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Peapack Private

Welcome to the final issue of the Peapack Private Planning Quarterly in 2024! As we approach the new year, we present the 2025 IRS adjustments to income tax brackets, standard deductions, retirement contributions, estate and gift tax exemptions and the annual gift exclusion. Taking distributions from Inherited IRAs has become increasingly complex, so we encourage you to review the new rules in "Navigating RMD Rules…" The provisions of the Tax Cut and Jobs Act of 2017 is set to sunset at the end of 2025 – how will that sunsetting change our current tax rates? For those with students applying, entering or enrolled in college, there are lots of questions about student loans and we provide a primer on this important subject. As always please reach out to your Wealth Advisor or any of the writers with your questions. Happy reading!

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2025 IRS Tax Adjustments and Their Impact

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Looking ahead to 2025, inflation is a big concern for many. One key area where inflation has a direct impact is taxes. The IRS regularly adjusts tax brackets, deductions, and credits to keep pace with inflation.

Tax inflation adjustments are annual changes made to various tax provisions to reflect the rising costs of living. These adjustments help to ensure that taxpayers aren't unfairly "creeping" into higher tax brackets because of inflation rather than real increases in income.

On average, the 2025 tax adjustments for inflation will increase by about 2.8 percent. This is the lowest adjustment in the past few years. Here is a look at the adjustments and several key changes.

Standard Deductions

In 2025, the standard deduction for married couples filing jointly will be $30,000, an $800 increase from the 2024 amount of $29,200. For single filers and married filing separately, the deduction will increase by $400 to $15,000 from $14,600. Head of household filers will see an increase of $600 to $22,500. The additional standard deduction for taxpayers 65 and older will be $2,000 for single filers and $1,600 for joint filers.

Tax Rates and Brackets

There were no changes to the marginal tax rates themselves, only the amounts that fall into each bracket were increased. Tax brackets refer to the base tax owed on each portion of income and not all income earned. The top tax rate remains at 37% and the lowest at 10%. The chart below shows rates and incomes that apply to those rates.

Tax rate	Single	Head of household	Married filing jointly	Married filing separately
10%	$0 to $11,925	$0 to $17,000	$0 to $23,850	$0 to $11,925
12%	$11,926 to $48,475	$17,001 to $64,850	$23,851 to $96,950	$11,926 to $48,475
22%	$48,476 to $103,350	$64,851 to $103,350	$96,951 to $206,700	$48,476 to $103,350
24%	$103,351 to $197,300	$103,351 to $197,300	$206,701 to $394,600	$103,351 to $197,300
32%	$197,301 to $250,525	$197,301 to $250,500	$394,601 to $501,050	$197,301 to $250,525
35%	$250,526 to $626,350	$250,501 to $626,350	$501,051 to $751,600	$250,526 to $375,800
37%	$626,351 or more	$626,351 or more	$751,601 or more	$375,801 or more

Qualified Dividends & Long-Term Capital Gains

The qualified dividends and long-term capital gains tax rates remain unchanged at 0%, 15% or 20%; however, the taxable income thresholds have been increased for inflation adjustments.

"Starting in 2025, there are enhanced catch-up contribution amounts for workers aged 60 but not older than 63 at the end of the calendar year."

0%	Taxable Income below $48,350 (Single/Married Filing Separately), $96,700 (Married Filing Jointly) $64,750 (Head of Household), $3,250 (Estates/Trusts)
15%	Taxable Income at or above $48,351 (Single/Married Filing Separately), $96,701 (Married Filing Jointly), $64,751 (Head of Household), $3,251 (Estates/Trusts)
20%	Taxable Income at or above $300,001 (Married Filing Separately), $533,401 (Single), $600,051 (Married Filing Jointly), $566,701 (Head of Household), $15,900 (Estates/Trusts)

Retirement

In 2025, traditional and Roth IRA contribution and catch-up contribution limits will be unchanged at $7,000 and $1,000. 401(k) contribution limits will increase $500 to $23,500; however, the catch-up limit for 401(k) contributions will remain the same at $7,500 for 2025. SIMPLE plan contribution limits also increase $500 to $16,500 with the catch-up contribution limits remaining unchanged at $3,500.

