

# WEALTH MANAGEMENT **ADVISOR**



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Don't lose wealth to bad actors and opportunistic claims

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## GIFT GIVING WITH BENEFITS

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# Gift giving with benefits

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**F**or most philanthropic people, giving to charity is its own reward. However, a tax deduction can be a welcome bonus. Last year's One Big Beautiful Bill Act (OBBBA) introduced several significant changes to the rules governing charitable deductions. As you make charitable gifts in 2026, review these updates to see how they affect the deductibility of your donations.

## Tax break for most filers

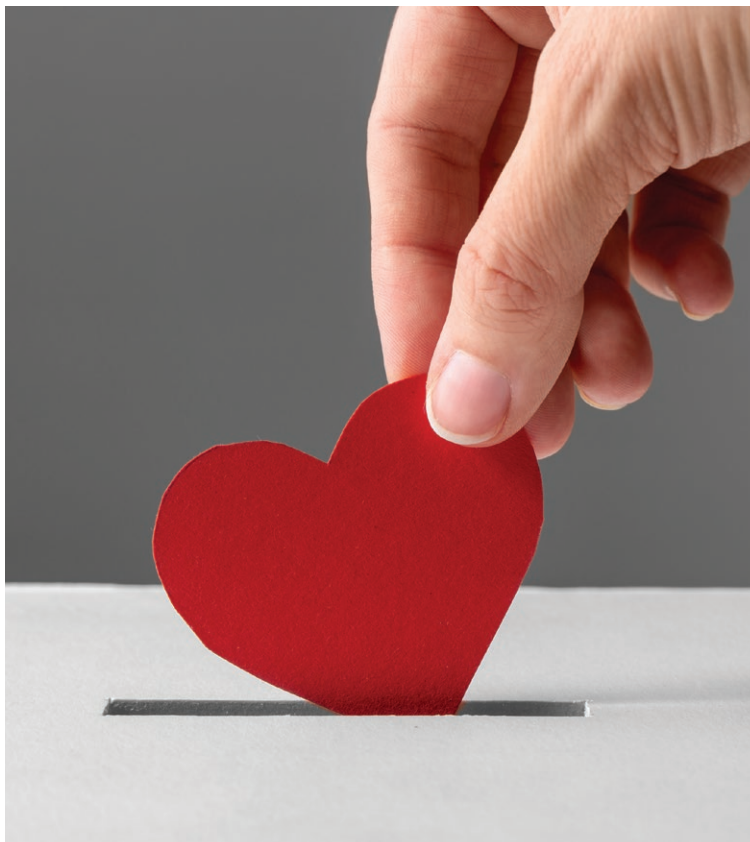
Starting this year, charitable donors who don't itemize can still claim an "above-the-line" deduction. This tax break is for up to \$1,000 per year in cash contributions to qualified nonprofits (\$2,000 for married couples filing jointly).

This provision benefits a growing number of taxpayers because the OBBBA significantly increased the standard deduction. For 2026, the standard deduction is \$16,100 (\$32,200 for joint filers), meaning fewer people will itemize. Standard deductions for taxpayers age 65 and older are even higher.

## Floor for itemizers

Also starting in 2026, itemizers are subject to an annual floor on their charitable deductions. This floor is equal to 0.5% of itemizers' adjusted gross income (AGI) — so only the charitable contributions that exceed 0.5% of AGI can be deducted.

Suppose, for example, that Isabel itemizes deductions on her federal income tax return. If her AGI is \$200,000, then her first \$1,000 in charitable gifts is nondeductible.



## Ceiling for high earners

Another provision that took effect in 2026 installs a ceiling on all itemized deductions (not just charitable deductions) for taxpayers in the top federal tax bracket. If you're in the 37% tax bracket, this provision caps the tax benefits you enjoy on account of your itemized deductions at 35%.

Say that Ned — a single filer in the 37% tax bracket with \$1 million in AGI — donates \$100,000 to charity. Pre-OBBBA, a \$100,000 deduction would have saved Ned \$37,000 in taxes. Now, however, under the charitable deduction floor, his first \$5,000 in charitable gifts (0.5% x \$100,000) is nondeductible, so his maximum deduction is \$95,000.

Plus, because of the new deduction ceiling, the benefit of a \$95,000 deduction is capped at \$33,250 (35% x \$95,000). In other words, the OBBBA reduces the tax benefits of Ned's charitable gifts by more than 10%.

## 2 ways to maximize savings

Fortunately, there are a couple of strategies available that might help you maximize the tax benefits of your charitable deductions under the new rules:

**1. Bunch your donations.** Bunching means concentrating two or more years' worth of charitable gifts into one year. Suppose that Isabel from our previous example typically donates \$10,000 to charity each year. The floor on itemized charitable deductions limits the amount she can deduct to \$9,000 (the excess over \$1,000), or \$18,000 over two years. If, instead, she were to donate \$20,000 every other year, she could deduct \$19,000, thus increasing her deductions for the same two-year period by \$1,000.

