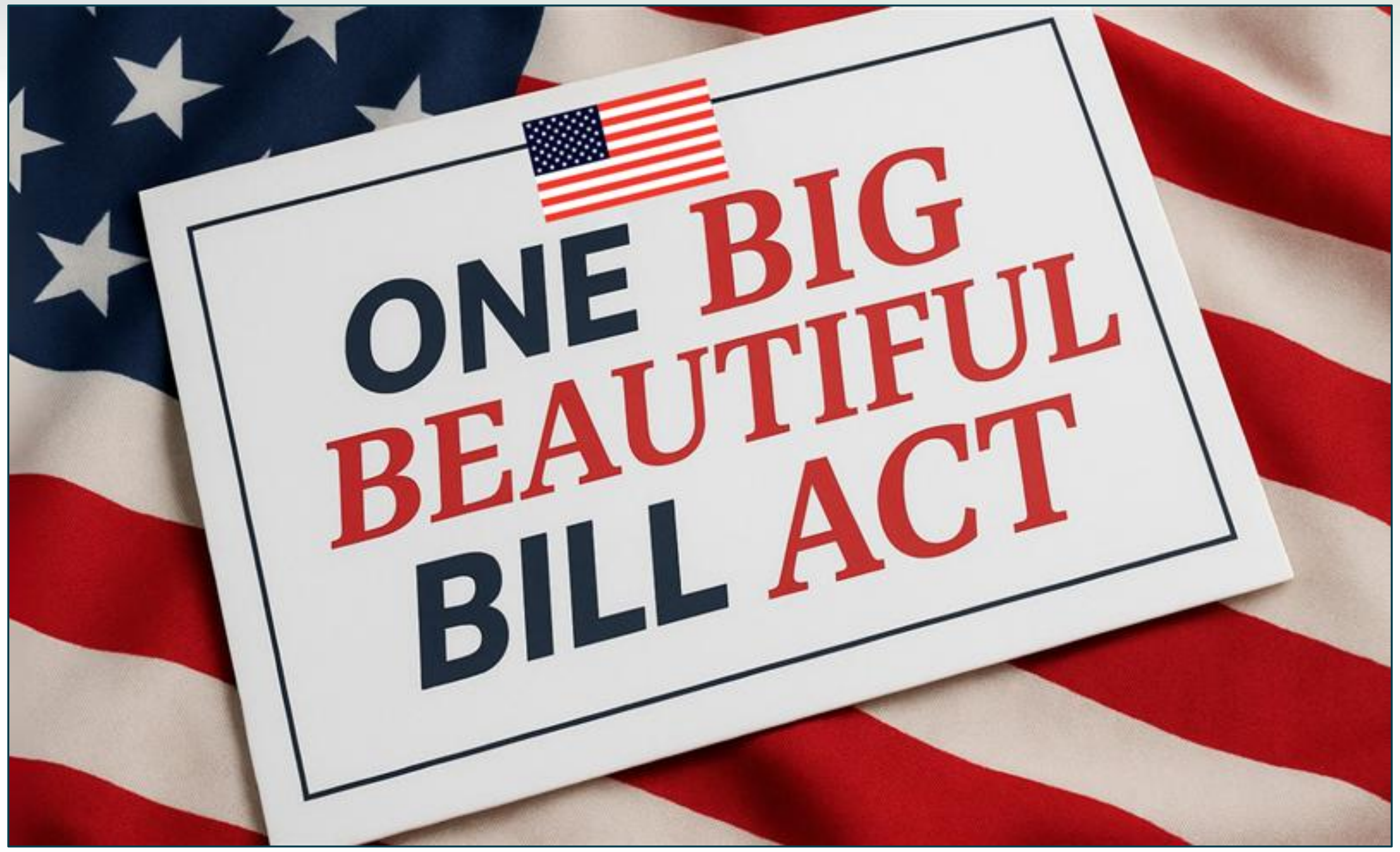
Webinar Agenda

- **Introduction to OBBBA & History**
- **Estate & Gift Tax**
  - ➢ Basic Fundamentals
  - ➢ Updates to Basic Exclusion Amount
  - ➢ Gift Planning Considerations
  - ➢ Asset Valuations
- **Individual Income Tax**
  - ➢ Key Provisions
  - ➢ "No Tax on Tips/Overtime"
  - ➢ Changes to Itemized Deductions
  - ➢ Opportunity Zones
  - ➢ Other Key Provisions
- **IRS Trends & Shift Towards EFT Payments**
- **Conclusions and Q&A**