There are enhanced catch-up contribution amounts in 2025 for workers aged 60 but not older than 63 at the end of the calendar year. This age group can contribute the greater of $10,000 or 150% of the 2025 catch-up contribution limit as active participants of a 401(k), 403(b) or 457(b) plan if their plan sponsor implements this feature. The 2024 catch-up limit was $7,500, the special catch-up limit will be $11,250 for 2025.

Additionally, SIMPLE IRA catch-up contributions for age 60 through 63 in 2025 will increase to the greater of $5,000 or 150% of the regular age 50 catch-up contribution limit for the same plans in 2025. The 2024 catch-up limit was $3,500, so the special catch-up limit will be at least $5,250 for 2025.

IRA RMD Penalties

Beginning in 2025, if an account owner fails to withdraw the full amount of the Required Minimum Distribution (RMD) by the due date, the amount not withdrawn is subject to a 25% excise tax. SECURE 2.0 Act dropped the excise tax rate from 50% to 25%. The penalty could also possibly be lowered to 10% if the RMD is timely corrected within two years.

Lifetime Estate and Gift Tax Exemption

The basic exclusion amount raises to $13,990,000 from $13,610,000 in 2024 for estates of decedents who die in 2025.

Annual Exclusion for Gifts

The annual exclusion for gifts increases to $19,000 from $18,000 in 2024. This annual exclusion amount is per recipient, not the total of all gifting.

With the changes coming in 2025, it's wise to start thinking about how best to prepare and understand how these adjustments may affect you. Being informed means making better financial decisions and can make a great difference.

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Navigating RMD Rules for Inherited IRAs: Eligible vs. Non-Eligible Designated Beneficiaries

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When a loved one passes away and leaves behind an Individual Retirement Account (IRA), the rules governing the Inherited IRA can significantly impact the financial future of the beneficiaries. Understanding the distinctions between Eligible Designated Beneficiaries (EDBs) and Non-Eligible Designated Beneficiaries (NEDBs) is crucial for making informed decisions.

In this article, we will explore the rules associated with Inherited IRAs, clarifying the roles of EDBs and NEDBs, as well as the implications for those whose decedents died before and after their Required Beginning Date (RBD). Additionally, we will discuss the tax implications and financial considerations arising from the Required Minimum Distributions (RMD) rules.

Overview of RMD Rules of a Inherited IRA

When an IRA owner passes away, their account generally transfers to designated beneficiaries. The IRS mandates that these beneficiaries take distributions, known as RMDs, which are subject to specific rules based on the beneficiary's classification and the timing of the decedent's death in relation to their RBD.

Key Definitions

1. **Eligible Designated Beneficiary (EDB):** EDBs can stretch RMDs over their life expectancy. This group includes:
   - Surviving spouses.
   - Minor children (until they reach the age of majority).
   - Disabled individuals.
   - Individuals not more than 10 years younger than the decedent.
2. **Non-Eligible Designated Beneficiary (NEDB):** NEDBs do not have the same favorable treatment and typically include:
   - Adult children.
   - Siblings, friends, or other non-relatives.
3. **Required Beginning Date (RBD):** The RBD is the date by which the original account holder must begin taking RMDs, typically April 1 of the year following the year in which they turn 73.

Recent IRS Regulations on RMDs

The IRS's finalized regulations clarify how RMDs are calculated and distributed to beneficiaries. These changes are particularly relevant for understanding the implications of the decedent's death relative to their RBD.

1. **Decedent Died Prior to RBD**

   Eligible Designated Beneficiaries:

   - EDBs can stretch RMDs over their life expectancy. For example, if a 60-year-old surviving spouse inherits a $500,000 IRA, they can calculate their RMD based on their life expectancy using IRS tables, allowing for smaller annual withdrawals and potential continued tax-deferred growth.

   Non-Eligible Designated Beneficiaries:

   - NEDBs must fully distribute the Inherited IRA within 10 years of the decedent's death. There are no specific annual RMDs during this period, but the entire balance must be withdrawn by the end of the tenth year. For instance, if a 35-year-old child inherits an IRA worth $500,000, they can withdraw funds at their discretion but must ensure the account is completely depleted by the end of the 10-year period.

