



FEE ONLY FINANCIAL PLANNING

February 2026

Welcome to the first DIGITAL Otto & Associates newsletter. We hope you find the format readable and the content relevant. While we may miss the handsome grey newsletters that have been sent out for decades, we believe that this format will allow us to communicate with you more efficiently and more frequently.

This premier issue begins with a broad overview of the new federal tax law with changes to income tax rules that may be relevant to you. This is followed by a more in-depth review of the changes and strategies around charitable giving. We hope you will also enjoy a timely article from Dimensional Fund Advisors on how to think about and react to the investment market unpredictability. The newsletter finishes with "Office Matters" – the latest update on our team.

We look forward to hearing from you about this change in format. Please contact us if you would prefer a paper copy of this newsletter. We can easily mail it to you. Happy Reading!

What's in it for Me?

The One Big Beautiful Bill Act (OBBBA) was signed on July 4, 2025. It contains the most sweeping tax legislation since the Tax Cuts and Jobs Act (TCJA) of 2017. The 870 pages is a comprehensive federal tax and spending law that enacts significant changes to the Internal Revenue Code. It makes permanent many of the tax cuts and reforms from the TCJA which were set to expire at the end of 2025, as well as modifying or repealing certain credits and deductions. The changes impact both individuals and businesses. All of these changes are effective for 2025, except where noted. What follows are some of the highlights that may impact you.

- Individual income tax rates and brackets from the TCJA are made permanent, preventing a scheduled tax increase for most filers.
- The standard deduction increases to \$31,500 for Married filing jointly (\$15,750 for Single filers,) indexed for inflation.
- The child tax credit is made permanent and increases to \$2,200 per child (under age 17), indexed for inflation.
- The State and Local Tax (SALT) deduction's cap has been raised from \$10,000 to \$40,000 for both Married filing jointly and Single. This change is particularly significant for home owners in the Northeast and other areas where property taxes are high. The deduction starts to phase out at income levels about \$500,000.
- Car loan interest is now available as a deduction up to \$10,000/year for new cars assembled in the United States.

- There is a new deduction for seniors (65+). In addition to the standard deduction, seniors can receive an additional \$6,000 deduction per person. This benefit also has a phaseout provision. It starts at \$150,000 of Modified AGI for Married filing jointly; the phaseout for Single filers starts at \$75,000 Modified AGI.
- Charitable contributions remain available as an itemized deduction but are now subject to a “floor” of 0.5% of AGI, as discussed in more detail in the next article.
- There will also be a new charitable contribution deduction above the standard deduction beginning in 2026. This allows for a deduction of up to \$2,000 for Married filing jointly (\$1,000 for Single filers,) for contributions of check or cash to charities, as will also be discussed in more detail in the next article.
- Savings accounts can be created with \$1,000 from the government for children born between 2025-2028. Families can contribute up to \$5,000 (non-deductible) per year. The funds grow tax-free until age 18 when the account is treated as a traditional IRA. Withdrawals before age 59½ may be subject to a 10% penalty, though exceptions for qualified expenses (such as education or first-time home purchase) may apply.
- There is no longer Federal income tax on tips (up to \$25,000) for people with income under \$300,000 for joint filers (\$150,000 for single filers). In addition, there is no tax on the “premium” portion of overtime pay – typically the “half” in “time and a half.” (up to \$12,500)

As always, we will look for strategies to maximize the benefits for you.

A Deeper Dive into Charitable Giving

In 2025, O&A clients gave a total of over \$1,621,000 to charitable institutions from accounts that we manage. It brings us a great deal of joy to see this generosity, and to support and encourage charitable giving.

There are two basic ways you can make charitable contributions. The first we might think of as the “normal” way, by giving checks or cash, and sometimes securities, or something else of value, such as a car, or a work of art to a museum. The second way is to give money from an IRA, which is referred to as a Qualified Charitable Distribution (QCD). What follows is an explanation of these two ways, as well as outlining the effects of the new tax law.

Gifts of Checks, Cash, Appreciated Securities, etc.

In filing a tax return, taxpayers have been able to deduct the greater of their itemized deductions (including charitable giving) or the standard deduction. Reportedly, a very high percentage of taxpayers chose the standard deduction. There is a modest change in 2026, in that taxpayers can take both the standard deduction and also deduct up to \$2,000 for Married filing jointly (and up to \$1,000 for Single filers) for donations to charities. The contributions need to be given by cash or check. Even if you are planning to take the standard deduction in 2026, keep track of your charitable donations so that you can take advantage of this additional deduction.

