ArchBridge
Family Office

2025 Year-End Estate & Income Tax Update

As 2025 draws to a close, we've compiled a list of several key year-end opportunities that high-net-worth taxpayers need to consider, including:

- Making the most of tax-advantaged gifting,
- Implementing tax-loss harvesting strategies, and
- Understanding the One Big Beautiful Bill's (OBBB) newly imposed limitations on popular itemized deductions.

Gifting Opportunities

Year-end is an excellent time to consider making use of the various gifting opportunities available under current law, whether through annual exclusion gifts, usage of the lifetime estate and gift tax exclusion, or other tax-advantaged opportunities.

Annual Exclusion Gifts:

For the 2025 and 2026 tax years, each taxpayer can gift up to $19,000 to any other person without counting as a taxable gift. For married couples, this amount doubles to $38,000 through a mechanism known as "gift splitting".

When used strategically, annual exclusion gifts are a powerful way to transfer wealth tax-free. For example, a married couple with four children can give each child $38,000 annually, allowing $152,000 of total wealth to pass tax-free each year ($38,000 x 4). If the children are married, this amount increases to $76,000 for each couple (the child and their spouse), allowing $304,000 to pass tax-free each year.

Over ten years, this simple strategy removes more than $3,000,000 from the couple's estate and passes it to their family members completely tax-free (excluding any benefit from future increases to the annual exclusion limit). Adding grandchildren to the calculation only increases the benefit further.

Utilize Estate & Gift and GST Exemptions:

Heading into 2025, many wondered whether the increased Estate & Gift and GST exemptions introduced in 2017 by the Tax Cuts and Jobs Act (TCJA) would sunset as planned. Had this occurred, both the Estate & Gift and GST exemptions would have fallen from their current $13.99 million levels to approximately $7 million in 2026, greatly impacting current estate plans and likely triggering a rush to complete additional estate planning before January 1.

The passage of the “One Big Beautiful Bill” (OBBB) in July 2025 eliminated the need for urgent planning by permanently increasing the Estate & Gift and GST exemption amounts to $15 million per taxpayer (indexed for inflation) starting in 2026.

While the sense of urgency has faded, this $1,010,000 increase presents a valuable opportunity for all high-net-worth taxpayers (even those who had previously utilized their full exemption) to review their estate plans and consider additional strategies to move additional assets outside of their estate in 2026.

Other Tax-Advantaged Gifts:

While many taxpayers concentrate their yearly gifting on outright transfers of assets or cash, there are several other tax-advantaged gifting options worth exploring:

529 Plan Contributions: Taxpayers can make their annual exclusion gifts directly into a 529 college savings account for a family member or friend. These accounts are tax-advantaged—assets grow tax-free and can be withdrawn for educational expenses—and they are an excellent way to support future education. Many states even allow a state income tax deduction for contributions, adding an extra benefit for donors. However, for taxpayers with taxable estates (i.e., over $13.99 million in 2025), using 529 plans is not recommended because gifts to them count against annual exclusion limits, and education expenses can be paid by parents or grandparents without counting as taxable gifts.

Direct Tuition Payments: Tuition paid directly to an accredited educational institution on behalf of another person does not count as a gift and thus does not use the annual exclusion or lifetime exemption. As a result, a grandparent can pay their grandchild’s college tuition and give that same grandchild a $19,000 annual exclusion gift completely tax-free.

Direct Medical Payments: Like tuition, qualifying medical expenses paid directly to a medical provider on behalf of another person are also not gifts.

It’s important to note that this exception only applies to deductible medical expenses, such as:

- Medical insurance premiums
- Fees to Doctors, Dentists, Surgeons, Chiropractors, Psychologists, etc.
- Hospital costs
- Prescription drug costs
- Nursing home costs

Make Strategic Use of Capital Losses

Taxpayers who realized capital gains in 2025 should explore their options to lower or eliminate the tax owed on these gains through the following strategies:

Tax Loss Harvesting

Tax loss harvesting is a popular strategy where investors realize capital losses to offset other capital gains recognized during the year. The proceeds from the sale can then be reinvested into a comparable (but not "substantially identical") investment to maintain market exposure and avoid triggering wash sale rules. This enables a taxpayer to lower their current tax bill without sacrificing the potential for future gains, making it a beneficial approach for both tax and investment goals.

