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THE 2025 TAX LANDSCAPE: INSIGHTS ON CHANGES AND PLANNING STRATEGIES, WITH CPAS CAROLE FOOS & GREG HEIMKREITER

David Mandell:

Hi folks, Dave Mandell—host for the podcast. Thanks for joining us. Very interesting topic today. I know that every doctor's going to be interested is, "What's Going On With Taxes in 2025?" and we've got two great experts to tell us about that. First, we've got Carole Foos, my partner, the CPA that prepares my returns and our company returns. I can't say anything more important than that. She's a co-author of all of our books. If you are a long-time podcast watcher and listener, you know she's been on here before. She speaks at conferences as much as I do, and so she is our tax expert at OJM, helping all of our clients and reviewing their tax as part of our process, our planning process, and then for our long-term clients, helping them in answering questions when they come up.

Greg Heimkreiter is a CPA. He's an experienced tax director and CPA with a demonstrated history in the tax and accounting industry for nearly 30 years. He specializes in working with complex tax accounting issues, high net worth individuals, technical tax research and strategic income tax planning for both businesses and individuals. He obtained his undergraduate degree in accounting from the University of Cincinnati and his Juris Doctor, JD from the University of Cincinnati College of Law. So not only is he a CPA, he's also an attorney. Pretty well qualified. Greg, welcome to the program. Carole, good to have you back.

Greg Heimkreiter:

Thank you.

Carole Foos:

Thank you.

David Mandell:

Excellent. So, we all know everybody listening or watching is interested in what's going to happen tax wise and as Greg and I were talking before we hit record, this is going to be an interesting year for taxes because we've got a new administration, we've got a new government all in one party. And while politicians will say a lot of things to get elected, we will have to see what happens tax wise. And so, we're going to talk about that today, some things we know are coming down the pike if nothing else happens and some things that we think might be coming. So, Carole, let's start with you. Regarding the election results, how have things changed? How are we thinking about taxes now that we have what happened in November?

Carole Foos:

Well, I think most people would agree that it's likely that President Trump is going to try to get some tax legislation passed sooner rather than later certainly in the next two years while both houses of Congress are under Republican control. Some of the things that he's mentioned out on the campaign trail and in other venues have been extending some of those cuts that came into being when he was president in his last term that were temporary. So, I think things like extending the lower individual income tax rates, extending the increased standard deduction. I think those are likely things that we would see in tax legislation. Unfortunately, what's it do for us? While those can all be good things, we're again sitting on a wait and see, so it makes it really tough to do tax planning in 2025 because are rates going up at the end of the year or are they not? It really probably pushes the planning out closer to the end of the year when maybe we know what's happening or some tax legislation has passed.

David Mandell:

Yeah, that makes sense. Greg, any additional thoughts there?

Greg Heimkreiter:

I would agree with Carole. I would say, in addition to that though, it's really changed the conversation after the election. Before the election, it was "Who knows? Let's wait and see." Now, it's still, "Who knows=? Let's wait and see." But we do have some indications that extending some of these tax cuts that were under President Trump's first term are one of his higher priorities, especially the SALT tax limitation. I've seen, which is not really an extension, but trying to fix that where it was limited to $10,000 for state, local and real estate taxes and in a place where I'm at, if you're paying city, state and real estate tax, you hit the $10,000 quite quickly and then really it's targeting a lot of East Coast and West Coast high income tax states like, in Ohio, our income tax rate is 4%, but California you up all the way to 13, I believe. And then New York, New Jersey, Connecticut, those kinds of states are very expensive to live in as income tax wise. So, I think some of that it'd be interesting to see what happens, but I think to Carole's point, the planning is not immediate. It's going to have to wait and see what happens in Washington.

David Mandell:

Yes. You mentioned Greg, Carole mentioned individual rates, you just mentioned SALT. What about section 199A, deductions that some practices might be taking advantage of? And then, let's talk about estate tax exemptions too. Remind the audience of what those are and what we think might happen with those.

Greg Heimkreiter:

Yeah, so essentially what happened in President Trump's first term was there was a significant tax law passed in December, end of the year, and I think '17 if I remember correctly, was the year. The business changes were all made permanent from the beginning. The personal tax, individual income tax changes were made temporarily, which are in sun-setting at the end of 2025. So, as it stands right now on 1126, individual income tax will be significantly different than it will be in '25. As you mentioned, the estate tax exemption. So, what happened with that, that was essentially doubled from what it was under President Obama. So, it's 13 plus million dollars right now for an individual. So, a married couple...

