O3B Tax Planning

MAKE THE MOST OF THE NEW TAX LAW

Smart Strategies for Retirees & Pre-Retirees

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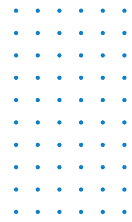


Whether you're in your peak earning years before retirement or living on a fixed income afterward, taxes remain a lifelong obligation—and reducing them is a lifelong endeavor. Reducing taxes is one of the five disciplines of financial planning. With the passage of the new tax law, widely nicknamed the Big Beautiful Bill (OBBB or O3B), both retirees and pre-retirees face a new landscape filled with opportunities and pitfalls.

Disclaimer:
The provisions described below reflect recent legislation and planned IRS guidance where available. Because tax laws change, and some details described here may be subject to interpretation, please consult with a qualified tax professional or reference current IRS publications to ensure accuracy for your situation.

This law, passed in 2025, locks in several key provisions that were originally set to expire, while also introducing new deductions and credits. Those already retired are entitled to new deductions and have greater clarity for long-term planning. Those who are preparing to retire are able to save and invest more after-tax dollars, opening a window to build wealth and position assets in more tax-efficient ways before they retire and when RMDs and Social Security come into play.

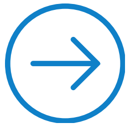
We'll explore what has changed, what hasn't (and what was expected to change), why this matters, and how both retirees and pre-retirees can get the most benefit out of O3B.

PERSPECTIVE: *Where We've Been*

The Tax Cuts and Jobs Act (TCJA) of 2017 lowered income tax brackets, raised the standard deduction, restricted or eliminated deductions and exemptions, and boosted estate tax exemptions. But these provisions were always on a timer, scheduled to sunset in 2026.

This uncertainty meant that planning often revolved around preparing for higher brackets and fewer or lower deductions. Now, under O3B, many of those provisions have been made permanent—providing consistency and predictability. Retirees can plan withdrawals over their retirement years with more confidence, while pre-retirees can build their portfolio to have more after-tax dollars to supplement spending in retirement.

The biggest shift of O3B is that the major changes expected in 2026—reverting to pre-TCJA rules—never happened. That 'non-change' is itself significant, giving retirees and pre-retirees more certainty.



What's Changed: *The Key Provisions*

Permanent Lower Tax Brackets

Tax brackets now range from 10% to 37% on a permanent basis, with the most common ones being 12% and 22%.

- Retirees can better forecast their taxes long-term on Social Security, pensions, and investment withdrawals, and determine the benefit of converting their IRA holdings to Roth IRAs.
- Pre-retirees are able to build their after-tax wealth more effectively and take advantage of the lower tax rates on capital gains.
- The TCJA lowered individual tax brackets to levels not seen since the mid-1980s. Under O3B, they will continue beyond the originally established ten-year period, until a future Congress and President change the tax code.

If a future Congress and President increase tax brackets, this period could be an advantageous time to convert traditional IRAs to Roth IRAs, allowing you to pay income taxes at today's lower rates before higher rates take effect.

Bigger Standard Deductions

- $15,750 for single filers / $31,500 for married couples filing jointly
- Additional $2,000 for single filers / $3,200 for married couples age 65+
- Temporary $6,000 per-person add-on through 2028 (phased out at $75,000 Modified Adjusted Gross Income for singles / $150,000 for couples)

With the increased standard deduction, more taxpayers can automatically qualify for larger deductions without having to itemize—reducing taxes while simplifying tax preparation. Retirees who no longer itemize—because they've paid off their mortgages, moved to lower-tax states, or simply have fewer deductions—benefit across the board. Plus, retirees receive an additional temporary deduction to reduce their taxable income even further.

Pre-retirees—especially those with higher income—are able to keep more of their income and more after-tax income to invest. This will provide them with greater flexibility in determining which accounts—pre- or post-tax—to take distributions from when they retire, allowing for additional tax planning.

Expanded SALT Deduction (State and Local Taxes)

The cap on state and local taxes (SALT) increases from $10,000 to $40,000 through 2028.

- Although most retirees will take the standard deduction, some may have more than $10,000 in SALT. This could help retirees with large medical expenses combined with other deductible expenses, (such as state income taxes, property taxes, mortgage interest, and charitable deductions) that exceed the standard deduction.
- Pre-retirees with higher incomes and higher state income taxes, who haven't yet downsized to a home with lower property taxes, are more likely to have itemized deductions—especially if they have a second home for which they make mortgage payments and pay property taxes.

Important: Itemized deductions must exceed the standard deduction to provide a tax benefit.

