Silicon Valley Chapter
American Association of Individual Investors

Financial Planning Workshops
Taxes

www.siliconvalleyaaii.org/financialplanning/
Email: dstikes.svaaii@gmail.com

Disclaimer

- The AAII Silicon Valley Chapter and its directors offer their social media and website pages for educational purposes only.
- The opinions expressed here are not necessarily those of AAII or the AAII Silicon Valley Chapter, whose only intent is to provide a background for understanding investment, personal finance and wealth management theory and practice.
- Nothing on these sites should be considered solicitations or offers to buy or sell any financial instrument or specific trading advice for individuals.

Silicon Valley Chapter
American Association of Individual Investors

Please check us out!

- Chapter website: www.siliconvalleyaaii.org
- Meetups: www.meetup.com/AAII-Silicon-Valley-Meetup
- Facebook: www.facebook.com/sv.aa
- Slides and Recordings

  www.siliconvalleyaaii.org/financialplanning/
- AAII National website: www.aaii.com
- My email address: dstikes.svaaii@gmail.com

Our Next Event and Special Interest Group Webcasts

- Main Event
  - January 10 – Nick Atkeson
- Financial Planning Group
  - Debra Stikes: Second Wednesday of each month at 6:30pm from September to May
- Investing Discussion Group
  - Lynn Gillette: Fourth Monday of each month at 6:30pm except Dec.
- Computerized Investing Group
  - Bill Paseman, Don Mauer: First Thursday of each month at 6:30pm

Financial Planning Workshops

We cover a full range of topics in the cycle:

- Financial Planning … The Big Picture
- Social Security and Medicare: Claiming strategies, Medicare traps
- Taxes: Changes for 2025/2026, Asset location, QCDs
- Investing 1: Modern Portfolio Theory, Building a diversified portfolio
- Investing 2: Efficient Market Hypothesis; Can you beat the market?
- Retirement Planning 1: Tax-advantaged plans, RMDs
- Retirement Planning 2: Safe withdrawal rates, Bengen's 4% rule
- Risk Management/Insurance: Annuities, Long-term care, Litigation
- Estate Planning: Probate, Executor/trustee duties, Philanthropy

Overview for Today's Workshop

- What taxes do we pay?
- Recent Federal tax acts
  - OBBBA
  - Inflation Reduction Act 2022
  - Tax Cuts and Jobs Act, TCJA
  - SECURE Act
- California Proposition 19
- Tax Tips
  - Tax saving strategies

What Taxes Do We Pay?

- Federal taxes
  - Income
  - Interest
  - Short-term and long-term capital gains
  - Qualified and non-qualified dividends
  - Net investment income surcharge
  - Import/export taxes, Tariffs, Excise tax, etc.
  - Estate taxes
- State and local income tax
- Sales tax
- Property tax
- Gas taxes

End of Year

- Verify RMDs and take as required
  - Final IRS rule for inherited retirement accounts is that most who are subject to requiring 10-year total distribution must also take annual RMDs.
  - 2024 RMD penalty waived for those subject to 10-year distribution rule
  - IRS normally forgives the first mistake as long as corrected promptly
  - Penalties for a promptly corrected missed RMD have been lowed.
- Tax loss harvesting
- Solar Credits
  - 2025 is last year to claim federal tax credit

Kiddie Tax (Dependent child)

- Determine taxable income (2025)
  - First $1,350 is tax free
  - The next $1,350 is taxed at the child's rate
  - Additional income is taxed at the higher rate of the child's or parent's tax rate
  - Standard deduction
    - The larger of $1,350 or $400 plus earned income but less than the standard deduction for a single file
  - If the child's only income is interest and dividend income (including capital gain distributions), totals less than $13,000, and no income tax has been withheld or estimated tax payments, it maybe possible to elect to include the child's income on the qualifying parents tax return. See Form 8814.

Kiddie Tax

- 2025 Kiddie Tax rules require that part of all of a child's investment income be taxed at the parents' income tax rate (See Form 8615) if all of the following conditions are met:
  - Unearned income of more than $2,700
  - The child meets one of the following age requirements:
    - Child under 17 at end of year
    - The child was age 18 at the end of the tax year and didn't have earned income that was more than half of the child's support
    - The child was a full-time student at least age 19 and under age 24 at the end of the tax year and the child didn't have earned income that was more than half of the child's support.
  - At least one of the child's parents was alive at the end of the tax year
  - The child is required to file a tax return for the tax year.
  - The child does not file a joint return for the tax year.

