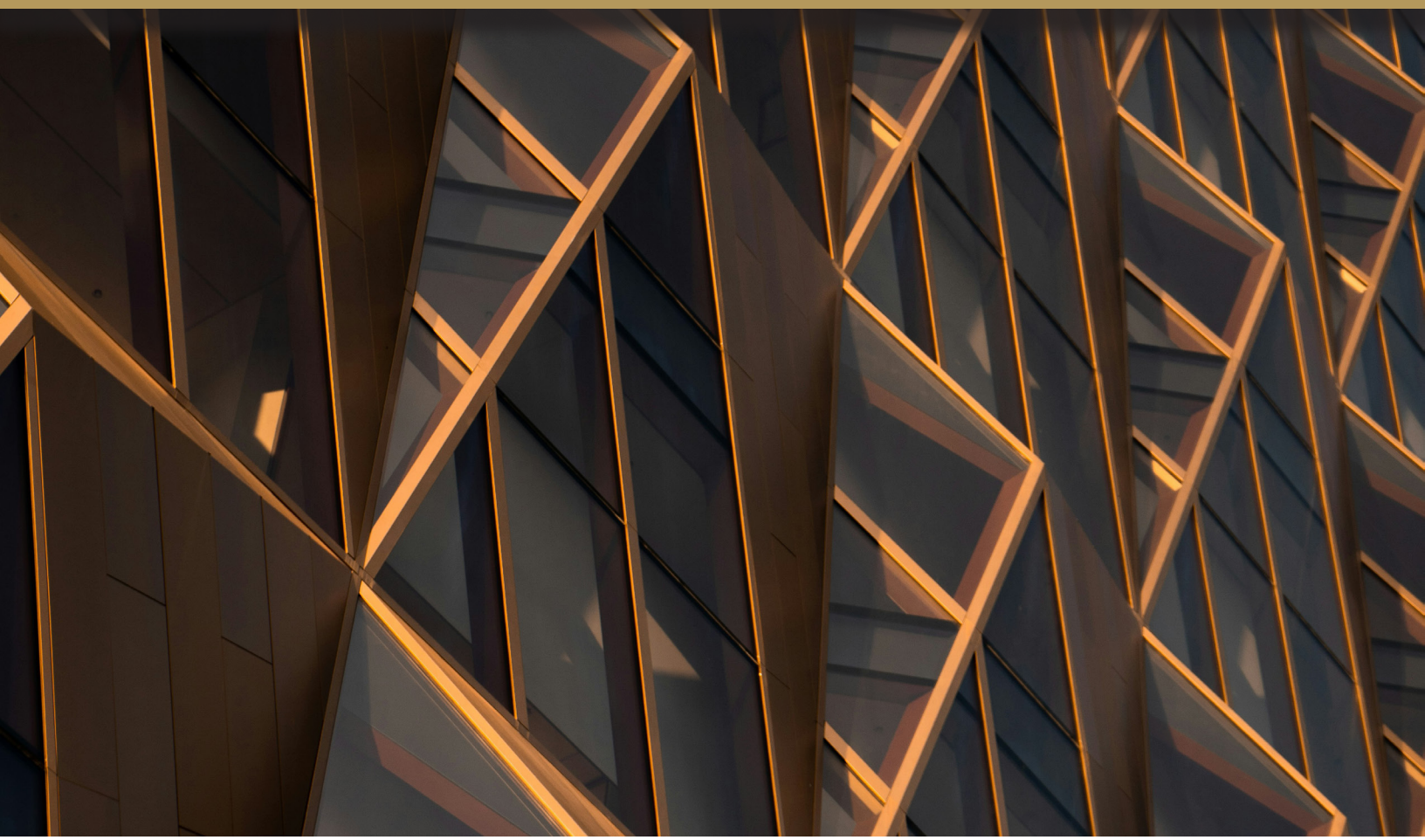
The Planning Quarterly

Issue 21 | September 2025



Peapack Private

Welcome to this year's third quarter edition of the Peapack Private Planning Quarterly. With the passage of the "One Big Beautiful Bill Act" on July 4, 2025, there are some tax law changes to consider. Specifically, in this issue we discuss the new Trump accounts for parents and their children and some estate planning changes for those preparing their estate documents. Owners of closely held businesses could benefit from reading the Connelly decision and its impact on business valuation. Also, those contemplating their Social Security benefits may want to read about taking them early. A variety of topics – enjoy!

