NEWSLETTER, QUARTER THREE, 2025

FINANCIAL DESIGN STUDIO
DESIGNED FOR LIFE

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LISTEN TO OUR PODCAST!

A NOTE FROM MICHELLE

This summer for vacation we decided to try something different: camping. We ambitiously decided to complete the Lake Michigan Circle Tour. We pulled a camper and stayed at six different campgrounds. We would all do it again, so I'd say it was a success!

After this trip I have so many more questions for all of you who camp. At each campground there were large, beautiful RVs and then others who opted for a tent. With such a variety I couldn't help but imagine what each person or family was doing and how often they camp.

As we traveled along I was trying to describe our trip. I struggle calling it a vacation because that implies it was restful and relaxing. There were certainly times where it was, but camping is also a lot of work so I think it's better called an adventure.

The overarching thought I've processed is that when you're going to a place like Florida or Hawaii, those places are the destination. But when you're camping the whole journey, and everywhere you stay, is the destination.

Being a financial advisor this is the perfect metaphor I could come up with to describe your financial journey. Getting to retirement, sending your kids off to college or buying your house is not the destination, rather, the whole journey to and through these is.

I hope you've been able to have a summer adventure of some kind, whether that was vacation with friends or family, or maybe your kids trying a new sport or hobby! We try to live out the same advice of living life to the fullest, too. I can't wait to hear more about your adventures as we meet this fall!

-- Michelle Smalenberger, CFP® and CEO

TAX CHANGES FROM THE ONE BIG BEAUTIFUL BILL ACT

BY: ROBERT STOLL, CFP® CFA

President Trump's signature tax bill passed Congress and was signed by the President on July 4, 2025. This bill extends many of the tax benefits first enacted in the 2017 Tax Cuts & Jobs Act ("TCJA"). These benefits would have expired at the end of 2025. While the bill is significant in that it permanently preserves the lower individual tax rates enjoyed under TCJA, the bill didn't include new tax breaks that significantly alter financial planning strategies.

Still, there are plenty of new provisions that help some taxpayers. Those are the tax law changes from the One Big Beautiful Bill that we'll summarize in this article. And yes, "One Big Beautiful Bill Act" is the official name of this legislation. We will use the shorthand "OBBBA" when talking about it.

Permanently Lower Individual Tax Brackets

Predicting future tax policy has been a hard task the last 25 years. Budget tricks to get legislation passed through Congress have often led to "sunset" provisions. This means new taxes would expire after 10 years. This was the fate that TCJA faced heading into 2025: would Congress preserve lower tax rates, or would they expire, causing significant tax increases starting in 2026?

Fortunately, these lower tax rates (and wider tax brackets at lower rates) were not only preserved beyond 2025, but were made permanent by OBBBA. Meaning, we haven't just kicked the "sunset" can 10 more years into the future. These rates are here to stay until some future Congress & President decide to change them.

While making current tax rates permanent won't result in significant changes for anyone's tax bills next year, they provide a meaningful boost to client retirement plans. When running long-term retirement projections for clients, we took a conservative approach that the TCJA would sunset at the end of 2025 and that taxes would rise starting in 2026. Now that the Congress & President made these tax cuts permanent, clients will pay less in taxes than we had previously modeled.

Included in retirement plans we run for FDS clients is an estimated "probability of success" for their plan. This is part of the comprehensive and tax efficient planning we do for our clients. They don't need to worry their chances of being successful, missing something, or staying updated on legislative changes. That's our job.

The way we measure this probability of success is by asking, what percentage of times is a client's plan successful when stress tested against 1,000 historical stock and bond market cycles? Our early estimate is that the probability of success for most client plans has increased by 3%. So if a client had an 85% chance of success before, they now have an 88% chance of success, thanks to lower estimated future tax payments. That's the most significant impact of making TCJA tax cuts permanent.

Increased State & Local Tax Deductions

It will be music to the ears of many homeowners in high property tax States that the OBBBA increases potential Itemized deductions by meaningfully increasing the amount of state and local taxes ("SALT") included in itemized deductions, starting in 2025. OBBBA has lifted the SALT limit from $10,000 to $40,000. That's the good news. The bad news is this increased SALT deduction is only in place through the 2029 Tax Year, at which point it will sunset.

Still, this is a meaningful benefit to homeowners saddled with high property tax bills. Previously, a taxpayer that itemized their deductions could only include a $10,000 deduction for the state income taxes and property taxes they paid. Now, the bill increases that amount to $40,000, which benefits most of the clients we serve at FDS.

For example, an Illinois taxpayer with $250,000 of taxable income and $12,500 property tax bill would see a Federal tax reduction of over $3,500.