Inflation Reduction Act 2022

- Signed into law in August 2022
- Extends the Premium Tax Credit for ACA to 2025
  - Over 24 million enrolled
  - 92% receive premium tax credits
- OBBBA ends the Tax Credit 12/31/2025
  - Government is shutdown. What will happen to the Tax Credit is undetermined.

Inflation Reduction Act 2022

- Medicare
  - Authorization for Medicare to negotiate prescription drug prices
    - OBBBA has exempted additional orphan drugs
  - Part D
    - Maximum annual deductible in 2026 is $615
    - Eliminated the 5% copayment in Catastrophic Phase
    - "Donut Hole" eliminated
    - Catastrophic threshold is $2,100 in 2026
    - Annual increase in premiums is limited to 6% which had the unintended result of increased premiums for 2024/2025

Inflation Reduction Act 2022

- Medicare
  - Limits monthly cost sharing for insulin products to no more than $35 (for many, there are exceptions), including insulin covered under both Part D and B, and no deductible applies
  - No cost sharing for covered adult vaccines
  - Part D payment during catastrophic phase increases to 20% from 15% which decreases Medicare's share
    - Indirectly increases Part D premium

Inflation Reduction Act 2022

- Tax Credit for Solar
  - Extended to 2035 (OBBBA ends 12/31/2025)
  - Purchased, not leased
  - Form 5695
  - Expands list of covered expenses to include storage components with a minimum rated capacity of three-kilowatt hours
  - Other covered expenses continue to include the cost of solar panels and their components, sales tax, permits, fees, essential wiring, inverter systems, hardware, site preparation and installation charges.

Year	2022-2032	2033	2034	2035
ITC %	30%	26%	22%	0%

Inflation Reduction Act 2022

- EV charging equipment (OBBBA ends 12/31/2025)
  - Non-refundable credit for home charging equipment lower of $4,000 or 30%

Inflation Reduction Act 2022

- New EVs 2023 and later
  - Up to $7,500 non-refundable federal credit placed in service after 2022 (OBBBA ended 9/30/2025)
  - Price limitation based on MSRP
  - MAGI limitations
  - Qualified models have North America assembly requirement and sourcing (non-China) requirements
  - Description of Plug-In Electric Vehicle Credit including link to Department of Energy list of EVs that MAY qualify. Specific information for a VIN can be displayed.

    https://www.irs.gov/businesses/plug-in-electric-vehicle-credit-irc-30-and-irc-30d

Inflation Reduction Act 2022

- **Used EVs 2023 and later**
  (OBBBA ended 9/30/2025)
  - **Up to $4,000 non-refundable federal credit**
  - **MAGI limitations**
  - **Model must be at least 2 years old at time of purchase**
  - **Purchase price less the $25,000**
  - **Only on first transfer**
  - **Can be claimed every 3 years**

Inflation Reduction Act 2022

- Revenue Generation
  - Minimum 15% income tax on corporations with over $1B in revenue
  - $80B to the IRS over the next 10 years

    (In 2025, IRS lost over a third of its agents.)
    - Hire additional agents
    - Improve customer service
    - Clear backlog of unprocessed tax returns
    - Upgrade systems

Tax Cuts and Jobs Act, TCJA

- Signed into law in December 2017
  - Most significant revision to tax code in four decades
  - Effective 2018 tax year
  - Most changes to the individual tax code sunset in December 2025

    (OBBBA made permanent some of the provisions which will be covered in following slides.)
- Corporate taxes cut from 35% maximum in 2017 to 21% maximum in 2018
  - Most Corporate tax changes were permanent

