

# 5 KEY CONSIDERATIONS BEFORE YEAR-END 2025

As we head into year-end, now is the perfect time to focus on tax and estate planning. The passage of the One Big Beautiful Bill Act (OBBBA) in July created some new planning opportunities because of tax law changes and the extension of many tax provisions that had been scheduled to expire at the end of 2025. Additionally, with interest rates decreasing, you may want to consider planning strategies that are more effective in a lower rate environment.

Below are our top five strategies to consider before year-end and into 2026. Please contact your Hirtle Callaghan Investment Officer or Portfolio Manager if you would like to discuss any of these topics in light of your current situation.

## 1. FOCUS ON YOUR CHARITABLE GIVING

Starting in 2026, new provisions in the OBBBA will make charitable deductions less valuable from a tax saving perspective, so you may want to lock in savings by accelerating your giving this year before the rules go into effect.

In particular, if you itemize your deductions, you will be subject to a floor on how much of your charitable giving is deductible starting in 2026. You will only be able to deduct the portion of your giving that is above 0.5% of your Adjusted Gross Income (AGI). Moreover, if you are in the highest income bracket, the value of your deduction will drop from 37% to 35%.

As noted earlier, with these changes on the horizon, accelerating your charitable donations in 2025 can result in greater tax savings. If you know which charities you would like to support, bunching several years of gifts into this one will allow you to receive a larger deduction in 2025. If you

are unsure which charities you want to support today, but would like to take the deduction in 2025, you may consider setting up or contributing to a Donor-Advised Fund (DAF). A DAF operates like a charitable investment fund and affords you flexibility to make payouts to charities over time at your discretion. Because a DAF is technically a public charity, donations to a DAF are immediately tax-deductible so you get a greater tax deduction this year while banking the money for future donations.

You may also consider establishing a Charitable Remainder Trust (CRT) to receive charitable deductions this year. A CRT is a trust created for the ultimate benefit of a charity but makes required payments to the grantor over a pre-determined number of years, often the life of the grantor. After the annuity term runs out, the charitable beneficiary selected by the grantor receives the assets remaining in the trust.

If you are age 70 ½ or older, you may wish to satisfy your IRA's Required Minimum Distribution (RMD) requirement by making part or all of your RMD payable to charity rather than to you personally. Using a Qualified Charitable Deduction (QCD), you may transfer up to \$108,000 in 2025 (estimated to be \$110,000 in 2026) from your own IRA directly to a public charity, thus reducing the tax burden of your RMDs, which would otherwise be taxed at ordinary income rates on your personal tax return. You should be aware that you may not direct a QCD to a DAF or a private foundation.

Taxpayers who take the standard deduction have not typically been able to deduct their charitable donations on their tax returns. The OBBBA, however, creates a permanent above-the-line deduction for charitable donations of \$1,000 per filer who takes the standard deduction beginning in tax year 2026. This provision is not indexed for future inflation, and some types of donations are ineligible for the deduction, including to DAFs or private non-operating foundations. As a result of this new law, you may want to consider accelerating your charitable deductions this year and itemize your deductions in 2025. You could then still reserve smaller charitable gifts for 2026 to take advantage of this new above-the-line deduction if you plan to take the standard deduction next year.

## 2. THINK THROUGH YEAR-END GIFTING TO FAMILY OR FRIENDS

Last year, speculation about changes in tax laws related to gifting created uncertainty and caused some people to delay their gifting to family members and loved ones. Now that the OBBBA has permanently extended the historically high lifetime exemption amounts for gift, estate, and GST tax that were introduced under the 2017 Tax Cut and Jobs Act, the tax benefits of gifting have been made clearer.

If you have a large taxable estate, you should consider maximizing your **LIFETIME ESTATE AND GIFT TAX EXEMPTION**. This allows you to transfer assets now to your beneficiaries free from estate and gift tax—a significant benefit for future generations who otherwise would have to pay taxes on their inheritance. For 2025, the lifetime estate and gift tax exemption is \$13.99 million for an individual and \$27.98 million for a married couple. The OBBBA clarified that in 2026, these amounts will respectively increase to \$15 million and \$30 million (inflation adjusted for future years). If you have already used your lifetime exemption, you might consider “topping it off” early in 2026 when you can transfer an additional \$1.01 million for an individual or \$2.02 million for a married couple.

You can also take advantage of the **ANNUAL GIFT TAX EXCLUSION** and give assets to an unlimited number of beneficiaries each year without using any of your Lifetime

Estate and Gift Tax Exemption. In 2025, the limit that you can give to any single beneficiary is \$19,000 for an individual or \$38,000 for a married couple.<sup>1</sup> This applies to both cash and stock. If you gift stock or other assets, the beneficiary inherits your cost basis and your holding period. Therefore, we recommend gifting cash or assets with a high tax basis, so your beneficiaries are not burdened with large capital gains taxes when they decide to sell. When you make your annual exclusion gifts, the assets (and the appreciation on these assets) are removed from your estate, lowering the taxes ultimately paid by your estate upon your passing. The annual exclusion amount will remain the same in 2026.