2. **Decedent Died On or After RBD**

   Eligible Designated Beneficiaries:

   - EDBs retain the option to stretch distributions over their life expectancy. For example, if the same 60-year-old surviving spouse inherits an IRA from a decedent who was already taking RMDs, they can continue to take distributions based on their life expectancy, allowing for continued tax-advantaged growth.

   Non-Eligible Designated Beneficiaries:

   - NEDBs must take annual RMDs based on the decedent's remaining life expectancy for each of the 10 years following the death. For example, if a 45-year-old child inherits an IRA from a 75-year-old decedent, they must calculate annual RMDs based on the decedent's life expectancy for the first nine years and withdraw the remaining balance by the end of the tenth year.

"Identifying whether you are an Eligible Designated Beneficiary or Non-Eligible Designated Beneficiary is crucial, as this classification dictates your distribution options and tax implications."

Tax Implications of RMDs

The tax consequences of RMDs can significantly influence beneficiaries' overall financial strategies. Distributions from Inherited IRAs are generally taxed as ordinary income. Here are some key tax implications to consider:

1. **Taxation of Withdrawals:** All distributions from Inherited IRAs are subject to income tax. Beneficiaries must report these amounts as income for the year in which they are taken. For example, if an NEDB withdraws $100,000 in one year, that amount is added to their taxable income for that year.
2. **Impact on Tax Bracket:** RMDs can push beneficiaries into higher tax brackets, particularly for NEDBs facing large distributions at the end of the 10-year period. For instance, if a beneficiary receives $150,000 in distributions in the final year, they may end up paying significantly higher taxes due to the increased income.
3. **State Tax Considerations:** Different states have varying rules regarding the taxation of Inherited IRAs. Beneficiaries should be aware of their state's tax implications to develop an effective tax strategy.
4. **Tax Planning Opportunities:** Beneficiaries can utilize various strategies to manage tax liabilities. For instance, spreading out distributions over several years instead of taking a lump sum can help minimize the tax impact.

Financial Planning Strategies for Beneficiaries

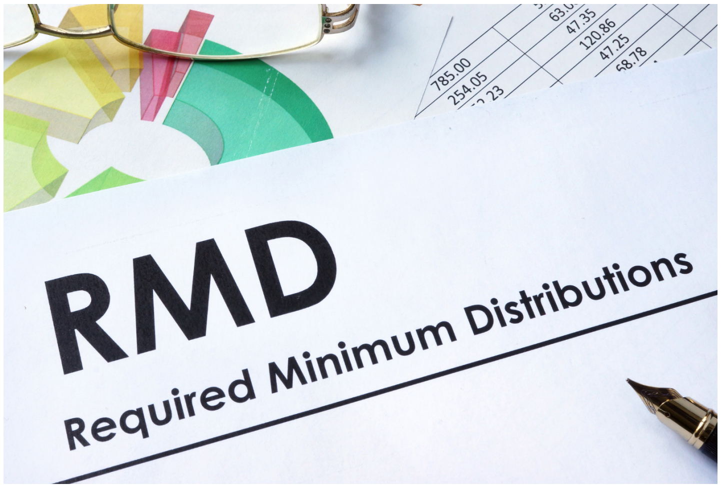
Understanding the complexities of Inherited IRA RMD rules is essential for effective financial planning. Here are several strategies beneficiaries should consider:

