ENCOMPASS

by Commerce Trust

SECURE YOUR LEGACY

WINTER 2025

Commerce Trust
Banking | Investments | Planning®

Commerce Trust
Banking | Investments | Planning®

Letter from the President and Chief Executive Officer

A season of reflection invites us to consider not only how wealth is built but how it endures. For many families, the most lasting measure of prosperity is found in how thoughtfully assets are transferred to heirs and to philanthropic beneficiaries.

With recent legislative changes to the tax landscape that could influence long-term planning, this is an important time to evaluate strategies for moving assets outside of a taxable estate to protect the value of your wealth, while preserving flexibility for the future.

At Commerce Trust, our holistic, team-based approach to serving clients integrates financial and tax planning, investment strategy, trust administration, and philanthropic guidance into one cohesive experience.

We draw on over a century of client service through all market cycles to work closely with you to ensure that every dimension of your wealth plan, whether gifting to family members, structuring charitable foundations, or preparing heirs for stewardship of family wealth, is intentionally carried out with foresight and precision.

In this issue of Encompass by Commerce Trust, our wealth management client leaders offer insights on tax-efficient techniques to help reduce the burden of estate taxes, funding a child's education or an adult child's home purchase, as well as approaches for aligning charitable giving with your family values.

On behalf of our entire organization, I extend gratitude for entrusting us with helping to secure your legacy. As we turn toward the close of another year, may this season bring you and your family opportunities for meaningful connection, renewed perspective, and clarity of purpose.

Sincerely,

JOHN K. HANDY
President and Chief Executive Officer
Commerce Trust

Table of Contents

Moving Assets Out of Your Taxable Estate

Authored by

Scott LaPresta, CTFA
Director of Private Client Advisors, Commerce Trust

Removing assets from your taxable estate may preserve more value for your beneficiaries by lowering your eventual federal estate tax liability. Generally, the more value included in your estate at death, the higher your federal estate taxes will be. For this reason, proactively shifting assets with significant growth potential out of your estate can be particularly effective, as doing so removes future asset appreciation from your taxable estate.

Since moving assets out of your taxable estate typically requires transferring ownership, consider reviewing these strategies with your private wealth management team to ensure they align with your long-term goals, such as supporting your beneficiaries, minimizing taxes, and preserving family wealth. It is also important to weigh the potential estate tax savings against the loss of a step-up in cost basis, which resets an asset's cost basis to its fair market value at the owner's death and can reduce capital gains taxes on a future sale.

There are a number of gifting and asset transfer strategies that can be employed to remove assets from your taxable estate while accomplishing your bigger picture wealth transfer goals, including leveraging your annual gift tax exclusion, taking full advantage of your federal lifetime gift and estate tax exemption, and using those assets to fund certain types of irrevocable trusts. With any of these strategies, understanding the complexities of the tax provisions is critical to making informed decisions that will have a lasting impact.

USING YOUR ANNUAL GIFT TAX EXCLUSION

Giving assets to family or other individuals during your lifetime is a straightforward way to transfer assets out of your taxable estate while allowing the recipient to benefit from your gifts today. This could be particularly meaningful if you want to provide the recipient with supplemental income for expenses or assist with a significant contribution to help fund a big purchase for a family member.

The annual gift tax exclusion allows individuals to gift up to $19,000, or $38,000 for gifts from a married couple, to as many recipients as the donor wants in tax year 2025.

Consistently using your annual gift tax exclusion each year can significantly decrease the value of your estate over time, which may lead to a lower federal estate tax liability.

Gifts made to pay for someone's tuition or qualifying medical expenses do not count against your annual gift tax exclusion if the payments are made directly to the educational institution or medical provider. These payments are typically exempt from federal gift taxes entirely, neither reducing your lifetime exemption from federal estate and gift taxes nor triggering a taxable gift.

Any gift that exceeds the annual gift tax exclusion and is not covered by the tuition or medical payment exclusions is generally considered a taxable gift. Triggering a taxable gift requires the donor to file a Form 709 gift tax return, and the gift counts as a portion of the donor's lifetime exemption from estate and gift taxes. Understanding how to make the most of your annual gift tax exclusion can help you transfer more wealth to the next generation tax-free while avoiding unintended tax consequences.

EFFICIENTLY LEVERAGING YOUR LIFETIME ESTATE AND GIFT TAX EXEMPTION

With the passage of the One Big Beautiful Bill Act (OBBBA), the federal lifetime estate and gift tax exemption will increase to $15 million per individual starting in 2026, avoiding the scheduled sunset that would have significantly reduced the exemption amount from $13.99 million in 2025 to $5 million per individual in 2026, as adjusted for inflation. The exemption amount is effectively doubled for married couples and, once your exemption has been exhausted, further taxable gifts or transfers included in your estate at death are subject to a top tax rate of 40%. The changes introduced by the OBBBA are numerous, making specialized guidance essential to capitalize on potential estate and tax planning opportunities and navigate the complexities involved.

Gifting an asset with potential for appreciation early may have the added benefit of minimizing how much of your lifetime exemption is used by that gift. For example, if you and your spouse gift $1 million worth of assets to your child, your gift uses $1 million of your lifetime exemption.

But if you allow the $1 million worth of assets to appreciate to $2 million before gifting it to your child, the gift will ultimately use $2 million of your lifetime exemption.

In other words, waiting to transfer appreciating assets may reduce the amount you can transfer tax-free later by using up more of your lifetime exemption. Also, gifting appreciated assets directly, rather than selling the assets and gifting cash, is generally more tax-efficient because liquidating assets before gifting them could trigger capital gains taxes for you to cover, in addition to reducing your available lifetime estate and gift tax exemption.

A comprehensive estate plan can effectively utilize your lifetime exemption so you can take advantage of the historically high exemption levels. Doing so can help shield as much wealth as possible from estate taxes, which could potentially increase the ultimate total value transferred to future generations or other beneficiaries.

TRANSFERRING ASSETS TO IRREVOCABLE TRUSTS

Making a taxable gift to an irrevocable trust generally reduces your remaining lifetime exemption and may remove the asset and any future appreciation from your taxable estate. Irrevocable trusts can offer additional benefits, such as offering a means for structured wealth transfer and asset protection, depending on the type of trust and the provisions within the trust document. Though irrevocable trusts can be difficult to modify and generally require forfeiting ownership of the assets used to fund the trust, they can be particularly effective estate planning tools depending on your wealth transfer and tax planning goals.

A spousal lifetime access trust (SLAT) provides married couples with the option to use both of their respective federal estate and gift tax exemptions for the benefit of the other, since a SLAT allows for one spouse to fund a trust that names the other spouse as a beneficiary. If drafted properly, SLATs remove assets, and any future appreciation, from the estate of the grantor (the person who creates the trust). And, if the contribution to the SLAT falls within the grantor's available lifetime exemption, there should typically not be any gift or estate tax to pay as a result of that contribution.

A common SLAT technique involves each spouse creating a SLAT for the benefit of the other spouse. This allows the couple to remove

assets from their taxable estate while the couple may benefit from the assets indirectly, such as through distributions made to one spouse that could be used jointly for household expenses.

Dynasty trusts are another type of irrevocable trust that the grantor can use to remove assets from his or her taxable estate. Assets owned by a dynasty trust are generally not included in the estates of beneficiaries. Dynasty trusts are designed to benefit several generations of the grantor's descendants while minimizing estate taxes. Depending on the structure of the dynasty trust and any applicable state laws, a dynasty trust may also offer a degree of asset protection from the beneficiary's creditors.

Finally, an intentionally defective grantor trust (IDGT) is designed to remove assets from the grantor's estate while the grantor remains responsible for any income tax liability associated with the trust assets.
This becomes an advantage if the grantor does not want the trust or the trust beneficiaries to be responsible for paying any resulting income tax. When the grantor pays an income tax liability, such as a capital gains tax incurred when the trust sells an investment, their taxable estate decreases, potentially reducing federal estate taxes, while preserving more of the trust's assets for potential future growth.

Because any income generated by the assets within the IDGT is taxed at the grantor's income tax rate rather than as trust income, where the top tax rate is reached at much lower income levels, this structure can also result in significant tax savings over time. Put simply, trusts reach the top income tax bracket much faster than individuals, so having income taxed to the grantor rather than to the trust often results in a lower overall tax liability.

A more specialized use of an IDGT involves selling assets to the trust in exchange for a promissory note. This approach offers a dual benefit, allowing the assets to potentially appreciate outside the grantors' estate without using any lifetime gift and estate tax exemption.

With any irrevocable trust, the trust document must be carefully drafted to ensure assets are excluded from the grantor's estate as desired and the trust complies with any applicable laws. A coordinated effort between your estate planning attorney and your private wealth management team to execute on your direction is important so the trust is structured properly and aligned with your financial goals.

GIVING TO CHARITABLE ORGANIZATIONS

Donating assets to charity can be another effective strategy for removing appreciating assets from your taxable estate, realizing potential tax benefits, and supporting philanthropic causes in a meaningful way. Charitable giving not only creates a lasting impact on the organizations you support but can also reduce the value of your taxable estate and thereby manage your federal estate tax liability.

Assuming you itemize your deductions, donations to a qualified charitable organization can provide an income tax deduction between 20% and 60% of your adjusted gross income (AGI) in the year the donation is made. The deductible amount varies depending on what type of asset was donated and to which type of organization it was given.

For example, the IRS allows a deduction of up to 30% of your AGI for donations of assets that have been held longer than one year, such as marketable securities, real estate,

and collectibles. In addition, it is not typically necessary to pay capital gains taxes on these assets if they are donated directly to a qualified organization.

UPSTREAM GIFTING

Upstream gifting is a term used to describe the transfer of assets out of your estate by gifting them to a parent, with the intent that those assets will later be bequeathed back to you or your child.

With upstream gifting, the assets are considered part of the parent's taxable estate, so the cost basis of the asset will typically reset to the asset's fair market value for capital gains tax purposes at the time of the parent's death, which can lower capital gains taxes for you or your child if either of you eventually sells the assets.

When done effectively, upstream gifting can remove assets from your estate while preserving the step-up in cost basis for you or your children. However, this strategy should be considered holistically among family members, as the assets will then become part of your parent's taxable estate and may use up some of your personal lifetime exemption when you gift them the assets.

PLAN FOR THE TRANSFER OF YOUR WEALTH WITH A COMPREHENSIVE APPROACH

Considering the right methods and timing to manage your federal estate tax liability as part of a comprehensive, coordinated estate plan starts with an understanding of your long-term personal and family goals for wealth transfer.

At Commerce Trust, your private wealth management team is comprised of tax management*, estate planning, financial planning, and investment portfolio management specialists who together can assess what your potential tax liabilities may be, understand the complexities and implications of the various transfer strategies, and help implement the strategies that align with your goals and with the right timing for each strategy in mind.