	Prior: TCJA	New in 2025: OBBB
IL State Income Taxes	$ 12,375	$ 12,375
Property Taxes	$ 12,500	$ 12,500
Total State & Local Taxes	**$ 24,875**	**$ 24,875**
Amount Deductible on Tax Return	**$ 10,000**	**$ 24,875**
Tax Benefit at 24% Tax Rate	**$ 2,400**	**$ 5,970**

Extending the higher SALT cap of $40,000 will be a fight for a future Congress ahead of its 2029 sunset.

Increased Standard Deduction Starting in 2025

The OBBBA increases the Standard Deduction available to all taxpayers and indexes it to inflation for future tax years. For single taxpayers, the Standard Deduction increases to $15,750. This is from the $15,000 that would've applied for 2025 had the OBBBA not passed. For married taxpayers, the Standard Deduction increases from $30,000 to $31,500.

As seen in the table above, the increase in the SALT limit will make it much easier for taxpayers to itemize even against this higher Standard Deduction. Itemized deductions include medical deductions, state & local taxes, property taxes, mortgage interest, and charitable contributions. Thus, it won't be hard for a high-income married couple with a large property tax bill and some combination of mortgage interest or charitable contributions to end up over the $31,500 standard deduction level.

Were There Changes to the Taxation of Social Security Benefits?

There's confusion about whether the OBBBA eliminates taxes on Social Security benefits. The source of this confusion was a message sent by the Social Security Administration on July 3. They said that the OBBBA was eliminating taxes on Social Security benefits. But they later issued a correction, as the final OBBBA bill did NOT include the elimination of taxes on Social Security benefits.

Despite this loss, the OBBBA includes a "sweetener" for seniors Age 65 or older. A new $6,000 deduction is available. That $6,000 deduction would be on top of the Standard or Itemized deductions the taxpayer claims. A married couple over the age of 65 and in the 22% tax bracket could claim a $12,000 deduction ($6,000/each). This means they potentially save $2,640 in taxes.

Unfortunately, this new deduction isn't permanent. It will run for the 2025 to 2028 tax years, but go away starting in 2029. Further, the OBBBA phases this deduction out once single taxpayers have income greater than $75,000 or married taxpayers have income greater than $150,000. This phase-out is a big deal for retirees who are taking Required Minimum Distributions ("RMDs"), as these count as income.

So yes, there is help for seniors at the margin. But this falls well short of campaign promises and is both temporary and subject to income phase-outs.

Estate Tax Exemptions Increased and Made Permanent

The TCJA established an estate tax exemption for taxpayers with an estate value of less than $14,000,000. This exemption would have expired at the end of 2025, with the exemption falling by 50%. The OBBBA not only increased this exemption to $15,000,000 for 2025, but has indexed it to inflation for future tax years and made this increase permanent.

Few people actually face the prospect of paying estate taxes. But, if TCJA had expired, and the exemption been cut by half, more taxpayers would've had to think about it. The OBBBA clarifies future tax policy by making personal tax rates permanent. It accomplishes the same for estate planning by making the estate tax exemption permanent.

Important to remember, however, is that some states lower estate tax exemptions. Sadly, Illinois is one of these states, with an exemption of $4,000,000. So estate planning will remain an

important subject for high net worth individuals in the state. This is even if federal estate taxes are now "off the table."

Other Income Deductions in the One Big Beautiful Bill

Two other notable items that were popular on the campaign trail made it into the OBBBA: "no taxes on tips" and "no tax on overtime." We won't go into the details on these as they don't affect many of our clients. But the OBBBA put in limited deductions for income made from tips up to $25,000 and up to $12,500 for overtime earners. Both deductions sunset in 2029 – just in time for the next president to be inaugurated. They are subject to income phase-outs.

For business owners, Section 199A Qualified Business Income (QBI) deduction would have expired at the end of 2025. This bill made it permanent for 2026 and beyond. Even better, the level at which this deduction phases-out was increased.

Electric Vehicle Tax Credits End on September 30, 2025

One last piece of OBBBA that affects consumers is the termination of electric vehicle tax rebates that were enacted as part of the 2022 Inflation Reduction Act. This legislation, signed by President Biden, provided up to $7,500 in tax rebates on the purchase of new electric vehicles. Those rebates officially end for any purchase made after September 30, 2025. So if you've been itching to get an electric vehicle, the window is closing on being able to get a tax rebate for that purchase.