peapackprivate.com

Click to jump to a desired article

What are Trump Accounts? A Quick Look at These New Savings Tools

Sarah Vehap, CFP®
Wealth Planner

There's a good chance you've heard about Trump Accounts, but what exactly are they? Signed into law this summer, they are a new type of tax-deferred savings account for children, created by the One Big Beautiful Bill Act (OBBBA, July 4, 2025). They are designed to give minors a financial head start combining a one-time government deposit, private contributions, and employer benefits—all growing tax-deferred until adulthood. Each account functions like a custodial traditional IRA, with contributions made after-tax and earnings growing tax-deferred until withdrawal.

In this article, we'll explore key features of the accounts, how they compare to existing savings options, possible use cases, and tax and financial aid considerations. We'll also outline aspects that are yet to be resolved.

Key Features of Trump Accounts

1. Eligibility and Setup

- Available for any child under 18 with a Social Security number
- No income or citizenship requirement to open, but the $1,000 federal seed deposit is limited to U.S. citizen children born between 2025–2028
- Accounts may be automatically created by the Treasury or opened by parents starting January 1, 2026 (Operational details are pending)

2. Contributions

- Federal seeding: $1,000 for eligible newborns (2025–2028)
- Annual limit: Up to $5,000/year in after-tax contributions from family or friends (May be indexed for inflation after 2027, to be confirmed)
- Employer contributions: Up to $2,500/year, tax-free to the employee, counted toward the $5,000 cap
- Nonprofit/government contributions: Allowed beyond the cap if given to a "qualified class" of children (Note, the bill does not yet provide a detailed definition of "qualified class" of children)

3. Investment Rules

- Funds must be invested in low-cost, diversified U.S. stock index funds (e.g., S&P 500)
- No individual stocks, bonds, or sector funds allowed
- Expense ratios must be ≤0.1%

4. Tax Treatment

- Contributions are not deductible
- Earnings grow tax deferred
- Withdrawals are taxed as ordinary income, with a 10% penalty if taken before age 59½ unless an IRA exception applies (e.g., college, first home):
  - Contributions (after-tax) may be withdrawn tax-free
  - Earnings are taxed and may incur penalties unless exceptions apply
  - Pro-rata rules apply to withdrawals

5. Access and Control

- No withdrawals allowed before the year the child turns age 18
- At age 18, the account becomes the child's traditional IRA, with full control
- No required distributions until retirement age (No forced liquidation at a specific age, as was proposed earlier. Required minimum distributions will begin at standard IRA age – e.g., current RMD ages are 73 or 75 depending on birth year)

Key Features of Trump Accounts

Feature	Trump Account	529 Plan	Custodial Roth IRA	UTMA/ UGMA	Trust
Contribution Limit	$5,000/year + $1,000 seed	No IRS limit; state caps	$7,000 or child's earned income	No defined limit	No defined limit
Tax on Growth	Tax-deferred	Tax-free if used for education	Tax-free	Taxable annually	Taxable unless structured
Tax on Withdrawals	Taxable + possible penalty	Tax-free for education	Tax-free if qualified	Capital gains	Varies by structure
Control of Funds	Child at 18	Parent indefinitely	Child at 18/21	Child at 18/21	Trustee per terms
FAFSA Impact	Tentative (to be confirmed by Department of Education	Counted as parent asset	Often excluded, however, depends on ownership and timing of withdrawals	Counted as student asset	Varies
Estate Planning	Gift removed from estate	Gift removed; owner retains control	Gift removed	Gift removed	Removed from estate

When to Use Trump Accounts

Trump accounts can be useful in a variety of situations. For example, families who want to diversify savings beyond education or parents seeking flexible long-term savings for children. Additionally, employers offering family-friendly benefits or grandparents making modest annual gifts could be use cases for Trump accounts.