*Contact **Commerce Trust** today to learn more about our private wealth management services and how we can help you navigate tax planning to preserve your wealth for your next generation and leave the most impactful gifts for your philanthropic beneficiaries.*

**Commerce Trust does not provide tax advice to customers unless engaged to do so.*

Comparing wealth transfer strategies

WEALTH TRANSFER STRATEGY	BENEFITS	CONSIDERATIONS
Annual gift tax exclusion	» Direct and repeatable annual gifting strategy to lower taxable estate and federal estate taxes » Does not require a gift tax filing or use any federal lifetime estate and gift tax exemption if below IRS limits » Recipients can make use of the gift right away	» Gifts over IRS limits are taxable gifts that require a gift tax filing and reduce the donor's lifetime exemption » Resets each year to allow ongoing, incremental transfers » Must be a present interest gift to qualify
Medical expense and tuition exclusion	» Gifts do not count against annual exclusion or lifetime exemption » Provides for an individual's qualifying medical or education expenses	» Payments must be made directly to the medical provider or educational institution
Lifetime estate and gift tax exemption	» Allows asset transfer without incurring federal gift and estate taxes up to a limit » Can lower the donor's taxable estate and, therefore, potential estate taxes	» Requires a gift tax filing to track cumulative lifetime gifts » Transfers over the exemption limit are subject to a top tax rate of 40%
Irrevocable trusts	» Transfers wealth to beneficiaries in a structured manner » Can lower the donor's taxable estate and potential estate taxes if structured properly » Potentially protects assets from creditors	» Typically requires working with an estate planning attorney to ensure proper structure and legal compliance » Can be difficult to modify, if at all, in some cases, depending on the terms of the trust and the applicable state law
Charitable contributions	» May provide an income tax deduction for qualified donations » No capital gains taxes due on direct donations » Allows donors to support philanthropic beneficiaries while moving assets out of their taxable estate	» Donor must itemize deductions to receive an income tax deduction » Deduction limits vary based on the asset type and receiving organization
Upstream gifting	» Unlike other strategies, provides the final recipient with a step-up in cost basis » Donor's parent can use and enjoy the asset during their lifetime » Capital gains taxes are typically lower for final recipient	» Requires agreement and coordination among family members » Assets become part of the parent's estate, potentially leading to estate tax consequences for the parent

Upstream Gifting: A Tax-Efficient Approach to Wealth Transfer

Authored by

Amy Stiglic, CTFA
Market Executive, Kansas City, Commerce Trust

Upstream gifting is a strategy that can offer multiple tax benefits. Upstream gifting can allow high-net-worth individuals to potentially lower their overall federal estate tax liability, financially support their parents, and mitigate capital gains taxes for the family member who ultimately inherits the assets if they eventually sell them.

This strategy involves transferring assets to your parents with the intention that they will pass those assets back to you or your children upon their death. Since the assets are included in your parents' estate at death, those assets will receive a step-up in cost basis, potentially reducing capital gains taxes when the assets are later sold. However, upstream gifting requires careful coordination among family members and proactive estate planning, making it wise to consult your private wealth management team and your estate planning attorney if you are considering this strategy.

TRANSFERRING ASSETS TO YOUR PARENTS

The first step in upstream gifting is to transfer assets to the generation above you, hence why the strategy is called upstream gifting, as it involves gifting assets "upstream" to your or your spouse's parent or parents before the assets pass back down to you or your children.

Some assets work better than others for this strategy. For example, assets with significant potential for appreciation are often ideal for gifting, since transferring these assets out of your taxable estate may lower your eventual estate tax liability. Assets that you would like to keep in your family, such as real estate, art, or collectibles, may also be ideal candidates for upstream gifting. These types of assets often align with long-term planning and are less likely to be sold quickly, making them well-suited for upstream gifting strategies.

Note that if the total value of the gifted assets given to an individual per year is greater than your annual gift exclusion ($19,000 for individuals and $38,000 for married couples for tax year 2025), the gifted assets over your annual gift exclusion will be considered a taxable gift. Taxable gifts require filing a Form 709 gift tax return and may use up some of your lifetime exemption from estate and gift taxes. And any additional gifted amount over this exemption ($13.99 million for individuals and $27.98 million for married couples for tax year 2025) of taxable gifts given during your life or assets included in your estate at death may be subject to a top tax rate of 40%. The One Big Beautiful Bill Act (OBBBA) raises the federal lifetime estate and gift tax exemption to $15 million per individual in 2026, avoiding the scheduled sunset that would have significantly reduced the exemption amount from $13.99 million in 2025 to $5 million per individual in 2026, as adjusted for inflation.

YOUR PARENTS OWN THE ASSETS DURING THEIR LIFETIME

Once ownership of the gifted assets is transferred to your or your spouse's parent, they are no longer included in your taxable estate. For upstream gifting to work as intended, it is critical to align on how the assets should be managed while in their possession. Because your parent will have full legal control over the assets once the gift is made, discussing expectations for ongoing care, management, and eventual transfer prior to making the gift can help ensure the assets remain in the family as intended. However, once your parent assumes ownership of the gifted assets, they have the discretion to handle the assets as they see fit.

Estate and capital gains tax planning with upstream gifting

The following is an example of how a high-net-worth couple could employ upstream gifting to reduce estate and capital gains taxes across generations.

Suppose a high-net-worth couple wants to transfer $2 million worth of closely held stock to their child. However, the couple is not ready to transfer the stock directly, perhaps because their child is still building financial maturity. At the same time, the couple is concerned about the gift and estate tax implications of allowing the stock to appreciate in their own estate. To address this, they gift the stock to one spouse's parent. This removes the stock from the couple's taxable estate, uses $2 million of their lifetime exemption, and increases the parent's estate by $2 million.

Now that the parent owns the stock, he or she has full control over the assets. After aligning on family intentions, the parent agreed to take a portion of the income generated by the stock while leaving the rest to their grandson or the son of the couple.

When the parent passes away, the couple's child inherits the stock, which is now worth $5 million. Because the assets were included in the parent's estate at death, the assets receive a step-up in cost basis, resetting their value to $5 million for capital gains tax purposes.

The couple's child later sells the stock once it appreciates to $6 million. He or she only owes capital gains taxes on the $1 million gain rather than the full $4 million increase from the original $2 million cost basis. Through the multiple benefits of upstream gifting, the couple has taken steps to lower their estate tax liability, the parent received income during his or her life, and the couple's child owed less in capital gains taxes than if he or she had been gifted the assets directly.

If you gift assets that generate income, such as stocks or a rental property, and your parent chooses to take income from the assets, it is important to consider how the income may impact their income tax liability or other income-based costs, particularly if the added income may cause their Medicare premiums to increase.

If you decide to gift assets such as real estate, art, or collectibles, you may also want to gift funds that can be used for the care of these assets. If you gift a home and your parent chooses to live in the home, perhaps the gifted home provides a higher standard of living or greater comfort than their current residence. But it is important that proper planning takes place to ensure the home does not become a maintenance or tax burden for your parents.

Aligning with your parents on the ultimate beneficiaries of the assets is also essential to ensuring upstream gifting does indeed return the assets back to you or to your child. How your parent ultimately designates beneficiaries in their estate planning documents may vary, such as through a will or trust, but the goal is to ensure the assets remain in your parent's estate to receive a step-up in cost basis. Your parent may need to evaluate how this might impact their federal estate tax liability, which may require proactive adjustments to their existing estate plan as well.

YOU OR YOUR CHILDREN RECEIVE THE ASSETS BACK WITH A STEP-UP IN COST BASIS

A step-up in cost basis resets the cost basis of an asset to its current fair market value on the owner's date of death. An asset's cost basis is used to determine capital gains taxes if the asset were to be sold for more than its original value. In the context of upstream gifting, this means that when you or your children inherit assets back after your parent has passed, any appreciation that occurred while the assets were held by your parent may be excluded from capital gains taxes. A step up in cost basis can substantially reduce capital gains taxes when the assets are later sold.

For example, if assets you originally purchased for $1 million are given to your parent and then appreciate to $1.5 million in value before being passed back down to you or to your child, capital gains taxes will be calculated using the new $1.5 million cost basis. Suppose the assets are later sold valued at $2 million. With the step-up in cost basis, capital gains taxes will only be owed on the $500,000 gain from $1.5 million to $2 million.

In contrast, without the step-up in cost basis, the full $1 million gain would be subject to capital gains taxes.

NAVIGATE UPSTREAM GIFTING WITH SPECIALIZED GUIDANCE

Upstream gifting requires thoughtful coordination because it involves aligning estate and tax planning considerations across multiple generations. The financial situation and long-term goals of each party involved in an upstream gifting strategy must be carefully considered to avoid unintended tax consequences or disruptions to family plans.

At Commerce Trust, your private wealth management team is comprised of tax management*, estate planning, and investment management professionals, who can help you understand the tax and estate planning considerations of upstream gifting. If you choose to pursue an upstream gifting strategy, your private wealth management team can also help you navigate family dynamics to align a coordinated approach between you and your parents to ensure the financial and family goals of all parties are considered. Our team can meet with multiple generations of your family to explain how this strategy might work for your personal situation, and to help you understand what implications and benefits could result from upstream gifting for all family members.

*Contact **Commerce Trust** today to learn more about our team-based approach to private wealth management services and how your Commerce Trust team can help you preserve your wealth for generations to come.*

*Commerce Trust does not provide tax advice to customers unless engaged to do so.

Funding a Child's Tuition and Education Expenses

Authored by

Richard English
Managing Director, Commerce Family Office, Kansas City

Ensuring a child can experience the education you envision for them may be one of the most meaningful goals a parent, grandparent, or other family member can achieve. Determining the most effective way to pay for tuition and higher education expenses requires careful planning. For high-net-worth families, evaluating strategies to fund a child's education can be more complex, as they often involve navigating gift tax rules, utilizing available tax exclusions, and ensuring the child's responsible use of funds. And, if you are in a position to plan for the goal of continued funding should you unexpectedly pass away, a contingency funding plan is another component to build into your overall education strategy.

Each funding strategy comes with its own advantages depending on your time horizon, tax objectives, and desired level of control. Vehicles such as 529 plans, UGMA or UTMA accounts, or trusts may offer long-term growth potential for invested assets. In contrast, making tuition payments or seeking scholarships can satisfy a more direct need for funds. You may even consider making an intrafamily loan to provide the child with more favorable borrowing terms.

529 PLANS AND ACCELERATED GIFTING

A 529 plan is a tax-advantaged investment account that allows assets to grow tax-free with no taxes owed on withdrawals used for qualified education expenses. Typically, a parent or grandparent opens and funds the 529 account through a state-sponsored plan and names their chosen beneficiary. The account owner retains full control over the account and the assets within it, even after the beneficiary reaches adulthood, and can change the beneficiary or withdraw funds at any time. Withdrawn funds can be paid to the school directly or transferred to the student.

With a 529 plan, parents and/or grandparents can each contribute up to five times the annual gift tax exclusion amount ($95,000 in 2025) in a single year without triggering a taxable gift[1]. This strategy is referred to as "accelerated gifting"

because the IRS can treat a lump-sum contribution to a 529 plan as if it were spread out over five years.

In practice, accelerated gifting could allow two parents to give a maximum of $190,000 to the 529 account, which can be invested and withdrawn tax-free when used for qualified education expenses. Each grandparent can also contribute up to $95,000 to a 529 account for their grandchild under this rule, allowing multiple family members to make significant contributions and potentially lower their federal estate taxes by reducing the value of their taxable estate. However, if the contributor passes away within five years of making an accelerated gift to a 529 plan, a prorated portion of the gift will be added back into their estate for estate tax purposes.

If the 529 account is overfunded and tuition and education expenses are less than expected, the account owner has several options to put the excess funds to good use. The account owner can change the beneficiary to another qualifying family member without penalty, allowing the surplus funds to be repurposed for another child's education. Alternatively, if the account has been open for at least 15 years and other qualifying conditions are met, up to $35,000 can be rolled over into a Roth IRA in the name of the beneficiary of the 529 plan. The account owner could also withdraw the excess for non-qualified purposes. In this case, the investment gains will be subject to federal income tax and will incur a 10% withdrawal penalty.

