The Planning Quarterly

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Welcome to the final Peapack Private Planning Quarterly of 2025! As we close out the year, let's take a last look at saving on taxes with **Year-End Tax Tips**. In 2025, there have been changes to retirement accounts and we have two articles devoted to them, **Should You Roll Your 401(k) to an IRA?** and **Planning for Required Minimum Distributions**. If you are considering an out-of-state move, check the **Changing Your Domicile** article to ensure that you are complying with the legal requirements to claim your new home state for tax purposes. Many issues to consider in today's legal and tax environment! As always, please reach out to the writer or to your Advisor with questions. Best wishes for the holidays!

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Year-End Tax Tips

Patricia Daquila, CPA, MBA, CFP®
Managing Director

There is still time to take advantage of some tax strategies to save on your 2025 taxes and plan for future tax years. The One Big Beautiful Bill Act (OBBBA) was signed in July 2025, and several changes were made to the tax law.

1. Retirement Accounts in 2025

In 2025, you can contribute up to $23,500 to your 401(k) or 403(b). If you are 50 and over, you can contribute an additional $7,500 as a catch-up for a total of $31,000. In addition, in 2025 if you are age 60 to 63, you can contribute an additional $11,250 instead of $7,500. However, check with your plan. It is never too late in the year to change your contributions, and many employers match your contributions.

These limits are accumulated across multiple 401(k) plans so if you switch jobs, your combined contributions are limited to $23,500 or $31,000 if you are 50 and older, or $34,750 if age 60 to 63.

Make Qualified Charitable Contributions From Your IRA

If you are required to take minimum distributions from your taxable IRA, you can consider making a **Qualified Charitable Distribution (QCD)**. This would reduce your taxable income for the year. You would need to direct your IRA custodian to make a direct transfer of up to $108,000 from your IRA to the charity. However, you must be 70 1/2 or older to make a QCD.

2. HSAs and FSAs in 2025

If you have a high-deductible health insurance plan, you qualify to have a **Health Savings Account (HSA)**. You can contribute up to $4,300 to your HSA if you have coverage for yourself or $8,550 if you have coverage for your family. An HSA is an "above the line" deduction and reduces your adjusted gross income. You do not need to spend the HSA contributions in 2025. If you are on Medicare Part A or B, you cannot contribute towards an HSA.

A **Flexible Savings Account (FSA)**, is a way to lower your taxable income by setting aside some of your paycheck for medical expenses. The limit for 2025 was $3,300 and will be increasing to $3,400 for 2026. Your FSA funds need to be spent before the end of the year. Many companies let you roll over a portion of your funds into the next year. Consider spending your FSA by year-end.

3. Charitable Contributions in 2025

If you itemize deductions, a good strategy is to "bunch" charitable contributions into one calendar year. Another way to accomplish the "bunching" is to open a **Donor Advised Fund (DAF)**. When you contribute to a DAF, you get the full charitable deduction in the year you make the contribution. You do not have to distribute funds to charity in one year but can donate funds over several years. You can also transfer highly appreciated securities to the DAF without having to recognize any realized gains.

Also, you can donate highly appreciated securities to a charity. You get the charitable deduction for the full current market value of the security and do not have to recognize any capital gains.

The OBBBA has made several changes to charitable contributions beginning in 2026. Therefore, making charitable contributions in 2026 and beyond may yield fewer benefits. In 2026, the first 0.5% of your income given to charity will no longer be deductible. As an example, if your income is $400,000, the first $2,000 charitable contribution in 2026 will not be deductible. In 2025, there is no floor so every dollar you donate (within IRS limits) will be deductible. However, one favorable change in 2026 for non-itemizers is a new limited charitable deduction will take effect up to $1,000 for single filers and $2,000 for joint filers.

In 2026, if you are in the 37% tax bracket, charitable contributions and other itemized deductions will offset the tax at a lower 35% rate.

"The OBBBA has increased the State and Local Tax (SALT) deduction to $40,000 for those with income under $500,000."

4. Harvesting Tax Losses and Zero Capital Gain Bracket

You may want to ask your advisor about taking realized losses to offset any capital gains. This strategy may reduce your taxable income. In years where your losses outweigh the gains, you can take up to $3,000 a year of losses against income.

Also, if your income is low in 2025, then you may want to take advantage of the 0% capital gain bracket for taxable incomes under $48,350 for single and $96,700 for married filing jointly.