Conversely, they may be less likely used by families focused solely on college savings (529 plans are considered more optimal); children with earned income eligible for Roth IRAs (Roth is more tax-efficient); and parents wanting control past age 18 (trusts offer more flexibility).

Tax and Financial Aid Strategy

Tax and financial aid strategies include avoiding withdrawals during college to preserve aid eligibility. Note, there are penalty exceptions for withdrawals for education, first home, or disability. Additionally, converting the account to a Roth IRA during low-income years to lock in tax-free growth could make sense; however this strategy is still pending IRS guidance. Lastly, it is critical to coordinate with other accounts to optimize tax and financial aid outcomes.

Unresolved Questions (Pending IRS/Treasury Guidance)

- How accounts will be opened and managed
- Which financial institutions will serve as custodians
- Whether Roth conversions are explicitly allowed
- How employer plans will be implemented and reported
- How excess contributions will be tracked and corrected
- Whether they will be counted as assets by FAFSA

In Closing - Should You Open a Trump Account?

The short answer is yes, if your child is eligible. Claim the $1,000 federal deposit because it is free money that can grow for decades, but don't confuse Trump Accounts with 529s or Roth IRAs. Each has a distinct role. So far, general commentary notes that 529s are optimal for education. Roth IRAs are strong recommendations for retirement (if the child has income). Trump Accounts are appropriate for flexible long-term goals—especially if you want to give your child a financial foundation for adulthood and retirement.

Deciding which account or which combination of accounts to use can be unclear. One way to look at them is, using the accounts in conjunction with each other can be useful – just don't confuse their purpose or advantage.

There is still some uncertainty about some elements of the Trump accounts, but the details will likely be rolled out over the next few months. For clarity on the differences and the benefits of various accounts available to your child, please consult your Relationship Manager.

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

Own a Closely Held Business? – Beware of *Connelly*

Christopher J. Colombo, CPA, MBA
Senior Managing Director

If you're a business owner, then you likely have a business succession plan that delineates the purchase or sale of a co-owner's share of the business in the event of their death.

In common buy-sell arrangements, the business agrees to purchase a departing owner's interest under specific circumstances (e.g., death). This type of agreement is often used in closely held businesses to ensure smooth transition and prevent ownership from falling into the hands of outsiders. The company typically funds the purchase through its own resources or, more commonly, any such redemption obligation is funded by company owned life insurance on the lives of the principals.

A recent Supreme Court decision, Connelly v. United States ("Connelly"), underscores the importance for closely held businesses to understand how life insurance proceeds used for ownership redemptions are treated when valuing the entity for estate tax purposes. Namely, whether the proceeds of a life insurance policy owned by a corporation to facilitate the redemption of a shareholder's stock should be considered a corporate asset in valuing the deceased shareholder's shares for estate tax purposes. The decision is a potential obstacle for small business owners when dealing with redemption agreements upon the death of a shareholder.

Prior to Connelly, it was held that a redemption agreement is an obligation of the business to buy the shares. This obligation, for valuation purposes, offsets life insurance proceeds received by the business to redeem the deceased owner's shares. However, the Court in Connelly had a different view and held that, for federal tax purposes, the corporation's obligation to purchase a deceased owner's shares under a redemption agreement is not a liability that reduces a corporation's value for purposes of the federal estate tax.

Let's understand the Connelly situation a little better. Two brothers, Michael and Thomas Connelly, co-owned a business named Crown C Supply. There was a buy-sell agreement in place that dictated the company purchase a deceased owner's share of the business in the event of his passing. To ensure sufficient cash was on hand to fulfill these obligations, the company purchased life insurance policies with $3.5 million death benefits on each brother's life.

Michael Connelly passed away and the business received $3.5 million from the insurance policy it owned on Michael's life. Crown C Supply agreed to purchase Michael's ownership interest for $3 million as outlined in the buy-sell arrangement. Michael's estate received $3 million in cash and filed an estate tax return valuing Michael's stock at $3 million. In arriving at this valuation, the Executor excluded the value of the life insurance proceeds received when calculating the company's value included in his estate, arguing the value was offset by the company's obligation to redeem the estate's shares.