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Introduction & History

"One Big Beautiful Bill Act" (H.R.1) – 2025 Comprehensive Tax Reform

Key Milestones

- **Introduced:** February 2025
- **Signed into Law:** July 2025
- **Effective Date:** *Most* provisions begin **January 1, 2026**

Purpose & Background

- Modernizes and simplifies the U.S. tax code
- Follows up on the 2017 *Tax Cuts and Jobs Act (TCJA)*
- Aims to promote investment, simplify compliance, and provide tax relief

Major Focus Areas

- **Individual Income Taxes:** New brackets, adjusted rates, and expanded credits
- **Estate & Gift Taxes:** Permanent increase of the basic exclusion
- **Business Taxes:** Revised corporate rate and incentives for U.S. production
- **IRS Modernization:** Improved digital filing and audit procedures

Why It Matters

- 2025 is a **transition year** — key planning opportunities exist **before** new rules take effect.

Estate & Gift Tax – Basic Fundamentals

Estate and Gift taxes are imposed on the transfer of property from one person to another at death (Estate Tax) or during life (Gift Tax)

The Estate and Gift tax are referred to as a ***unified tax***

Basic Exclusion Amount (BEA): Maximum amount of money or property that a person can transfer, either during life (as gifts) or at death (through Estate), without having to pay estate, gift, or generation-skipping transfer (GST) taxes. Any value over and above BEA is taxed at 40%

- **$13.99M per person for 2025 (Increased by OBBBA in 2026…)**

Gross Estate FMV	**$**	**20,000,000**
Basic Exclusion Amount (2025)	$	13,990,000
Taxable Gifts During Life	$	(8,000,000)
Remaining Exclusion Amount	**$**	**5,990,000**
Taxable Estate	**$**	**14,010,000**
Estate Tax (40%)	**$**	**5,604,000**

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OBBBA Estate & Gift Tax Updates

- *"Permanent"* Increase of Basic Exclusion Amount to **$15 million per individual**
  - ❖ Beginning in 2026 ($13.99 million for 2025)
  - ❖ Same amount for GST tax purposes
  - ❖ Eliminates "clawback" concern
  - ❖ 40% Tax Rate

- Portability of Deceased Spousal Unused Exclusion (DSUE) remains available
  - ❖ Transfers *unused portion* of exclusion to surviving spouse
  - ❖ Does NOT apply to GST
  - ❖ Rev. Proc. 2022-32 – Five Year Filing Window

Year	Lifetime Exclusion Amount
2015	$5.43 million
2016	$5.45 million
2017	$5.49 million
2018	**$11.18 million (TCJA)**
2019	$11.40 million
2020	$11.58 million
2021	$11.70 million
2022	$12.06 million
2023	$12.92 million
2024	$13.61 million
2025	$13.99 million
2026	**$15 million**

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Estate & Gift Planning

Although the increased estate exclusion means fewer individuals are subject to estate tax, it's still essential to have a solid estate plan. Proper planning ensures your wishes are carried out, your beneficiaries are protected, and the administration of your estate remains straightforward and efficient.

Further, when making gifts or setting up your will, careful consideration should be given to which assets are being transferred <u>during life</u> and <u>at death</u>.

- **<u>During Life</u>** – Recipient inherits *carryover basis* from the Donor
  - Prioritize assets with high likelihood of appreciation

- **<u>At Death</u>** – Recipient's *basis is adjusted to FMV at death* ("Step Up Basis")
  - Consider holding assets with low basis/high unrealized gains until death

Gift Planning

<u>Annual Gift Tax Exclusion</u>: Max amount of money or property you may give to any person *each year* without having to pay estate or gift tax (and sometimes GST)

- **2025 & 2026 Exclusion Amount = $19,000 <u>per Donee (recipient)</u>**
  - ❖ $38,000 for married couples splitting gifts
    - o Returns filed separately – requires spousal consent to split
  - ❖ Unchanged by OBBBA
  - ❖ No inflation adjustment for 2026

- **<u>Example</u> - Husband & Wife gift $50,000 to *each* of their 3 children**
  - ❖ Total Gifts = $150,000 ($50,000 x 3)
  - ❖ Annual Exclusion Available = $114,000 (($19,000 x 3) x 2)
  - ❖ Taxable Gifts = $36,000 ($150,000 - $114,000)

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Gift Planning

<u>Marital Deduction (Gifts to Spouses)</u>

- Deduction remains *unlimited* for transfers to spouses that *are U.S. Citizens*

- Transfers to Non-Citizen Spouses – Deduction is *limited*
  - ❖ **$190,000** for 2025 - Rev. Proc. 2024-40
  - ❖ **$194,000** for 2026 - Rev. Proc. 2025-32

