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Using 1031 Exchange Funds for Capital Gains Deferral and Estate Planning

Section 1031 of the Internal Revenue Code provides an effective strategy for deferring capital gains tax that may arise from the sale of a business or investment real property. By exchanging the real property for like-kind real estate, real property owners may defer taxes and use the proceeds to purchase replacement property. Like kind real estate includes business and investment real property, but not the property owner’s primary residence. It is important to note that there are several specific guidelines that must be followed to successfully execute a 1031 exchange transaction. For instance, the cash invested in the replacement property must be equal to or greater than the cash received from the sale of the relinquished property. In addition, the debt on the replacement property, or the debt on the replacement property plus any additional cash invested, must be equal or greater than the value of the debt from the relinquished property. In other words, additional cash can make up for a shortfall in debt placed on a replacement property, but additional debt cannot make up for a shortfall in cash invested in a replacement property. Prospective investors should consult their tax advisors regarding a 1031 exchange.

Traditionally, the bulk of the work involved in a 1031 exchange falls to the individual selling a property conducting the transaction. They must sell the first property, ensure the transfer of funds to a Qualified Intermediary, and then identify and purchase a new property (or properties) within the allowable time frame. A Delaware Statutory Trust (DST) permits fractional ownership where multiple investors can share ownership in a single property or a portfolio of properties, which qualifies as replacement property as part of an investor’s 1031 exchange transaction. A DST takes all decision-making out of the hands of investors and places it into the hands of an experienced sponsor-affiliated trustee.

The Role of the Qualified Intermediary (QI)

The QI is a company that facilitates Section 1031 tax-deferred exchanges. The QI enters into a written agreement with the investor where the QI transfers the relinquished property to the buyer, while transferring the replacement property to the investor pursuant to the exchange agreement. The QI holds the proceeds from the sale of the relinquished property in a trust or escrow account to ensure the investor never has actual or constructive receipt of the sale proceeds, which would trigger capital gain consequences.

Key Benefits of DST 1031 Exchanges

- **Passive income with no management responsibilities:** The DST is the single owner and agile decision maker on behalf of investors. Rental income based on your ownership share is taxed as ordinary income.
- **Access to institutional-quality property:** Most real estate investors can’t afford to own multimillion dollar properties. DSTs allow investors to acquire partial ownership
- **Lower Minimum Investments:** DSTs can accommodate much lower minimum investments, whereas 1031 exchange minimums often are \$100,000.
- **Diversification:** Investors can divide their investment among multiple DSTs, which may

provide for a more diversified real estate portfolio across geography and property types.

- Estate Planning: All 1031 exchange investments receive a step-up in cost basis so your heirs will not inherit capital gain liabilities and provides them with professional real estate management versus the burden of hands-on management.
- Swap until you drop: The DST structure allows the investor to continue to exchange real properties over and over again until the investor's death.

Considerations

Except for the step-up in basis at death mentioned above, a 1031 exchange doesn't eliminate capital gains taxes, it defers them into the future. DST investments lack liquidity and can have holding periods of 5 to 7 years or even longer. Since there is no public market, you may have great difficulty selling your interest in a DST during the holding period. And if you can do so, it could be at a significant discount to the underlying value. It is very important you consult with a tax professional and understand all the liquidity issues of a DST before conducting this type of exchange. We can provide more information if this topic is of interest to you.

Sources: Bluerock, Inland Private Capital Corporation

Some Highlights of One Big Beautiful Bill (The 2025 Tax Act)

Estate, Gift and GST Exemptions¹

The "One Big Beautiful Bill" (OBBB), signed into law on July 4, 2025, significantly impacts federal estate, gift, and generation-skipping transfer (GST) tax exemptions.

- The federal estate tax exemption for 2025 was set at \$13.99 million per individual (or \$27.98 million for married couples), with a scheduled "sunset" at the end of 2025. The sunset provision would have reduced the exemption to approximately \$7 million.
- The OBBB permanently increases the federal estate, gift, and GST tax exemption to \$15 million per person (indexed for inflation) effective January 1, 2026. This means that for married couples, the exemption will effectively be \$30 million.
- This change avoids the previously anticipated reduction in the exemption, providing certainty and a substantially higher permanent threshold for wealth transfer free from these taxes. The flat 40% tax rate on amounts exceeding the exemption remains unchanged.

Senior Deduction²

OBBB introduces a new senior deduction designed to provide tax relief for older Americans.