5. Roth IRA Contributions and Conversions

To make Roth IRA contributions in 2025, income must be below $150,000 for a single tax filer for a full contribution and $236,000 for those married filing jointly (MFJ). Partial contributions can be made if income is over the limits, but are eliminated at $165,000 for a single person and $246,000 for MFJ. The maximum Roth IRA contribution for 2025 is $7,000 if under age 50 and $8,000 if age 50 or older. The benefits of a Roth IRA are no required minimum distributions, and the distributions are not taxable.

There are no income limits to convert your traditional IRA to a Roth IRA. If you convert pretax qualified accounts from a plan such as an IRA, the conversion would be taxable in the year that you convert. A strategy called a "backdoor Roth conversion" is used by high earners that may not qualify to make a Roth contribution. They contribute to a non-deductible IRA and convert the after-tax IRA to a Roth IRA. This strategy is only appropriate if the owner does not have any other IRAs.

A potential strategy in Roth conversions is to manage your conversions over several years. The years between retirement and before you start taking your RMDs may be a great time to consider making a Roth conversion. However, your modified adjusted gross income can impact Medicare premiums under the Income-Related Monthly Adjustment Amount (IRMAA) in future years. Keep in mind that Medicare premiums are based on your income from two years prior. Consult your tax accountant if considering a Roth conversion.

6. Gifting

An individual can give up to $19,000 to another individual in 2025 without impacting their lifetime gift exemption. In addition, an individual can directly pay educational expenses or medical expenses without impacting either their annual gift exclusion or their lifetime gift exemption.

7. SALT Deduction

The OBBBA has increased the State and Local Tax (SALT) deduction to $40,000 for those with income under $500,000. For those with income from $500,000 to $600,000, the deduction is decreased incrementally to $10,000 and SALT is capped at $10,000 for those with income of $600,000 or more. Many taxpayers living in high tax states may be able to itemize in 2025 because of the SALT deduction change. Be mindful of recognizing additional income that may push you above $500,000.

These tax strategies may help you with your year-end tax planning. If you are considering any of these strategies, we recommend that you contact your tax advisor.

Contact the author with any questions: Patricia Daquila at (908) 719-6545 or pdaquila@peapackprivate.com

Should You Roll Your 401(k) to an IRA While You're Still Working?

Sarah Vehap, CFP®
Wealth Planner

If you've been contributing to your 401(k) for years, you might assume rollovers only happen when you retire or leave your employer. But in some cases, you can do it while still working and it might be a smart move.

This process, called an **in-service rollover**, can offer more control, better investment options, and even tax advantages. But it's not for everyone. Let's explore the pros, cons, and examples so you can decide if it's right for you.

Can You Even Do This?

Yes, but not always. It depends on your plan's rules. Some employers allow in-service rollovers starting at age 59½; others don't. Some plans only allow partial rollovers or limit how often you can do them. Before making plans, check with HR or your plan administrator and confirm any restrictions or paperwork requirements.

Why People Consider Rolling Over

More Investment Choices: Most 401(k)s offer a limited menu of mutual funds. IRAs open the door to individual stocks, bonds, ETFs, REITs, and even alternative investments. If you want more flexibility or access to specialized strategies, an IRA gives you that freedom.

Lower Fees: Some 401(k)s carry high administrative costs or expensive fund options. With an IRA, you can shop for custodians with lower fees and keep more of your money working for you.

Greater Control: The 401(k) plan trustee calls the shots. That can mean blackout periods or limited access. With an IRA, you're in the driver's seat managing investments, distributions, and strategy on your terms.

Better Estate Planning: IRAs often allow more nuanced beneficiary designations, including trusts, and can offer flexible distribution strategies. That's a big deal if legacy planning matters to you.

Downside Protection: Some IRAs offer structured products, annuities, or CDs that aren't available in most 401(k)s. These can help protect gains as you approach retirement.

Why You Might Want to Stay Put

Stronger Creditor Protection: 401(k)s are protected under Employee Retirement Income Security Act of 1974 (ERISA), offering robust safeguards against creditors. IRA protections vary by state and are generally weaker.

Institutional Pricing: Large 401(k) plans often get access to institutional share classes with lower expense ratios. You might lose that pricing advantage in an IRA.

Company Stock Tax Benefits: If your 401(k) includes appreciated company stock, rolling it into an IRA could trigger higher taxes. There's a strategy called Net Unrealized Appreciation (NUA) that lets you transfer the stock to a taxable account and pay capital gains tax instead of ordinary income tax but only if you don't roll the stock into an IRA.