TCJA: Income Tax Brackets and Rates

Rate	2024 Single	2024 MFJ	2025 Single	2025 MFJ
10%	Up to $11,600	Up to $23,200	Up to $11,925	Up to $23,850
12%	$11,601 to $47,150	$23,201 to $94,300	$11,926 to $48,475	$23,851 to $96,950
22%	$47,151 to $100,525	$94,301 to $201,050	$48,476 to $103,350	$96,951 to $206,700
24%	$100,526 to $191,950	$201,051 to $383,900	$103,351 to $197,300	$206,701 to $394,600
32%	$191,951 to $243,725	$383,901 to $487,450	$197,301 to $250,525	$394,601 to $501,050
35%	$243,726 to $609,350	$487,451 to $731,200	$250,526 to $626,350	$501,051 to $751,600
37%	$609,351 and above	$731,201 and above	Over $626,350	Over $751,600

TCJA: Capital Gains and Dividend Taxes 2025

	Taxable Income	Taxable Income	Taxable Income
Single Married filing jointly	< $48,350 < $96,700	$48,351 - $533,400 $96,701 - $600,050	> $533,400 > $600,050
Short-term cap gains	Taxed as ordinary income	Taxed as ordinary income	Taxed as ordinary income
Long-term cap gains	0%	15%	20%
Qualified dividends	0%	15%	20%

TCJA: Standard Deduction and Personal Exemption

	Pre-TCJA	2024	2025
Standard deduction			
Single	$6,500	$14,600	$15,750
Married filing jointly	$13,000	$29,200	$31,500 (OBBBA)
Additional > age 65 or blind (double over 65 and blind per individual)			
Single	$1,600	$1,950	$2,000
Married filing jointly /per person	$1,300	$1,550	$1,600
Personal exemption			
Single	$4,150	Eliminated	Eliminated
Married filing jointly	$8,300	Eliminated	Eliminated

TCJA: Itemized Deductions

- Medical deduction floor 10% AGI → 7.5% AGI
- SALT deduction limit = $10,000
  - (OBBBA temporarily changed to $40,000 with income limits.)
  - State and local income taxes
  - Property tax
- Mortgage interest on $1M property → $750,000
  - (OBBBA made permanent)
- Interest on home equity loans only deductible if used to build or improve your home
- Gifts to charity still deductible
- Eliminated deductions for …
  - Tax preparation fees and other misc deductions
  - Theft and other casualty losses
- Pease limitation on itemized deductions eliminated (OBBBA modifies)

TCJA: Estate Taxes

- Exclusion
  - $13.99M per person in 2025
  - Exclusion is portable for use by second spouse
  - IRS now allows 5 years to file estate tax return for portability unused estate tax exemption (Form 706)
- Tax rate
  - Maximum 40% rate for taxable amounts >$1M
- OBBBA eliminated the sunset provision

TCJA: Miscellaneous Issues

- Roth IRAs
  - Recharacterization of a Roth IRA conversion was been repealed by TCJA
- Alimony payments
  - For agreements after December 18, 2018: No longer deductible by paying spouse, nor reportable as income by receiving spouse
- AMT exemption

	2025
Single	$88,100
Married filing jointly	$137,000
Phaseout: Single	$626,350
Phaseout: MFJ	$1,252,700

Setting Every Community Up for Retirement Enhancement (SECURE) Act

- Signed into law in December 2019
  - effective on January 1, 2020
  - Largest retirement reform since 2006
- Required minimum distributions, RMDs
  - Begin at age 72 instead of 70.5

    Applies to those who turn 70.5 in 2020 or later, i.e. born on or after July 1, 1949
  - Starting 2023, Begin at age 73 if reaching 72 after April 1, 2023
- Traditional IRAs
  - No age limit for contributing to an IRA provided you have earned income

SECURE Act: Inherited Retirement Accounts after 2019

- Stretch IRA is gone, except for …
  - Surviving spouse of original owner
  - Minor child < age of majority
  - Person >10 years younger than the decedent
  - Disabled individuals
  - Chronically ill individuals

- For all others the account must be completely distributed within 10 years of the original owner's death
  - IRS ruled that RMDs are required even for accounts that must be fully distributed within 10 years

California Proposition 19

- On and after 4/1/2021, an owner of a primary residence who is over the age of 55, severely disabled, or a victim of a wildfire or other natural disaster to transfer the property tax value to a replacement primary residence anywhere in the state within 2 years of the sale of the original primary residence. Limited to 3 transfers for persons over 55 or severely disabled.