- Eligible individuals aged 65 and older can claim an additional \$6,000 deduction. For married couples where both spouses qualify, this can amount to a total of \$12,000.
- The full deduction is available to single filers with a modified adjusted gross income (MAGI) up to \$75,000 and joint filers with a MAGI up to \$150,000. The deduction phases out for higher earners.
- This new deduction is available for tax years 2025 through 2028.
- A key aim of this deduction is to reduce or eliminate federal income taxes on Social Security benefits for many seniors. It is estimated that a significant percentage of Social Security beneficiaries will pay no federal tax on their benefits due to this provision.
- The senior deduction can be claimed in addition to the standard deduction (which is already higher for those 65 and older) or stacked on top of itemized deductions.

No Tax on Car Loan Interest³

For tax years 2025 through 2028, OBBB introduces a new tax deduction for interest paid on car loans, effective for tax years 2025 through 2028.

- Taxpayers can deduct up to \$10,000 annually in interest paid on loans for new, American-made vehicles.
- The vehicle must be a new car, motorcycle, SUV, minivan, or pickup truck weighing less than 14,000 pounds.
- The final assembly of the vehicle must have taken place in the United States.
- The loan must be for a personal-use vehicle (not for business or commercial purposes).
- The deduction is available for loans originated after December 31, 2024.
- Used vehicles and leased vehicles do not qualify.
- The deduction phases out for single filers with a Modified Adjusted Gross Income (MAGI) between \$100,000 and \$150,000, and for joint filers with a MAGI between \$200,000 and \$250,000. Individuals or couples earning above these thresholds cannot claim the deduction.
- This deduction is "above-the-line," meaning it can be claimed even if you take the standard deduction, unlike the mortgage interest deduction which typically requires

itemizing. Taxpayers will need to include the Vehicle Identification Number (VIN) on their tax return.

529 Plans and Trump accounts⁴

529 college savings plan become more flexible and can cover a wider range of educational expenses under OBBB.

- Expanded K-12 Qualified Expenses: The maximum annual withdrawal limit for K-12 education expenses has been increased from \$10,000 to \$20,000 per year, starting in 2026. Furthermore, the definition of "qualified expenses" for K-12 education is broadened to include non-tuition costs such as curriculum materials, books, online educational materials, fees for standardized tests, dual-enrollment fees for college courses taken in high school, and tutoring services. Educational therapies for students with disabilities are also now considered qualified expenses.
- 529 funds can now be used for a wider array of post-secondary credentialing programs, including tuition, fees, books, and supplies for trade schools, certificate programs, and other recognized credentialing programs, as well as testing and continuing education fees required to obtain or maintain these credentials. This expands the utility of 529 plans beyond traditional four-year college degrees.

- Several provisions related to Achieving a Better Life Experience (ABLE) accounts become permanent, including the ability to roll over funds tax-free from 529 plans to ABLE accounts. This provides greater long-term financial planning certainty for individuals with disabilities.
- New "Money Account for Growth and Advancement" (Trump Account) OBBB introduces a new savings account for children under 8 years old, which can be funded up to \$5,000 annually. For children born between 2025 and 2028, the federal government will provide a one-time \$1,000 contribution to these accounts. There are still quite a few details to work out with these accounts in terms of contributions, taxation and withdrawals so we may write about these in the future once more is known.

2,3 <https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors>

1,4 <https://www.huschblackwell.com/newsandinsights/estate-planning-and-other-tax-strategies-under-the-one-big-beautiful-bill-act>

Team Tidbits

Brad

Summer came early to Coeur d'Alene. Our family celebrates birthdays in May (Dani), June (Chase), July (Bradley), August (Shariae). Bradley turned 40 and Chase turned 38. They were 2 and 4 when we moved to Coeur d'Alene 36 years ago. Many things have changed over 36 years. In 1989 this was a sleepy little town and now it has been discovered. There are 3 construction cranes in downtown CDA, and summer traffic is interesting. CDA still has a small-town vibe with all the growth. In a few days Shariae and I will celebrate 44 years of marriage. Shariae has a fun saying she used over the years. "Not only do I need to lie about my age, but I also need to lie about my children's age too." Our son turned 40. Really! My granddaughter continues to surprise and delight the family. She and her G-Ma spend plenty of time in the lake.