Loan Options: 401(k)s often allow loans. IRAs don't. If you think you might need to borrow against your retirement savings, keeping your 401(k) intact could be the better choice.

RMD Flexibility: If you're still working past your Required Beginning Date (age 73, or for people born 1960 or later age 75), you may be able to delay Required Minimum Distributions (RMDs) from your current 401(k). With an IRA, you'll have to start taking RMDs regardless of your employment status.

"Rolling over your 401(k) while working isn't one-size-fits-all. It depends on your age, your plan rules, goals, and tax situation."

Tax Implications You Should Know

A **direct rollover** from a traditional 401(k) to a traditional IRA has no immediate tax impact, your money stays tax-deferred.

Rolling a **pre-tax 401(k) to a Roth IRA** is a **Roth conversion**, triggering income tax on the converted amount. This can be smart if you expect higher future tax rates, but it requires careful planning and possibly spreading conversions over several years.

Avoid **indirect rollovers** where funds come to you first. Employers withhold 20% for taxes, and you must redeposit the full amount within 60 days or face penalties. Miss the deadline or fail to replace the withheld amount, and it's considered a taxable distribution.

Real-Life Examples

Maria, 60: Her 401(k) only offers target date funds and a few large-cap mutual funds. She wants individual stocks and REITs. Her plan allows in-service rollovers, so she moves half of her 401(k) to a traditional IRA for better diversification.

James, 58: He discovered his 401(k) charges 1.50% in annual fees. He found an IRA provider that charges just 0.75%. His plan allows in-service rollovers, so he transfers his balance and saves thousands over the next decade.

Priya, 62: Priya expects to be in a higher tax bracket in retirement. She rolls part of her traditional 401(k) to a Roth IRA, pays taxes now while she's in a lower bracket, and sets herself up for tax-free withdrawals later.

Tom, 65: Tom's 401(k) includes highly appreciated company stock. His advisor warns him that rolling it into an IRA would eliminate the chance to use NUA tax treatment. Instead, Tom transfers the stock to a taxable brokerage account and pays capital gains tax, saving thousands.

Linda, 70: Linda is still working and doesn't want to take RMDs yet. Her 401(k) allows her to delay RMDs while employed. If she rolled it into an IRA, she'd be forced to start withdrawals. She leaves her 401(k) alone.

Key Questions to Ask Yourself

- Does your plan allow in-service rollovers?
- Are you at least 59½?
- Do you want more investment options or control?
- Are your 401(k) fees higher than IRA alternatives?
- Are you considering Roth conversions or NUA?
- How strong is creditor protection in your state?
- Do you need access to loans?
- Are you still working past your Required Beginning Date for RMDs (age 73, or for people born 1960 or later age 75)?

Final Thoughts

Rolling over your 401(k) while working isn't one-size-fits-all. It depends on your age, plan rules, goals, and tax situation. For some, it means more control and lower fees; for others, it could mean losing protections or triggering taxes.

The best move? Talk to a financial advisor who understands your full picture. If you're eligible, take time to weigh the pros and cons before acting.

Contact the author with any questions: Sarah Vehap at (908) 466-8404 or svehap@peapackprivate.com

Strategic Planning for RMDs

Colleen McCormick, CFP®
Managing Director

Retirement once seemed simple: sign up for Social Security, collect your pension, and enjoy a well-earned rest. Today, the landscape is far more complex. Retirement now brings a new set of financial responsibilities, and at the top of the list are **Required Minimum Distributions (RMDs).** These mandatory withdrawals from tax-deferred accounts can trigger costly tax consequences if mismanaged. Whether you're preparing for retirement or already living it, understanding the mechanics of RMDs and planning strategically is key to safeguarding wealth, reducing tax burdens, and maintaining financial flexibility.

What Are RMDs?

RMDs are the federal government's mechanism for ensuring that tax-deferred retirement savings eventually become taxable income. These withdrawals are not optional: beginning at age 73 or 75 for individuals born in 1960 or later, as outlined in the SECURE 2.0 Act, retirees must begin taking annual distributions from certain retirement accounts.

Accounts subject to RMDs include:

- Traditional IRAs
- SEP and SIMPLE IRAs
- Employer-sponsored plans such as 401(k)s, 403(b)s, and 457(b)s
- Inherited retirement accounts

Notably, Roth IRAs are exempt from RMDs during the original owner's lifetime. However, inherited Roth IRAs are subject to RMD rules, often requiring full distribution within 10 years.