**2. Make a qualified charitable distribution (QCD).** If you're age 70½ or older, a QCD allows you to transfer up to \$100,000 per year — tax-free — directly from an IRA to one or more qualified public charities. Because each distribution is excluded from your income, it has the same tax impact as a charitable deduction, but there's no need to itemize. Plus, it's not subject to a floor or ceiling, so if Ned from our previous example had made a QCD from his IRA, he would have enjoyed the full \$37,000 tax benefit from his charitable gift. On top of these benefits, QCDs count toward required minimum distributions (RMDs) from IRAs, allowing you to make at least part of your RMDs without triggering income taxes.

## DONATE NOW, DISTRIBUTE LATER, WITH A DAF

So long as you itemize federal tax deductions, a donor-advised fund (DAF) enables you to deduct eligible charitable contributions now, even if the donations aren't executed until a later date. Basically, you advise your DAF as to when and to whom the money should be distributed.

DAFs can be ideal if you want to enjoy the tax benefits of charitable giving now, but you haven't yet settled on specific charities or prefer to spread your donations over several years. Meanwhile, your investment grows tax-free, potentially increasing the amount available for charitable gifts. DAFs also make great vehicles for implementing a bunching strategy. You can concentrate charitable deductions in specific tax years while retaining control over the timing of charitable distributions.

Just keep in mind that tax regulations require DAF sponsors to have complete control over how funds are distributed. That said, DAF sponsors will almost always follow your recommendations.

The SECURE 2.0 Act made QCDs even more attractive. Taxpayers are now allowed to make a one-time QCD of up to \$50,000 to a charitable gift annuity or charitable remainder trust, combining the tax benefits of a QCD with a lifetime income stream. SECURE 2.0 also provided for the \$100,000 and \$50,000 limits to be adjusted for inflation. In 2026, those limits are \$115,000 and \$55,000, respectively.

## Strategic giving pays off

The OBBBA has definitely added complexity to charitable giving. But with careful planning, it's still possible to maximize your tax benefits. By using strategies such as bunching and QCDs, you can ensure that your charitable dollars work as efficiently and effectively as possible. Be sure to consult a tax professional before adopting one of these charitable giving strategies. ■

# Don't lose wealth to bad actors and opportunistic claims

It may seem hard to believe, but a single lawsuit resulting from, for example, a minor car accident or routine business transaction, could wipe out your personal net worth—that is, if you don't have a strong asset protection plan in place. Asset protection means anticipating potential threats and taking steps to preserve what's yours from unreasonable legal or creditor claims.

You don't need to be super wealthy to want to prioritize asset protection. Just consider whether your personal and professional activities and your assets might make you or family members targets for bad actors.

## Low and high risk

The first step in creating an asset protection plan is to assess the risk that creditors, former spouses or opportunists will go after your wealth. If your risk is relatively low but you want added peace of mind, you might want to change the way assets are titled or gift them to your loved ones while you're alive.

Higher risks usually call for more sophisticated approaches. For example, if you own a business, you might want to structure it as a limited liability company or corporation to shield your personal assets from business-related claims. Other potentially risky activities include working in a profession with a high malpractice risk, owning a backyard pool, or keeping an aggressive dog. Even having teenage children — especially if they drive — will raise your risk.

Insurance typically is the first line of defense in such cases. You may require personal or homeowner's liability insurance, an umbrella

policy (to cover liability costs above those offered by standard homeowners and auto insurance), errors and omissions insurance, or professional liability/malpractice coverage. Discuss potential needs with your financial advisor and insurance agent.

## Other possible strategies

There are other strategies to consider. For instance, if you're willing to part with ownership, a simple yet highly effective way to protect assets is to give them to your spouse, children or other family members. You can do this either outright or through an irrevocable trust. Litigants or creditors can't go after assets you don't own (provided any gift you make doesn't run afoul of any laws). Just choose your recipients carefully to help make sure you don't expose the assets to *their* creditors' claims.



Another simple but effective technique is to retitle property. For example, the law in many states allows married couples to hold a residence or certain other property as “tenants by the entirety,” which protects the property, so long as it's owned, against either spouse's

individual creditors. This strategy, however, doesn't provide any protection against a couple's joint creditors.

Also, you may be surprised to learn that maxing out your contributions to 401(k) plans and other qualified retirement accounts doesn't just set aside wealth for retirement. It protects those assets from most creditors' claims as well. Traditional and Roth IRAs also offer limited shelter. In the event of bankruptcy, they're protected against creditors' claims up to just over \$1.7 million currently. Outside bankruptcy, the level of creditor protection depends on state law, which varies. For example, Florida and Texas provide practically unlimited protection for all IRA assets. Other states, including California, Mississippi, Nebraska and Vermont, protect assets held in traditional but not in Roth IRAs.

### Word of warning

It's important to note that asset protection isn't about evading legitimate debts, hiding assets (for instance, in the case of divorce) or defrauding creditors. Another thing to keep in mind: You need to put your asset protection plan in place *before* any legal or creditor claims are asserted (or even threatened).