Recent changes to the Free Application for Federal Student Aid (FAFSA) mean that distributions from 529 plans are no longer treated as student income or affect financial aid eligibility, so long as the plan is owned by someone other than the student's parent, such as a grandparent, aunt, or uncle.

Because 529 plans are governed at the state level, plan rules, investment options, and tax benefits may vary. In many states, funds can also be used for K-12 private school tuition as well

as other qualified higher education expenses. Some states limit the total contributions allowed per beneficiary. While contributions are not deductible for federal income tax purposes, some states offer a state income tax deduction or credit to help lower state income tax liability.

DIRECT PAYMENTS AND THE UNLIMITED EXCLUSION FOR TUITION EXPENSES

Directly paying for tuition may be the most straightforward way to fund a child's higher education expenses. The unlimited exclusion for tuition expenses allows high-net-worth families to make a gift without worrying about whether the gifted amount falls within their annual gift tax exclusion. This makes it possible to give additional gifts to the same recipient during the year without triggering a taxable gift.

To qualify for the unlimited exclusion for tuition expenses, tuition must be paid directly to a qualifying educational organization on behalf of the student. Other expenses, such as books, supplies, and housing, do not qualify for the unlimited exclusion. If you decide to help pay for other expenses directly, take care not to exceed the annual gift tax exclusion amount ($19,000 for individuals and $38,000 for gifts from married couples), or you may use some of your lifetime exemption or incur unexpected gift taxes. If you are concerned about exposure to federal estate taxes, using the unlimited exclusion to pay for tuition expenses may ultimately lower a future estate tax liability and preserve both your annual exclusion and lifetime exemption to transfer other assets in a tax-efficient manner.

Note that directly paying for tuition or other expenses means missing out on the potential tax-free growth offered by 529 plans. Direct payments may make sense if your time horizon is shorter and funds are required for near-term education expenses, where investing the funds for potential long-term growth may not be practical. Relying on direct payments could leave a funding gap if the donor unexpectedly passes away. It will be important to build in a contingency funding plan for monies that would have been paid directly. Setting aside assets in a trust for this purpose is one way to ensure continued support for a beneficiary's education.

LEVERAGING TRUSTS FOR TUITION AND OTHER EDUCATION EXPENSES

You can also create a trust either for the sole purpose of funding education or to meet a

broader set of needs for the beneficiaries. The specific benefits and considerations will depend on the type of trust and the provisions included in the trust's governing document. A trust can be structured to allow distributions for health, education, maintenance, and support. Provisions of this nature can give trustees the discretion to cover education-related expenses while providing for a beneficiary's broader financial needs.

In terms of the timing of distributions, a trust can be structured at your discretion to distribute funds at set intervals or upon specific life milestones, such as reaching a certain age or starting a first job. A trust used to fund education can also help you reduce estate tax exposure, provide asset protection for beneficiaries, or address concerns related to a beneficiary's spending habits. Importantly, a trust can continue to operate even after you pass away, allowing beneficiaries to receive ongoing support according to your direction.

Trusts offer a high degree of customization and can be tailored to support a family member's needs beyond just education. If you already have an established trust, consider whether it permits education-related distributions, and if not, whether creating a trust for this purpose may be appropriate.

UGMA AND UTMA ACCOUNTS

Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) accounts are custodial accounts that allow the adult account owner to manage the account with the intention of a minor assuming account ownership upon reaching a certain age and are governed by state law. These accounts offer greater flexibility for the child, as funds can cover a broader range of expenses than a 529 plan. For parents and grandparents, however, this could be a drawback, as they have no control over how and when the funds are spent once the child assumes ownership of the account.

Both UGMA and UTMA accounts are taxable accounts that share many similarities, but the key difference between the two is that UGMA accounts can only be funded with financial assets such as cash and securities. Whereas UTMA accounts[2] can be funded with a wider variety of assets, such as real estate, intellectual property, or other physical property, such as art and collectibles.

When parents or other family members fund an UGMA or UTMA account, the assets can be invested for potential growth, and the child takes control of the account once they reach the age of majority. The age of majority differs from state to state, but is typically between 18 and 25. Once a gift is made to a UGMA or UTMA account, the donor cannot reclaim the assets, and the beneficiary is free to use the assets for any purpose upon reaching the age of majority.

Funding UGMA and UTMA accounts can provide estate tax benefits by lowering the donor's taxable estate through irrevocable gifts. However, custodial accounts offer no control over the use of assets once ownership transfers and may lead to unintended tax consequences due to a lack of tax advantages.

APPLYING FOR SCHOLARSHIPS

Pursuing scholarships may encourage your child to take initiative and ownership in the funding of their education, a value many families aim to instill in the next generation. Strong academic, athletic, or talent-based performance can open the door to merit-based awards while reinforcing the value of studying and working hard toward

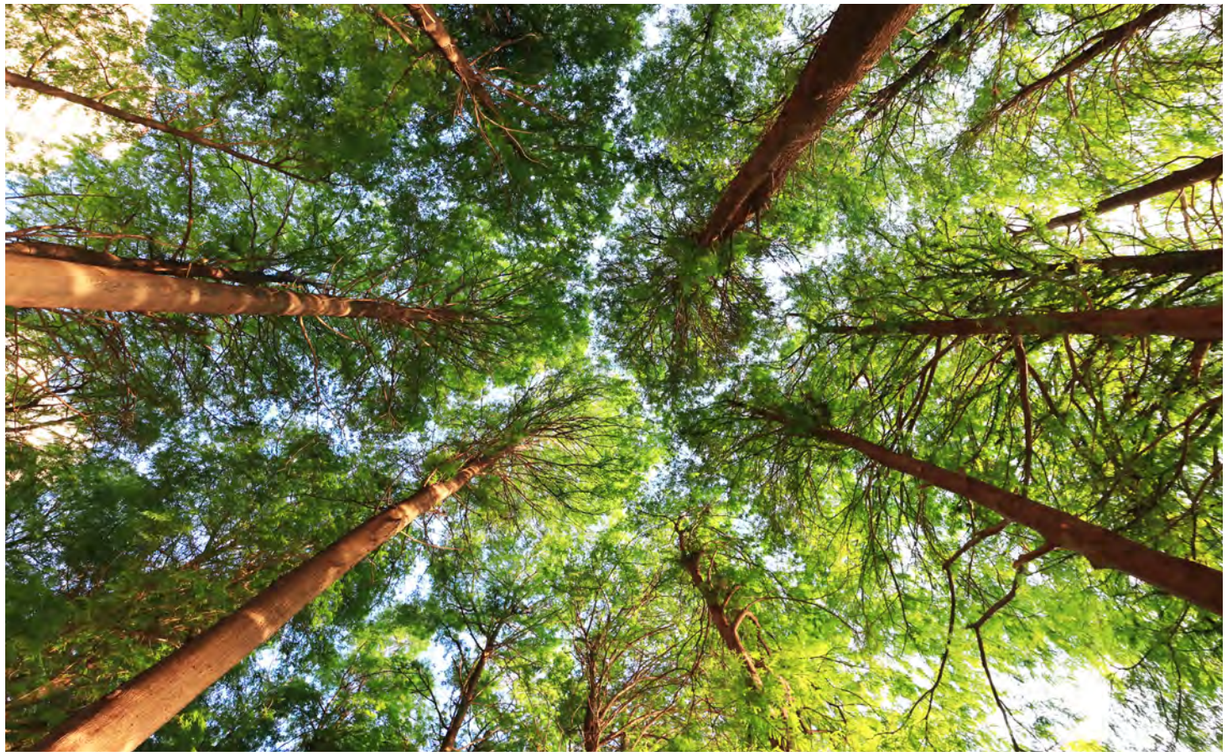
the meaningful long-term life goals of pursuing excellence and becoming independent. Scholarship availability and award amounts can vary significantly across educational institutions and are often determined by each student's unique qualifications and circumstances.

Scholarships typically fall under two categories: merit-based scholarships and need-based scholarships. Merit-based scholarships are awarded based on merit criteria such as academic achievement or athletic ability. Need-based scholarships are awarded primarily based on financial need. For students from high-net-worth families, their parents' income and assets typically disqualify them from need-based financial aid.

Students from high-net-worth families may still find it necessary to fill out the Free Application for Federal Student Aid (FAFSA). The FAFSA can be a requirement for securing a merit-based scholarship. Your child may also need to submit the College Scholarship Service (CSS) Profile or provide additional information through their chosen college's scholarship portal, depending on the institution's requirements for merit-based aid.

MAKING AN INTRAFAMILY LOAN

If you expect your child to share some financial responsibility for their education, an intrafamily loan may provide more favorable borrowing terms and a lower interest rate for your child than traditional student loans. If offering an intrafamily loan, care must be taken to ensure the IRS does not consider the loan a gift for tax purposes. Otherwise, the loan could count against your lifetime estate and gift tax exemption or trigger gift taxes if your exemptions are already exhausted.



To ensure the loan is not viewed by the IRS as a taxable gift, the IRS generally requires a written loan agreement that includes the loan terms, a fixed repayment schedule, and a minimum interest rate. Intrafamily loans must have a minimum interest rate equal to or above the applicable federal rate (AFR), which is set and updated monthly by the IRS. The AFR is typically lower than the interest rate on a federal or private student loan, which can help your child save on total borrowing costs over the life of the loan.

If the loan is forgiven, the unpaid balance will be considered a gift by the IRS. In addition, you, as the lender, may be required to report interest received as taxable income.

An intrafamily loan can be a practical solution when your child understands your goals for them, and expectations for making timely payments are clearly communicated. When structured properly and the terms of the loan are followed, an intrafamily loan can help your child take ownership of their education while providing them with a more affordable interest rate.

CRAFT A HOLISTIC PLAN TO PAY FOR EDUCATION WITH PROFESSIONAL GUIDANCE

When helping fund a child or grandchild's education, it is important to weigh the advantages of different funding options against potential tax consequences for gifts, the impact on your cash flow if making direct payments, and the level of control you think is necessary to ensure funds are used for education expenses as intended.

At Commerce Trust, your private wealth management team regularly advises high-net-worth families on understanding the complexities of funding strategies to help ensure your contributions are optimized and aligned with your objectives. Your team is comprised of specialists in education planning, investment strategy, tax management*, and estate planning who can help you understand the potential impact of various education funding strategies in the context of your family's broader wealth management goals. Whether you want to better understand the tax implications of each strategy, navigate using a trust for education funding, or learn how complementary funding strategies can work together, our team can provide coordinated guidance backed by deep experience across multiple disciplines.

*Contact **Commerce Trust** today to learn more about how we can help you support the next generation of your family's education in a way that aligns with your values and long-term goals.*

[1] *Gifts over the annual gift tax exclusion ($19,000 in 2025) are considered taxable gifts that use a portion of the donor's lifetime estate and gift tax exemption or are subject to a top tax rate of 40% if the lifetime exemption has already been exhausted. Taxable gifts also require filing Form 709, the United States Gift (and Generation-Skipping Transfer) Tax Return.*

[2] *UTMA accounts are not allowed in Vermont and South Carolina.*

**Commerce does not provide tax advice to customers unless engaged to do so.*

High-Net-Worth Strategies for Funding Your Child's Home Purchase



Authored by

Mark Barkman, *Private Banking Growth and Sales Director, Commerce Trust*

Kevin Casteel, CFP®, *Senior Financial Planner, Commerce Trust*

Jeremy Taylor, *Manager of Real Estate Advisory Services, Commerce Trust*

As the path to first-time homeownership grows more difficult for younger generations, or when children reach a point when their lifestyle calls for the purchase of a larger home or a move to a new location, many high-net-worth parents are stepping in to help support their children in buying the home that's right for them. A recent survey indicates that as many as 37% of respondents in the U.S. purchased their home with financial support from parents or grandparents.[1] With home prices near all-time highs and average 30-year fixed mortgage rates above 6% since the third quarter of 2022[2], more families are choosing to celebrate significant milestones, such as graduations, weddings, or the birth of a grandchild, by assisting their children with financial support for a home purchase.