<u>Payments of Tuition and Medical Expenses</u>

- *Unlimited deduction* for payments on behalf of another, so long as made ***directly*** to the healthcare provider or educational institution

- Both remain *unchanged* by OBBBA

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Gift Planning

<u>"Super Funding" Sec. 529 Plan Accounts</u>

- Election made with Gift Tax Return (Form 709)
- Permits contributions to 529 accounts to be treated as being *made ratably over a 5-year period*
    - Portion may be recaptured if death occurs in 5-year window
- Allows for more time in market for funds to grow, without penalizing Donor for gift tax purposes
- <u>Example</u>: Dad gifts $95,000 to 529 plan account for Son

With*out* Election

- Total Gifts = $95,000
- ***Taxable Gifts = $76,000***
    - $95,000 Gifts - $19,000 Ann. Excl. = $76,000 Taxable Gift

***With* Election**

- Total Gifts = $95,000
- ***Taxable Gifts = $0***
    - $95,000 ÷ 5 Years = $19,000 Gift per Year
    - $19,000 Gift - $19,000 Ann. Excl = $0 Taxable Gift

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Alabama's 529 Fund

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Asset Valuations

Thomas A. Connelly et al v. United States, No. 23-146

- Decided by SCOTUS on *June 6, 2024*

- Closely-held business interest included in Estate, subject to buy-sell agreement, funded by life insurance owned by business

- SCOTUS ruled that for Estate and Gift Tax purposes…
  - ***Life insurance proceeds (or CSV if gifted during life) must be included*** in the company's value

  - A contractual obligation to redeem shares is ***not a liability that reduces the company's value***

Asset Valuations

Thomas A. Connelly et al v. United States, No. 23-146 (Example)

	Pre-Connelly	Post-Connelly
Operating Value	$ 5,000,000	$ 5,000,000
Life Insurance Proceeds	$ 2,000,000	$ 2,000,000
Buy-Sell Liability	$ (2,000,000)	$ 0
Estate Value	**$ 5,000,000**	**$ 7,000,000**
Estate Tax (40%)	**$ 2,000,000**	**$ 2,800,000**

Adds $800k in Estate Taxes!

Asset Valuations

Thomas A. Connelly et al v. United States, No. 23-146

Potential Solution	Mechanics / How It Works	Drawbacks / Considerations
Cross-Purchase Agreement	- Each owner buys and owns a life policy on the other owners - Benefit pays to policyholder at death and used to buy the decedent's shares - Keeps proceeds off the company's balance sheet.	- Multiple Owners = Multiple Policies - Surviving owners must fund premiums personally - Requires coordination to maintain coverage parity (proportionate to ownership)
Insurance LLC	- A separate LLC or trustee owns all policies, collects death benefits, and manages share purchases on behalf of the owners. - Simplifies multi-owner administration and avoids corporate ownership of policies.	- Must be structured carefully to avoid "transfer-for-value" rule (i.e., policy may be considered transferred for value and lose income tax exclusion) - Adds an extra entity and ongoing compliance costs.
ILIT Funding	- Each ILIT owns and is beneficiary of a policy used to fund a cross-purchase. - Keeps insurance proceeds outside both the company and (often) the insured's estate.	- Trust setup and maintenance costs - Must coordinate with buy-sell agreement - Limited control by the business once ILIT is in place.

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Asset Valuations

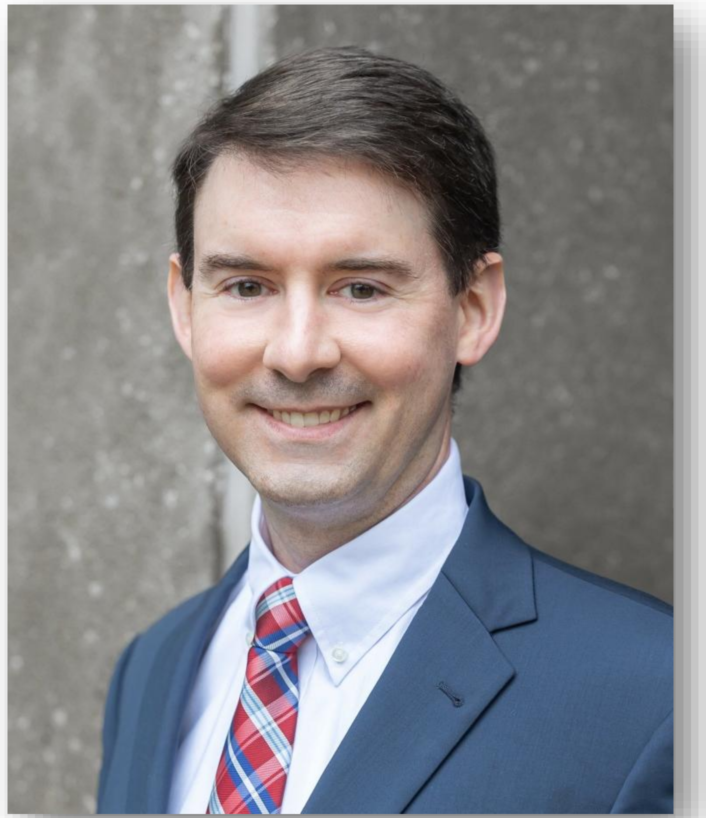
- ***Discount for Lack of Marketability (DLOM)***
  - Reflects the reduction in value attributable to the fact that the shares/interest do not have a readily available market to be sold to
  - Typical Range: 20% to 40%