Why RMD Planning Matters

RMDs are more than a government-imposed rule. They can have far-reaching implications for your financial health. These include:

Taxable Income Surges: RMDs count as ordinary income, potentially pushing retirees into higher tax brackets. This can affect not only federal income taxes but also state taxes, depending on your jurisdiction.

Medicare Premiums: Increased income may trigger higher premiums under the Income-Related Monthly Adjustment Amount (IRMAA), which applies to Medicare Part B and Part D. Even modest increases in income can push retirees into higher IRMAA tiers.

Social Security Taxation: RMDs can cause a larger portion of Social Security benefits to become taxable.

Estate Planning Challenges: Large RMDs can erode the value of tax-deferred accounts passed to heirs.

How RMDs Are Calculated

The IRS uses its Uniform Lifetime Table to determine RMDs, factoring in age and account balance as of December 31 of the prior year. For example, a 73-year-old with a $500,000 IRA would divide that amount by 26.5, yielding an RMD of approximately $18,867.

It is important to note:

- RMDs from multiple IRAs can be aggregated and withdrawn from a single account.
- RMDs from employer-sponsored plans like 401(k)s must be taken separately from each account.
- Inherited accounts follow different rules, as discussed below.

Strategies to Reduce the Impact of RMDs

Proactive planning can help reduce the tax impact of RMDs. Here are five of the most effective:

1. Roth Conversions

Converting traditional IRA funds to a Roth IRA before RMDs begin can reduce future taxable income. These conversions are taxable in the year they occur, so timing is key, ideally during lower-income years, such as early retirement or gap years.

2. Qualified Charitable Distributions (QCDs)

Individuals aged 70½ or older can donate up to $100,000 annually from an IRA directly to charity. This satisfies the RMD and excludes the amount from taxable income, a win-win for philanthropy and tax planning.

3. Delaying RMDs from Employer Plans

If you are still working past age 73 and own less than 5% of your company, you may be able to delay RMDs from your current employer's 401(k).

4. Account Consolidation

Managing multiple retirement accounts increases the risk of missing an RMD. Consolidation simplifies oversight and may reduce fees.

5. Strategic Use of RMDs

Rather than viewing RMDs as a tax liability, consider using them to fund lifestyle expenses, to reinvest in taxable accounts, or to support family gifting.

Advanced Planning Techniques

For retirees with more complex financial profiles, advanced strategies can further optimize RMD management:

Tax Bracket Management: Use Roth conversions to "fill" lower tax brackets before RMDs begin. This can reduce lifetime tax liability and smooth income over time.

Asset Location Optimization: Place tax-efficient investments (e.g., index funds, municipal bonds) in taxable accounts and tax-inefficient assets (e.g., REITs, high-yield bonds) in tax-deferred accounts. This improves after-tax returns and aligns investment strategy with withdrawal planning.

Charitable Legacy Planning: Tools like QCDs and charitable remainder trusts (CRTs) can fulfill RMD requirements while supporting causes you care about.

"Rather than viewing RMDs as a tax liability, consider using them to fund lifestyle expenses, to reinvest in taxable accounts, or to support family gifting."

What If You Miss an RMD?

If an RMD is missed, swift action is essential. The IRS allows individuals to file Form 5329 and to request a waiver of the penalty (up to 25% of the amount not withdrawn) if reasonable cause can be demonstrated and corrective action is taken.

Common reasons for missed RMDs include account confusion, miscommunication with custodians, or misunderstanding the rules for inherited accounts. Your financial advisor can help navigate the correction process and minimize penalties.

Inherited IRAs

The SECURE 2.0 Act brought major changes to inherited IRA distribution rules, most notably ending the 'Stretch IRA' option for most beneficiaries. Previously, non-spouse beneficiaries could stretch distributions over their lifetime, allowing tax deferred growth for decades.

Under current regulations, SECURE 2.0 enforces the 10-year rule, meaning most inherited IRAs must be fully distributed within 10 years of the original owner's death and requires annual RMDs for years 1-10 if the decedent had started RMDs before death. There are exemptions for surviving spouses, minor children, disabled or chronically ill individuals, or beneficiaries within 10 years of the original owner's age.