For high-net-worth parents, there is a range of options to provide financial support, each with its own considerations, degree of control, and potential impact on family relationships. Families can offer direct support by giving cash or distributing assets from a trust. Some parents may extend an intrafamily loan. Other parents may prefer a more hands-on approach, such as purchasing the home for their child through a trust or establishing co-ownership.

If your goal is to support the lifestyle you wish for your children and grandchildren today, there are multiple options for providing financial support for your adult children to purchase a home. The best strategy or combination of options for you and your family will depend on your unique needs and situation.

GIVING CASH TO HELP WITH A HOME PURCHASE

Funding a down payment could reduce your child's monthly mortgage expenses by reducing the home loan amount or eliminating the need for private mortgage insurance (PMI). If you gift enough cash for your child to make a cash offer for the total purchase price of the home or property, the all-cash offer may strengthen your child's position in a competitive housing market by allowing your child to close faster and stand out to sellers by removing the need for financing. Enabling your child to purchase a home outright also negates the need for your child to make monthly mortgage payments, which can significantly reduce their overall housing costs and may free up their funds for other purposes, including savings, investments, or other lifestyle priorities.

Gifting cash to help with a down payment or make a cash offer is straightforward, but potential federal gift and estate tax consequences should be assessed and considered. Any gift over the annual gift tax exclusion amount, which is $19,000 for individuals and $38,000 for gifts from married couples given to an individual in 2025, is considered a taxable gift. Taxable gifts either use some of the donor's lifetime gift and estate tax exemption or are taxed at a top rate of 40% if the lifetime exemption has already been exhausted. In 2025, the lifetime gift and estate tax exemption amount is $13.99 million for individuals and $27.98 million for married couples. With the passage of the One Big Beautiful Bill Act (OBBBA), the federal lifetime estate and gift tax exemption will increase to $15 million per individual starting in 2026, avoiding the scheduled sunset that would have significantly reduced the exemption amount from $13.99 million in 2025 to $5 million per individual in 2026, as adjusted for inflation.

This means that taxable gifts given during your lifetime and the fair market value of assets included in your estate at death can potentially be transferred tax-free up to the exemption amount. While making a cash gift to help with a home purchase can be a strategic way to use a portion of your lifetime exemption and potentially lower future estate taxes, consider how doing so may affect your overall estate plan.

Before offering cash support, consider whether your assistance is intended to be a gift or a loan. If you choose to gift cash, open communication will be key to aligning on intentions for use of the funds. Your child will have full discretion over how the funds are used, including the option to

use the money for something other than a home or to sell the home after purchase. To avoid misunderstandings, it is important to clearly express any expectations you have about how the funds should be used or how long the home should be kept.

ASSISTING WITH YOUR CHILD'S MORTGAGE

Having your child take out a mortgage in their name, even if you plan to provide financial support, can have its own benefits for both you and your child. If you intend to liquidate investments, helping with a down payment rather than providing the full purchase amount means you may be able to sell fewer assets and potentially incur less capital gains tax. With your child as the borrower on the mortgage and making regular payments, this arrangement can also help build or bolster their credit history. If the mortgage is the first, most significant, liability your adult child has taken on, the fiscal responsibility to budget for and make payments on time can help grow your child's financial planning experience with a direct, tangible benefit.

When you are helping with your child's down payment, you may need to have certain documents ready in advance of the mortgage application. First, you may want to prepare a gift letter in advance that clearly states the amount of your gift. Additionally, lenders typically must verify availability of funds and may ask for proof the transfer has been made.[3]

If you would like to provide ongoing assistance with your child's mortgage payments, an existing trust, or a new trust established specifically for this purpose, may be able to make monthly distributions to your child to partially or fully offset mortgage expenses. For example, if your child's current monthly rent or monthly mortgage payment is $3,000, and their new monthly mortgage payment is $5,000, the trust could potentially distribute the $2,000 difference each month to bridge the additional housing expense.

Working with a wealth management team that includes your private banker can help you navigate privacy considerations, integrate trust strategies for ongoing support, and align the transaction with your broader balance sheet.

MAKING AN INTRAFAMILY LOAN TO YOUR CHILD

An intrafamily loan may provide your child with a lower interest rate than if your child obtained a mortgage from a financial institution and can eliminate the need to meet traditional mortgage credit requirements.

To ensure the loan is not viewed by the IRS as a taxable gift, the IRS generally requires a written loan agreement that includes the loan terms, a fixed repayment schedule, and a minimum interest rate. If these conditions are not met, the IRS may treat the loan as a taxable gift, which could consume some of the parent lender's available lifetime estate and gift tax exemption or trigger gift taxes if the exemption has already been used.

Intrafamily loans must have a minimum interest rate equal to or above the applicable federal rate (AFR), which is set and updated monthly by the IRS. Typically, the parent lender must report interest received as taxable income in the year it is collected.

If the child borrower fails to make payments and the loan is later forgiven by the parent, any amount over the annual gift tax exclusion in a given year will be considered a taxable gift. Forgiven amounts or improperly documented loans can increase the parent lender's gift or estate tax liability. Some parents choose to

forgive part of the loan principal or interest gradually over time by strategically keeping forgiven amounts under the annual gift tax exclusion. This approach can reduce the parent lender's taxable estate in an effort to minimize federal estate taxes while avoiding gift tax exposure.

Family dynamics are also important when considering an intrafamily loan as a lending strategy. Families with multiple children may want to ensure that support to each child is fair, which can be difficult if the cost of living across different geographies varies significantly. Having to collect missed payments can strain relationships between you and your children. However, when there is appropriate communication between parents and children, and if children follow through as agreed upon and expected, an intrafamily loan can serve as a valuable financing strategy to support a home purchase for your child's family while preserving generational wealth.

PURCHASING A HOME IN TRUST FOR THE BENEFIT OF A CHILD

Establishing a trust for the purpose of acquiring and holding property for the benefit of your child and their family allows you to provide direction over the use of the property and when ownership may eventually be transferred through the terms of the trust. Some families use an irrevocable trust to remove the property from their taxable estate, thereby promoting federal estate tax efficiency. Depending on your state's law and the terms of the trust document, placing the home in a properly structured irrevocable trust may help shield the property from future creditors or help protect against a potential divorce claim, so the property remains within the family and is not otherwise vulnerable to claims that might arise if the home were owned outright.

For irrevocable trusts, the gift and estate tax implications are similar to gifting cash or making other taxable gifts. Transferring the property to an irrevocable trust can remove the value of the home and any future appreciation from your taxable estate. If you have sufficient lifetime gift and estate tax exemption remaining, the transfer can be made without incurring gift taxes and may help reduce estate taxes at death.

Further, placing a home in an irrevocable trust typically requires the original owner to give up control and ownership of the asset. The terms of the trust will then determine who may live in the home, how associated expenses are paid, and what happens to the property at the beneficiary's death or trust termination. Note that the terms of an irrevocable trust can often be difficult to amend once the trust is established.

Once the trust holds title to the property, the home is managed by a trustee according to the terms of the trust document. It is important to ensure the trust has enough liquidity to pay ongoing expenses, such as, but not limited to, property taxes, insurance, and maintenance costs. These expenses are typically paid from funds held in the trust or through contributions made by the grantor or beneficiary, depending on how the trust is structured. Instructions for the property's management, such as shared use, expenses, improvements, or future sale of the property, may be formalized in the trust document.

Ensuring funds for your child's home purchase after you have passed

If your goal is to ensure that a future gift for a home purchase is possible even if you are no longer living, your trust can be structured to distribute assets for a home purchase after you have passed. The terms of the trust can be drafted to require that funds be used to purchase a home. The terms can even include additional conditions, such as the beneficiary reaching a certain age, graduating from college, or meeting other life event milestones. Your child would use the funds to purchase the home themselves and, as the homeowner, be responsible for all related expenses. This allows your desire to support your child's home ownership goals to be honored, even if you are not there to oversee the distribution of funds personally.

If the home is purchased using a mortgage rather than outright with cash, additional considerations may apply. Many lenders require an individual to personally guarantee the loan, meaning the trustee or another party must agree to be personally responsible for repaying the loan if the trust fails to make payments.

Purchasing a home in trust for the benefit of your child also involves unique administrative complexities for the trustee. This may include overseeing the property or related loans, ensuring that property taxes and insurance premiums are paid, and filing annual tax returns. Using a professional corporate trustee or co-trustee can help ensure the trust is administered in compliance with applicable laws and fiduciary standards. It is also important to consult with an estate planning attorney in conjunction with your private wealth management team to ensure the trust document is properly drafted to maintain the ownership and long-term management of the property.

CO-OWNING THE HOME WITH YOUR CHILD

Co-owning a home, where both the parent and child are listed on the title, is another way to assist with a home purchase that allows parents to retain partial ownership over the property if they desire. This approach can offer a degree of control over how the property is managed, but it also introduces its own set of complexities to consider. Deciding who will cover maintenance and shared expenses, as well as making decisions about selling the home, can be complicated, especially when parents and children have different priorities or expectations.

When considering co-ownership, one of the key decisions that will need to be made is how to structure ownership. Two common forms of legal ownership are joint tenancy and tenancy in common, which each bring their own set of implications if either the parent or child co-owner passes away.

Joint tenancy includes the right of survivorship, meaning that if one co-owner passes away, their share automatically transfers to the surviving co-owner. This generally bypasses probate, the process of settling a person's estate through a court proceeding and distributing assets to the beneficiaries of the estate, which can be time-consuming and costly. By avoiding probate, the transfer may also preserve privacy, as probate proceedings become public record.

By contrast, tenancy in common allows the deceased parent or child's ownership interest to pass to beneficiaries as outlined in each person's respective estate plan, which may result in the ownership interest being transferred to someone other than a surviving co-owner.

An additional note of caution if considering co-owning a home with your child is that you may be exposed to personal liability because your name is on the title of the home. If your child misses mortgage payments, fails to pay property taxes, or faces a lawsuit, creditors or tax authorities could pursue you for funds or taxes owed as a co-owner. Additionally, if your married child divorces, the divorce may complicate the ownership arrangement, particularly if the child's spouse has a legal interest in the property. It is important to carefully weigh these potential drawbacks and evaluate how co-ownership could impact your broader family dynamics.

ENGAGE YOUR PRIVATE WEALTH MANAGEMENT TEAM

Helping your child finance a home purchase, whether they are a first-time homeowner, or their family is moving into a house that offers greater comfort and space, may be one of the most impactful ways to share your generosity with your children today.

At Commerce Trust, your private wealth management team includes professionals in estate and financial planning, real estate management, private banking, tax management*, trust administration, and investment portfolio management specialists who can help your family explore a range of planning and banking options to support your child's home purchase. Our specialists will consult with you on potential strategies, assessing the impact on your finances and ensuring your approach aligns with your financial goals. When a trust is involved, if engaged to do so, we can provide professional corporate trustee services to help oversee property administration and maintain tax and legal compliance.