The IRS's argument, upheld by the Supreme Court, was that Michael's estate undervalued his shares as the purchase price did not account for the $3.5 million death benefit received by the business. As a result, the estate should have valued Michael's ownership interest based on that higher valuation. In summary, the life insurance proceeds the company received should have been included when arriving at a fair market valuation of Crown C Supply.

While Connelly does not change the tax code, it likely alters the manner in which businesses are valued when company-owned life insurance is used to fund the purchase of a deceased owner's interest. Previously, business owners relied on case law that held a contractual liability to use life insurance proceeds to purchase a decedent shareholder's interest in a corporation would negate the need to include those insurance proceeds in the corporation's valuation for estate tax purposes.

"While Connelly does not change the tax code, it likely alters the manner in which businesses are valued when company-owned life insurance is used to fund the purchase of a deceased owner's interest."

The Connelly ruling represents a significant shift in how the IRS views the valuation of businesses that utilize life insurance strategies by including death benefit proceeds, when valuing the business interest of the deceased insured.

A logical question is if a business owner does not have a taxable estate, does the Connelly decision pose a problem? Since the inclusion of life insurance proceeds increases the value of a business then non-estate tax issues such as step-up in basis and redemption price will likely also become an issue.

For example, say XYZ Company is valued at $10 million, where Owner A owns 80% and Owner B the remaining 20%. A redemption agreement dictates the Company will purchase a deceased owner's share of the company from his estate in the event of his passing at fair market value. To fund these purchases, company owned life insurance policies of $8 million and $2 million are taken on the lives of the respective owners.

Owner A passes away, and the Company receives $8 million in life insurance proceeds. Using Connelly as a guide, in accordance with the redemption agreement the Company must purchase deceased Owner A's 80% interest for $14.4 million ($10 million + $8 million proceeds x 80%). As neither the Company nor the surviving owner has the resources to fund this level of unforeseen redemption, the likely outcome is that Owner B will be left with little or no equity after satisfying the obligation, potentially resulting in an unwanted liquidation of the business.

What does this mean for business owners? Revisit existing redemption agreements that rely on company owned life insurance paying particular attention to:

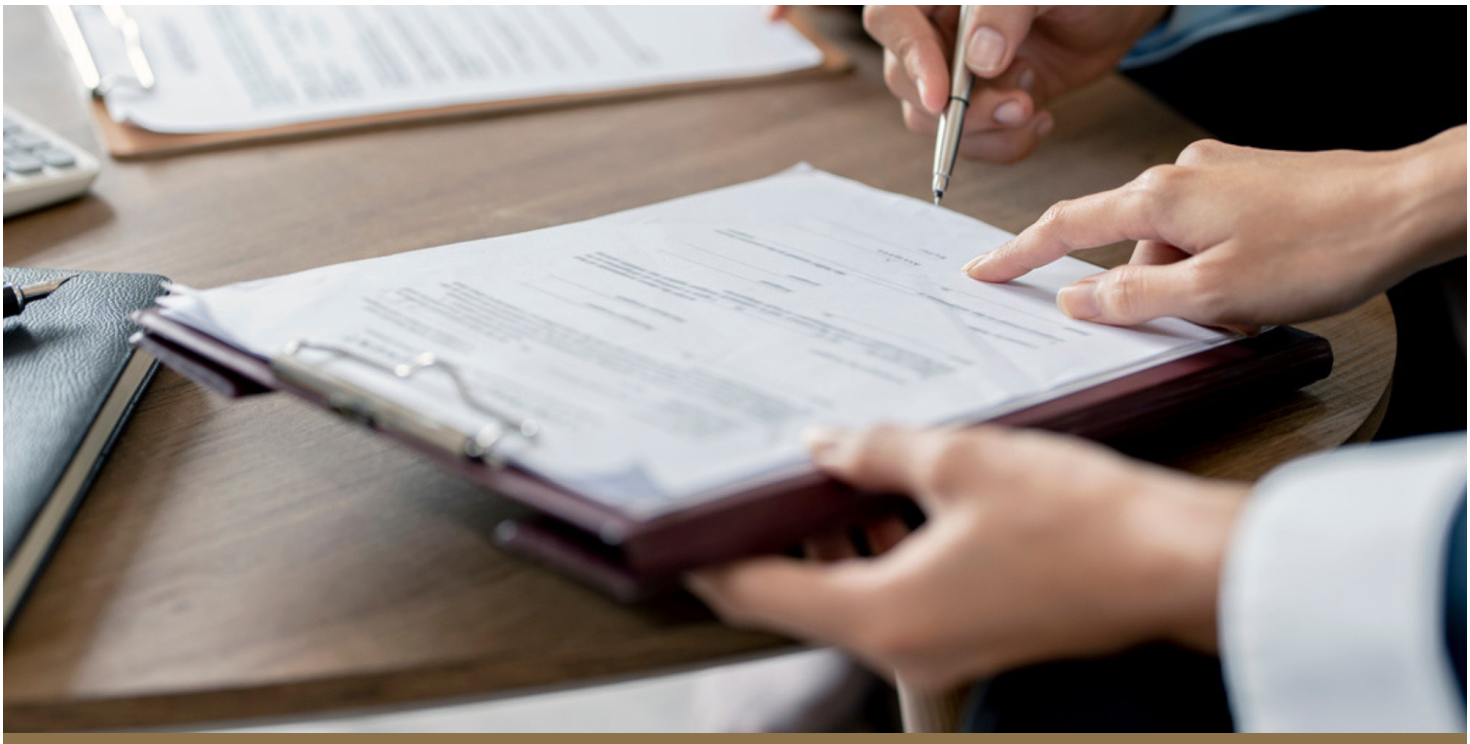
- How does the agreement specify the calculation of redemption price of a deceased owner's share?
- Has there been significant changes in the value of the business since the date of the agreement?
- Has there been a change in ownership structure or percentages?
- Does the business have sufficient liquidity to meet redemption requirements and continue operations?

In situations where a limited number of owners exist, consider alternative structures, such as cross-purchase agreements, to avoid potential inclusion of life insurance benefits in the company's valuation. This arrangement is where shareholders personally purchase life insurance policies on one another and agree to purchase the shares upon the death of a co-owner. This theoretically ensures the insurance proceeds go directly toward purchasing a deceased owner's shares without inflating the value of the company by the insurance proceeds.

Other options to consider include:

- Have the business purchase additional insurance coverage; however, this could result in an issue of circular logic when calculating the value of the business
- Use an irrevocable life insurance trust to maintain the policies and resulting death benefits outside of the business
- Consider alternative funding mechanisms such as installment sales or standby third-party financing

If estate taxes are a concern, reconsider entity purchase agreements funded with business-owned life insurance, as the Connelly decision could increase the value of an estate potentially leading to higher estate taxes. Regardless, a purchase price agreed to by shareholders, while legally binding on the parties, can lead to bad outcomes and unintended consequences. Therefore, it's recommended that business owners coordinate with their advisors to review existing buy-sell arrangements and verify the manner in which they are structured and funded, as these agreements can significantly impact the business's valuation and long-term viability.



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

Taking Social Security Early: A Smart Move for Affluent Retirees?

Matthew Yard, CFP®
Wealth Planner

For many Americans, Social Security benefits act as the foundation of their retirement planning. It is the lifeboat that keeps them afloat and provides a reliable stream of income needed to meet their basic needs. Because of this, conventional wisdom has long encouraged the idea of delaying social security benefits until age 70 "maximize" the monthly benefit and protect against longevity risk. But for wealthy individuals, with substantial assets, multiple retirement income streams, and minimal reliance on social security to fund their lifestyle, this advice may not be optimal.

When it comes to high-net-worth retirees, there may be an agreement against this conventual wisdom. For those with sufficient assets, claiming social security early, even at age 62, can be an appropriate strategy that increases liquidity, improves tax efficiency and supports legacy planning. The key is to shift the mindset away from maximization and focus on how social security benefits can best fit into a broader financial strategy.

