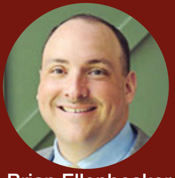
2025 Tax Preview

Wealth experts address potential changes to taxes in 2025 and how your estate might be impacted.

BY DON BUTLER


Brian Ellenbecker


Matthew Ackmann


Michael Tyler


Julie Ellenbecker-Lipsky


Sandra Geisler


Tom Peterson


Tim Steffen

A change in the White House signals potential changes to the tax code. We asked several wealth management professionals to provide insights on taxes they're sharing with their clients, as well as other topics including AI. Participants include:

- **Brian Ellenbecker**, CFP, EA, CPWA, CIMA, CLTC Shakespeare Wealth Management Partner & Financial Advisor
- **Matthew Ackmann**, Reinhart Boerner Van Deuren S.C. Attorney, Trusts and Estates Practice
- **Michael Tyler**, CFP, Wealthspire Assistant Vice President
- **Julie Ellenbecker-Lipsky**, CFP, CDFA, Ellenbecker Investment Group President & Senior Wealth Advisor
- **Sandra Geisler**, CPA, Ellenbecker Investment Group Director of Tax Planning
- **Tom Peterson**, IAG Wealth Financial Advisor/Partner
- **Tim Steffen**, CPA/PFS, CFP, CPWA. Baird Wealth Director of Advanced Planning

(Please note that financial advice is individually tailored and opinions may change; comments below are intended as overall observations, not recommended courses of action without a consultation.)

continued on page 10

continued from page 8

MKE Lifestyle: Looking ahead to 2025, what are some wealth management trends you're watching and discussing with your clients heading into the new year — especially with a new president taking office in January?

Matthew Ackmann, Reinhart Boerner Van Deuren S.C.: The expiration of the increased gift and estate tax exemption amount is by far the most frequented topic.

Under the Tax Cuts and Jobs Act (TCJA), the exemption amount is at a historic high: currently, $13.99 million per individual. Based on how the TCJA was passed through Congress, certain provisions of it expire on Jan. 1, 2026.

The increased estate tax exemption amount is one such provision. Leading discussions around the topic suggest that the new administration will extend the provisions, but until such measures pass both chambers of Congress, clients should be proactive as the exemption will fall to approximately $7 million per individual.

Generally, anything transferred (during lifetime or at death) above the exemption amount is taxed at a 40% federal rate, so the potential liabilities for wealthy individuals and families are significant. Leveraging lifetime gifting techniques, such as spousal lifetime access trusts or other irrevocable trusts for loved ones, are often discussed.

Julie Ellenbecker-Lipsky, Ellenbecker: Some of the trends we see include the increased use of AI and automation within the wealth management industry — not only for more investment opportunities, but also to provide personalized investment advice and sophisticated planning tools to better understand client needs, preferences, risk tolerance and goals.

Increased use of AI will also assist wealth managers in anticipating market trends, opportunities and risks. Many companies will be faced with the question of automation versus personalization as it relates to managing their firms.

Generational wealth transfer is also trending with more importance as Baby Boomers transfer significant wealth to their children. Generation X is starting to enter retirement age. They're becoming more interested in how to transfer their wealth (and the wealth they may inherit) to the next generation. The conversation for intergenerational wealth planning is now.

Tim Steffen, Baird Wealth: Most of the planning focus will be on income tax policy. Large parts of 2017's Tax Cuts & Jobs Act are scheduled to expire after 2025 —although based on the results of the election, that seems very unlikely to happen. To avoid that expiration, though, Congress will need to pass a bill to either extend the current rules or create new ones, and they'll likely do some of both.

One of the biggest areas we'll be watching is what happens to the rules on deductions. Do investment fees become deductible again? Is the state tax deduction expanded? Are the mortgage rules loosened? We'll be watching those closely.

Another area we're keeping an eye on is what happens with the estate tax. Will the current high exemption levels stay in place, or will they fall by more than half, as is currently scheduled? While it's not something most people worry about, those who are impacted could be subject to a new multi-million dollar tax liability.

The IRS also finalized the rules on inherited retirement accounts in 2024, which will change things in 2025. Those who inherited an IRA since 2020 should be planning how they're going to handle taking distributions from the account.

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> — Julie Ellenbecker-Lipsky

Tom Peterson, IAG: This is shaping up to be a year of opportunity and uncertainty. We're closely monitoring the economic and political landscape, with a focus on potential tax and policy changes and their impact on investment strategies.

Michael Tyler, Wealthspire: Our economy is in good shape, and the bond market should continue to provide a good income source and counter to any volatility in the stock market.

Brian Ellenbecker, Shakespeare Wealth Management: The best advice is to take a deep breath, be patient, and don't be in a rush to guess what changes may or may not be coming.

The potential for major changes will be in 2025 and 2026. Wait until we get a better feel for what's likely and what isn't before making a major bet on future tax policy. The last thing you want to do is guess wrong and end up causing yourself to pay more tax than you need to.

MKE Lifestyle: When talking to clients about a 2024 tax preview, what types of topics do you cover with them?

Sandra Geisler, Ellenbecker: Tax planning is an essential tool in the wealth management process. Our focus currently is the potential "sunset" of the income and estate tax provisions in the 2017 Tax Cuts and Jobs Act at the end of 2025.

We're implementing strategies for our clients to take advantage of the historically low tax rates now to minimize their overall tax liability. With a potentially higher tax environment on the horizon, we're talking with clients about their future plans and working with them to maximize the current tax provisions.

Additionally, we're reviewing estate plans and, where possible, taking advantage of the current high exemption amount using estate and gifting strategies.

