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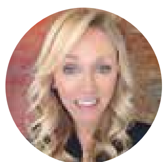
Countdown to 2026: Key Tax Planning Moves



By April Rosenberry, JD, LLM in Taxation
Director of Estate, Tax, and Financial Planning

The Tax Cuts and Jobs Act (TCJA) of 2017 brought significant changes to the tax code, many of which are set to expire after 2025 without legislative action by Congress.

As this pivotal year approaches, understanding the implications of these expiring provisions is crucial for effective tax planning and maximizing tax savings. The estate tax exemption, which is currently more than $13 million per individual, will be reset in 2026 to $5 million per individual (adjusted for inflation), posing potential tax liabilities for high-net-worth individuals. Along with other tax changes, taxpayers must prepare for a possible increase in income tax rates and changes to deductions and credits.

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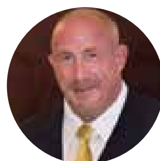
"I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise."

Brian D. Holmes,
MS, CFP®, CMFC, AIF®,
President & CEO

ABOUT SEIA
Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to align the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to align the client's goals.

Navigating a 529 Plan to Roth IRA Conversion: Rules, Risks, and Rewards



By Gene Balas, CFA®
Investment Strategist

The federal government established 529 plans, named after its section in the Internal Revenue Code, as a way to help save for college in a tax-advantaged way. These plans, also known as Qualified Tuition Programs, are tax-advantaged investment vehicles designed to encourage saving for a designated beneficiary's future education expenses. Over time, the rules that govern these plans have evolved.

In 2017, the Tax Cuts and Jobs Act expanded 529 plans to cover K-12 public, private, and religious school tuition costs as qualified expenses, in addition to post-secondary education costs. More recently, provisions in the SECURE 2.0 Act allow for unused 529 plan funds to be rolled into Roth IRAs. This article explores these changes and potential opportunities to consider.

Contributions to 529 plans are made with after-tax dollars. The invested funds grow tax-free, and withdrawals from the plans are not taxed if used for qualified educational expenses. Typically, a 529 plan is set up by parents or grandparents for a child, but it can be for any designated beneficiary.

However, not all children use all the funds in their 529 plans. Some may find they have funds left over after paying for higher education, or they might choose a career that doesn't require advanced education. The question then becomes, what does one do with any unused funds in a beneficiary's 529 plan? After all, if the investment earnings aren't used for designated college expenses, they're subject to income tax and a 10% tax penalty.

A solution to this dilemma is provided by a new provision in the Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act allowing unused 529 plan funds to be rolled into Roth IRAs, which became effective in 2024. Importantly, note that the Roth IRA is for the ***beneficiary*** of the 529 plan, who may often be the child of the account owner – and not the owner of the 529 plan, which helps prevent "back door" funding of the owner's own retirement.

> A new provision in the Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act allows unused 529 plan funds to be rolled into Roth IRAs.

Given the above concern about parents funding 529 plans only to convert them into their own retirement savings plan, there are a number of important restrictions on transferring 529 funds to a Roth IRA. Key conditions and limitations include:

1. Lifetime Limit
The maximum amount that can be transferred from a 529 plan to a Roth IRA is $35,000 per beneficiary over their lifetime.

2. Account Age
The 529 plan must have been open for at least 15 years before any rollover can occur.

3. Contribution Age
Contributions made to the 529 plan within the last five years, including the earnings on those contributions, are ineligible for rollover.

4. Annual Contribution Limits
The rollover amount in any given year cannot exceed the annual Roth IRA contribution limit, which is $7,000 for 2024 for individuals under 50, and $8,000 for those age 50 and older. This means that transferring the full $35,000 would need to be spread over multiple years.

5. Beneficiary Requirements
The Roth IRA must be in the 529 plan beneficiary's name, who must have earned income at least equal to the amount being rolled over in that year.

6. Direct Rollover
The rollover must be a direct trustee-to-trustee transfer from the 529 plan to the Roth IRA custodian. The beneficiary or account owner cannot take a check and then deposit it into the Roth IRA.