1. **Determine Beneficiary Status:** Identifying whether you are an EDB or NEDB is crucial, as this classification dictates your distribution options and tax implications.
2. **Develop a Distribution Strategy:** For EDBs, it is advisable to create a distribution strategy that stretches withdrawals over your life expectancy, optimizing tax-deferred growth. For NEDBs, timing and size of withdrawals become critical, especially in navigating the 10-year requirement efficiently.
3. **Assess Your Overall Tax Situation:** Beneficiaries should evaluate their entire income picture, including any other sources of income. Planning RMD withdrawals strategically—such as taking distributions in lower-income years—can help minimize tax liabilities. For example, if a beneficiary expects to have a low-income year, they might choose to withdraw more from the Inherited IRA during that time.
4. **Explore Roth IRA Conversions:** Spouse beneficiaries can treat Inherited IRAs as their own, which allows them to convert the IRA to a Roth IRA. While this conversion triggers immediate taxes, it enables future tax-free growth and withdrawals. This strategy can be particularly advantageous for spouse beneficiaries who expect to be in a higher tax bracket in the future. However, non-spouse beneficiaries are prohibited from directly converting an inherited IRA to a Roth IRA.
5. **Utilize Charitable Contributions:** Beneficiaries who are charitably inclined can use RMDs to make Qualified Charitable Donations (QCD) This approach satisfies RMD requirements and can help manage taxable income. To be eligible, the donor must be 70 1/2 years old or older at the time the contribution is made. For the tax year 2024, limit for QCDs is $105,000 per year per individual. Please note that there are rules on the timing of QCDs and RMDs in the same year, so please contact your tax advisor on this subject.
6. **Stay Informed on Tax Law Changes:** As tax regulations can evolve, beneficiaries should regularly review their financial situation and stay updated on potential legislative changes that could impact their Inherited IRAs.

Conclusion

The IRS recent regulations regarding Inherited IRA RMDs have introduced significant considerations for beneficiaries. Understanding the differences between eligible and non-eligible designated beneficiaries, as well as the implications of the decedent's date of death concerning their RBD, is essential for effective financial planning and tax management.

It is advisable to consult with a financial advisor or tax professional to determine the best strategy for managing Inherited IRA assets, considering individual circumstances and financial goals.



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The Tax Cut and Jobs Act Sunset

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Taxpayers, tax professionals and financial advisors are turning their attention to a critical aspect of the tax code: sunsetting tax provisions. Many of the provisions of the Tax Cut and Jobs Act of 2017 (hereafter, TCJA) are set to expire at the end of 2025 without further action. This will have significant implications for individuals and businesses. Understanding the potential changes and preparing for their impact is essential for effective financial planning. Complicating this situation is that the aftermath of the elections (results unknown at the time of this writing) will certainly lead to significant changes in tax law. In this article, we look at those sunsetting provisions that will affect individual income taxes without consideration of potential extensions. A future article will address sunsetting estate and gift tax provisions.

The Tax Cut and Jobs Act of 2017 altered many aspects of the calculation of taxable income for individual taxpayers. The income tax rates were lowered, the standard deduction was nearly doubled, itemized deductions were limited, and the Alternative Minimum Tax exemption amount was greatly increased. Let's look at each of these.

Individual Income Tax Rates

The TCJA lowered the marginal individual income tax brackets from 10%, 15%, 25%, 28%, 33%, 35% and 39.6% to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Approximately 65% of individuals saw an income tax decrease. If the current rates sunset without further changes, taxpayers should expect to be subject to higher marginal tax rates.

The capital gains tax rate brackets were not changed by the TCJA, so they no longer aligned with the income tax brackets. At sunset they will once again be linked to the ordinary income marginal tax brackets. Some taxpayers will creep into the highest capital gains tax rate at lower income levels than prior to the sunset.

The TCJA also changed the calculation of the Alternative Minimum Tax (AMT). Created in 1969, the AMT is a separate tax calculation using different rates, brackets, exemptions and allowable deductions. Because the allowable exemption and its income-based phase-out were not adjusted to keep pace with income growth and inflation, the tax had begun to affect many middle-income taxpayers. The TCJA greatly increased the personal exemption, leading to a reduction in the number of taxpayers subject to the tax from over 5 million to about 200,000. The exemption is set to return to pre-TCJA levels, adjusted for inflation. For many taxpayers, this sunset will affect their personal tax situation more than any other.

