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IRS Payment Modernization

On March 25, 2025, President Trump signed Executive Order (EO) 14247, “Modernizing Payments To and From America’s Bank Account.” The impetus for this action lies in the acknowledgement that paper-based payments into and out of the U.S. Treasury Department’s General Fund impose unnecessary costs, delays, risks of fraud, lost payments, theft, and inefficiencies. To that point, the Treasury Department’s current infrastructure for administering paper payment records cost the American taxpayer \$657 million in Fiscal Year 2024 alone.

This EO promotes operational efficiency by mandating the transition to electronic digital currency. Effective September 30, 2025, and to the extent permitted by law, the Secretary of the Treasury ceased issuing paper checks for all federal disbursements, including intragovernmental payments, benefits payments, vendor payments, and tax refunds.

All executive departments and agencies (such as the IRS) were instructed to comply with this directive by transitioning to Electronic Funds Transfer (EFT) methods, including direct deposit, prepaid card accounts,

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and other digital payment options, and take all steps necessary to enroll recipients in EFT payments. As soon as practicable, and to the extent permitted by law, all payments made to the federal government will be processed electronically.

Exceptions will be addressed for electronic payment and collection methods that are not feasible, including exceptions for individuals who do not have access to banking services or electronic payment systems.

The IRS issued bulletin IR-2025-94 on September 23, 2025, providing further guidance on this topic. The IRS stated it will publish detailed guidance for 2025 tax returns before the 2026 filing season begins. Until further notice, taxpayers should continue using existing forms and procedures for making tax payments, including those taxpayers filing their 2024 returns on extension with a due date prior to December 31, 2025.

The IRS stated that most refunds will be delivered by direct deposit or other secure electronic methods. Most individual taxpayers already receive their refunds by direct deposit into their bank accounts. During the 2025 tax filing season, the IRS has issued more than 93.5 million tax refunds to individual income tax filers. Of those refunds, almost 87 million refunds were issued through direct deposit. Only 7% of individual refund recipients received their refunds by check through the mail. For those without access to bank accounts, options such as prepaid debit cards, digital wallets, or limited exceptions will be available.

The bottom line is that if your personal IRS payment and refund process is currently paper based, you will need to change to an acceptable digital payment and refund option that suits you for your 2026 tax filing season.

Prepare for Digital Payments for Your Federal Taxes

Given that “digital” tax payments and refunds are in every individual’s future, what options do you have to make the conversion? The IRS provides several avenues for paying taxes and receiving refunds electronically. Let’s explore the pros and cons of each.

Direct Pay for Individuals. This is a free IRS service that lets you make tax payments online directly from your bank account to the IRS. Direct Pay lets you pay the IRS directly. However, it is not a way to get a direct deposit of your tax refund into your bank account.

Pros:

- It is a free service
- No registration or online credentials are required
- Immediate confirmation of payment amount and date, with a confirmation number
- No need to mail a paper ES payment voucher or extension Form 4868 after making these payments online

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Cons:

- Payment limit of \$10,000,000 per payment
- You can't use Direct Pay for trusts

Payment by Card or Digital Wallet. The IRS uses third-party payment processors for payments by debit and credit card. It's safe and secure, and your personal banking information is used solely to process your payment.

Pros:

- You can pay online or over the phone
- You can pay using digital wallets such as PayPal, Click to Pay, or Venmo
- Cards accepted: Visa, Mastercard, Discover, American Express, STAR, Pulse, NYCE, Accel, AFFN, Cirrus, Interlink, Jeanie, Shazam, Maestro
- No need to mail a paper ES payment voucher or extension Form 4868 after making these payments

Cons:

- Payment processors charge a flat fee if paying by personal debit card
- Payment processors charge a percentage of transaction fee if payment is made by credit card

Setting Up an Online Account. You can establish and use a personal IRS account to check and manage your tax information and make payments.

Pros:

- View your key tax return historical information, including prior year transcripts
- Check status of your refund or amended return
- View digital notices from the IRS
- View your available information return documents such as W-2s and 1099s
- Make a payment and schedule future payments

Cons:

- You must undergo an in-depth identity verification security process to establish an account
- You'll have to maintain online login credentials

Another possibility exists for those whose tax preparer uses special software or if you prepare your own tax return using software like TurboTax. The tax software contains the ability to direct your refund to be direct deposited into your checking or savings account. Likewise, you can make a balance due payment

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for your taxes but can't make quarterly estimated tax or extension payments through the software. Check with your tax preparer regarding their ability (and willingness) to make electronic payments for you.

529 Plan Rollover to Roth IRA

We've had several inquiries over the past few months about the possibility of rolling over unneeded assets from a 529 plan to a Roth IRA. So, this seemed like a worthy topic to address in this Panorama newsletter.

Here's a common scenario to illustrate. A grandparent had the foresight to make a financial commitment many years ago to help fund college for a then-newborn grandchild. Through diligent savings efforts and prudent investments, the 529 plan funded all the grandchild's college expenses. In fact, there are still some unused funds in the 529 plan. So, the question is what to do with these funds that are no longer needed for college?

The general rule is that withdrawals from a 529 plan that are used for qualified education expenses are not taxed. However, withdrawals that are not used for qualified education expenses are taxed on the earnings portion of the withdrawal. In addition, a 10% penalty also applies to the earnings portion of any withdrawal not used for qualified education expenses.

Enacted in late 2022, the SECURE 2.0 Act authorized the 529-to-Roth IRA rollover option, with the specific provision becoming available to account owners on January 1, 2024. This new rule allows beneficiaries of a 529 plan to roll over up to \$35,000 during their lives of any unused 529 plan funds to a Roth IRA without incurring the 10% penalty or additional income tax.

There are some mechanical limitations for this strategy:

- The 529 plan must have been held for the designated beneficiary for at least 15 years prior to a rollover. Contributions made to the 529 plan in the last five years before distributions start, including the associated earnings, are NOT eligible for a tax-free rollover.
- The rollover can't exceed the annual Roth contribution limit, which in 2025 is \$7,000. So, if you wanted to roll over the entire \$35,000 beneficiary lifetime limit amount, it would take five years under the current contribution limits.
- The beneficiary of the 529 plan must also be the owner of the Roth IRA, and they must have earned income at least equal to the amount of the rollover. However, the normal income limits on Roth IRAs don't apply for rollovers, so even beneficiaries with high incomes can take advantage.

The purpose for establishing a 529 plan should be to cover some or all the beneficiary's qualified college expenses, not to intentionally overfund it. But you're shooting at a moving funding target many years in advance, so overfunding can happen.

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Other options exist for overfunded 529 plans. Parents or grandparents can still switch designated beneficiaries at any time to other grandchildren and continue using a 529 plan for their qualifying educational purposes. Plus, up to \$10,000 of 529 plan funds can be used to pay off qualifying student loans. Finally, if the child earns a tax-free scholarship, parents can take an equivalent amount out of the 529 plan without the 10% penalty, though the earnings portion of the distributions will be taxable.

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