- ***Discount for Lack of Control (DLOC; "Minority Interest")***
  - Reflects the reduction in value attributable to the fact that a minority interest holder cannot unilaterally direct the business, set policies, or otherwise control the company's operations.
  - Typical Range: 15% to 35%

Estate & Gift Planning Summary

- **Basic Exclusion Amount** = $13.99M (2025) → $15 Million (2026)
- **Annual Exclusion** = $19,000 (2025 & 2026)
- **Take advantage of the following, when possible…**
  - Medical & Education Exclusion Gifts
  - “Super funding” 529 Plans
  - Valuation Discounts
- When choosing assets to gift, prioritize those with the highest potential for appreciation
- Review current structure and consider impact of life insurance and buy-sell agreements on your Gross Estate
- Although OBBBA has toned down the urgency, Estate Planning is still *<u>very important</u>*

INDIVIDUAL INCOME TAX AND TRENDS



Brad Brown, CPA

BMSS Advisors & CPAs

Member

205.271.5472

bbrown@bmss.com

Individuals: Key Provisions

- Tax Cuts and Jobs Act rates made permanent
  - 10, 12, 22, 24, 32, 35, and 37 percent
  - 0, 15, and 20 percent for capital gain income
- Increased Standard Deduction made permanent and will be adjusted for inflation
  - $31,500 MFJ / $23,625 HOH / $15,750 MFS and Single
- New deductions created for tips, overtime, seniors, car loan interest...

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Tip Deduction: “No Taxes on Tips”

- Temporary Provision: Applies to 2025 – 2028 only
- $25,000 of “qualified” tips can be deducted from income on an individual’s income tax return.
- Phaseouts apply based on AGI:
  - $150,000 / $400,000 for Single
  - $300,000 / $550,000 for MFJ (must file jointly if married to claim this deduction)

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Tip Deduction: “No Taxes on Tips”

- Qualified Tips are:
  - Customary for the industry as of December 31, 2024
    - Treasury published Proposed Regs in September defining customary industries
    - Includes nearly 70 occupations from bartenders to water taxi operators and rickshaw drivers
  - Paid voluntarily without consequences for nonpayment
  - Not subject to negotiation
  - Amount determined by payer

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Overtime Deduction: "No Taxes on Overtime"

- Temporary Provision: Applies to 2025 – 2028 only
- Up to $12,500 of overtime for single taxpayers and $25,000 of overtime for married filing joint taxpayers can be deducted from income on an individual's income tax return.

Overtime Deduction: “No Taxes on Overtime”

- Phaseouts apply based on AGI:
  - $150,000 / $275,000 for Single
  - $300,000 / $550,000 for MFJ (must file jointly if married to claim this deduction)
- Only applies to overtime pay required under the Fair Labor Standards Act (FLSA)
  - Exempt employees are excluded from taking this deduction

New Senior Deduction

- Temporary Provision: Applies to 2025 – 2028 only
- Suspension of the personal and dependent exemptions is now permanent.
- However, taxpayers aged 65 or over can take a personal exemption of $6,000 per person.
- Phase outs start at $75,000 Single / $150,000 MFJ
  - Married taxpayers must file jointly to claim this deduction.