Keeping Financial Plans Up to Date With Tax Changes

In recent years, law changes have been frequent and have had a major impact on financial planning strategies. The One Big Beautiful Bill is the second major tax update in the last eight years. COVID stimulus bills similarly significantly changed retirement planning strategies. The value of having an ongoing relationship with a financial advisor such as FDS is that we do the work in real-time to make sure your plan's strategies are up-to-date and tailored to take advantage of changes as they happen.

For ongoing clients of FDS, we will address the impact of these changes with you individually as we identify how these changes affect recommendations we've previously made to you. One example is Roth Conversions. Since the OBBBA makes the current low tax brackets permanent (i.e. they don't expire at the end of 2025), this takes the pressure off of front-loading Roth Conversions into the 2025 tax year. Thus, clients can spread out Roth Conversions over more years at these lower tax rates.

Overall, the OBBBA should be beneficial to most clients. But as has been the case in the past, we are monitoring how a future Congress & President will deal with features of OBBBA that will expire at the end of the current presidential term. As of now, the OBBBA gives us good clarity on tax policy through 2028.

Our team of advisors stays up on legislative changes, just like this one, so that we can keep your plan on track all year, every year.

Recent Articles:

"How to Manage Healthcare Costs in Retirement"

Future retirees worry about how to manage healthcare costs in retirement. We explore Medicare, long-term care, and more!

"How to Coordinate Executive Compensation with Your 401(k)"

Coordinate senior executive compensation with your 401(k). Learn about stock options, RSUs, deferred compensation, and pensions for optimal retirement planning.

INHERITED IRA DISTRIBUTIONS, POST 2020

There is a lot of information about inherited IRA distributions. Today we are talking about inheriting an IRA post SECURE Act, that is Jan 1st 2020. Honestly we are seeing a lot more inherited IRAs, because with our aging population, more of these accounts are being handed down to beneficiaries, like you.

About Inherited IRA Distributions
The goal of today's video is that I want to help explain and make sense of a lot of the rules. We are going to talk about what you have to do, but ultimately we are going to talk about what you can do with these accounts. I'm going to point you to other resources along the way too!

So first off, there is some information that you will need to know. These are really simple pieces of information that will affect how you have to take money out of these accounts and by when.

- How old were they when they passed away?
- When was their birthdate?
- Did they pass away before or after Jan 1, 2020?
- Have they started taking their Required Minimum Distributions (RMDs)?

Some of this we can calculate but just knowing is helpful for you

How does the SECURE Act Affect Beneficiaries?
As we find this information, we are going to start to dig into the different types of beneficiaries so you can see who you are. Now, the SECURE Act was a piece of legislation that defined how people can inherit retirement accounts from loved ones. We have an article on the SECURE Act 2.0 which you can read to learn more.

If your loved one passed away after the SECURE act, after January 1, 2020, these are now the rules that impact you.

So, if this is you, then let's ask this question: who is the beneficiary? Who are you from this list? I'm going to talk you through the three types of beneficiaries, then we will talk about how this impacts what you have to do.

Required Minimum Distributions (RMDs)
Remember the information I said you would need? Here's when you need it. How you take out your inherited IRA distributions depends on whether Required Minimum Distributions (RMDs) have started yet.

As people are aging and maybe retiring, the Required Beginning Date (RBD) is when people have to start taking money out of their accounts. But the actual date depends on what type of account you own. That's why this Required Beginning Date (RBD) is important to know. We've already done videos on the Required Beginning Date for RMDs.

Don't feel like you have to know all these things, we can look back at their birth date and calculate the proper dates for what they qualify for and when.

1) Eligible Designated Beneficiary
Let's talk about the Eligible Designated Beneficiary (EDB). The SECURE Act defines this beneficiary as someone who: is the spouse, a minor child of the deceased person, an individual who is less than ten years younger (think of someone like a sibling), or an individual who is chronically ill or disabled. If you fit any of these and you were listed as a beneficiary directly, then you are an EDB.

You can stretch distributions out over your lifetime. You may have to take a little bit out each year, depending on who you are.

One note on this, if you are a minor child, you can only stretch the distribution out until you are the age of majority, or around age 21. You should check your state just to be sure. After that age, you are no longer a minor child and now the Ten Year Rule applies to you.

The Ten Year Rule says that within ten years of inheriting the account, or after you turn the legal age of majority, you have to take all the money out of the account within ten years. You could take a little out each year, you could take it out all at once, but you have to take it out within ten years of the inheritance. These are the rules for the Eligible Designated Beneficiary.

2) Designated Beneficiary
So the next group of beneficiaries is a Designated Beneficiary. This simply means that you are listed as the beneficiary but you do not have the qualifying EDB characteristics, like being the spouse or minor child. You might be a friend or a member of their extended family.

If your loved one passed away before their Required Beginning Date (RBD), then you are under the Ten Year Rule and have to take all the money out within ten years.