Inheriting a sizable IRA in high-income years can potentially push beneficiaries into higher tax brackets. Consider these strategies:

1. Spread Withdrawals Over the 10-Year Window

Instead of taking a lump sum (which could push you into the highest tax bracket), spread distributions across the 10 years allowed by the SECURE 2.0 Act. This helps manage marginal tax rates and avoid a massive one-year tax hit.

2. Consider Roth Conversions Before Death

If the original IRA owner is still alive, encourage Roth conversions. Roth IRAs inherited by non-spouse beneficiaries are still subject to the 10-year rule, but withdrawals are tax-free, which is a huge advantage for high-income heirs.

3. Consider Trust Structures Carefully

If the IRA passes through a trust, confirm whether it is a conduit or accumulation trust. Trust taxation can be punitive if not planned properly.

Looking Ahead

RMDs are an unavoidable part of retirement, but with thoughtful planning, they need not derail your financial strategy. Starting at least five years before RMDs begin allows time to explore Roth conversions, charitable giving, and income smoothing techniques that can make a meaningful difference.

Treat RMD planning not as a burden, but as an opportunity one that, when approached strategically, can enhance retirement security, reduce tax exposure, and support long-term goals.

Contact the author with any questions: Colleen McCormick at (973) 396-8386 or cmccormick@peapackprivate.com

Considerations for Changing Your Domicile

Christopher Colombo
Senior Managing Director

The decision to relocate to a new home involves a tremendous amount of time and effort with regards to the administration of your personal affairs. This type of move also brings into play the myriad complexities involved in establishing the new home as your legal domicile.

Many individuals change their domicile for a variety of reasons not the least of which involves a desire to reduce or avoid state income taxes they are subjected to in their current State. To benefit from a move to a low-tax State, taxpayers must prove they have established their domicile in that State. Changing domicile requires intent as well as actions demonstrating the taxpayer has abandoned their prior domicile and taken steps to establish a new domicile with the intention of remaining indefinitely.

"Changing a taxpayer's State domicile is a legal matter. Therefore, it is strongly recommended that independent legal and tax advisors review key documents and provide advice tailored to the individual's specific situation before undertaking any action."

Regardless of the impetus for change, it's important to understand that States are challenging claims of former residents of changes in tax domiciles with greater frequency and ferocity. The following is a checklist of items for the taxpayer to consider when establishing a new domicile. Although there are no definitive set of rules or actions to follow, fulfilling as many of these items as possible may strengthen the taxpayer's assertion regarding a change if challenged.

Documentation:

- [ ] Forward all mail to new State address and use it for all interactions and correspondence
- [ ] Obtain a driver's license in new State / cancel former license
- [ ] Change title and registration of automobiles and boats to new State
- [ ] Register to vote in new State (vote in person whenever possible)
- [ ] Cancel voter registration in former State
- [ ] Notify all insurers of new address and file change of address with carriers
- [ ] File Affidavit of Domicile with County Clerk of new State
- [ ] Register new address with the Social Security Administration

Residence:

- [ ] Transfer title of residence in former State into the name of a trust governed by law in new domicile
- [ ] Apply for homestead exemptions in new State
- [ ] Sell or downsize residence in former State

Income Tax Returns:

- ☐ File U.S. returns and make estimated payments from new address
- ☐ Discontinue filing resident returns in former State
- ☐ File non-resident income tax returns in states other than new State using new address

Account Records:

- ☐ Change mailing address to new State on all banking and financial accounts
- ☐ Have all income, pension, investment income and other checks mailed to new address

Estate Planning:

- ☐ Have estate plan reviewed by attorney in new State
- ☐ Amend Wills & Revocable Trust to cite change in residency
- ☐ Execute new estate planning documents in new State

Miscellaneous:

- ☐ Plan to spend as much time as practical in new State with a minimum target of 183 days
- ☐ Maintain records of days spent in both new and former States
- ☐ Plan to spend more days in new domiciliary State than in former
- ☐ Establish memberships in civic, community and religious affiliations in new State
- ☐ Change status as out-of-state Member in clubs to resident Membership
- ☐ Relocate personal effects (i.e. artwork; family photos) & other personal items to new State
- ☐ Consider establishing relationships with primary professional and health providers

Changing a taxpayer's State domicile is a legal matter. Therefore, it is strongly recommended that independent legal and tax advisors review key documents and provide advice tailored to the individual's specific situation before undertaking any action.

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Contact the author with any questions: Christopher Colombo at (973) 276-0840 or ccolombo@peapackprivate.com