Debtors generally aren't allowed to transfer assets to evade their creditors, and some asset protection strategies could violate "fraudulent conveyance" laws if attempted at the wrong time. If you're concerned about this possibility, talk to an attorney. To establish a plan that addresses all realistic threats to your wealth, contact your financial advisor. ■

## Do you consider yourself a stock trader? Be careful

**B**y default, most taxpayers who trade stocks are classified for tax purposes as "investors." This classification confers certain tax benefits. However, individuals considered "traders" generally enjoy greater tax advantages. But even if you trade frequently and consider your trading more than a hobby, be careful about labeling yourself a trader. Misclassifying such activities could result in IRS penalties, in addition to tax plus interest.

### Class benefits

If you trade stocks as an investor, any net long-term gains you realize will be treated as capital gains (15% or 20% tax rate in most cases)

vs. ordinary income. That's good news if your net gains are long term from positions held more than a year. But any investment-related expenses (such as legal and accounting) are no longer deductible. Margin interest may be deductible in some circumstances. Consult with a tax advisor before claiming such deductions.

In general, traders have it better. Their expenses reduce gross income even if they can't itemize deductions, and not just for regular tax purposes, but also for alternative minimum tax purposes. Plus, in certain circumstances, if they have a net loss for the year, they can claim it as an ordinary loss (so it can offset other ordinary income) rather than

a capital loss, which is limited to a \$3,000 (\$1,500 if married filing separately) per year deduction after any capital gains have been offset.

### Case law answers

It should come as no surprise that multiple taxpayers have sought to convince courts that they should be classified as traders. But these litigants usually fail and can get hit with negligence penalties on top of back taxes (not to mention legal costs). However, such cases have provided insight into what it takes to successfully meet the test for trader status.

According to courts, a taxpayer's trading must be substantial, regular and continuous to be considered a trader. Trading must be designed to capture the swings in daily market movements. And the individual must try to profit from these very short-term changes rather than from longer-term holding of investments.

What exactly counts as substantial? There's no bright line test, but courts have tended to view more than a thousand trades a year, spread over most of the available trading days in the year, as substantial. Consequently, a few hundred trades, especially when occurring



only sporadically during the year, aren't likely to pass muster. In addition, the average duration for holding any one position needs to be very short, preferably only a day or two.

If you satisfy all of these conditions, you may ultimately be able to prove that you're a trader (but there are no guarantees). Of course, even if you don't satisfy one of the tests, you might still convince the IRS or prevail in court, but the odds against you are likely higher.

### Possible penalties

If the IRS disagrees with your trader status and determines that you are, in fact, an investor, you may end up liable for back taxes, interest and accuracy-related penalties. So be sure to work with a tax advisor knowledgeable about such classifications when preparing your tax return. ■

## What are the best — and worst — assets to leave your heirs?

**W**hen planning their estates, most people focus on *how much* they'll leave their heirs. Equally important is *what* they leave. Certain assets pass to heirs with minimal tax and administrative complications. Others can create costs, conflicts and headaches that far outweigh their financial value.

### Think twice

Some assets look valuable on paper but can become liabilities when heirs take ownership. For example, think twice before leaving:

**Timeshares.** Often illiquid, expensive to maintain and difficult to sell, vacation timeshares

frequently saddle heirs with ongoing fees and limited exit options. Many of these contracts automatically bind beneficiaries, meaning they may inherit an obligation they neither want nor intend to use.

**Guns.** Firearms introduce legal and logistical complexity. State and federal transfer rules vary, compliance mistakes can carry severe legal penalties, and not all heirs are willing or legally qualified to accept ownership. Appraisals and secure transfers further complicate administration.

**Collectibles.** Art, antiques, memorabilia and similar items can pose valuation challenges, storage costs and insurance issues. Heirs may disagree on value, struggle to find buyers or face unfavorable capital gains treatment if documentation is incomplete. Emotional attachment rarely translates into liquidity.



Note that these assets aren't necessarily inherently bad. But without clear planning that includes documentation, appraisals and designated recipients, leaving them to your heirs can delay estate settlement and create unnecessary stress.

## Thumbs up

By contrast, certain assets are broadly appreciated by their recipients. For example, cash and cash substitutes are immediately usable, easy to administer and tax efficient. This category includes bank accounts, money market funds and Treasury securities. Heirs can deploy them to pay taxes, settle estates, or rebalance their own portfolios without forced sales or valuation disputes.

**Some assets look valuable on paper but can become liabilities when heirs take ownership.**

Brokerage accounts are also generally easy to inherit. Taxable investment accounts benefit from a step-up in cost basis at death, which potentially eliminates embedded capital gains and any income tax due. These accounts are also simple to divide among beneficiaries and can be retitled quickly.

Then there are Roth IRA accounts. Although Roth heirs must follow their post-death distribution rules, qualified withdrawals are generally tax-free. This makes Roth assets particularly powerful for multigenerational planning.

## Complexity transfers poorly

Assets that are liquid, clearly titled and tax-advantaged are usually the most welcomed by heirs. For assets that don't meet these criteria, plan ahead. During your lifetime, you might sell or even gift them to someone who'll appreciate the items and the gesture. Discuss your options with an estate planning professional. ■