*Contact **Commerce Trust** today to learn how we can help you with home purchase strategies to support your children and grandchildren in experiencing the lifestyle you want the next generations of your family to enjoy.*

[1] *https://www.comparethemarket.com.au/home-loans/features/intergenerational-wealth-help/*

[2] *https://fred.stlouisfed.org/series/MORTGAGE30US*

[3] *https://selling-guide.fanniemae.com/sel/b3-4.3-04/personal-gifts*

**Commerce does not provide tax advice to customers unless engaged to do so.*

Understanding Donor-Advised Funds and Private Foundations

Authored by

Richard English
Managing Director, Commerce Family Office, Kansas City

Amy Pieper, CTFA
Director, Institutional Client Sales and Service, Commerce Trust

For many high-net-worth families, charitable giving is not only about supporting important causes now, but also about creating a lasting legacy and fostering charitable values in the next generation. Donor-advised funds (DAF) and private foundations are among the most widely used vehicles for sustained and significant charitable giving for high-net-worth families. While both structures offer distinct advantages that may help you achieve your philanthropic goals, DAFs and private foundations differ in structure, administrative complexity, and day-to-day operation.

WHAT IS A DONOR-ADVISED FUND?

A DAF can be viewed as a charitable savings account. A donor funds the account, and their contribution is eligible for a charitable deduction in the year the contribution is made to the DAF. Assets in the DAF can be invested for tax-free growth before the DAF-sponsoring organization distributes funds to qualified charities.

After establishing an account at a DAF-sponsoring organization, donors contribute assets such as cash or publicly traded securities. Some DAF-sponsoring organizations may be able to receive more complex assets such as closely held business interests or real estate, depending on their gift acceptance policies. Once a donation is made, the DAF-sponsoring organization typically sells any holdings to convert the assets to cash. The DAF-sponsoring organization can hold the proceeds in cash or invest them according to the allocation you select from the available investment options.

Donors make recommendations regarding how and when the funds are granted to the charities of their choice, and while the sponsoring organization must approve the recommendation, it will generally follow the donor's recommendations provided the requests comply with IRS rules and the organization's policies. When you recommend a grant, the receiving charity ultimately receives cash from the DAF, though the distribution may be delayed if more time is needed to sell illiquid assets. Donations are irrevocable once made, so it is important to be comfortable with the fact that you, as the original donor, cannot reclaim assets you contributed.

WHAT IS A PRIVATE FOUNDATION?

A private foundation is a charitable organization that is typically funded by a single major source,

such as a family, individual, or corporation. Private foundations may be structured as a charitable trust or as a nonprofit corporation.

Forming a private foundation requires the help of a qualified attorney and certified public accountant (CPA) to draft the foundation's legal documents and ensure tax and legal compliance. Grantmaking decisions are made at the discretion of the board of directors (for a nonprofit corporation) or the trustees (for a trust-based foundation) and generally must comply with the terms of the foundation's governing documents. Grants are usually made to public charities, but grants can also be made to individuals, other private foundations, or government entities, provided certain requirements are met.

There are two different types of foundations, non-operating foundations and operating foundations. Non-operating foundations focus on making grants to support the charitable work of receiving organizations. In contrast, operating foundations operate their own charitable programs, such as museums, research centers, and educational institutes, and are subject to more specific IRS rules to qualify for and maintain operating foundation status. For our purposes, we will focus on non-operating foundations as they represent the majority of private foundations established for family or individual giving.

NON-OPERATING PRIVATE FOUNDATIONS CAN BE STRUCTURED AS NONPROFIT CORPORATIONS OR CHARITABLE TRUSTS

When forming a private foundation, whether to structure the organization as a nonprofit corporation or charitable trust is one of the key initial decisions you must make. These structures differ in both setup and governance.

A nonprofit corporation is established by filing articles of incorporation with the Secretary of State's office in the state of formation, with bylaws governing how the entity operates. A board of directors provides oversight and appoints the organization's officers, who handle the foundation's day-to-day operations. By contrast, a charitable trust is governed by a trust document, with the trustee(s) responsible for duties similar to those of both directors and officers in a nonprofit corporation. The responsibilities of the trustee(s) include carrying out the terms of the trust, obtaining tax-exempt status, receiving and investing assets appropriately, and managing the foundation's ongoing operations.

Because the board of a nonprofit corporation can typically amend bylaws and redefine the foundation's charitable purpose, this structure may offer greater flexibility. Conversely, an irrevocable trust may provide stronger protection for the creator of the foundation's intent when the trust document includes strict guidelines and narrowly defined purposes, as these terms are generally more difficult to change.

KEY DIFFERENCES BETWEEN DAFs AND PRIVATE FOUNDATIONS

While both DAFs and private foundations offer ways to support charitable organizations, each differs in structure and governance, tax treatment and potential tax benefits, succession planning, and ongoing administration. For example, private foundations must file an annual tax return and comply with a minimum annual

distribution requirement of approximately 5% of their net investment assets, while DAFs do not. Deductibility limits also vary, with DAFs generally allowing higher income tax deductions than private foundations. Note that the timing of your deduction is based on the date you contribute to a DAF or a private foundation, and it applies to that tax year. Another important difference is that private foundations offer the ability to employ people or compensate family members for services, a feature not available with a DAF.

Both DAFs and private foundations are subject to rules against self-dealing, with especially strict penalties for private foundations. In general terms, self-dealing can occur whenever a grant or other transaction provides a benefit to the donor or certain related parties. Consider seeking professional legal guidance if you think self-dealing could be a concern.

Keep in mind, funding a DAF and establishing a private foundation are not mutually exclusive. Many high-net-worth families choose to use both vehicles to meet their philanthropic, tax, and estate planning goals. Some families maintain a private foundation founded by older members of the family, while each family member has his or her own DAF. This approach allows the family's legacy to continue through the foundation while also giving individual family members the freedom to pursue their own philanthropic interests. Using both structures can provide greater flexibility to create opportunities for engaging the next generation in charitable decision-making.

The differences between DAFs and private foundations come with distinct benefits and considerations. The following table compares key differences and similarities between the two.

SUPPORT YOUR CHARITABLE GOALS WITH SPECIALIZED GUIDANCE

Whether you decide to use a DAF, a private foundation, or a combination of both, working with an experienced team of private wealth management professionals can help ensure your giving to philanthropic beneficiaries aligns with your broader wealth objectives. With the right guidance, you can integrate charitable giving into your wealth management strategy while pursuing tax benefits, engaging the next generation in the process of decision-making and giving, and preserving a family legacy of generosity.

At Commerce Trust, your private wealth management team is comprised of dedicated specialists in estate planning and philanthropy, investment strategy, tax management* and trust administration, who are available to consult about the right charitable giving strategies for you and your family. We offer personalized support to help you evaluate and implement charitable giving strategies that reflect your family values and goals. Our team can manage the investments of your DAF or private foundation, serve as a trustee if your private foundation is structured as a trust, and provide administrative support to assist with ongoing tax reporting, movement of funds, and grant distributions.

*Contact **Commerce Trust** today to learn more about how we can support your charitable giving in alignment with your unique objectives and circumstances.*

[1]*The phrase "foundation managers" refers to the people running the foundation, such as the officers and board of directors in the case of a private foundation set up as a nonprofit corporation or the trustee(s) in the case of a charitable trust.*

**Commerce Trust does not provide tax advice to customers unless engaged to do so.*

Comparing the key characteristics of donor-advised funds and private foundations

	DONOR-ADVISED FUNDS (DAFs)	PRIVATE FOUNDATIONS
Complexity and cost of establishing	Relatively easy to establish, with typically low startup costs.	More complex to establish because of legal requirements. Typically requires hiring an attorney and a CPA for formation and compliance.
Control over grantmaking	Donors can recommend grants to public charities, but the sponsoring organization has the final say over fund distributions.	Allows foundation managers[1] to make grants at their discretion, provided the grants serve the foundation's purpose and are made to eligible recipients.
Investment considerations	Donors may be able to make choices or provide guidance on investment allocation, subject to the sponsoring organization's approval. Invested assets grow tax-free.	Foundation managers or a third-party investment manager may invest assets at their discretion so long as investment activity supports the foundation's charitable purpose and meets IRS requirements for prudent management.
Asset ownership	Donations are irrevocable and legally owned by the sponsoring organization before grants are made to charitable organizations.	Donations are irrevocable, and the foundation retains legal ownership and decision-making authority over grants.
Tax benefits	May provide an income tax deduction of up to 60% of the donor's adjusted gross income (AGI) for cash and up to 30% for long-term capital gains assets.	May provide an income tax deduction of up to 30% of the donor's AGI for cash and up to 20% for long-term capital gains assets.
Tax treatment and distribution requirements	No excise tax and generally no mandatory distribution requirement.	Must pay a 1.39% excise tax on net investment income and distribute roughly 5% of the prior year's net investment assets annually to avoid penalties.
Tax documentation	Streamlined as only one receipt is needed for contributions to the sponsoring organization, regardless of how many grants are made.	Requires tracking and documenting grants to multiple recipients. Form 990-PF tax return must be filed annually.
Family involvement	No formal roles or compensation allowed. Families may involve members through individual giving accounts.	Allows family members to be involved in board service as well as serve in paid roles in management, grantmaking, or operations, so long as the compensation is reasonable.
Succession planning	Donors may name successor advisors or direct that the balance be distributed to charitable beneficiaries.	The foundation's creators may structure succession plans in the governing documents to ensure continued management of the foundation.
Privacy	Upholds anonymity for donors by directing grants in the fund's name and with no public tax return filings.	Because a Form 990-PF tax return is required, contributions and grants are public information for three years.
Ongoing administration	Administered by the sponsoring organization, with little effort required by the donor besides recommending grants and investment allocations.	Foundation managers must manage tax filings, maintain records, and ensure ongoing legal compliance.

Annual Giving: Using the Gift Tax Exclusion and Charitable Deductions to Optimize Tax Outcomes

Authored by

Brian Humes, CPA
Managing Director, Commerce Family Office, St. Louis

Joan Humes, CPA
Director of Tax Strategy and Planning, Commerce Trust

For high-net-worth individuals, giving gifts is more than a meaningful gesture, as strategic giving can help create a legacy of generosity, preserve wealth for future generations, and reduce tax exposure. When integrated into a long-term wealth transfer plan, developing a deliberate giving strategy and revisiting it annually allows you to provide meaningful support to family and charitable organizations while making full use of available estate and income tax planning opportunities. It is important to have a distinct strategy for both giving to family and charitable organizations, as each has its own tax implications and benefits.

GIVING TO FAMILY AS PART OF A LONG-TERM WEALTH TRANSFER PLAN

Regularly giving to family during your lifetime provides family members with an immediate benefit, while also allowing you to reduce potential federal estate and gift tax exposure. The IRS combines both taxable gifts made during your life and the value of your estate when you pass away to determine your total federal estate tax liability. This makes it important to consider annual gifts to family members strategically to help ensure your assets are transferred to your intended beneficiaries in a tax-efficient manner.

High-net-worth individuals may significantly reduce their federal gift and estate tax exposure by leveraging the annual gift tax exclusion and the federal lifetime estate and gift tax exemption. The annual gift tax exclusion allows gifts to be made each year without reducing the lifetime exemption up to a certain amount, while transfers above the annual exclusion limit diminish the lifetime exemption available for future transfers. Both tax provisions allow wealth to be transferred tax-free to recipients of your choosing, so understanding how they work can inform your tax planning strategy and help you coordinate your wealth transfer more effectively over the long term.

UNDERSTANDING TWO KEY TAX PROVISIONS FOR EFFICIENT FAMILY GIVING

Annual gift tax exclusion: The IRS allows you to gift up to a certain amount each calendar year to as many individuals as you choose. If a gift exceeds the annual gift tax exclusion, the amount exceeding this annual limit is considered a taxable gift.