New and Expanded Deductions & Credits

- No tax on tips: up to $25,000 annually
- No tax on overtime: up to $12,500 single / $25,000 married filing jointly
- Charitable contributions: $1,000 deduction for singles / $2,000 for couples (without having to itemize)
- Auto loan interest deduction: Up to $10,000 of interest on U.S.-made vehicles (phases out at income of $100,000 single / $200,000 married filing jointly)
- Dependent child tax credit: increased to $2,200 (starting in 2027)
- Scholarship credit: up to a $1,700 tax credit for donations to approved scholarship-granting institutions, beginning 2027

These provisions reward labor and entrepreneurship, smoothing the transition from full-time work into semi-retirement or flexible consulting.
Note: These credits and deductions may have additional eligibility requirements or documentation as defined in future IRS publications.

Eliminated Deductions

Some familiar tax breaks are gone:

- Personal exemptions
- Moving expenses
- Casualty losses (non-disaster)
- Interest on mortgages above $750,000
- Clean vehicle and home energy credits (expire after 2025)

For most taxpayers, eliminated deductions did not represent a financial loss since the standard deduction exceeded the total itemized deduction amount including these. Clean vehicle and home energy credits, however, are not itemized and offer direct reductions in taxes; 2025 may be the last chance to claim these credits.

Next Generation Opportunities

- Expanded 529 Plan usage: Funds now cover college, K–12 private education, homeschooling supplies, and credentialing programs—offering more flexibility for multigenerational planning.
- New Child Savings Account:
  - $1,000 automatic government contribution per child (available only for children born between 2025 and 2028)
  - Optional contribution of $5,000 per year; converts to an IRA at age 18

Details of the Child Savings Account and scholarship credit are subject to IRS clarification in implementation. Check annually for updates.
529 plan distributions for prescribed uses are not taxed. The Child Savings Account provides a small, but valuable, jump start to future taxpayers.

Benefits for Business Owners

- QBI deductions (favorable for qualified businesses) are extended permanently
- Accelerated depreciation extended
- Designated Investment Zones introduced

These provisions impact some businesses, depending on their nature. While retirees are less likely to be business owners, some do maintain ownership in ventures or have equity stakes.

Estate Taxes

- Estate tax exemption: $15 million for singles, $30 million for couples (from 2026)
- Annual gift tax exclusion: $19,000 per person in 2025, allowing tax-free lifetime transfers up to this amount per recipient (without filing Form 709, which reports gifts above the exclusion and adds to your estate's value)

Note: Exemptions and exclusions may change with future law or IRS interpretation. Check IRS guidance or consult a tax professional each year.

With exemptions this high, most families won't owe federal estate taxes. Focus should shift to reducing income taxes heirs will owe on inherited wealth.

Tax Planning Tips

- Everyone wants to pay less in taxes, but the laws are clear: any income not offset by deductions is subject to tax. Tax-reduction strategies fall into several categories:
- Avoiding Income: Not selling appreciated assets, which would trigger taxation, or gifting taxable assets to charities.
- Timing Income: Incurring taxes by selling appreciated assets and distributing assets from taxable accounts in years when in a lower tax bracket.
- Selecting Investments Taxed Favorably: Opting for investments taxed at the capital gains rate instead of ordinary income, or those providing tax-free growth.
- Maximizing Deductions: Taking advantage of all available deductions and claiming them when most beneficial.

01 Not Incurring Income

Until assets are liquidated, capital gains are not realized—allowing owners to defer taxes indefinitely. Upon inheritance, capital gains taxes are generally not assessed; instead, assets are revalued ("stepped up") at the decedent's date of death, eliminating tax on appreciation during their lifetime.

Gifting appreciated assets to charity avoids taxation for the owner and is deductible. Qualified Charitable Distributions (QCDs), for those age 70½ or older, allow IRA owners to gift assets directly to charity, meeting Required Minimum Distribution (RMD) obligations without incurring taxable income.

02 Timing Income

If cash flow needs are low, it is wise to sell appreciated assets or take distributions from IRAs in years with lower income, or years with large deductions.

Roth conversions, which result in taxable ordinary income now but make future growth tax-free, are favorable for those expecting higher future tax brackets. When converting, be mindful that increased income may push you into a higher bracket, or for those 65+, above IRMAA (Medicare income limits) and the phase-out for the temporary $6,000 deduction.

03 Selecting Investments

Capital gains are taxed at lower rates than ordinary income, but equities (stocks) are riskier than bonds, annuities, and CDs—which are taxed as ordinary income. Risk can be managed by placing equities in non-IRA accounts (for capital gains treatment) and interest-bearing assets in IRAs (taxed as ordinary income).

High tax-bracket individuals may consider municipal bonds or 7702 tax-free distributions from life insurance. Some investments offer tax credits for acquiring specified holdings, although risk and liquidity must be evaluated.

04 Claiming Deductions

With expanded SALT provisions, more taxpayers may itemize state income and property taxes. Along with mortgage interest, charitable giving, and unreimbursed medical expenses exceeding 7.5% of AGI, itemized deductions may exceed the standard deduction.

Taxpayers may benefit by "bunching" itemized deductions into one year—for example, accelerating charitable contributions, prepaying property taxes, and scheduling medical or dental treatments before year-end. This strategy allows alternating between itemizing and taking the standard deduction.