If you itemize deductions, there is another change as a result of the new tax law. Starting in 2026, charitable contributions are only deductible to the extent that they exceed 0.5% of your AGI. If you have an AGI of \$100,000 and made \$5,000 in charitable donations, you can only deduct \$4,500. (The calculation would be: $\$100,000 \times .5\% = \500 .)

QCDs

Taxpayers over 70½ who have traditional or inherited IRAs, can make tax-free direct distributions to qualified charities. Because distributions from IRAs are normally taxed at the same rate as earned income, this can create substantial tax savings. There is, however, a cap on the amount a taxpayer can deduct by giving to charities from an IRA. That amount for 2026 is \$111,000. All QCD contributions come out of the IRA tax free, and qualify as part or all of the Required Minimum Distribution (RMD).

Even taxpayers who do not yet have a RMD can donate to charities from their IRA after age 70½. The RMD requirement depends on the year someone was born. If you were born before 1951, your RMD began at age 70. For those born between 1951 and 1959, your RMD begins the year you turn 73. If you were born in 1960 or later, your RMD will start the year you turn 75.

O&A is happy to continue to help clients make gifts of \$1,000 or more to charities. If you are over 70½ and interested in making smaller gifts from your IRA, you can get a checkbook on the IRA account to make these gifts. Please reach out to us if this is of interest to you.

Stop, Drop, and Stay the Course

Dimensional Fund Advisors: Wes Crill, PhD Senior Client Solutions Director

For many of us, the importance of a fire drill is ingrained starting as early as elementary school. The procedure of reacting to an alarm by calmly exiting the building is repeated to build muscle memory for what to do in a real emergency. Just as important, it cements lessons on what not to do. For example, the instructions are not: “Stop, drop, and grab a coffee before riding in the elevator.”

The concept of a fire drill is relevant to investing too. Knowing the range of possible outcomes, and how to behave in those circumstances, is critical to success for the long term investor. The odds are that investors will be tested with a downturn. US stocks have experienced a downturn of at least 20% at some point during 29 of 98 calendar years since 1927.

It's important to keep in mind that a bad stretch doesn't mean a bad year to come. While a 20% slide occurred in 29 years, only six times did the market end up below -20% for the full year. And the market actually posted positive full-year returns in 10 of those 29 years. This reinforces the lesson that the most reliable course of action following a market downturn is to remain invested. We can't control—or predict—market drops. What we can do is avoid compounding losses by reacting. Fire drills save lives. Financial fire drills may help save our savings.

Office Matters

We continue to call Beaver Meadow Road in Norwich, Vermont, our home. We take pride in our charming office space. One feature: each of our three offices has a fireplace. If you do not live in Vermont and have plans to pass through, we would welcome a visit.



Our team structure remains basically the same, with a few notable updates:

Susan continues to oversee all aspects of Otto & Associates and feels well-settled in her role as CEO, supported by a strong and capable team. She travelled to Denver last November for the annual Charles Schwab conference. This, along with her participation in the National Association of Personal Financial Advisors (NAPFA) and Dimensional Fund Advisors (DFA) study groups, helps to keep her up-to-date in an ever-changing financial landscape.

David treks across the state from his home in Shelburne, VT, to Norwich for some in-person meetings and David and Susan still travel to Katonah, NY, where Deborah joins them for meetings. Since many of our clients are not close to Vermont or New York, Zoom meetings are convenient and almost as good as in-person.

Deborah Maher, who works from her home in New Rochelle, NY, became a first-time grandmother in December! Her part-time schedule allows her to continue her work at O&A and also to visit her new grandson and her mother in a memory care unit. She continues to volunteer and attend meetings of the local Financial Planning Association chapter.

Kathy Patton, our Office Manager, works from her home in Bedford, NY. While she has reduced her work hours, she remains dedicated to the firm. Some of her responsibilities have transitioned to our Vermont office and are now shared by Laura and Jess. Kathy is primarily responsible for billing, compliance, and charitable giving.

Laura Bergstresser is in the final stages of finishing her coursework to become a Certified Financial Planner (CFP) and will likely sit for the board exam later this year. She has begun taking on elements of financial planning work and attends many client meetings. We look forward to her increasing engagement as an active member of our financial planning team here at O&A.

Jess Potter is also engaged with the coursework necessary to become a Certified Financial Planner. While she still needs more hours working in the field before attaining the certification, her expanded knowledge of financial planning is already useful. Like Laura, she spends a lot of her non-office hours on her CFP courses.

O&A had a lovely holiday gathering in late November in Woodstock, VT. Deborah and Kathy, along with their spouses, joined the Vermont team and their spouses for dinner and an overnight at the Woodstock Inn. It was a joy to have the entire team together, which also provided an opportunity for a group photo.



Have Questions?

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