David Mandell:

You can pass without any estate tax.

Greg Heimkreiter:

Right. So, you'd have the 13 million plus of a pass without estate tax. If you're married, you take double that, so you're talking 27 million plus when it's all comes said and done, that passes without estate tax or if you take a proactive approach and gift that to your beneficiaries prior to death, you'd have 27 million plus on gift tax, untaxed if you will, just using the exemption. So, if nothing happens between now and December 31st 2025 on 1126, we go back to the old rules, which essentially ballpark cuts it in half. So, it's a significant question mark for people that are in that estate or income. I'm sorry, the estate tax may be impacted by if their estate's 10, 12 million with appreciation, they could go pretty quickly if they go back to the old rules.

Now, if they're under the current rules and you have in excess of what it would go back to, so say it's 13.5 of 27, so from 27 to 13.5, if you're in the say 20 million range, well then, the question becomes if you make it 2026, what do you do in anticipation of that? Do you give some of that away? How do you minimize your estate tax long-term? And to Carole's point on the wait and see approach on the planning, I think the same thing's going to happen with the estate tax planning because some individuals will have estate, the impact on the estate tax, they may want to do stuff, they may do some planning earlier and they have the wherewithal or they don't need the assets, so they'll get kind of passes out to kids, grandkids, whatever.

But a lot of people I think are going to wait and see, and I think I made a comment that if we get to the fourth quarter and nothing's done, or if we end up with a December date similar to President Trump's first term, it's going to be a lot of hard work for some estate planning attorneys and a lot of income tax planning. But the estate planning, those documents all need to be redrafted resigned. So, it'll be interesting if nothing gets done by the fourth quarter, but I think I'm hopeful that it gets done sooner and we have a better runway to fix things if we need to, if nothing's going to get done. The estate tax is the big one. Individual income tax rate, Carole mentioned, the 199A would be a qualified business income, which essentially was put into place to make the pass-through income of as corp or partnership and even a schedule C, so proprietorship essentially not equal, but less than the tax burden down to the C corp tax rate because the C corp tax rate was one of the permanent changes by President Trump, which is now 21%. I think that we're going to address that in a minute, but that's set to expire.

The increased standard deduction set to expire, the personal exemptions went away. Those are set to come back in '26 if nothing happens. And miscellaneous itemized deductions have gone away. So, anybody that's employed getting a W-2, they can no longer deduct anything that's unreimbursed by their employer. If it resets, then in '26 you could. So, mileage, subscriptions, professional organizations, whatever you may have.

David Mandell:

Yeah, yeah, yeah. Tentacles in a lot of areas of the return.

Greg Heimkreiter:

Right.

David Mandell:

A lot of impact. Carole, specifically on retirement plans, which many of the docs watching and listening will have in their practice, what do you expect or what do we know in terms of retirement plan and contribution plan changes in '25?

Carole Foos:

So, what's known as the Secure Act 2.0 passed last year, which made some significant changes for retirement plans and retirement plan contributions. One of the great aspects of that for people aged 60 to 63 effective this year in 2025, they can now make what they're calling supersized catch-up contributions. So, taxpayers who are 50 and older, and let's just say they're participants in a 401(k) plan for 2025, anyone can defer $23,500 into their 401(k) or 403(b) plans. Those age 50 and older can make a catch-up deferral amounting to $7,500. If you're age 60 to 63 this year, instead of that $7,500 catch up, you can actually make a $10,000 catch up. So, it's another way to get 2,500 more dollars into a retirement plan. The catch-up contributions, you can make those to a traditional plan or a Roth plan, as we talk to our clients a lot about.

David and I do about tax diversification. I think part of the planning that you can still do and still make sense regardless of tax law changes is how am I set up for my retirement wealth planning? Do I have money in these various buckets of income that's going to be taxed at ordinary rates versus going to be tax-free versus tax to capital gains rates? Those supersized catch-up contributions are also available for simple IRAs, although that amount's $5,000 instead of $10,000. And then secure 2.0 did make some other changes that were actually effective in '24, you can now make your simple or your SEP contributions into a Roth account, which you weren't able to do previously. Employer matching and non-elective contributions can now go into Roth accounts, which used to not be available.

