Planning For the Tax Cuts and Jobs Act Sunset in 2026

Many significant tax changes enacted in the 2017 Tax Cuts and Jobs Act (TCJA) are set to expire, or "sunset", at the end of 2025. The biggest of these changes relate to the estate and gift tax exemption which was increased from $5.45 million in 2016 to $13.6 million per individual in 2024 but is estimated to be reduced to roughly $6 million in 2026. While the door is open for legislative changes before this deadline, it is important to be prepared and have a holistic plan in place. We recommend reviewing how these changes could impact you with your wealth management team; including your wealth consultant, CPA, and attorney, as there are various planning opportunities to take advantage of. Our planning team has tools that allow you to visualize how your estate would be impacted in various scenarios, so reach out to your wealth consultant or learn more here.

Potential Changes

Income Tax:

Under the proposed changes, most taxpayers will see increased tax rates. The top tax bracket is expected to increase from 37% to 39.6%, and the 12%, 22%, and 24% brackets are set to be eliminated. [1]

One planning opportunity is to accelerate income when possible. Roth conversions can help reduce future income for those with tax-deferred retirement accounts. Paying taxes on part or all of an existing tax-deferred IRA account and shifting to a tax-free Roth IRA can help reduce required minimum distributions (RMDs) and taxes in the future. Backdoor Roth contributions are also a viable option for those who cannot make regular contributions based on income. Utilizing Qualified Charitable Distributions (QCDs) to gift directly from an IRA to charity (for those over 70.5) can also help to reduce IRA balances and future RMDs. Exercise stock options if applicable, and review timing for deferred compensation plans and installment sales.

Deductions:

The standard deduction was significantly increased in 2017, and in 2024 it stands at $14,600 for individuals and $29,200 for married couples[1]. It is projected this could be reduced by half starting in 2026, which may lead to more taxpayers to itemize deductions. State and local tax deduction (SALT) has been capped at a maximum of $10,000, looking forward this cap would be eliminated, although income phase-outs would be reinstated. TCJA also reduced the mortgage interest deduction to a maximum loan amount of $750,000, this is set to increase to $1,000,000 on primary residences and $100,000 for qualified home equity interest debt. Miscellaneous itemized deductions above 2% of AGI, such as investment management fees and job search expenses, are also set to return. It is also expected we will see the return of personal exemptions of around $4,050 per taxpayer and qualified dependents, also subject to income phaseouts.

Charitable Giving:

The maximum allowed deductions for charitable giving are also set to decrease, from 60%[1] of Adjusted Gross Income (AGI) to 50% of AGI. For those charitably minded and looking to make large gifts, review gifting more now.

Estate & Gift Tax Implications:

The federal estate and gift tax exemption is set to reduce from $13.6 million per person ($27.22 million per couple) in 2024 to an estimated $6 million ($12 million per couple) in 2026 [1]. Estate tax rates start at 18% for amounts over exemption amounts and top out at 40%. For those with large estates, shifting assets out of your estate could significantly reduce your estate tax burden in the future. The IRS has stated that they will honor gifts made pre-2026 even if they are over the future exemption amounts.

For starters, take advantage of the $18,000 annual gift tax exclusion per beneficiary as these amounts do not need to be reported on a gift tax return. Gifts over $18,000 per year per beneficiary are still non-taxable as long as they are under the lifetime exemption, but they must be reported on IRS Form 709. You can gift cash, securities, or physical assets, either to direct individuals or in trust. Focus on assets that are likely to appreciate so the growth happens outside of your estate. Also consider shifting additional assets out of your estate by making non-taxable gifts, such as paying education or medical costs directly to institutions on behalf of beneficiaries, as these do not count towards the annual gift tax exclusion.

For a gift to be complete, it must be irrevocable. Often families make irrevocable gifts to family members in trust that they want to provide assets and support to but want to have parameters regarding how the funds can be accessed and are overseen by a trustee. In addition, there are several types of trusts where the individual gives up access to the principal of the assets, but retains the ability to draw income. A few examples are included below, which have various benefits and drawbacks. Review with our planning team to better understand how these trusts could tie into your financial plan.

- **Spousal Lifetime Access Trusts (SLATs)**: These trusts allow you to take advantage of current exclusion amounts while your spouse can take distributions during their lifetime, passing on to remainder beneficiaries at their passing. If structured correctly, the principal can be excluded from both spouse’s estates.
- **Grantor Retained Annuity Trusts (GRATs**): These trusts give up control of the assets while receiving an annuity stream for a specified term. Assets and appreciation can be passed on to heirs free of tax, however generation-skipping transfer (GST) tax is a factor.
- **Charitable Remainder Trusts (CRTs)**: Donates assets to charity at your passing, while retaining annual income rights during your lifetime.

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[1] Putnam Wealth Management "How The Expiring TCJA May Impact Taxes in the Future"

[2] IRS provides tax inflation adjustments for tax year 2024 | Internal Revenue Service.

[3] Charitable Contribution Deductions | Internal Revenue Service

[4] IRS provides tax inflation adjustments for tax year 2024 | Internal Revenue Service

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