California Proposition 19

- Changed property tax basis for inherited or transfer of real property to child or grandchild
  - Limits the transfer of property tax basis to grandchild
    - Parents of the grandchild must be deceased
  - Limits amount of the transfer of property tax basis
    - Current assessed value + $1M
    - Property must be a primary residence for both

OBBBA – Tax Laws Not Passed

- No taxes on Social Security
- No taxes on Tips
- No taxes on Overtime
- No taxes on Car Interest Loans
- Some limited temporary laws that exempt limited amounts of qualifying income from federal taxes were passed

OBBBA

- All of the OBBBA changes will require new federal tax forms. The IRS is shutdown during the federal government shutdown. IRS has lost around 25% of their agents. When the IRS will be prepared to accept 2025 tax returns is not determined.

OBBBA – Taxes on Social Security

- Regardless of the statement from Social Security, Social Security benefits are taxable.
- A new temporary FEDERAL deduction $6,000 (2025-2028) per taxpayer over 65 with MAGI less than $75,000/$150,000. Deduction phases out at $175,000/$250,000.
- Does not reduce AGI but does reduce taxable income
- Taxpayer/Spouse must report SSN

OBBBA – Federal Income Taxes on Tips

- Some tips will not be subject to federal income taxes (2025-2028).
- Tips are still subject to Social Security and Medicare taxes
- A new temporary deduction of a maximum of $25,000
- Requires SSN
- Not itemized deduction. Does not reduce AGI but does reduce taxable income.

OBBBA – Federal Income Taxes on Tips (cont)

- Restrictions
  - If married, must file jointly
  - The maximum deduction is decreased by 10% for incomes over $150,000/$300,000
  - The tip must be reported on a W-2, 1099-NEC or 1099-K
  - Only tips qualify. It must be an optional payment from a customer. Mandatory Service Charges are not tips.
  - Restrictions on professions
    - Profession must routinely receive tips before passage of bill
    - Some professions are excluded

OBBBA – Federal Income Taxes on Overtime

- Federal temporary deduction for 2025-2028
- Annual limit is $12,500 per taxpayer ($25,000 for married couple)
- Still subject to Social Security and Medicare taxes
- Reduced for incomes over $150,000/$300,000
- Only premium portion of overtime pay qualifies
- If married must file jointly

OBBBA – Federal Income Taxes on Overtime (cont).

- Doesn't matter which spouse earned the overtime
- Only income reported on W-2 qualifies.
  - 2026-2028 W-2 forms will be modified
  - How 2025 will be managed has not been determined
- Only premium portion of overtime pay qualifies
- Does not reduce AGI but does reduce taxable income

OBBBA – Federal Income Taxes on Loan Interest for Purchase of a New Vehicle

- Annual limit $10,000 (2025-2028)
  - Reduced for income over $100,000/$200,000
- Personal use vehicles which were assembled primarily in the US
  - No commercial vehicles or salvage titles
- Loan must be secured by the vehicle with a first lien
  - Refinance cannot exceed the original loan balance
- Purchased between 1/1/2025 and 12/31/2028

OBBBA – Child Tax Credit

- Made permanent
- $2,200 per child in 2025 (inflation-adjusted annually starting in 2026)
- Partially refundable
  - Additional Child Tax Credit provides up to $1,700 refundable depending on income
- Reduced for incomes over $200,000/$400,000

OBBBA – Charitable Deductions (Federal)

- Beginning in 2026, the itemized deduction for donations to charity will be reduced by ½% of the Adjusted Gross Income
  - Partial return of Pease Limitation that was previously eliminated
  - $50 of donations disallowed for each $10,000 of AGI
- Maximum value of deduction is limited to 35%
  - Limits the value of donations for those in 37% federal tax bracket

OBBBA – SALT

- SALT limit increased
  - $40,000 in 2025
  - Increases by 1 percent through 2029
  - Reverts to $10,000 in 2030
- SALT "torpedo"
  - Deduction is decreased for MAGI between $500,000 to $600,000
    - Results in an artificially high federal tax rate of 45.5%
  - MAGI over $600,000 deduction decreased to $10,000