So again, for those of you who believe in that tax diversification and trying to get more assets into that bucket, that will be tax-free later, those are definitely some avenues that you should explore on what makes sense for you. And if we do see an extension of these lower individual income tax rates, at some point, rates might have to go up again. So, it might be a good time to start funding some of those Roth accounts, the Roth 401(k)s, Roth 403(b)s.

David Mandell:

Even some of the cash value life insurance we talk about, which kind of acts as a Roth IRA, taxwise. Because you are taking advantage of tax-free growth and potentially tax-free access, but you're not getting a deduction going in, do it in the years where that deduction isn't worth as much. And same thing on the Roth and where most of the audience will be limited and how much they can put in a Roth. So, it could be doing both.

Carole Foos:

Right, right. I think one more point on that that we should make is for many of our listeners, they are fully funding these retirement accounts. They've often got to find benefit accounts. Sometimes the problem, it's not a problem, it's a good problem to have, but when they get to required minimum distribution age, their RMDs can be very high because they've put so much money into these traditional accounts. So again, consideration for putting some of that money in a Roth, there is no required minimum distribution requirement out of a Roth account. So that's another something to think about and take into consideration.

David Mandell:

Well, yeah, I just want to reiterate, Carole, we've written a lot about this and we have other videos and other content. It's in our books, which everybody should be getting, which you can get for free, go back to the podcast page. But we talked about tax diversification and the thing that it puts clients in a long-term position, I've done this myself with the large cash value policies along with my qualified plans and my capital gains assets is when I get to retirement or semi-retirement, whatever that is, that have some choice, some power, some ability to say, "Okay, rates are high this year, so maybe I take more of my non-tax dollars out of Roths or life insurance policies or maybe capital gains rates are lower now so I could sell some of my portfolio that's in my name."

Or we get to a couple of years where there's been a dip in qualified in primary income so I can take more out of my qualified plan, maybe even go beyond my required minimum. And if you don't have that, and we had to do a really good job in the book of two docs who have essentially the same net worth, but they're in different buckets and we go through the example of Dr. Smith versus Dr. Jones. They both let's say have a net worth of 5 million, but Dr. Jones is almost all in their home in their qualified retirement plan and Dr. Smith is more diversified and when they get to retirement as they want to pull out dollars, Dr. Smith got a lot of options to take more out net of tax than Dr. Jones who just can pull out of their qualified plan and they're going to pay that ordinary income tax.

So, it matters and you can't just wait to retirement to get those buckets as we talk about filled, it's doing it now and taking advantage of maybe '25 and the changes, will open some of those folks' ears and eyes who are listening and watching today to start to put that in place.

Carole Foos:

Right.

David Mandell:

So, I really wanted to drill down on that. Greg, you had mentioned some potential business tax changes and the C corporation taxes. Tell us what we might think about here?

Greg Heimkreiter:

So, in the past on the campaign trail, there was talk of lowering the corporate tax rate, which was at 21% to 15%. And so, there'd be a new tax change. Originally it was under President Trump's first term, it was lowered to 21 as one of the permanent changes. So, this would be, I would presume there'd be an attempt to make it as a permanent change just based on his pro-business friendly tax law changes in the first term. So, taking it from 21 to 15 would be a great decrease in tax for corporate income tax filers. The one thing I did read was that he was potentially, and this is all wait and see, but some of that would be accomplished by reestablishing the DPAD deduction, which is domestic production activities deduction, which we'll see if that happens or not. And without getting into too much boring tax detail, it essentially was there to reduce the rate and be a deduction to not reduce the rate, but essentially get your effective rate down.

If you compare that 15% rate to what I referenced earlier was the QBI, the qualified business income, which is the pass-through entities, what happens is that QBI reduces the pass-through entities effective tax rate to about 27%. And that doesn't look too bad compared to the 21% for C corp. However, if you take it and they reduce the rate to 15%, that's effectively a double spread. It was 6% 21 to 27, now it's 15 to 27. So, does 12% federal income tax difference between two pass-through entities versus C corps make it significant? It could. Could it swing the business entity selection back to C corps for popular going forward? I don't know, but I think that's something to look at as far as structuring entities this year if you're setting up a new entity. Typically, the LLC has been very popular for a lot of business types over the years. C corps has its specialty areas, but I think it's something to look into going forward.