It is worth noting that you can also pay directly for another person's educational and medical expenses without those payments counting against your Annual Exclusion Gift amount or Lifetime Estate and Gift Tax Exemption as long as the payments are made directly to the institution. For example, a grandparent can pay their grandchild's tuition (of any amount) and still make a gift to the grandchild up to the \$19,000 Annual Gift Tax Exclusion amount in the same year with no gift tax implications. Again, importantly, the tuition payment must be made directly to the educational institution. If a grandparent were to give their son or daughter money to pay the grandchild's tuition, then the transfer would count as a gift under federal tax law.

<sup>1</sup> A gift must be deposited by the beneficiary by December 31, 2025 to qualify as a 2025 gift. A check written in 2025 but deposited on January 2, 2026 will be considered a 2026 gift.

### 3. CONSIDER PLANNING STRATEGIES FOR A LOWER INTEREST RATE ENVIRONMENT

With interest rates declining in 2025 and expected to decline further in 2026, now is a good time to consider planning strategies that tend to work better in a low or falling rate environment.

**INTRAFAMILY LOANS** Intrafamily loans allow wealth to be transferred effectively between generations while locking in favorable rates for the long term. A key benefit of an intrafamily loan to the lender is that any appreciation beyond the locked-in interest rate accrues outside the lender's taxable estate, effectively "freezing" a portion of your estate value and shifting future growth to the next generation(s). They may also provide additional benefits to loved ones by allowing them to borrow funds at a rate lower than they would typically receive from a more traditional lending source such as a bank.

These loans are structured at or above the IRS-published Applicable Federal Rate (AFR), which today is more attractive than prior years. The mid-term AFR rate (for loans between 3- 9 years) is 3.83% in November 2025, down from a peak of 4.82% in December 2023. If you have already made intrafamily loans in the past few years, you may want to explore refinancing them at today's better rates or keep it on your radar for 2026.

A **GRANTOR RETAINED ANNUITY TRUST (GRAT)**<sup>2</sup> is an estate planning technique that allows you to transfer assets that may appreciate in value at minimal or no gift tax cost.

With a GRAT, the grantor transfers assets into a trust while retaining the right to an annuity payment for a specified term (number of years). At the end of the term, any remaining value in the trust passes to the beneficiaries free of additional gift tax, provided the trust's investments outperform the GRAT's hurdle rate, which is the Section 7520 rate set by the IRS. A GRAT works well when interest rates (in particular, the 7520 Rate) are relatively low. Currently, the November 2025 Section 7520 is 4.6%, down from 5.4% in February.

Individuals often create a series of short-term GRATs, (so-called "rolling GRATs") rather than a single, longer-term GRAT to increase the probability of wealth transfer benefits and capitalize on market volatility.

A **CHARITABLE LEAD ANNUITY TRUST (CLAT)** is similar to a GRAT, except instead of receiving the initial stream of annuity payments yourself, you designate a charity to receive them for a period of years. When the trust term ends, the remainder goes to your children or other designated beneficiaries. As with a GRAT, the IRS values a CLAT using the 7520 Rate. If the CLAT's investments exceed that rate, the excess passes to your beneficiary gift and estate tax free.

CLATs are appropriate for individuals who are philanthropic, are comfortable with losing control of, and income from, the estate planning assets, and wish to transfer asset appreciation to individual beneficiaries by using little or none of their gift tax exemption.

### 4. OPTIMIZE RETIREMENT BENEFITS AND COMPENSATION

While retirement planning may seem like a "set it and forget it" process, it's important to review it with fresh eyes every year. You should regularly review your beneficiary designations to ensure that they are still appropriate based on your personal situation and estate plan. We also recommend contributing the maximum allowable amount to your retirement account each year. In 2025, you may contribute \$7,000 to an IRA (or \$8,000 if you are over 50) and \$23,500 to a 401(k) or 403(b) plan (or \$31,000 if over 50.) Taxpayers who turned, or will turn, age 60, 61, 62 or 63 during 2025 can contribute up to \$34,750 in 2025 (\$35,750 in 2026).

Starting in 2026, individuals who are 50 or older and earned over \$150,000 in the previous year must make catch-up contributions on a Roth basis (after-tax basis) vs. pre-tax basis.

If you are age 73 or older, you must make sure to take RMDs from your retirement plans before year-end. Failing to take RMDs may result in an excise tax on the amount not distributed. The RMD applies to most of your personal retirement plans, including an IRA and an inherited IRA, although Roth IRAs do not have RMD requirements.