Taxable gifts either consume a portion of your federal estate and gift tax exemption or are subject to gift taxes if your exemption has been fully exhausted. By consistently using your annual gift tax exclusion each year, you can gradually reduce the size of your taxable estate to potentially lower future estate taxes.

In 2025, the annual gift tax exclusion is $19,000 for gifts from individuals and $38,000 for gifts from married couples. The exclusion amount is typically increased annually to adjust for inflation. Because the limit resets each year, consistently using the exclusion amount over time to make gifts to family can become a powerful strategy to reduce your taxable estate. Generally, lowering the value of your taxable estate can help decrease your federal estate tax liability.

For example, consider a gift of $50,000 made from a married couple to their child in 2025. The first $38,000 has no gift tax consequences, as it falls within the annual gift tax exclusion amount that permits a tax-free transfer. The excess $12,000 is considered a taxable gift by the IRS, which either reduces the couple's lifetime estate and gift tax exemption by that amount or, if the lifetime exemption has already been exceeded, is subject to gift taxes at a top rate of 40%.

Federal lifetime estate and gift tax exemption: You may transfer taxable gifts during your life or assets at death up to a certain amount without incurring federal estate or gift taxes. This limit, known as the federal lifetime estate and gift tax exemption, allows you to transfer a substantial amount of wealth tax-free. Strategic use of this tax exemption helps you keep more assets intact for your family to sustain their lifestyle and preserve generational wealth.

With the passage of the One Big Beautiful Bill Act (OBBBA), the federal lifetime estate and gift tax exemption will increase to $15 million per individual starting in 2026, avoiding the scheduled sunset that would have significantly reduced the exemption amount from $13.99 million in 2025 to $5 million per individual in 2026, as adjusted for inflation. For married couples, the exempted amount is effectively doubled to $30 million, as each spouse is entitled to use their full individual exemption.

The OBBBA makes the lifetime exemption permanent at an all-time high amount. Even with this favorable change, it remains important to make ongoing use of the annual gift tax exclusion to preserve your lifetime exemption. Further, when you use your federal estate and gift tax exemption, you should do so strategically to maximize the amount transferred tax-free to your family and charitable beneficiaries.

Even if you are not currently facing potential federal gift and estate taxes, gifts that fall within the annual exclusion limit can help simplify your tax planning by avoiding the need to file a gift tax return altogether. This can be especially useful when making significant, one-time gifts for specific purposes, such as contributing toward your child's home purchase, funding a child's wedding, or helping your grandchild celebrate a college graduation.

FAMILY GIVING STRATEGIES TO HELP LOWER FEDERAL GIFT AND ESTATE TAXES

Below are a few ways to strategically gift during your lifetime while making the most of your annual gift tax exclusion or strategically using your lifetime estate and gift tax exemption.

Directly pay for tuition or medical expenses

- The IRS allows you to make unlimited payments for someone else's qualified tuition or medical expenses without triggering a taxable gift.
- Payments for qualified tuition and medical expenses do not count toward your annual gift tax exclusion and do not reduce your lifetime estate tax exemption, so evaluating whether to directly pay for a loved one's tuition or medical expenses on an annual basis can be a highly effective estate and gift tax planning strategy.
- To qualify, payments must be made directly to the educational institution or medical provider, not to the individual receiving the benefit.

Contribute to a 529 plan

- A 529 plan is a tax-advantaged investment account that allows contributions to grow tax-free, with no federal income tax due on withdrawals used for qualified education expenses.
- Parents and grandparents can use "accelerated gifting" to contribute up to five times the annual gift tax exclusion in one year without triggering a taxable gift, creating the opportunity for a sizable reduction in the donor's taxable estate and potential gift and estate tax liability.
- Saving early for your child's education and revisiting 529 contributions annually can help maximize tax-free compound growth and ensure you are fully utilizing available giving opportunities.

Fund a trust with family members as beneficiaries

- Funding an irrevocable trust, using your annual gift tax exclusion or a portion of your lifetime estate and gift tax exemption, can help you transfer assets out of your taxable estate while deciding how and when beneficiaries receive distributions.
- Trusts can be tailored to serve a variety of purposes, such as providing for minors, supporting a surviving spouse, or keeping life insurance proceeds out of your estate, all while helping reduce estate and gift tax exposure.
- Depending on the trust's structure and terms, additional benefits, in some cases may include asset protection from a beneficiary's creditors or divorced spouse, privacy by avoiding public probate filings, and tax-efficient wealth transfer across multiple generations.

Fund a UGMA or UTMA account for children or grandchildren

- Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) accounts are custodial accounts that allow adults to manage assets on behalf of a minor until the child reaches the age of majority, at which point full control of the account transfers to the beneficiary.
- Contributions to these accounts can qualify for the annual gift tax exclusion, offering a straightforward way to transfer wealth to your child or grandchild, allowing funds to potentially grow through investment, and reducing your taxable estate over time to manage future gift or estate tax exposure.
- Once the beneficiary assumes ownership, they may use the funds for any purpose, which offers flexibility for the beneficiary but limits the donor's ability to control how the assets are ultimately spent.

Evaluating lifetime gifting against a step-up in cost basis

As you weigh different family giving opportunities, consider how potential estate and gift tax savings from gifting assets during your lifetime compare to the capital gains tax benefits your heirs might receive from a step-up in cost basis. Assets with potential for appreciation, such as stock, real estate, or business interests, may qualify for a step-up in cost basis.

A step-up in cost basis resets an asset's cost basis to its fair market value upon inheritance, which can significantly reduce capital gains taxes if the asset is sold at a later date. When assets that remain in your estate until death are inherited, the beneficiary will typically receive a step-up in cost basis, potentially offering a meaningful capital gains tax advantage to heirs if they later sell the assets. If you remove the asset from your estate during your lifetime, either through a gift or by transfer to an irrevocable trust, you may lower your gift and estate taxes, but your beneficiaries will not receive the step-up in cost basis.

CHARITABLE GIVING CAN HELP LOWER YOUR FEDERAL INCOME AND ESTATE TAX LIABILITY

Philanthropic giving can complement annual giving to family and should be considered separately because giving to qualified charitable organizations may provide an income tax deduction that can lower your annual federal income tax liability. In addition, charitable contributions will reduce your taxable estate, in turn lowering your federal estate and gift tax liability. When you donate appreciated assets, you will not be obligated to pay capital gains taxes that would otherwise be owed upon sale.

Maximizing the tax benefit from charitable giving can be nuanced, as donors must decide each year whether to claim the standard deduction or itemize their deductions. With a historically high standard deduction and certain limits on itemized deductions, such as the cap on the state and local tax deduction, many high-net-worth taxpayers no longer itemize deductions every year. As a result, some choose to bunch charitable contributions in a single year to surpass the standard deduction threshold, making it important to reevaluate which approach offers you the greatest tax advantage on an annual basis.

Recent changes under the OBBBA add new layers of complexity for tax planning. The higher standard deduction is now permanent, and the legislation introduced an above-the-line charitable deduction of $1,000 for single filers and $2,000 for married couples who take the standard deduction. These changes, combined with the new 0.5% adjusted gross income (AGI) floor on itemized charitable contributions, may make the standard deduction more attractive in certain years. The most effective strategy will depend on your family's philanthropic goals, expected income, and whether your itemized deductions are likely to exceed the standard deduction in a given year.

CHARITABLE GIVING STRATEGIES TO HELP LOWER FEDERAL INCOME, ESTATE, AND CAPITAL GAINS TAXES

Given the need to reassess each year whether to itemize deductions or take the standard deduction, it is important to evaluate which charitable giving strategies align with your objectives annually. Below are several common giving vehicles to consider whether you want to bunch contributions in certain years or establish a regular cadence of giving over time.

Make direct donations to public charities

- Directly donating to public charities is straightforward and, like many of these other strategies, can remove assets from your taxable estate to reduce potential estate tax liability, eliminate capital gains taxes on appreciated assets, and may provide an income tax deduction.
- Deduction limits for charitable contributions range from 20% to 60% of the donor's AGI, depending on the asset type and recipient organization. Donations of long-term appreciated assets are generally deductible at fair market value up to 30% of the donor's AGI.
- To claim a charitable deduction, donations must be made to IRS-qualified charitable organizations. Proper documentation of the donation should be retained to substantiate the deduction in case of an IRS audit.

Contribute to a donor-advised fund

- A donor-advised fund (DAF) is an account that holds donated assets such as cash, publicly traded securities, or privately held business interests before distributing funds to qualified charitable organizations.
- DAF accounts are held by a DAF-sponsoring organization, and assets can be invested for potential tax-free growth. Contributions are generally eligible for an immediate income tax deduction of up to 60% of the donor's AGI for those who itemize deductions.
- Donations to a DAF are irrevocable. The DAF-sponsoring organization ultimately has the final say on grant approvals, though donors can recommend how and when funds are distributed to qualified charities.

Form or donate to a private foundation

- A private foundation is a charitable organization that may be structured as a charitable trust or a nonprofit corporation to support charitable activities.

- Donations to a private foundation may provide an income tax deduction of up to 30% of the donor's AGI for those who itemize deductions, and establishing a private foundation offers a way to engage family members in long-term charitable giving, including compensation for family members employed by the foundation.
- Private foundations require ongoing administration, mandatory annual filings of the Form 990-PF tax return, and must comply with an annual 5% minimum distribution requirement.

Fund a charitable remainder trust

- A charitable remainder trust is an irrevocable trust that first distributes income to you or your beneficiaries for a specified time before distributing the remaining assets to philanthropic beneficiaries.
- Funding a charitable remainder trust may provide a partial income tax deduction based on the present value of the portion donated to charity.
- Specific benefits of a charitable remainder trust depend on its structure, and due to their complexity, those considering this strategy should solicit the help of an estate planning attorney.

Establish a charitable gift annuity

- A charitable gift annuity is a contract between a donor and a charitable organization. The donor typically contributes an irrevocable contribution up front in exchange for a fixed income stream for life, with the remaining funds passing to the charity upon the donor's death.
- Donors may be eligible for a partial income tax deduction based on the charitable portion of the gift, and a part of each annuity payment may be tax-free for a specified timeframe based on the donor's life expectancy.
- Keep in mind that charitable gift annuities provide fixed payments set in the beginning that are not adjusted for inflation, are subject to income tax, and generally support only one charitable organization unless multiple annuities are established.

DESIGNING YOUR PERSONALIZED ANNUAL GIVING PLAN WITH TERMS AND GOVERNANCE THAT MEET YOUR FAMILY'S GIVING OBJECTIVES

Regularly reviewing your giving strategies can help ensure you maximize the estate and tax planning benefits of your gifts. Partnering with a team of specialists that can provide detailed guidance on navigating planned giving is an effective way to align your philanthropic goals with desired tax benefits.

At Commerce Trust, your private wealth management team is comprised of tax management*, estate planning, and investment management specialists who can guide you through the complexities and considerations of strategic giving, from designing a planned giving strategy to implementing it alongside your advisors. Our team can help you determine which assets to gift, when to make gifts, and why, according to a timeline that supports your objectives.

Contact Commerce Trust today to learn more about how your private wealth management team can help you structure your giving to benefit you, the individuals you care about, and the charities you support.

*Commerce Trust does not provide tax advice to customers unless engaged to do so.