Tax Tips: Start With The Basics

- Traditional IRA 2025
  - Contribution limit of $7,000

    plus additional $1,000 for age 50 and older
  - Deduction phased out if contributing spouse is covered by an employer plan

    MAGI 2025 > $79,000 for single and $126,000 for MFJ
  - Deduction phased if a spouse but not the contributing spouse is covered by an employer plan
    - MAGI 2025 > $236,000 for MFJ
  - Growth is tax deferred
  - Distributions are taxed at ordinary income level

Tax Tips: Start With The Basics

- Roth IRA
  - Same combined contribution limit as traditional IRA
  - Income phase out
    - 2025
      - $150,000 - $165,000 for singles
      - $236,000 - $246,000 for MFJ
  - No tax deduction for contribution
  - Qualified distributions are tax-free

Tax Tips: Employer Retirement Plans

- 401(k) and 403(b) plans
  - Defer $23,500 pre-tax and ROTH contribution limit in 2025 and $23,000 contribution limit in 2024
  - Catch up
    - 2024 $6,500 for age 50 and older
    - 2025
      - $7,500 for 50-60 and over 64
      - $11,250 for 61-64
  - Growth is tax deferred
  - Distributions are taxed at ordinary income level
  - Higher combined, pre-tax, after-tax and employer contribution limit

Tax Tips: Employer Retirement Plans

- SIMPLE plan
  - Contribution limit for 2025 is $23,000 plus additional $3,500 for age 50 and older
  - Growth is tax deferred
  - Distributions are taxed at ordinary income level

Tax Tips: Health Savings Account, HSA

- **Eligibility:** Must have a high-deductible health insurance plan
  - Cannot be on Medicare
  - Part A coverage is the lesser of 6 months retroactive or to age 65
    - Penalty if pre-tax contributed with Medicare coverage. Beware of the retroactive Part A coverage.
- Triple tax benefits (Federal)
  - Contributions are tax-deductible
  - Investments grow tax-free
    - California treats HSA as a regular brokerage account
  - Qualified medical distributions are tax-free
    - Distributions for non-medical expenses are taxed as ordinary income

Tax Tips: Health Savings Account, HSA

- 2025 Contribution Limit
  - $4,300/self coverage
  - $8,550/family
  - $1,000 catch-up if age 55 or older
- Withdrawals can be made after you no longer qualify for contributions. No required minimum distributions.

Tax Tips: Be Aware of Tax Efficiency

- Tax-inefficient assets, e.g. CDs, bonds, REITs, etc.
  - Spin off interest
  - Non-qualified dividends
  - Short-term capital gains
  - Taxed as ordinary income (37% maximum)
  - Most suitable for tax-advantaged accounts
- Tax-efficient assets, e.g. muni bonds, stocks, etc.
  - Spin off qualified dividends or tax exempt
  - Long-term capital gains
  - Taxed at preferential rate (20% maximum)
  - Suitable for taxable accounts

Tax Tips: Asset Location

	Trad. IRA	Taxable a/c	Roth IRA
Contributions	Deductible	Income	Income
Distributions	Income	Inc./Cap Gains	No tax*1
Inheritances …	Worst	Good	Best
… taxed as …	Income	Step-up	No tax*1
Tax-inefficient assets	*******	*	*
Tax-efficient assets	****	*******	****
High growth, REITS, etc.	*	*	*******

- *1 – Qualified Distributions are not taxed.

Tax Tips: Tax Loss Harvesting

- Only useful with taxable accounts
- Sell an underperforming investment to reduce taxable capital gains, and potentially offset ordinary income up to $3,000
- Excess loss can be carried forward to reduce gains in future years
- Can use the proceeds from sale to purchase a similar but not "substantially identical" security
- Beware the wash-sale rule
  - Must not purchase a "substantially identical" security within 30 days before or after the day of the sale
  - Tax deduction is lost if a wash-sale is created from a taxable account to a tax deferred account
- ROTHs are most beneficial for legacy investments

Tax Tips: Tax Bracket Management

- If you are in a low bracket this year, consider filling up to the top of the range to avoid a higher tax rate in later years
  - Harvest capital gains on long-term equities
  - Roth conversion
- Beware bumping into higher Medicare bracket
  - Modified Adjusted Gross Income, MAGI