One thing I didn't mention before too that would impact business that I've been following a little bit is the bonus depreciation, which wouldn't be more of an entity, it wouldn't have to do with the entity type, but it would certainly be a deduction that's been reducing down over the past few years. So, the idea would be to get that back to 100% potentially for businesses. So, any equipment, really most items other than with a few limitations other than real estate, you'd be able to deduct 100% of the year it's placed in service, which would be a huge deduction for a lot of businesses that are either asset intensive, over ones that are replacing a lot of assets in '25. So, it might not be a big deal, but it could certainly help lower the tax burden for quite a few entities.

David Mandell:

Yeah. When I think of medical practices, again, we've worked with thousands of them over the years. They're almost, not all, but almost all and certainly I'm thinking of the ones that aren't almost all their structure is S corporations. And where I see C corporations is some older practices. I can think of a number of orthopedic practices that go back to the '50s and '60s, and obviously the docs have turned over, but the practice originally goes back to the generation that's not even around anymore and maybe even one before that. And generally, Carole's the one giving the advice, the S corp is the right play for most people, right?

Greg Heimkreiter:

Right.

David Mandell:

But maybe that will change. That would be a big thing if that delta becomes significant enough that it's worth and practices are still allowed to change as long as they haven't in the prior five years. Is that the general...

Greg Heimkreiter:

Correct. That's still the current general rule. Yeah. I mean the one thing with the C corps is, the problem with C corps is it always has the double taxation.

David Mandell:

Right.

Greg Heimkreiter:

So, it’s getting taxed at the corporate rate...

David Mandell:

The year and then that you got to do all the math and see if it's working.

Greg Heimkreiter:

Right.

Carole Foos:

I think it's also important to remember that qualified business income deduction for many of our listeners that are medical practices, they're not eligible for that unless as individual taxpayers. Their taxable income is below certain threshold amounts 400 and some thousand dollars, this wasn't 2024 for married taxpayers. So, it will become interesting to do the math if the C corporation rates drop. And again, how's that planning work within a C corporation. If I've got a C corporation and maybe I do a cash balance plan to get my corporate income down or some things like that doesn't make sense for me to pay the 15% corporate rate, even if I'm not pulling all the money out of the practice right now and then paying dividend rates. It's going to become some interesting planning if we see a huge rate difference between either pass-throughs and C corps or between individual tax rates and C corporation rates.

David Mandell:

That's a good point. And then, the other thing, Greg, you mentioned was on a potential of raising of the accelerated depreciation, depending on the practice, a fair amount of practices and med spas. They're investing in lasers and other types of equipment. And this would obviously, I'm sure the manufacturer will be all over marketing the tax benefit to sell more equipment, but this is something that will come into the calculation and building. I've had other folks on here when they talk about when you're buying equipment, you really want to create a mini business plan for that. When are you going to get an ROI? When are you going to get break even, that you don't just have a practice with all this great equipment and you're losing money on all, right?

So, the tax element piece of that shouldn't drive the decision, but obviously if you can get a better deduction with it might push you over to get a piece of equipment rather than forego it. So yeah, that's important. Carole, let's talk about qualified opportunity zones. We talked about that a bit some years ago when it first came out.

Carole Foos:

Right.

David Mandell:

But now, it sounds like it's back on the radar because the Piper needs to get paid. Is that...

Carole Foos:

Time to pay the Piper pretty soon, coming up.

Yes. So, part of the tax law that passed in the first Trump administration included this deferral of capital gains if you sold an investment and you invested those proceeds into a qualified opportunity zone investment, and there are funds that created these. So, we saw a lot of people, especially in 2018, 2019, maybe 2020, who deferred capital gains tax by putting money into these opportunity zone investments. Well, the deferral of the tax was temporary, so that tax that was deferred is due either when you subsequently get rid of that opportunity zone investment or by December 31st 2026. And again, right, much like everything, everybody wants to take advantage of those tax savings when they come up, but they forget that, "Oh yeah, I'm still going to owe that tax." Complicating it further, some states, California in particular is one that comes to mind, did not allow for the deferral.