7. Income Limits
Unlike regular Roth IRA contributions, the income limits for Roth IRA contributions do not apply to these rollovers.

Generally, Roth IRA contributions (but not earnings) can be withdrawn anytime without paying taxes and penalties. Otherwise, if you remove money early from a Roth IRA, you can expect to pay a 10% penalty plus taxes on the income (unless you qualify for an exception).

These rules are designed to provide a tax-advantaged way to use leftover 529 plan funds, but they come with strict conditions to help ensure compliance and prevent misuse of the tax benefits associated with both 529 plans and Roth IRAs. Note that this information is not intended to be tax advice, so please refer to the IRS guidelines on these issues or your tax advisor, as other important information may apply.

There are still items that need to be clarified in the law. First, it's unclear what happens if you change beneficiaries. The current assumption is that if you change beneficiaries, it will start a new 15-year clock for the requirement on how long the 529 plan account must have been open.

Second, it's unclear if there will be any limits on how many times a single account owner can change beneficiaries. The current assumption is that the restriction will be on the recipient (beneficiary), not the owner.

Overall, this is great news for those 529 account owners with long-established plans and surplus funds that the beneficiary didn't fully use for education. Beginning in 2024, these owners can transfer the remaining funds to the beneficiary's Roth IRA.

However, one, perhaps large, question looms that only the beneficiary of the 529 can answer: Does one pursue school immediately, delay it to a later date, use the 529 plan funds to attend graduate school in the more-distant future, or roll over the funds over time into a Roth IRA?

Given the uncertainties that life brings, deciding not to attend college immediately doesn't rule out attending later. And in that case, a 529 beneficiary may regret having shifted the funds to a Roth IRA instead of using them for school expenses in the future.

If you later decide to use 529 funds converted to a Roth IRA for retirement, you may be able to do so, but with a few caveats. You should speak to a tax advisor to better understand key considerations. Generally, Roth IRA contributions (but not earnings) can be withdrawn anytime without paying taxes and penalties. Otherwise, if you remove money early from a Roth IRA, you can expect to pay a 10% penalty plus taxes on the income (unless you qualify for an exception).

There are other important tax and operational details of which you should be aware, especially when either setting up a new 529 plan or converting your existing 529 plan to a Roth IRA for your dependent(s), so please be sure to speak with your SEIA advisor for more information. He or she is always ready to help you on your financial journey – not to mention helping the beneficiary of the 529 plan to achieve their educational goals.

SEIA is not engaged in rendering legal, accounting, or tax services. We recommend that all investors seek out the services of competent professionals in any of the aforementioned areas.

Key Provisions Expiring After 2025

1. Individual Tax Rates: The TCJA lowered tax rates, with a top bracket of 37%. In 2026, these rates will revert to pre-TCJA levels, with the top rate increasing to 39.6%.

2. Standard Deduction: The TCJA nearly doubled the standard deduction, reducing taxable income. Starting in 2026, the deduction will be reduced by about half, adjusted for inflation.

3. Itemized Deductions:

- **State and Local Tax (SALT):** The $10,000 cap on the SALT deduction significantly impacted taxpayers in high-tax states. This cap will be lifted after 2025, allowing for a larger deduction for state and local taxes paid.

- **Mortgage Interest:** The TCJA restricted the home mortgage interest deduction to the first $750,000 of debt. In 2026, the mortgage interest deduction will revert to pre-TCJA levels, allowing interest on up to $1 million of mortgage debt and $100,000 of home equity loan interest to be deductible.

- **Miscellaneous Deductions:** The TCJA temporarily repealed most miscellaneous itemized deductions, such as unreimbursed employee expenses and investment advisory fees. These deductions will return in 2026 if they exceed 2% of the taxpayer's adjusted gross income.

4. Child Tax Credit: The TCJA expanded the child tax credit to $2,000 per qualifying child, with higher income thresholds for eligibility. In 2026, this credit will revert to pre-TCJA levels of $1,000 per child.