<sup>2</sup> For more information on GRATs, read Hirtle Callaghan's article, "Heads I Win, Tails I Can't Lose — The Grantor Retained Annuity Trust."



It is important to note that if you inherited an IRA after 2019, you are now required to take annual RMDs rather than wait until the end of the final (10th) year for the full distribution. Final regulations issued in July 2024 clarified what is now required for different beneficiaries, depending

on the age of the original owner and the beneficiary among other factors. Given that the rules are nuanced, we recommend working with your tax advisor to come up with an RMD plan if you are the beneficiary of an inherited IRA.

## 5. FOCUS ON OTHER YEAR-END TAX SAVINGS OPPORTUNITIES

Year end is the perfect time to take advantage of tax saving opportunities so you can minimize your annual tax bill. Your annual checklist should include:

**TAX-LOSS HARVESTING** — You can reduce your tax bill from capital gains by actively selling certain investments at a loss to offset any taxable gains from the sale of appreciated securities. This practice of actively harvesting tax losses is one that we regularly execute in our clients' accounts. It is important to be mindful of the 30-day wash sale rule which could defer a capital loss if the same or a "substantially identical" security is purchased by the same taxpayer within 30 days before or after the sale.<sup>3</sup>

**INCOME ACCELERATION OR DEFERRAL** — If you anticipate that you will be in a higher income tax bracket in the coming year(s), you may want to accelerate income this year, paying taxes now to avoid paying higher taxes in the future. For instance, you can withdraw funds from a tax-deferred account today and pay a lower tax rate rather than in the future. You may also consider converting your traditional IRA into a Roth IRA if you or your beneficiaries are likely to face higher taxes at a later point. When you convert from a traditional IRA to a Roth IRA, you will pay taxes on the money that you convert today at ordinary income tax rates, but you or your beneficiaries will be able to make tax-free withdrawals from the Roth account in the future.

If, on the other hand, you anticipate that your income tax bracket will be lower next year, you might consider deferring income and paying taxes on that income in 2026 or later instead of today. For example, some employers may give you the option of postponing your bonus to early next year instead of receiving it in 2025. If you are granted incentive stock options, you can generally hold on to the options or stock for longer, thereby postponing your tax liability. If you are planning to sell property, you can opt to receive the payment in installments over a period of future years rather than today to defer the capital gain on the sale. In addition, if you trade a business or investment property for another similar business or investment property that is considered of "like kind," you may also be able to defer the capital gain recognition.

**HEALTH SAVINGS ACCOUNT** — If you have a high-deductible insurance plan, you should consider funding or maxing out a Health Savings Account (HSA), a personal savings account used for healthcare expenses. Contributions to an HSA are tax-deductible, interest earned within the account is tax-deferred and withdrawals from your HSA are tax-free if used for qualified medical expenses. For 2025, the maximum contribution to an HSA is \$4,300 for an individual (\$8,550 for a family) and for 2026, it is \$4,400 for an individual (\$8,750 for a family) with an extra \$1,000 in both years for anyone age 55 and older.

End-of-year planning can be complex and there is no "one-size-fits-all" solution. Everyone's tax situations, balance sheet, estate plans, family dynamics and investment decisions are unique. As your investment office, we are here to work with you and your other trusted advisors as you close out 2025 and prepare for the coming year. For more information, please reach out to your Investment Officer and/or Portfolio Manager.

<sup>3</sup> As of now, the wash sale rule does not apply to cryptocurrencies.



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Alan is the Senior Tax and Estate Planning Solution Specialist with primary responsibility for the financial, estate and tax planning for individual clients at Hirtle Callaghan. Prior to joining Hirtle Callaghan, Alan worked for the law firm of Morgan Lewis and Bockius, LLP in their Personal Law Practice Group. Alan earned a B.S. (High Honors) in Accounting from The Pennsylvania State University and a J.D. magna cum laude from the University of Pittsburgh School of Law. Prior to attending law school, Alan served as a Senior Auditor at Deloitte & Touche. He also obtained a Certified Public Accountant (CPA) designation, but is not currently practicing.



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Denise is a Director with over 25 years of legal and financial experience working with multi-generational families on all aspects of their financial lives. Denise draws on her past experiences to help clients develop and implement their wealth transfer plans and makes recommendations about wealth transfer and income tax saving strategies. Denise obtained a juris doctor degree from the Arizona State University College of Law and graduated *magna cum laude* with a bachelor's degree in accountancy from Arizona State University. She also obtained a Certified Public Accountant (CPA) designation, but is not currently practicing, and is a member of the Arizona Society of Certified Public Accountants. Denise is based in Hirtle Callaghan's Scottsdale, AZ office.

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