Darin

By the time this lands in your mailbox my entire side of the family will have returned from an Alaskan cruise. Mom and Dad sponsored 11 family members on this journey and hopefully we are all still speaking to one another. I start to melt around 85 degrees so with many 90+ days already

logged in Coeur d'Alene, the prospect of some cooler temps is very appealing. And yes, I will also start to complain once we get back into the dreary 40s and 50s. Just not in front of Monique. She's tired of it. Amongst many other things. Teagan will return to the University of Idaho as a Junior this year and has spent the summer doing plant genomic DNA isolation (ask her, not me) at a lab on campus. She seems to really enjoy it and has an apartment full of bewildering plants. When not working, she's been camping, hiking and raiding our fridge during covert weekend sneak attacks. Monique continues to work for Idaho Strategic Resources and has had a busy summer handling the company's stock option program.

Kate

Happy summer! I hope this note finds you enjoying everything wonderful about summer, especially the longer days and beautiful summer evenings. To assist in my enjoyment of summer (and beyond) and capturing some work/life balance, I'm thrilled to report I no longer work Mondays. You know where to find me T-F, tho.

Since our last newsletter, we've been through some life highs and lows. I unexpectedly lost a brother in Missoula, Mark

Team Tidbits

Timothy Colyer, in early June. Our family was frozen in shock and then rallied together for the largest funeral to have been held in St. Francis Xavier Catholic Church in Missoula, EVER! The ripple effect this man had was astounding. We did him proud with a proper Irish wake. He leaves behind two stellar sons with young families of their own. RIP Mark, you deserve it.

From Missoula, Terry and I left on a pre-planned vacation which took us on a tour to seven MLB baseball stadiums in seven days in five states (Midwest) through the heat and humidity. We checked off a chunk of Terry's bucket list and I've been (self-appointed) 'wife of the year' for my participation in these shenanigans. All kidding aside, we met some terrific people and had a fantastic time. Brad doesn't like to hear it, but I had to come back to work to rest. Ha Ha. Lastly, I'm pleased to announce my 30th anniversary at D.A. Davidson was July 2025. Wow! What a ride! I sure love working with/for you all.

Steph

Summer is plugging along at a rapid pace even though it

doesn't feel like we've done much. We traveled to Polson, MT in June to attend my big brother's wedding (about dang time!) and Daws got to have another go as a flower girl. Currently, I'm nursing my garden trying to keep the soil wet with all this heat and wind. My pumpkin patch is coming along quite nicely and I'm anxious to see how many jack-o-lanterns and pie pumpkins we end up with this year. From the looks of things, I think it's going to overwhelm my area, which is a large space. I have a full bed of sunflowers that are so fun to watch grow. I know I should harvest them before they get too large, but they are my favorite flower and I want to enjoy the view as long as possible. Daws is a little water bug as usual. She will go and go until her lips turn purple and we force her out of the water to warm up. She has moved up to Advanced Pre-K for her final year before she enters elementary school and I'm over here trying to slow down time. She has been continuing with gymnastics and our biggest goal there is to work on "attention span" skills (hahaha!). Besides all that, I'm happy to announce I passed my Series 7 exam, which is the 2nd of 3 exams needed to be fully registered in our industry. Only 1 more to go!!! Anyway, I hope you all enjoy the warm days as much as possible and have a great rest of your summer.



Left to right: **Kate Absec**, FPQP®, Senior Registered Associate; **Brad Dugdale**, Senior Vice President, Financial Advisor, Portfolio Manager; **Stephanie Brunner**, Client Associate; **Darin Hayes**, CPFA, CWS®, Senior Vice President, Financial Advisor, Portfolio Manager.



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1031 Exchanges are highly complex and failure to comply with the stringent requirements may result in a complete loss of the desired tax deferral. Investors should carefully consult with tax and legal counsel prior to initiating, and while performing, a tax-deferred exchange.

While the information contained herein is believed to be accurate, no such warranties are provided to that effect. Further, the information is intended only to provide a high level overview and not an exhaustive explanation of the rules, regulations, and exceptions generally applicable to a like-kind exchange pursuant to Internal Revenue Code Section 1031. Be aware that new administrative, legislative or judicial action could significantly change the information contained herein. These types of investments are suitable only for persons who have no need for liquidity in their investment. There is no guarantee that the investment objectives will be achieved. Investments in real estate are subject to varying degrees of risks.

Please consider the investment objectives, risks, charges and expenses carefully before investing in a 529 savings plan. The official statement, which contains this and other information, can be obtained by calling your Financial Professional. Read it carefully before you invest.

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