Standard and Itemized Deduction(s)

Individuals may take the higher of the Standard Deduction or the total allowable Itemized Deductions. The TCJA significantly increased the Standard Deduction and limited or eliminated some itemized deductions. It is estimated that 90% of taxpayers took the standard deduction following enactment. The sunset of these changes will see many more taxpayers itemizing their deductions. They include:

- The Standard Deduction – will revert to pre-TCJA levels, adjusted for inflation. The 2026 Standard Deduction is expected to be less than 60% of 2025's.
- State and Local Tax (SALT) Deduction – the TCJA limited the deduction of state and local income and property taxes to $10,000. The sunset of this limitation will allow for full deduction of taxes paid.
- Mortgage Interest Deduction – the deduction for mortgage interest on homes purchased in 2018 through 2025 was limited to the interest on $750,000 of mortgage debt. Homes purchased prior to 2018 were grandfathered. In 2026, the limitation reverts to the prior $1,000,000 limitation, with another $100,000 allowable on home equity debt.
- The sunset will also see an increase in the limitation for the medical deduction to the excess of unreimbursed medical expenses over 10% of adjusted gross income.
- Miscellaneous Itemized Deductions – included in this category are unreimbursed employee expenses, some legal fees and investment/advisory fees, which are limited to the excess over 2% of adjusted gross income. The TCJA eliminated the entire category. This change will sunset at the end of 2025.
- Pease Limitation – the Pease limitation reduced itemized deductions for higher income taxpayers. The maximum limitation was 80% of the total. This limitation will come back into effect in 2026. As an example, the level of income at which this limitation is expected to begin taking effect is $341,700 for single filers and $410,050 for joint filers.

"It is estimated that 90% of taxpayers took the standard deduction following enactment. The sunset of these changes will see many more taxpayers itemizing their deductions."

Additional Changes

- Personal Exemption – the TCJA eliminated the personal exemption. The personal exemption will return in 2026, inflation-adjusted with a phase-out at higher income levels.
- Child Tax Credit – increased by the TCJA, this credit will revert to prior levels.
- Qualified Business Income Deduction – created by the TCJA, this 20% of qualified business income deduction will be eliminated after 2025.
- Corporate Tax Rate – although not an individual income tax change and not due to sunset, this lower 21% corporate flat tax rate gives planning opportunities to some individual business owners.

Planning Thoughts for Individual Income Taxpayers

Although some of the following planning ideas really can apply to any given tax year, they may have an enhanced effect due to the sunsetting of the TCJA rules.

- Timing of Income – accelerating income into lower tax years or reducing income in higher tax years. Examples include the timing of exercising non-qualified stock options or increasing pre-tax retirement contributions in higher tax years.
- Timing of Deductions – postponing deductions into higher tax years. The many changes to itemized deductions and the reduction of the standard deduction make the effect of this planning especially valuable in the 2025-2026 timeframe. It's important to consider the timing of payments of state and local income tax payments, charitable contributions and business expenses to push them to years where you will see a larger benefit.
- The lower corporate tax rate may make it advantageous for some owners of partnerships or S Corporations to consider converting to a C corporation. Legal advice should be sought for any such change.
- Planning for the realization of capital gains and losses will be important due to the change in the tax brackets. Taxpayers facing a higher marginal capital gain rate should consider timing of sales. Tax loss harvesting may be more beneficial in 2026 for some taxpayers, depending upon their situation.

While the provisions of the Tax Cuts and Jobs Act may sunset, the future of individual income taxation will ultimately be shaped by the composition of our executive branch and Congress. It would be wise to start thinking about possible scenarios and to be ready to plan accordingly when more information becomes available. Your tax professional or financial advisor can help you with this planning.

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Understanding Student Loans: Types, Repayment, Consolidation, and Forgiveness

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With the rising costs of attending college, many families are looking for ways to fund education expenses which can include tuition, fees, and room and board. Some resources, such as scholarships, grants, financial aid, and merit aid may come with stipulations to maintain; however, they generally do not have to be paid back. Unfortunately, these types of funding are not always an available option to every family. Students (and parents) are having to research alternative financing through student and parent loans. These loans can be a vital source of support, making education accessible to a broader population. However, understanding the different types, how they work, repayment options, consolidation, and forgiveness programs are important considerations for managing this financing option effectively.

Types of Student Loans

Federal Student Loans are funded by the U.S. Department of Education and offer several benefits, including fixed interest rates and flexible repayment options. They are also known as Direct Student Loans.