So, if you had clients who were California taxpayers, they sold an investment reinvested in an opportunity zone, they could defer the federal tax, but they paid the tax in California. So, I think this is just a reminder for clients who have participated in those types of investments in terms of your tax planning in 2025, again, not due until '26, but for some people that's a lot of tax that they deferred. And just thinking about liquidity planning and portfolio planning for writing that check in 2026 I think is important to go back and talk to your CPA about, think about how much do I owe, what do I owe, federal and state, and just get that in your head in terms of how you're going to pay that bill.

David Mandell:

Yeah, makes sense. Greg, any comments on that? I'll let you. And then also, maybe you could talk to us about inherited IRS. I know that's another topic from the past that is coming back up.

Greg Heimkreiter:

Yeah. So, on the qualified opportunity zones, I would echo what Carole said. And I would say definitely make sure you know how you're going to be impacted federal and state because the states all do have some followed the qualified opportunity zones rules from the federal, some didn't. And really as far as liquidity goes, that could actually be a pretty substantial amount of tax just for the state depending on what state you're in. California, you paid tax on it already, but if you get up to 10% on a fairly large size gain, it could impact your liquidity, adding that on top of your federal tax. And there's some different rules when you have to pay the tax on the deferred gain, but there's also some different rules to consider when you sell the qualified opportunity zones investment as far as increases in basis, and then some potential less gains recognized when you actually exit. But tax due, it needs to be planned for ahead of time for '26.

And then, the benefit share, the inherited IRA rules. One thing that was looking at in '24 and now also in '25, while we're still operating under the President Trump's first administration tax changes is that tax rates are lower. Right now, we don't know what's going to happen. But for '25, if nothing happens, it might be worthwhile. The inherited IRAs you now have to take out within 10 years with a few exceptions, but primarily most beneficiaries have to take them out within 10 years. So, with that being said, it may be an opportunity to take some of that inherited IRA out in '25 if the tax rates do stay lower or if they increase in '26 or increase going forward, who knows what we're going to end up with. But right now, the top rate's 37%, which prior to that was 39.6.

So, 2.6% may not seem like a great amount, but who knows? And if it's a big enough IRA distribution, it adds up pretty quickly. So, the thought being, lots of clients of mine have done Roth IRA conversions in the past few years to take advantage of some lower income tax rates or even just take advantage of the 37% rate. It may be worth looking at doing that versus Roth conversion or just filling up any gaps you might have if we do in fact think the tax rate's going to increase in '26.

David Mandell:

Great. So, I wanted to finish with a question that's not really about legislation or where we may go, but the state of for physicians and other high-end income and high net worth clients, getting good tax preparation work, getting the returns done, getting that stuff done. Because you and I, we've all talked about this before, the industry's changing and a lot of docs probably don't realize why it's getting harder. Maybe they've already experienced it, they can't find a good CPA. We've been able to refer some people to you, Greg. But Carole, why don't you first talk about what you've seen because you've got kids in the business, you've been in the business a long time, you've been a big firm on your own. Where are we and why is it harder? And then, we'll end with you, Greg.

Carole Foos:

Well, I think number one, accounting firms in general, they're having trouble hiring people and keeping people. Not as many college students are going into accounting because currently to sit for the CPA exam, you have to have 150 hours of certain types of credits in college. So, for a lot of kids, that means a master's degree, right? Or some sort of advanced degree or a fifth year potentially not what a lot of students want to do. Again, business school students see, well, I don't want to go work for a big accounting firm. They're working 70 hours a week during busy season, 60 hours a week, whatever. So that's part of the issue. Because of that, what a lot of firms have done is they're outsourcing a lot of their preparation work, data entry work to India or to other countries.

So, I see it as you mentioned, I've got three of my kids are CPAs. That's what we produce at the Foos' house, I guess. But I know this is happening out there and I think for clients looking, what I've seen, and we've had clients tell us this, some of these firms don't want to do individual tax returns anymore. Some of them are essentially what I'll call quietly firing their clients by either, "Oh, I didn't get the engagement letter for my CPA this year." "Oh, I got a bill and my bill went up 300% from the prior year." It's their way of "getting rid of clients." So, I think for our clients and our listeners, it's important to understand who you're working with, understand how that accounting firm you're working with. Are they having any personnel issues? Do they have people to support? If you've been working with the same CPA for 30 years and that person's going to retire soon, who's next in line? Who's going to take on your account? And is it who you want to work with and is it someone who wants to work with you?