5. Estate Tax Exemption: The TCJA increased the estate tax exemption, which will be reduced significantly in 2026.

Potential Strategies to Mitigate Impact

1. Set Up Trusts:

- **Spousal Lifetime Access Trust (SLAT):** A SLAT allows one spouse to gift assets into an irrevocable trust for the other spouse's benefit, providing access to income and principal distributions while removing the assets from the grantor spouse's taxable estate.

- **Irrevocable Life Insurance Trust (ILIT):** An ILIT provides life insurance proceeds to beneficiaries outside of the insured's estate. This trust is funded when insurance premium payments are made through the irrevocable trust and considered gifts to the beneficiaries.

- **Irrevocable Trust for Children and Descendants:** An irrevocable trust allows individuals to gift money outside their estate for someone else's benefit. This trust generally cannot be modified, amended, or revoked except in specific situations with beneficiaries' consent or a court order.

2. Review Charitable Giving Strategies:

- **Charitable Remainder Trusts (CRT):** This irrevocable trust provides income for the beneficiary (which may include the grantor or their heirs) for a specific period. After that, the remaining assets are distributed to charitable beneficiaries.

- **Charitable Lead Trusts (CLT):** Unlike a CRT, a CLT provides the income first to charitable beneficiaries for a set period before distributing the remaining assets to non-charitable beneficiaries.

- **Specific Charitable Bequests:** Individuals can include specific language to leave a precise amount or percentage of assets to charity at death, excluding these amounts from the taxable estate.

- **Qualified Charitable Distributions (QCD):** This strategy allows individuals over 70½ to give directly from an IRA to charity, up to $100,000 per year, lowering their taxable estate.

- **Foundation or Donor-Advised Fund (DAF):** Setting up a foundation or DAF allows ongoing charitable giving and offers potential tax benefits.

3. Maximize Annual Gifting:

- For 2024, individuals may give up to $18,000 per year to an *unlimited* number of recipients without tax implications. Married couples can double this amount, allowing significant asset transfers out of their taxable estate.

4. Make Direct Payments for Education and Medical Costs:

- Paying education and medical costs directly to institutions can reduce a taxable estate without affecting the annual gift exclusion. For example, a married couple could cover a grandchild's tuition and still gift the grandchild $36,000 tax-free.

Beyond these strategies, individuals might also consider delaying deductible expenses until higher tax rates apply in 2026, recognizing more income before 2026 to benefit from lower rates, or gifting assets before 2026 to utilize higher exemption levels.

As the TCJA's provisions sunset, proactive tax planning before 2026 is essential. Understanding these changes and implementing strategies can mitigate potential tax liabilities and maximize financial benefits. At SEIA, we can help you navigate these complexities with tailored strategies to your individual situation.

SEIA is not engaged in rendering legal, accounting, or tax services. We recommend that all investors seek out the services of competent professionals in any of the aforementioned areas.

SEIA Completes Acquisition of Cleveland-Based RIA, Expanding National Footprint

We are excited to share that our acquisition of Cedar Brook, a $2 billion RIA based in Cleveland, Ohio, has officially been completed. This strategic move elevates SEIA's AUM to over $22 billion and extends our reach into the Midwest.

Bill Glubiak, CEO of Cedar Brook, adds, "Joining forces with SEIA marks an exciting chapter for Cedar Brook. Our shared devotion to client-centric services and innovative wealth management solutions positions us to deliver additional value to our clients."

"This dynamic partnership embodies our core values and aligns with our strategic vision of holistic wealth management services nationwide on behalf of our clients and their legacies," says Brian Holmes, SEIA's CEO.

This collaboration strengthens our presence in Ohio, Pennsylvania, and Michigan, combining Cedar Brook's proficiency in financial planning with our comprehensive wealth management services.

"This dynamic partnership embodies our core values and aligns with our strategic vision of holistic wealth management services nationwide on behalf of our clients and their legacies."

Brian Holmes, CEO

The reported Assets Under Management (AUM) represents the combined total of SEIA and its affiliated entities as of 6/30/2024. AUM includes portfolios continuously supervised or managed by SEIA and its affiliates. The AUM encompasses assets like stocks, bonds, ETFs, mutual funds, and cash, among others.

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