    MAGI = AGI + Tax-free income
  - Must pay Income Related Monthly Adjustment Amount (IRMAA) if MAGI exceeds base

Income Related Monthly Adjustment Amount, IRMAA (2025 data from 2023 tax return)

MAGI: Single	MAGI: MFJ	Part B Premium	Part D IRMAA
< =106,000	<=212,000	$185.00	N/A
$106,001 to $133,000	$212,001 to $266,000	$259.00	$13.70
$133,001 to $167,000	$266,001 to $334,000	$370.00	$35.30
$167,001 to $200,000	$334,001 to $400,000	$480.90	$57.00
$200,001 to $500,000	$400,001 to $750,000	$591.90	$78.60
>$500,000	> $750,000	$628.90	$85.80

Tax Tips: Qualified Charitable Distributions, QCDs

- Donation directly from IRA to charity
  - Does not add to total income
  - Does not add to AGI; no Medicare increase
  - Counts against your RMD
  - Especially useful strategy for taxpayers who take standard deduction
  - A possible problem is that the charity may fail to deposit the check
- Limits
  - Annual $108,000 (2025)
  - Cannot go to a Donor Advised Fund, DAF
  - At least, 70 ½ (Even if RMD is not required)

Tax Tips: Bunch Deductions

	Standard	Bunched
Year 1 Deductible Taxes	$10,000	$10,000
Charities	$12,000	$36,000
Deduction	$24,800	$46,000
Year 2 Deductible Taxes	$10,000	$10,000
Charities	$12,000	$0
Deduction	$24,800	$24,800
Year 3 Deductible Taxes	$10,000	$10,000
Charities	$12,000	$0
Deduction	$24,800	$24,800
3-Year Total Deductions	$74,400	$95,600

Tax Tips: Consider Lifetime Gifting

- Annual gift exclusion
  - $19,000 per person, $38,000 per couple in 2025
  - Unlimited recipients
- Excess donations reduce your lifetime estate tax exclusion
  - Must file disclosure on Form 709 along with 1040
- Can make direct payments to medical and educational providers on behalf of anyone

1031 Exchanges

- A 1031 exchange is a swap or properties that are held for business or investment purposes
- The properties being exchanged must be considered like-kind by the IRS for capital gains taxes to be deferred
- The rules can apply to a FORMER primary residence under very specific conditions
- Escrow service for sale proceeds is required
- Strict time limits
- Professional advice is strongly recommended

To Probe Further

- Guide to Tax on Your Personal Investments, AAII Staff, AAII Journal, December 2020
- Tax Guide Update: Staying Current on the New Rules, Charles Rotblut, AAII Journal, December 2020
- Tap Into Tax-Related Information on Stocks and Funds, Charles Rotblut, AAII Journal, December 2020
- SECURE Act Takeaways, Schwab.com
- CARES Act Offers Economic Stimulus to Fight Impact of Coronovirus, Kenneth Terrell, AARP, April 2020
- What the Pandemic Means for the Future of Spending and Saving, Christine Benz, Morningstar.com, Q4 2020
- Smart Tax Moves to Make Before Year's End, Charles Rotblut, AAII Journal, December 2019
- How to Make Your Money Last, Jane Bryant Quinn, Simon & Schuster

Useful Websites

- aaii.com Broad selection of investing material
- siliconvalleyaaii.org Previous presentations on various topics
- irs.gov
- morningstar.com
- vanguard.com
- sccld.org/ login then search for Value Line - Santa Clara Library - Two version of logins – online only or also physical access
- retirementresearcher.com Wade Pfau, Bob French
- obliviousinvestor.com/index-funds/ Mike Piper blog
- rickferri.com/investment-philosophy/ Rick Ferri blog

NON SEQUITUR | Wiley
IT MEANS THE HOLIDAY SEASON IS OFFICIALLY OVER AND THE TAX SEASON HAS OFFICIALLY BEGUN
DONUTS
HOT COFFEE
BLANK CHARITY DONATION FORMS
RECEIPTS BACK-DATED
DIST. BY UNIVERSAL UCLICK
© 2017 WILEY INK, Inc. 1-4