Breakeven – Why Delaying Isn't Always Optimal

Many people delay claiming Social Security because they believe waiting will result in a higher lifetime payout. While it's true that monthly benefits increase the longer the recipient waits, the real question is whether the recipient will live long enough for that strategy to pay off. If he lives into his late 80s or 90s, delaying may result in more total income. While it is important to consider trends in family longevity, if life expectancy is closer to average or if health or family history indicates a shorter retirement horizon, claiming earlier could lead to a greater overall benefit.

Strategic Uses of Early Benefits

For high-net-worth individuals, the decision isn't just about longevity, it's about opportunity. With less concern about running out of money, claiming Social Security early may be a way to enhance flexibility within the overall financial plan. The income received by taking benefits early can be used to reduce portfolio withdrawals, allowing investments to continue growing. Having additional liquidity allows individuals to fund long-term care or life insurance premiums, to support annual gifting, or to fund irrevocable trusts. Having access to this income during the most active years of retirement gives wealthy retirees more control over how and when they use their resources.

The strategy of taking Social Security benefits early can be even more impactful when coordinated properly with a spouse. For example, a spouse with a smaller benefit may choose to claim their own benefit early, providing them with immediate income early in retirement, while the higher earning spouse delays benefits to maximize the payout. Once the higher earning spouse begins receiving benefits, the first spouse can opt to receive spousal benefits, which is typically 50% of the higher earners amount. This strategy can help support cash flow needs early in retirement, while preserving other assets for long term planning.

Insolvency Concerns

Another factor worth considering when determining when to take Social Security benefits is the long-term stability of the Social Security system. While insolvency is unlikely, the program faces challenges and uncertainty that could lead to benefit reductions or increased taxes in the future. Deciding when to claim social security isn't just a financial decision, it is also an emotional decision. Often, the greatest goal is simply the peace of mind that comes from knowing your Social Security benefits are secure.

Social Security Benefits in the Full Financial Picture

For wealthy individuals, Social Security should be viewed as a tool and not a fixed formula. While delaying benefits to maximize the payout may be suitable for many people, it is not a one size fits all approach. Ultimately, the decision on when to claim Social Security benefits boils down to how it can best contribute to cash flow and support long-term goals, while still providing peace of mind.

If you are curious as to how Social Security benefits can best support your financial goals, make sure to reach out to a Certified Financial Planner who can help you analyze different Social Security strategies that optimize benefits while supporting overall cash flow planning.

Contact the author with any questions: Matthew Yard at (908) 698-1056 or myard@peapackprivate.com

Estate Taxes and NJ Inheritance Taxes

Pat Daquila, CPA, CFP®
Managing Director

On July 4, 2025, President Donald Trump signed the one Big Beautiful Bill (OBBBA) into law. This bill made significant changes to the U.S. Estate Tax. The estate tax exemption, which is currently $13.99 million in 2025, was set to sunset on January 1, 2026. The estate tax exemption would have been reduced to approximately $7 million in 2026. However, with the OBBBA tax bill the estate tax exemption has been permanently increased to $15 million for every individual and is indexed for inflation in future years. The estate tax rate remains at 40% and portability will continue for the surviving spouse. For married couples, this will allow them to transfer approximately up to $30 million for future generations in 2026. Also, the generation skipping tax (GST) will be adjusted to match the estate tax exemption.

The increase in the exemption will provide more flexibility for individuals with their estate planning. If an individual has already used their lifetime exemption for gifting, the increase of the exemption in 2026 to $15 million will allow additional gifting for those that may have used their full exemption previously. For example, if you used your full exemption in 2024 of $13.61 million, in 2026 when the exemption is raised to $15 million you would still be allowed to gift an additional $1.39 million and stay within the federal estate tax exemption.

"On July 4, 2025, President Donald Trump signed the one Big Beautiful Bill into law. This bill made significant changes to the U.S. Estate Tax."