When harvesting tax losses, it's important to note that capital losses may only be deducted to the extent of capital gains each year, with any excess losses allowed to offset up to $3,000 of ordinary income (there is no additional benefit for married couples). Any excess capital loss is then carried forward indefinitely to offset future capital gains.

Existing Capital Loss Carryforwards

Before harvesting losses in the current year, it is critical to review whether any existing capital loss carryforwards are available from prior periods. If so, these existing carryforwards should be utilized before incurring additional losses.

Capital Gain Distributions

Each year, mutual funds are required to pass their net realized gains from the sale of securities to shareholders as capital gains. These distributions are typically announced in the fall and completed in December, giving taxpayers a brief window to plan for their potential impact.

While we usually don't recommend selling a mutual fund solely to avoid an upcoming capital gain distribution, there are a few best practices to keep in mind as year-end approaches:

- **Be Cautious:** Avoid making new investments in a mutual fund immediately before the fund's "record date" (generally in mid-December). Doing so will subject you to the capital gain distribution even though the gains were incurred prior to your investment.
- **Be Strategic:** Once a capital gain distribution is declared, consider harvesting tax losses in other areas of the portfolio to help offset the resulting tax liability.
- **Utilize ETFs:** Consider utilizing ETFs for future investments where possible, as they are more tax-efficient and generally do not distribute capital gains to their shareholders.

Consider Deferring Asset Sales

Delaying asset sales until 2026 can be a simple but effective strategy in the correct circumstances:

- **Lower Tax Brackets:** If a taxpayer expects their taxable income to meaningfully decrease in 2026, deferring recognition of the gains could allow those gains to be taxed at a lower capital gains rate.
- **Deferral of Tax Due:** Depending on the taxpayer's situation, completing the sale in 2026 rather than 2025 may allow for deferral of the related tax due from April 2026 to April 2027 (although an April 2026 estimated payment may still be required depending on the taxpayer's circumstances).

The OBBB's New Limitations on Itemized Deductions

The One Big Beautiful Bill (OBBB), passed in July, imposed two key restrictions on itemized deductions that high net-worth taxpayers should be aware of heading into 2026:

Changes to the Charitable Contribution Deduction

Beginning in 2026, the charitable contribution deduction will be reduced by 0.5% of a taxpayer's Adjusted Gross Income (AGI).
Example: A taxpayer with $1,000,000 of AGI would thus see their charitable deduction reduced by $5,000 ($1,000,000 * 0.5%).

A "2/37th" Limitation on Overall Itemized Deductions

Also effective in 2026, the OBBB imposes a "2/37th" limitation on itemized deductions (a concept similar to the former Pease limitation, which the OBBB formally repealed). In effect, this rule limits the benefit of itemized deductions to 35% even if the taxpayer is in the 37% tax bracket
Example: A $100,000 itemized deduction will offset at most $35,000 of tax in 2026, compared to $37,000 in 2025.

Unfortunately, there's not much that can be done to mitigate the pain of these new rules as they are an additional tax on high-income taxpayers. Yet, we encourage high-net-worth taxpayers to consult with their tax advisors to assess the impact of these changes and explore their options if:

- They anticipate a meaningful change in year-over-year taxable income.
- They are planning substantial charitable gifts for 2026 or beyond.

Conclusion

As 2025 draws to a close, proactive planning remains essential for preserving and growing wealth, even amid the newly stabilized planning environment created by the OBBB. Year-end presents a crucial final opportunity to ensure that strategies such as tax-advantaged gifting, tax-loss harvesting, and charitable contributions are fully leveraged — helping to secure lasting benefits and better provide for generations to come.

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