Michael Tyler, Wealthspire: We look at realizing gains, tax-loss harvesting, and Roth conversions in the context of a multi-year strategy. While tax plans are discussed during campaign season, legislative action is the only way tax laws change. The TJCA sunset has wide-reaching ramifications, but there seems to be motivation on both sides of the aisle to address parts of the tax laws. Only time will tell if Congress is successful.

Brian Ellenbecker, Shakespeare Wealth Management: The first step is identifying any significant changes you expect to have on the income and deduction side. Doing so can help identify if 2025will offer any unique opportunities for planning strategies that may not typically be available.

Popular strategies we explore with clients are Roth conversions — maximizing the 0% long term capital gains bracket for those who have access — and being as tax-efficient as possible with charitable donations.

Roth conversions have gotten a bit trickier with the potential for no tax on Social Security, along with the already high degree of uncertainty around the expiration of the Tax Cuts and Jobs Act in 2026. Estimating future tax rates — a critical step in evaluating the possible benefit of a Roth conversion — just got a lot trickier.

If Social Security is no longer subject to income tax, many retirees will see their income drop, which could open the door for larger Roth conversion at lower tax rates. However, tax rates are still relatively low, so doing a conversion this year can still make sense even if tax rates are expected to decline for a period of time in the future.

continued on page 12


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charitable intent should explore strategies for maximizing charitable deductions, particularly in years with significant gain.

Establishing a donor advised fund provides a vehicle to fund charitable gifts during a productive year for the client to leverage for years to come. Older clients with charitable intent should also consider qualified charitable distributions from their traditional IRAs or other retirement accounts.

Ultimately, proactively addressing these topics can help clients better understand the potential tax savings and provide them with the time to best position themselves to take advantage of the savings.

Tom Peterson, IAG: In 2025, Congress is likely to create tax policies that will impact our clients for the next 10 years. We'll be focusing on potential changes to income and estate taxes, deductions, and credits. We always highlight the importance of proactive tax planning, such as optimizing retirement contributions and Roth conversion strategies, to minimize current and future tax burdens.

Tim Steffen, Baird Wealth: Look more at how your personal situation is changing, rather than how the laws may be changing — your income level, investment portfolio, retirement distributions, charitable plans, even marital status or state of residence. Those are likely to have as much effect on your tax liability as any changes coming out of Washington next year.

continued from page 10

For those who have access to the 0% long term capital gains rate, planning is a bit easier. We know you won't be able to pay tax at less than 0%, so take advantage of that rate whenever you can. Consider realizing long term capital gains to the extent that you fill up the 0% LTCG bracket to ensure you get as much income taxed at 0% as possible. You don't want to pass up the opportunity to pay tax at 0%. However, if you have capital losses, you'll need to determine if it makes sense to use those up to get to the 0% bracket.

If you're charitably inclined, there are several strategies available to ensure you are maximizing the tax benefit available to you. Most of the time, just donating cash doesn't give you the best tax benefit.

If you're over 70.5, consider using qualified charitable distributions (QCD) from your IRA. If the money is sent directly to charity, the income is not taxable. This typically ensures you get the maximum tax benefit for each dollar donated. You don't have to worry about itemizing deductions. You also won't cause other issues on your tax return by increasing your income, which could push you into a higher bracket, make more of Social Security taxable, subject you to higher Medicare premiums, or push you out of the 0% LTCG bracket, to name a few. For those subject to RMDs, QCDs count towards that requirement.

If you have securities in a taxable account you've held for longer than one year and appreciated in value, consider donating those versus cash. Not only do you get a charitable deduction for the fair market value of the security, but you also get rid of the capital gain and don't have to pay tax on that. Because you're able to eliminate the tax on the gain, you get a rare "double tax" benefit.

Matthew Ackmann, Reinhart Boerner Van Deuren S.C.: The increased gift and estate tax exemption amount is generally at the forefront of the discussions. However, we also discuss key tax-planning strategies, including tax-loss harvesting and charitable giving.

Clients should review the benefits of selling underperforming investments to offset capital gains. In addition, clients with

MKE Lifestyle: Any other thoughts on wealth management you'd like to share?

Brian Ellenbecker, Shakespeare Wealth Management: For clients with large estates, keep an eye on the estate exemption discussion. With Republicans taking control, it appears more likely that the exemption will remain at its current level for a while longer.

However, for those with large estates, don't ignore possible estate tax saving strategies that are easy to implement, like annual exclusion gifts and charitable giving. Those can be easy, flexible ways to remove some money out of your estate while not necessarily making any long term commitments to a particular strategy.

Matthew Ackmann, Reinhart Boerner Van Deuren S.C.: Wealth management and estate tax planning are closely intertwined, and a comprehensive approach to both is crucial for wealthy individuals and families to preserve the wealth they built by minimizing tax liabilities. Lifetime giving is an essential component to mitigating transfer taxes for those with taxable estates. There are more strategies available and are often less burdensome to employ during one's lifetime.

Julie Ellenbecker-Lipsky, Ellenbecker: There's a great need and emphasis on educating clients, especially the next generation, on personal finance, investment strategies, debt management, mortgage planning, life insurance, estate planning and the importance of long-term planning. We'll fuel this trend by increasing our offerings in financial literacy programs, corporate education and user-friendly educational tools.

Tom Peterson, IAG: Our approach is more akin to mission management than wealth management. Certainly, wealth is an important part of our clients' lives, but we believe it is more important to help our clients define its role in their lives, evaluate the impact on their families, and create purposeful legacies. MKE