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New Deduction for Car Loan Interest

- <u>Temporary Provision</u>: Applies to 2025 – 2028 only
- Up to $10,000 of loan interest can be deducted for <u>new</u> vehicles purchased after 12/31/2024 <u>if final assembly is in the U.S.</u>
- Do not need to itemize to be able to take this deduction
- Phase out starts at $100,000 Single / $200,000 MFJ

Increased SALT Cap

- Temporary Provision: Applies to 2025 – 2029 only
- Itemized deduction for state and local taxes is increased from $5,000 / $10,000 to $20,000 (MFS) / $40,000 (MFJ & Single) with annual inflation increases
- Phaseouts apply with a $5,000 / $10,000 floor
  - $250,000 / $300,000 for MFS
  - $500,000 / $600,000 for MFJ & Single

Home Mortgage Interest Deduction

- Maximum mortgage amounts of $750,000 MFJ / $375,000 Single and MFS are now permanent
  - Deductible mortgage interest is reduced pro rata when the average loan balance exceeds the maximums
- Suspension of the deduction for interest on a home equity loan is now permanent if the funds were not used to buy, build, or substantially improve the home

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Charitable Contributions

- Starting in 2026, a 0.5% of AGI floor will apply to charitable contributions for taxpayers who itemize their deductions
- Consider a Donor Advised Fund this year to lock in full deductibility of your donations
- Older taxpayers taking RMDs from their IRAs should consider a Qualified Charitable Distribution or “QCD” next year to avoid this floor

Business Owners

- 100% Bonus Depreciation made permanent for assets placed in service after 1/19/25
- Section 179 expensing increased to $2.5 million for 2025 and indexed for inflation thereafter
- Qualified Business Income Deduction under Section 199A made permanent at 20%
- Pass Through Entity Elections remain a SALT cap workaround

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Opportunity Zones

- QOZ Program has been extended indefinitely (originally was set to expire December 31, 2026), creating tax deferral and elimination options for capital gain income
- New rolling gain deferral and permanent 10% basis step-up (gains now deferred and recognized on the fifth anniversary date of investment)
- Eligibility criteria will be more difficult
- New category for Rural Areas

Opportunity Zones

- Starting in 2027, capital gains can be deferred up to 5 years if reinvested into an OZ
- Basis bump in OZ property of 10% after 5 years (30% for rural property)
- Basis bump equal to fair market value for years 10 - 30
- New reporting requirements and stiff penalties if you don’t comply

Other Key Provisions

- 90% Limit on Gambling Losses (starts in 2026)
- Energy Efficient Home Tax Credits terminated after 2025
- Personal casualty losses are permanently limited to federally declared disasters (will also include state declared disasters starting in 2026)
- New limitation on itemized deductions for taxpayers in the 37% bracket (starts in 2026)

Other Key Provisions

- Starting in 2026, the exclusion for dependent care benefits is increased to $7,500 MFJ & Single / $3,750 MFS
- Starting in 2026, the Child Tax Credit increases to $2,200 per child (adjusted annually for inflation)
  - Phaseout starts at $400,000 MFJ / $200,000 MFS & Single
- Trump Accounts: tax-deferred savings for children (think IRA, but not Roth) available in 2026 with $1,000 of government "seed" money for children born in 2025 – 2028. Treasury is working on guidance that is expected to be released in November.

IRS Trends

- Low morale even before government shutdown. Currently operating with skeleton crew with some divisions completely shut down.
- Automated notices are still being sent, causing much taxpayer frustration.
- Larger case loads with a reduced, less-experienced workforce could lead to more compromise to keep things moving once government reopens.
- Government shutdown could carry into December, at which point the backlog is estimated to be worse than with Covid.

Shift Toward EFT Payments

- EO 14247: Modernizing Payments To and From America’s Bank Account (signed March 25, 2025)
- Effective September 30, 2025, Treasury is to stop issuing and receiving paper checks
- Logistically, this will happen over two phases

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Shift Toward EFT Payments

- Phase 1 – Tax Refunds
  - Will impact 2025 tax returns
  - Taxpayers requesting a refund will receive a letter if direct deposit information was not provided
  - If the Taxpayer does not respond, IRS will resort to mailing a paper refund check after 6 weeks

- Phase 2 – Tax Payments
  - IRS plans to release more guidance before the 2026 filing season opens
  - Should clarify who must pay electronically, how 2025 balances due will be handled, as well as 2026 estimates

What to Do Now.....

- Assess estate and gift strategy
- Plan timing of deductions and credits (consider working with your CPA on a year-end tax projection)
- Business Owners should review payroll and accounting processes, especially if you pay overtime and/or have employees who receive tips
- Stay in contact with your CPA and follow updates related to forthcoming guidance

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Q&A

Please use the Q&A button at the bottom of your screen to enter your questions.

Dalton Bradshaw
Senior Manager
BMSS Advisors & CPAs
dbradshaw@bmss.com

Brad Brown
Member
BMSS Advisors & CPAs
bbrown@bmss.com

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