One Big Beautiful Bill Act Tax Changes for High-Net-Worth Individuals

Authored by

Guy Hockerman, CPA, CFP®
Senior Financial Planning Manager, Commerce Trust

Joan Humes, CPA
Director of Tax Strategy and Planning, Commerce Trust

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, includes a broad set of tax changes affecting high-net-worth individuals and business owners. The legislation both extends expiring tax code provisions and introduces new measures with implications for income, estate, and business taxation. While many of these changes may prove advantageous for high-net-worth individuals, the breadth and complexity of the legislation highlight the importance of ongoing conversations with your private wealth management team to assess and adjust your planning and tax management strategy accordingly. Spanning nearly 900 pages and including hundreds of provisions, the wide range of the OBBBA can make it difficult to discern which changes could have a meaningful impact on your taxes.

TAX CUTS AND JOBS ACT (TCJA) PROVISIONS WERE MADE PERMANENT

A number of provisions in the OBBBA are extensions of temporary provisions introduced in the Tax Cuts and Jobs Act (TCJA) signed into law in 2017, many of which were set to expire on December 31, 2025. These extensions generally lowered taxes for high-net-worth individuals and, because they have been made permanent, there is less uncertainty around how to plan for certain key tax provisions.

Lower federal marginal income tax rates: The OBBBA made permanent federal marginal income tax rates that had been reduced by the TCJA. From a tax planning standpoint, this development is a welcome one, as rates were scheduled to increase to their higher, pre-TCJA levels after 2025. The TCJA reduced federal marginal income tax rates for tax years 2018 to 2025 and changed many income brackets to encompass different ranges of taxable income. This change likely benefited high earners by lowering their federal income tax liability, with the top marginal rate dropping from 39.6% to 37%.

Higher federal estate and gift tax exemption: When the OBBBA was signed into law, it increased the federal estate and gift tax exemption to $15 million for estates and gifts made after December 31, 2025. For married couples, this figure is effectively doubled to $30 million as each spouse may capture the full use of their individual exemption.

Put simply, the full fair market value of your estate, plus any taxable gifts[1] you made during your lifetime, can transfer free of federal estate and gift taxes up to the federal estate and gift tax exemption.

Remember, in 2018, the TCJA temporarily raised the federal estate and gift tax exemption from $5.49 million to $11.18 million, with the 2025 exemption amount of $13.99 million scheduled to revert to $5 million and then be adjusted for inflation in 2026. The permanent increase set by the OBBBA allows high-net-worth individuals to transfer more wealth to family members by lowering their federal gift and estate tax liability. And with the potential sunset to this provision no longer looming, the permanence of the exemption levels may provide greater clarity for long-term estate planning.

Increased standard deduction: The OBBBA made the increased standard deduction permanent at its post-TCJA level and slightly increased the standard deduction for tax year 2025. The 2025 standard deduction is $15,750 for single filers or married filing separately, $23,625 for head of household, and $31,500 for those married filing jointly.

Remember, the TCJA nearly doubled the standard deduction for tax year 2018 but was scheduled to revert to pre-TCJA levels and then be adjusted for inflation in 2026. With the standard deduction locked in at a historically high level, many taxpayers have less incentive to itemize their deductions.

And though the Joint Committee on Taxation found the TCJA increase to the standard deduction caused the number of taxpayers who itemize deductions to drop by approximately 61%[2], high-net-worth individuals may still find it beneficial to itemize deductions if they have significant deductible expenses such as charitable gifts, state and local taxes, or mortgage interest. Careful tax planning for your personal situation is important to evaluate whether itemizing deductions or taking the standard deduction yields the greatest overall tax savings.

Raised state and local tax (SALT) deduction limits: If you itemize your deductions, you may now deduct up to $40,000 of certain state and local taxes for tax year 2025 under the new cap set by the OBBBA.[3] The deductible limit starts to phase out above $500,000 in modified adjusted gross income (MAGI), gradually reducing the available deduction to a minimum of $10,000.

The new $40,000 deduction limit is an increase from the previous $10,000 limit imposed by the TCJA, which was scheduled to expire at the end of 2025. Before the TCJA, there was no cap on the SALT deduction, so imposing a limit significantly reduced the benefit for taxpayers in states that impose high income or property taxes.

Those subject to higher state and local taxes may benefit from using the increased deduction limit to lower their federal income tax liability. The new OBBBA provision that increased the limit is set to expire in tax year 2030, when the SALT deduction cap will revert to $10,000 unless extended by future legislation.

Qualified residence interest deduction limits made permanent: The OBBBA made the $750,000 limit on the mortgage interest deduction permanent ($375,000 if married filing separately). The deduction applies to the first $750,000 of combined acquisition debt on primary and secondary homes if you itemize your deductions. The TCJA lowered the mortgage interest deduction cap from $1 million to $750,000, but the provision was set to expire after 2025.

NEW TAX PROVISIONS WERE INTRODUCED IN THE BIG BEAUTIFUL BILL

In addition to making many TCJA provisions permanent, the OBBBA introduced a range of new tax rules for individuals. While some changes may provide new tax planning opportunities, others reduce the value of certain deductions or otherwise could increase your exposure to taxes. Taking these new provisions into account can help guide informed conversations with your tax planning professional going forward.

Above-the-line charitable deduction for non-itemizers: Starting in tax year 2026, those who claim the standard deduction can also reduce a portion of their taxable income for charitable contributions. Now, non-itemizers can deduct up to $1,000 for single filers and $2,000 for those married filing jointly to reduce their taxable income and their federal income tax liability.

Previously, only taxpayers who elected to itemize deductions could deduct charitable contributions from their taxable income. Given the high level of the standard deduction, even some high-net-worth individuals may opt to take the standard deduction in certain years, and if this is the case, the new charitable deduction is a benefit for non-itemizers with qualifying charitable contributions.

Floor on charitable deductions for itemizers: Starting in the 2026 tax year, the OBBBA now requires itemizers to exceed 0.5% of their adjusted gross income (AGI) before qualified charitable contributions can be deducted. In other words, the first 0.5% of AGI given to charity is not deductible, effectively creating a floor that must be exceeded before any charitable deduction can be claimed. Even with the AGI requirement, itemizing deductions may still provide a more substantial deduction for charitable contributions, as taxpayers who itemize can generally deduct up to 60% of their adjusted gross income (AGI), depending on the assets donated and the recipient organization.

Trump accounts

The OBBBA created a new investment account that parents can open on behalf of children under 18. The so-called "Trump accounts" are subject to specific contribution, investment, and withdrawal restrictions, and the federal government will contribute $1,000 to the account for children born in the U.S. from 2025 to 2028.

Value of itemized deductions capped at 35% for top earners: The limit on itemized deductions has returned with the OBBBA, but this time it only applies to taxpayers in the highest tax bracket. In effect, those taxed at the top federal income tax rate will see their itemized deductions limited to 35% of the value of the deductions.

Alternative minimum tax (AMT) exemption phaseout threshold decreased: With the passage of the OBBBA, changes to the AMT may subject more high-net-worth individuals with a significant amount of itemized deductions to the tax. The main function of the AMT is to ensure that all taxpayers pay at least a minimum level of taxes, regardless of the deductions or credits claimed. The AMT exemption shields a certain amount of income from the AMT, and this exemption is reduced as taxpayer income exceeds the phaseout threshold.

The AMT exemption phaseout threshold has decreased from its 2025 levels of $626,350 for single filers and $1,252,700 for married couples filing jointly to $500,000 and $1,000,000, respectively, beginning in tax year 2026.

The new legislation also increased the phaseout rate from 25% to 50%, meaning those above the phaseout thresholds lose more AMT exemption faster, which can make more income subject to the AMT.

New limit on deduction for wagering losses: The OBBBA rules reduce how much taxpayers can deduct for wagering losses if they itemize deductions. Starting in tax year 2026, only 90% of wagering losses up to the amount of winnings are deductible. This means individuals could still owe taxes even when total losses are greater than winnings.

Previously, taxpayers could deduct wagering losses up to 100% of their winnings, effectively offsetting the full amount of gambling income for tax purposes. For example, if someone won $100,000 and lost $100,000 from gambling in the same tax year, no taxes would be owed. Under the new rule, only $90,000 of losses could be deducted, leaving $10,000 of winnings subject to tax even without a net gain. If you plan to itemize deductions and expect to deduct gambling losses in 2026 or beyond, it is important to keep this change in mind.

WHAT BUSINESS OWNERS AND THOSE WITH CLOSELY HELD BUSINESS INTERESTS SHOULD KNOW

The OBBBA includes several changes that may impact business owners, particularly those with pass-through entities, capital equipment investments, or qualified small business stock. Some provisions extend key tax benefits introduced by the TCJA, while others expand existing incentives. Note that this is not an exhaustive list, so discussing other new potential impacts to your business with your private wealth management team is paramount.

Deduction for pass-through business income made permanent: The OBBBA made the temporary TCJA deduction for pass-through business income permanent, allowing business owners to continue to deduct up to 20% of qualified income received from their business. This deduction is available whether you itemize your deductions or claim the standard deduction. Because the deduction will no longer expire at the end of 2025, business owners can plan on continuing to deduct qualified business income on their individual returns, subject to certain limitations.

Full bonus depreciation made permanent: Under the OBBBA, full bonus depreciation for qualifying business assets acquired and placed into service after January 19, 2025, is permanent. Though the TCJA introduced this provision, the bonus depreciation rate was set to gradually decline and phase out completely by 2027.

Now that the provision is permanent, business owners may deduct the entire cost of eligible purchases in the first year the assets are acquired and put into use, rather than depreciating the assets over time. This can significantly reduce a business's taxable income in the year of purchase, which may benefit cash flow and free up capital for reinvestment or other strategic business needs.

Expansion of qualified small business stock exclusion: Under the new OBBBA rules, those who own certain qualified small business stock (QSBS) may benefit from partial capital gain exclusions for shorter holding periods, a raised exclusion cap beginning in 2027, and an increased asset limit for qualifying companies. For QSBS acquired on or after July 5, 2025, investors can exclude 50% of the gain if they sell the stock after three years, 75% after four years, and still qualify for the full 100% exclusion if the stock is held for five years.

In addition, the cap on the capital gain exclusion will increase from $10 million to $15 million beginning in 2027 for QSBS acquired on or after July 5, 2025. The amount of assets a company may hold and still qualify for QSBS tax treatment has also increased from $50 million to $75 million, meaning more companies may now qualify for QSBS eligibility under the expanded rules.