The federal annual gift tax exclusion in 2025 remains unchanged, which is currently $19,000 per individual donor. The first $19,000 gifts made to each donee are excluded from a donor's taxable gifts. In addition to the annual gift exclusion, a donor can also make unlimited payments of direct gifts to qualified medical and educational expenses without any gift tax implications. For example, a grandparent can pay their grandchild's college tuition to Rutgers University directly or pay their daughter's medical bill to the hospital without impacting their exemption.

However, one thing to keep in mind is that even though the federal estate exemption has increased in 2026 to $15 million, many states still have much lower estate tax exemptions than the federal exemption and some states may also impose an inheritance tax. When consulting with an attorney about estate planning, the state that you are living in and or planning to move to should be addressed. In fact, if you move to a new state, it is always advisable to have your current estate documents reviewed.

As of 2025, New Jersey and seventeen other states impose either an estate tax or an inheritance tax even if the estate is exempt from federal estate tax. The 2025 state estate tax exemptions range from no exemption for Pennsylvania's inheritance tax to $13.99 million in Connecticut. The 2025 New York estate tax exemption is $7.16 million. However, the New York estate tax exemption is called a "cliff tax." If the value of the estate in New York is more than 105% of the current exemption ($7.16 million), the exemption is not available. State laws are frequently changing so it is always advisable to check your state's website to verify their current laws.

Let's take a deeper look at the New Jersey inheritance tax. On January 1, 2018, New Jersey phased out its state estate tax entirely. However, under current law, an inheritance tax may still be imposed.

There are two types of inheritance tax in New Jersey, resident and non-resident. For inheritance tax purposes, it does not matter which state the beneficiaries live in. Instead, it is based on where the decedent lived when they passed. A resident decedent is an individual who legally resided in New Jersey at the time of their death. A non-resident decedent is someone who died as a legal resident of another state or foreign county.

The New Jersey inheritance tax depends on many different factors including:

- Who the beneficiaries are and what their relationship is to the decedent
- The date of death value of the assets the decedent owned
- What type of assets that the decedent owned
- Whether the decedent lived in New Jersey or in another state

For New Jersey residents, inheritance tax is due on the estate if the beneficiary who is inheriting the assets is not either class "A" or a class "E." Class "A" beneficiaries for both resident and non-resident decedents include father, mother, grandparent, spouse or civil partner, domestic partner, child or children, adopted child or children of the decedent, issue of any child which is legally adopted of the decedent and stepchild but not step-grandchild of the decedent. A class "E" beneficiary is exempt from inheritance tax which includes qualified charities and 501(c)(3) organizations, religious institutions, educational and medical institutions, non-profit or scientific institutions and the State of New Jersey.

Almost anything a decedent owns can be taxed depending on who inherited the decedent's property. It can include such assets as a house, real estate, bank accounts, stocks, bonds, cars and any other tangible personal property. The tax rate ranges from 11 to 16 percent and the return is due, and the taxes need to be paid eight months after the date of death. An extension can be granted for four months, after which an additional two months may be requested. However, taxes must be paid by the eight-month due date even if an extension is granted or penalties and interest will be imposed.

For New Jersey non-resident inheritance tax, when a non-resident individual owns certain kinds of property in New Jersey such as real estate or tangible personal property including vehicles, boats, artwork or furniture, then this individual may be subject to the inheritance tax. Intangible personal property such as bank accounts, stocks, bonds, etc. are not directly taxed for non-residents of New Jersey.

If a non-resident died only owning intangible personal property in New Jersey and did not own any real estate or tangible personal property in the state, then no tax forms are required to be filed. Also, if all the beneficiaries that will inherit the estate are class "A" or class "E" beneficiaries (see above) there is no need to file the non-resident NJ inheritance tax return. The inheritance tax rate for non-residents ranges from 11 to 16 percent. The IT-NR is due, and taxes must be paid within eight months of the decedent's death.

In conclusion, it is always advisable to have your estate documents reviewed by an attorney every three to five years, or if there have been any significant changes in your life such as a move, changes in your or your spouse's health, or the loss of a loved one or a spouse. Keeping your estate documents updated is critical to making sure that you minimize the tax impacts, avoid any probate issues, and more importantly, that your wishes are honored and your loved ones are taken care of after you have passed.

Home

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