And if you're not finding that, then seek out other firms. There are firms that want the work of individuals and closely held businesses that that's who they specialize in. That's the kind of business they like, and that's who they do both compliance and planning for. And I think what we tell our clients all the time is that's the kinds of firm you want to work with. You want somebody who wants your business, who wants to help you, who wants to help your business grow. And then I'll let Greg answer from that.

David Mandell:

Yeah. Greg, we want your perspective. And also, you can also chime in on, and obviously OJM is an example of this because our clients are in 50 states. I mean, even before Carole became my accountant who's not in my state, although she comes in Florida a lot before that. I had my account in California and I left and moved to New York and I still had that CPA, and like OJM, they don't need to be down the road from you. So, comment on that too and also what you've seen in the industry.

Greg Heimkreiter:

Yeah. I'd say the industry's always changing, but the past couple of years, to Carole's point, a lot of the bigger firms have quietly or not so been separating service from a lot of their individual tax clients. A lot of reasons for that. One of the major ones is the availability of college grads. Historically, the professions relied on college grads to do a lot of the, not the really exciting work, the data entry, you do the basic stuff to learn the business, and you go up from there. With a lot of technology, some of that's not needed. So, they've replaced it with some technology, but then you still need some less experienced staff to do some of that work. And the answer's been outsourcing to different places. So, it is a model that I can't tell you if it's working. I am not involved in that outsourcing anything, but it's certainly the way industry is gone.

The big firms are really looking at the bigger picture. They want clients where they have a, lot of overhead. They have an audit department, they have tax, they have an M&A group, they have a little bit of everything. So, they're really looking for the corporate clients and they'll do the owners, the businesses and things like that, but they really want the big entities where they can do everything, all the way from tax compliance, tax planning, state and local planning, everything. And that's I think part of the reason too is that those type of engagements are seen as more lucrative than preparing individual income tax returns. And they have a lot of staff committed to those departments, so they need to fill their plates, I guess as well.

With that being said, Carole mentioned if you have a practitioner that's been working with you for 30 years and they're retiring, I've been on the successor end of that. So, I would say if you have a relationship and you think it's great, I just asked the person you've been working with for 30 years, what's the succession plan? Who are you getting transitioned to? And if that person's close to retirement and they don't have one, I think that's maybe an issue. You might want to push them to see what their plan is. And if not, they don't have one, then you're going to have a new person anyways because all the knowledge is probably, it's probably electronically somewhere at the firm, but it's also mostly in someone's head that's retiring, not going to be there next year. So that, that's my opinion.

Technology wise, I have clients. I don't know if I have clients in 50 states right now, but pretty many of the states, and I have a couple internationally as clients are willing to use technology, you really don't have to be present for a face-to-face in-person meeting anymore. Even in the days when I started my career where you were getting FedEx packages overnight and then FedExing it out to the client so they could run it to the post office, all that's gone by the wayside. Most everything can be done electronically and digitally and through portals and e-signatures and things like that. So, it really has made things a lot easier to really provide your services across the country and even worldwide for US residents. I have some that live in foreign countries, and it's beautiful actually to do all that stuff electronically and not have to wait for the postal service or the UPS or FedEx person to deliver something. So, it's been great.

But I think the industry's constantly changing, and I think the firms that want to handle individual income tax clients are getting fewer and fewer as we go through time. But I always tell clients, if you get a bill you don't like, question it. All you can do is ask. And maybe the person made an error preparing the bill, maybe the increase in their fee is 300%. Either way, it doesn't hurt to ask. And if you don't get an answer you don't like, then I think that's kind of the writings on the wall.

David Mandell:

Well, I'm glad you guys give your input on that because it is something we've heard and we have seen it, even our own clientele of doc saying that I need a new CPA for whatever reason, or they've been actually looking and they can't really find a good fit it. So, it is I think, a nationwide issue. Greg, Carole, thanks so much for being on. Really appreciate it. I hope it was helpful for those listening and watching. And of course, in another two weeks, we'll have another episode. Tell your friends about us, get them on, give us a five-star review if you think you're so inclined. And stay tuned for another episode in another couple of weeks. Thank you.

Carole Foos:

Thanks, David.

Greg Heimkreiter:

Thanks, David.