When investments are sold at a loss, up to $3,000 annually can reduce taxable income, and losses can offset capital gains in full. Strategic use of capital losses can help manage gain realization or cash flow generation.

Estate and Legacy Considerations

Households with high net worth will benefit from the raised estate tax exemption—$30 million for couples, $15 million singles—in 2026. While few estates will exceed this, those who might should consider lifetime gifting and trusts, such as charitable remainder trusts and irrevocable life insurance trusts.

Every asset owner should consider the tax implications for heirs. Structuring portfolios to minimize income taxes for beneficiaries and maximize after-tax inheritance is generally preferable.

Tax-reduction strategies may include converting IRAs to Roth IRAs (benefitting both benefactor and heirs), distributing tax-free life insurance, and bequeathing appreciated non-IRA assets that avoid capital gains taxes over the decedent's lifetime.

Although both retirees and pre-retirees can take advantage of many provisions in O3B, certain sections tend to benefit one group more than the other. Below are generalizations, but everyone can benefit by considering the strategies that best fit their personal situation.

Planning Tips for Retirees

Retirement is a unique stage, with typically lower income, Social Security payments, RMDs, and more frequent withdrawals. Recent retirees may see income rise upon receiving Social Security and RMDs, potentially pushing them into higher brackets. Without careful planning, deferring IRA distributions may result in paying taxes at higher future rates.

Long-term planning focuses on incurring taxes in the lowest possible bracket, especially before “base retirement income” (pensions, annuities, Social Security, and RMDs) begins. Couples should calculate brackets assuming joint filing and also as single filers (anticipating widowhood).

Roth conversions help by reducing taxable RMDs, their impact on Medicare IRMAA premiums, and the taxability of Social Security. Converting when income and rates are low means more future growth is tax-free. This is particularly important for those yet to start Social Security or reach RMD age, and especially for couples anticipating a higher bracket for a surviving spouse.

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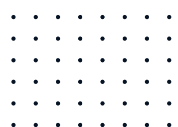
Charitable Giving

Taxpayers age 70½ or older can use QCDs to direct IRA funds to charities, counting toward RMDs but excluded from taxable income—a tax efficient way to support causes while reducing tax liabilities.

Investment and Income Planning



Social Security benefits are potentially taxable depending on total income. Consider how employment, pension, investment income, and retirement account distributions affect the taxable portion of Social Security benefits. Retirement tax planning should account for this, influencing when and how to start Social Security, draw on IRAs, and execute Roth conversions before and after payments begin.

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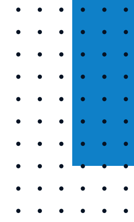
Planning Tips for Pre-Retirees



Pre-retirees should weigh IRA versus Roth IRA contributions based on current and projected tax brackets. High earners may prefer traditional IRAs for tax deferral, though maximizing Roth contributions for tax-free growth is still wise.

Those with high itemized deductions should explore maximizing their benefit. All pre-retirees should project retirement income needs and evaluate tax-efficient withdrawal strategies.

Critical analysis involves comparing current and expected future brackets. Income may drop on retirement, but may rise again with pensions, Social Security, and RMDs. Early Roth conversions and capital gains realization can help avoid “bracket creep” later.

Pre-retirement planning determines which accounts to fund, withdrawal strategies, and optimal investment vehicles given liquidity needs and risk tolerance.

Family and Legacy Planning

3B grows education credits and 529 Plan flexibility, including new Child Savings Accounts with a $1,000 government contribution and $5,000 annual optional funding, beneficial to children and grandchildren.

Building Tax-Appropriate Wealth

Many retirees find their IRAs and employer plans have higher balances than after-tax accounts, which can create a large tax burden but may still make sense to tax-defer income. Pre-retirees should invest after-tax accounts in equities (taxed more favorably as capital gains) within risk limits, keeping enough liquid low-risk assets for basic needs until Social Security and IRA distributions begin.

Concluding Thoughts

Whether you're retired or still preparing, the new tax law is less about eliminating taxes and more about managing them effectively. The levers—timing income, using Roth conversions, selecting investments based on tax treatment, and taking advantage of deductions, including charitable giving—are clearer than ever.

- Retirees should focus on lowering future taxable income before higher brackets kick in, aiming to minimize the impact of RMDs on Medicare and Social Security taxes. Take IRA distributions at the lowest available brackets.
- Pre-retirees should compare current and projected brackets, build tax-efficient after-tax wealth, and use capital gains advantages.
- Some opportunities and provisions are available only through 2028, so proactive planning is vital—whether bunching deductions, harvesting losses, executing Roth conversions, giving to charity, or updating estate plans.

NEXT STEPS

Need help creating or updating your tax strategy? Schedule a free consultation with our team at Dedicated Financial. Whether you're retired, nearly retired, or still working toward that milestone, we can help align your income, growth, and legacy strategies with today's tax rules and state-of-the-art financial planning—so you can confidently step into the future.

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