Now if your loved one passed away after their required minimum date and they had already been taking money out of their retirement date, then you are still under the Ten Year Rule, but you also have to take Stretch Distributions.

This means not only do you have ten years to take all the money out, but if you are going to wait until year ten, you have to be sure to take a little bit out of the account each year. You have to stretch it out over those ten years.

3) Non-Designated Beneficiary
Now, maybe you are someone who is a Non-Designated Beneficiary. This simply means that your name was not listed directly on the account, however, you are the beneficiary because the Will or the Trust or the Estate plan listed you. So, a Non-Designated Beneficiary was not listed on the accounts directly.

If this is you and your loved one passed away before their Required Beginning Date, then you have the Five Year Rule.

This means you have to take money out of this account within five years. This is really important for you to know as this is a short window of time.

Now if your loved one had passed away after their Required Beginning Date and they had already started taking money out of their account, then you have the Five Year Rule, but you also have the Stretch Distribution. This means you need to take money out each year.

If you don't there are penalties you have to pay. This is why we think estate planning is the perfect mix of tax planning, investing, and financial planning, so we can make sure you keep as much as possible.

It depends on what type of beneficiary you are for how you have to take money out of these accounts. I said how you HAVE to take money out of these accounts. That's what becomes really important and you will see how planning is crucial to create options for you.

Next Steps for Your Inherited IRA
There are a lot of strategies you can consider to keep even more. That's why the timing matters. You could be getting these inherited IRA distributions from these accounts in your highest income earning years, pushing you into the highest tax brackets. These distributions will add onto that tax burden. No matter where you are at with this process, we are here to help you.

Watch this Video!

Related Content:

Podcast Ep 25: Creating Successful Estate Plans

Podcast Ep 45: Understanding the Inheritance Process

Podcast Ep 46: How to Steward Your Inheritance Well

CONNECTION POINT: ROBERT STOLL

When our team isn't at our desk, this is what we are doing! We want to share the things we keep busy with so you can get to know what we are like too. Today, you get to know Rob a little better!

Tell us about your family!
My wife Glenda and I just moved our youngest daughter to college. She is going to the University of Wisconsin-Madison, which I'm thrilled with because that's my alma mater! We have three other children, two of which are married and another that just moved to Austin, Texas.

What does your day to day look like outside of the office?
With our daughter Marissa out of the house and in college, I'll have to report back on what out-of-office activities look like as an empty nester. Up to this point, our lives revolved around our kids' various activities, including school pick-up and drop-off. That said, I do most of the cooking in our house, making dinner and making sure Glenda has something good to eat when she's at work.

How do you like to spend your free time?
My wife and I just moved to Wisconsin to a house we built next door to where my parents live. As I've spent the last 28 years working in and around Chicago, raising a family, etc I am now trying to enjoy time with my parents again. I've also been reconnecting with old friends from college, going to baseball games and getting ready to attend a few Badgers football games. We are also welcoming Glenda's best friend from Guatemala to our home later this fall.

What do you do to rest and recharge?
It may sound crazy, but I've recently found peace in doing household chores. After we moved, I decided on doing my own lawn maintenance after years of relying on landscapers to do it. My Dad is Mr. Fix-it of any small motors you can imagine, and he's teaching me how to maintain my own lawn and garden equipment. Glenda and I like to do weekend getaways and have our annual trip to Door County planned for late October. Little to no cell phone service at the cabin we rent right on Green Bay's waters, along with a nice wood burning fireplace makes for a nice weekend of relaxation!

What have you been interested in this year?
I'm very interested in how our youngest daughter's generation - Gen Z - is progressing. As a Gen X'er, I'm beyond disillusioned with how trust in our basic institutions has crumbled under the weight of greed and grift. Both political parties have failed us miserably. But my sense is that Gen Z is shaping up to be a more pragmatic, honest, and community-oriented generation who aren't afraid to think for themselves. I have great hope for their impact on our nation in the coming decades.

What is a song/movie/book/podcast that you have enjoyed recently?
As a Christian I'm always looking for ways to deepen my faith. What's been on my heart this year has been the question, "Can people see that I'm Christian from the way I conduct myself in everyday life?" I've not been sure I can answer a definitive "yes" to that question. By providence, I became aware of a 1971 book published by pastor and theologian Martin Lloyd-Jones called "Studies in the Sermon of the Mount." It's a 600-page work and I'm only 150 pages into it, but it has done profound work in my heart in terms of identifying the practical characteristics of how the Christian life is lived out from the Bible's teachings.

Rob & Glenda

The Stoll fam

College Dropoff!

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