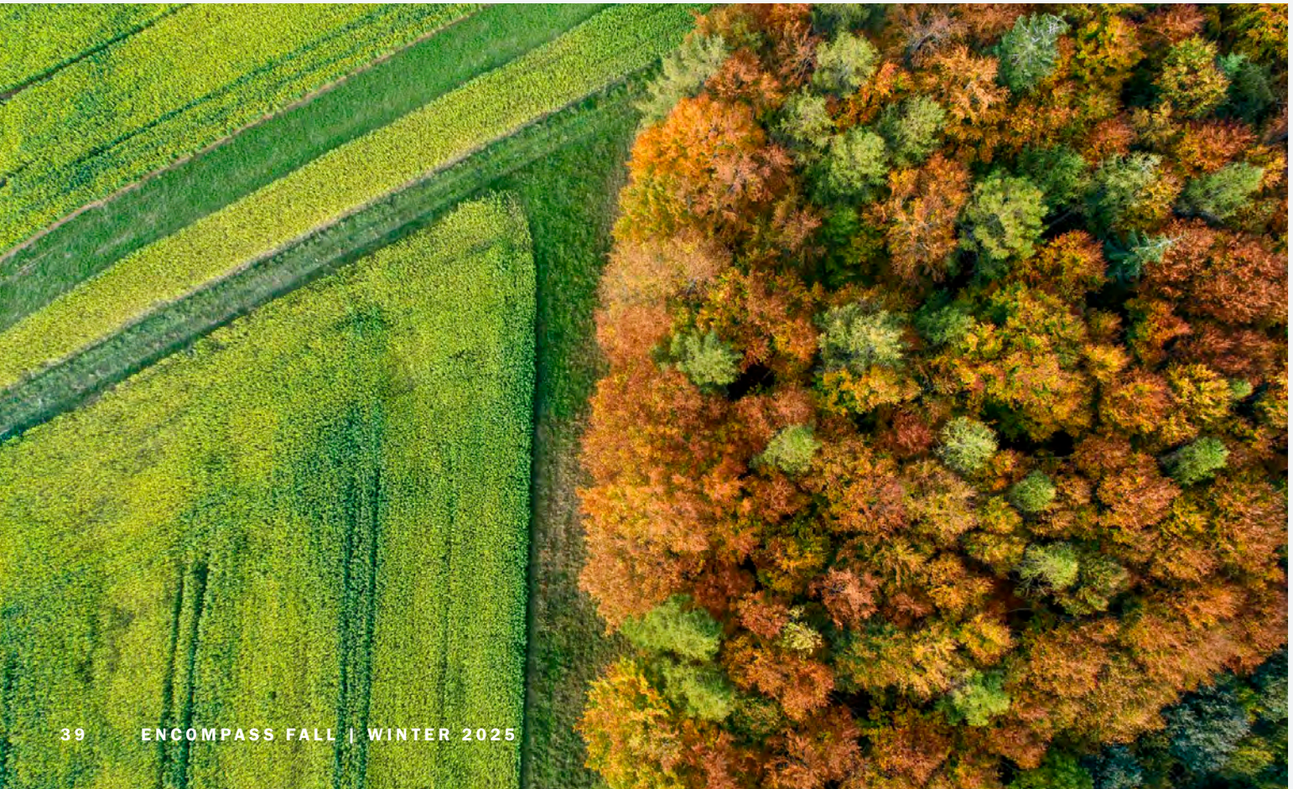
There are several requirements a company and investor must meet for stock to qualify as QSBS, but if you believe you may be positioned to benefit from the new rules, it may be worth reviewing whether this expanded opportunity could play a role in your future business and personal financial planning.

PLAN FOR THE FUTURE WITH A TEAM OF SPECIALISTS IN YOUR CORNER

With legislation continually evolving, staying informed of and navigating changes that may affect your finances, investments, tax strategy, or business can be challenging. Working with a private wealth management team that knows your situation and has deep experience serving the holistic needs of high-net-worth individuals and business owners can help you identify and take advantage of potential tax planning opportunities and avoid surprises, allowing you to move forward with greater confidence.

At Commerce Trust, your private wealth management team is comprised of specialists in tax management*, estate planning, and investment strategy, who get to know you and your family or family business before developing a comprehensive personal wealth management plan tailored to your goals. When questions arise regarding how legislative changes could impact you or your business, you have a dedicated team to turn to for personalized consultation and guidance.

*Contact **Commerce Trust** today to learn more about how our team can help you navigate financial complexities with clarity and confidence.*



[1] *A taxable gift is any transfer of money or property during your life that exceeds the annual gift tax exclusion ($19,000 in 2025) to an individual in any given calendar year.*

[2] *https://taxfoundation.org/taxedu/glossary/itemized-deduction/*

[3] *For those with a tax filing status of "married filing separately," the maximum SALT deduction limit is $20,000.*

[*] *Commerce Trust does not provide tax advice to customers unless engaged to do so.*

Key tax changes for high-net-worth individuals resulting from the One Big Beautiful Bill Act

TAX CUTS AND JOBS ACT (TCJA) EXTENSIONS

- Lower federal marginal tax rates: Permanently extended the reduced federal income tax rates introduced by TCJA, including the top rate of 37% applied to income greater than $626,350 for single filers and $751,600 for married couples filing jointly in tax year 2025.
- Increased federal estate and gift tax exemption: Raised the exemption to $15 million per individual ($30 million for married couples) in tax year 2026, with no scheduled sunset and with future years indexed for inflation.
- Higher standard deduction: Made the nearly doubled standard deduction from the TCJA permanent and increased it slightly for 2025.
- Expanded SALT deduction cap: The cap on state and local tax deductions was raised to $40,000 for 2025, phasing out above $500,000 in modified adjusted gross income (MAGI) and scheduled to revert to $10,000 in 2030.
- Mortgage interest deduction limits retained: Kept the $750,000 cap on mortgage acquisition debt for qualified residence interest deductions as a permanent provision for itemizers.

NEW PROVISIONS

- Above-the-line charitable deduction: Starting in tax year 2026, non-itemizers can deduct up to $1,000 for single filers or $2,000 for joint filers for qualified charitable contributions.
- Floor for charitable deductions: Itemizers may only deduct charitable contributions that exceed 0.5% of their adjusted gross income beginning in tax year 2026.
- Itemized deduction limit for top earners: Reintroduces a cap limiting the tax benefit of itemized deductions to 35% of their value for those in the top tax bracket.
- Alternative minimum tax exemption (AMT) phaseout reduction: Lowers the AMT exemption phaseout thresholds and increases the phaseout rate, potentially exposing more income to AMT.
- Limit on wagering loss deductions: Starting in tax year 2026, taxpayers who itemize deductions may only deduct 90% of gambling losses up to the amount of winnings, instead of the previous 100% deduction.

CHANGES FOR BUSINESS OWNERS

- Pass-through business income deduction made permanent: Allows owners of qualifying pass-through business entities to continue deducting up to 20% of qualified business income with no expiration date.
- Full bonus depreciation reinstated: Permanently restores 100% first-year bonus depreciation for eligible business assets acquired and placed into service on or after January 19, 2025.
- Expanded qualified small business stock (QSBS) capital gain exclusions: Introduces tiered capital gain exclusions based on holding period, increases the exclusion cap to $15 million, and raises the maximum asset limit for qualified small businesses from $50 million to $75 million.

Commerce Trust
Banking | Investments | Planning®

Secure your legacy

Commerce Trust can help you create a tax-efficient, lasting legacy by assessing how different charitable giving strategies may benefit your wealth situation, including donating directly, contributing to a donor-advised fund, establishing a private foundation, and making qualified charitable distributions.

Our holistic, team-based approach to servicing clients means your team of estate and tax planning, investment management, and trust administration professionals will work collaboratively with your estate attorney and tax advisor to craft a plan tailored to your personal and family wealth goals.

HARNESS THE TRUE TEAM ADVANTAGE

Commerce Trust Contributors

Encompass by Commerce Trust reflects the combined perspectives of our private wealth management professionals. These articles are intended to support meaningful discussions with your private wealth management team in pursuit of planning strategies aligned with your unique goals and family values.

Mark Barkman

Private Banking Growth and Sales Director, Commerce Trust

Mark is responsible for private banking business development efforts across all markets, while overseeing the consistent delivery of private banking client service standards. Mark also leads specialty lending initiatives.

Guy Hockerman, CPA, CFP®

Senior Financial Planning Manager, Commerce Trust

Guy is a senior financial planning manager for Commerce Trust. He works as a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust.

Kevin Casteel, CFP®

Senior Financial Planner, Commerce Trust

Kevin is a senior financial planner with Commerce Trust. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients.

Brian Humes, CPA

Managing Director, Commerce Family Office, St. Louis

Brian is the managing director of Commerce Family Office in St. Louis. In that role, he collaborates closely with clients on strategies for addressing challenges that can accompany significant wealth.

Richard English

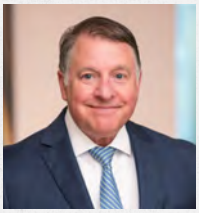
Managing Director, Commerce Family Office, Kansas City

Richard is the managing director of Commerce Family Office in Kansas City. In his role, Richard collaborates closely with clients on strategies for addressing challenges that can accompany significant wealth.

Joan Humes, CPA

Director of Tax Strategy and Planning, Commerce Trust

Joan leads the dedicated team of in-house tax professionals at Commerce Trust to deliver comprehensive tax guidance to clients that is aligned with their financial goals. As an integrated part of the private wealth management team, tax strategies are tailored to a client's unique tax situation.



Scott LaPresta, CTFA

Director of Private Client Advisors, Commerce Trust

Scott is the director of private client advisors for Commerce Trust. He provides leadership and management of the Private Client Advisory group in St. Louis in addition to handling key client relationships.

Amy Stiglic, CTFA

Market Executive, Kansas City, Commerce Trust

Amy is a market executive for Commerce Trust. She is responsible for expanding and growing Commerce Trust's overall business in the Kansas City market, in addition to handling key client relationships.

Amy Pieper, CTFA

Director, Institutional Client Sales and Service, Commerce Trust

Amy is the director of institutional client sales and service for Commerce Trust. She and her team are responsible for delivering holistic financial and advisory services specific to the unique needs of institutional clients. Amy also serves as the director of nonprofit services.

Jeremy Taylor

Manager of Real Estate Advisory Services, Commerce Trust

Jeremy is the manager of real estate advisory services for Commerce Trust. He provides leadership and management of the Real Estate Advisory Services Group.

OUR TEAM-BASED APPROACH

Protect your wealth with Commerce Trust

At Commerce Trust, our approach to wealth management is simple. It's advantageous to have a team in your corner. Because more collaboration and more perspectives from more disciplines converge to create a more personalized approach designed uniquely around your needs.

For more than a century, Commerce Trust has been a leading provider of financial and tax planning, investment management, private banking and trust administration services. Our clients benefit from the insights gained from our experience administering over $77 billion in total client assets through all market cycles.[1] Commerce Trust is ranked 16th nationally based on assets under management.[2]

[1] *As of June 30, 2025.*
[2] *S&P Global Market Intelligence; ranking as of March 31, 2025.*

Disclosures

"Certified Financial Planner Board of Standards, Inc. (CFP Board) owns the certification marks CFP® and CERTIFIED FINANCIAL PLANNER™ in the United States, which it authorizes use of by individuals who successfully complete CFP Board's initial and ongoing certification requirements."

Past performance is no guarantee of future results, and the opinions and other information in the commentary are as of October 2, 2025. This summary is intended to provide general information only and is reflective of the opinions of Commerce Trust. While Commerce may provide information or express opinions from time to time, such information or opinions are subject to change, are not offered as professional tax, insurance, or legal advice, and may not be relied on as such. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness, or reliability cannot be guaranteed. Diversification does not guarantee a profit or protect against all risk. This material is not a recommendation of any particular investment or insurance strategy, is not based on any particular financial situation or need, and is not intended to replace the advice of a qualified attorney, tax advisor, or investment professional. Commerce does not provide tax advice to customers unless engaged to do so. Commerce does not provide legal advice to its customers. Consult an attorney for legal advice, including drafting and execution of estate planning documents. Commerce Trust does not provide advice related to rolling over retirement accounts.

Commerce does not provide tax advice or legal advice to customers. Consult a tax specialist regarding tax implications related to any product and specific financial situation.

The Private Bank at Commerce Trust is a business unit of Commerce Trust, a division of Commerce Bank, Member FDIC.

Commerce Trust is a division of Commerce Bank
Investment Products: Not FDIC Insured | May Lose Value| No Bank Guarantee

Commerce Trust
Banking | Investments | Planning®
8000 Forsyth Boulevard, St. Louis, Missouri 63105

HARNESS THE TRUE TEAM ADVANTAGE

commercetrustcompany.com

Commerce Trust
Banking | Investments | Planning®