- **Subsidized Loans:** These are need-based loans available to undergraduate students. The government pays the interest while the student is in school at least half-time, during the grace period, and during deferment periods.
- **Unsubsidized Loans:** These loans are available to both undergraduate and graduate students and are not based on financial need. Interest accrues from the time the loan is disbursed.
- **PLUS Loans:** These loans are available to graduate students and parents of dependent undergraduate students. They require a credit check and have higher interest rates compared to other federal loans.
- **Perkins Loans:** Although no longer available, Perkins Loans were a significant part of federal student aid, offering low-interest loans to students with exceptional financial need.

Private Student Loans are offered by banks, credit unions, and other private lenders. They often require a credit check, typically have higher interest rates and less flexible repayment options compared to federal loans.

- **Interest Rates:** Private loans typically have variable or fixed interest rates that are higher than federal loans.
- **Repayment Terms:** Terms vary by lender, and some may offer less flexible repayment options.
- **Lenders:** Common private lenders include Sallie Mae, Discover, and Wells Fargo.
- **Protections:** They lack the borrower protections and repayment options available with federal loans.

How Student Loans Work

Application Process

- **Federal Loans:** To apply for federal student loans, students must complete the Free Application for Federal Student Aid (FAFSA). The FAFSA determines eligibility for federal grants, work-study, and loans.
- **Private Loans:** The application process for private loans varies by lender but generally involves a credit check and proof of income or a co-signer.

Disbursement

- Loan funds are typically disbursed directly to the school to cover tuition and fees. Any remaining funds are given to the student for other educational expenses.

Interest Rates

- **Fixed vs. Variable Rates:** Federal loans have fixed interest rates, meaning the rate remains the same for the life of the loan. Private loans may have fixed or variable rates, with variable rates potentially changing over time.
- **Accrual of Interest:** Interest on unsubsidized and private loans begins accruing as soon as the loan is disbursed. For subsidized loans, the government covers the interest during certain periods

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Repayment of Student Loans

Federal Loan Repayment Plans offer several repayment plans to accommodate different financial situations.

- **Standard Repayment Plan:** Fixed monthly payments over 10 years.
- **Graduated Repayment Plan:** Payments start low and increase every two years, also over a 10-year period.
- **Extended Repayment Plan:** Payments can be fixed or graduated over 25 years, available for borrowers with more than $30,000 in Direct Loans.
- **Income-Driven Repayment Plans:** Payments are based on income and family size, with plans such as Income-Based Repayment (IBR), Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE). These plans can extend the repayment period to 20 or 25 years, with any remaining balance forgiven at the end of the term.

Private Loan Repayment Options generally offer fewer repayment options compared to federal loans.

- **Standard Repayment:** Fixed monthly payments over a set period, typically 10 to 15 years.
- **Interest-Only Payments:** Borrowers pay only the interest for a certain period, usually while in school or during a grace period.
- **Full Deferment:** Payments are postponed while the borrower is in school, but interest continues to accrue.

Consolidation of Student Loans

Federal Loan Consolidation: Federal student loans can be combined into a Direct Consolidation Loan, which simplifies repayment by combining multiple loans into a single monthly payment. The interest rate is a weighted average of the rates on the loans being consolidated.

Private Loan Refinancing involves taking out a new loan to pay off existing loans, potentially at a lower interest rate. This can be done with private lenders and may include both federal and private loans. However, refinancing federal loans with a private lender means losing federal benefits and protections.

Student Loan Forgiveness Programs

Public Service Loan Forgiveness (PSLF) is available to borrowers who work in qualifying public service jobs and make 120 qualifying payments under a qualifying repayment plan. After meeting these requirements, the remaining loan balance is forgiven.

Teacher Loan Forgiveness: Teachers who work in low-income schools for five consecutive years may be eligible for forgiveness of up to $17,500 on their Direct Subsidized and Unsubsidized Loans.

Income-Driven Repayment Forgiveness: Borrowers on income-driven repayment plans may have their remaining loan balance forgiven after 20 or 25 years of qualifying payments, depending on the plan.

Conclusion

Understanding the intricacies of student loans is crucial for managing debt effectively and making informed financial decisions. By exploring the different types of loans, repayment options, consolidation, and forgiveness programs, borrowers can navigate the complexities of student loans and work towards financial stability. As policies and programs continue to evolve, staying informed about changes in student loan regulations will be essential for future borrowers.

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