Third Quarter 2024

Planning Ahead … If the 2017 Tax Cuts and Jobs Act (TCJA) Sunsets

Remember the Trump tax cuts that took effect in 2018?

Without Congressional action, the Tax Cuts and Jobs Act (TCJA) of 2017 is scheduled to sunset after December 31, 2025. Regardless of who the next president will be and the makeup of Congress after the 2024 election, the odds that the TCJA tax cuts will be extended are not looking good.

With national debt in excess of $34 trillion, a national deficit of $1.6 trillion per year (the amount spending exceeds annual revenue to the federal government) and increasing interest costs on that debt, the federal government is looking for money. And in the end that money is going to come from taxpayers.

That leaves many Americans with just 18 months to lock in tax savings from the TCJA before the start of 2026. Depending upon how much you may face in future taxes, the savings could be extensive.

Sunsetting Individual Benefits from the 2017 TCJA

- The TCJA reduced personal income tax rates across the board through lower individual tax rates, modified tax brackets, and almost doubling the standard deduction from $12,700 to $24,000 (married filing jointly). In 2026, those changes revert to the 2017 tax code, with limited inflation adjustments.
- Widespread use of the standard deduction eliminated itemizing deductions for most Americans. Itemizing will be back in fashion if the standard deduction reverts to 2017.
- The positive for Americans with big mortgages and high state and local taxes will be the ability to use major itemized deductions. Taxpayers who itemize deductions will be able to deduct interest paid on the first $1 million ($500,000 for married taxpayers filing separately) of debt secured by a first or second residence. Also, the interest paid on the first $100,000 of home equity debt, regardless of the purpose for the loan, will be deductible, as will the state and local tax (SALT) deduction.
- Dying wealthy will be a lot more expensive. TCJA doubled the lifetime gift and estate tax exemption (from $5.6 million to $11.2 million in 2018 for married couples filing jointly), indexed to inflation.
- The maximum child tax credit falls back to $1,000 and the maximum refundable amount will be cut.
- The 20% pass-through deduction and limitation on noncorporate loss deductions disappears.
- Capital gains taxes will no longer be tied to ordinary income tax brackets.
- More taxpayers will once again be subject to the Alternative Minimum Tax (AMT).

This list is just an overview of major provisions impacting individuals in the 186 pages of the original Tax Cuts and Jobs Act and the resulting regulations to implement the changes.

Reducing Potentially Higher Future Taxes

The good news? You have a little over a year to take advantage of the existing tax code.

The best place to start is with your tax advisor to make certain you understand how the TCJA sunset will affect you and your tax burden. Everyone's situation is different, and a custom approach often produces the best results. Just make certain that you understand that there is no guarantee that Congress will allow the TCJA to expire. It's possible precautions may be unnecessary.

Some tactics you might discuss with your advisor include the following:

Harvest capital gains and reset your tax basis.

If you are likely to fall into a higher capital gains tax rate in 2026, it may make sense to sell investments with significant long-term capital gains prior to expiration of the TCJA. Because you are harvesting gains, not losses, you can repurchase the securities at a stepped-up basis, locking in tax savings.

Adjust your exposure to the Alternative Minimum Tax

Exercising Incentive Stock Options (ISOs) could reduce your exposure to the AMT. The AMT is computed by removing many of the typical income tax deductions, and in some cases including additional income such as from the exercise of incentive stock options.

For those with major estates, consider gifting

There is no need to die early to take advantage of 2024 estate tax exemptions of $13.61 million for individuals or the combined exemption amount of $27.22 million for married couples. In general, individuals and married couples can use their estate, gift, and generation-skipping transfer tax exemption during their lives, by gifting to irrevocable trusts and other advanced estate planning strategies before the Jan. 1, 2026 deadline. Gifting depressed assets that have temporarily dropped in value, whether directly to a beneficiary or in trust, can allow you to move assets out of your estate using less of your lifetime estate and gift tax exemption.

Convert a traditional IRA to a Roth IRA

Converting a traditional IRA to a Roth requires paying your income tax liability upfront, in exchange for no Required Minimum Distributions and tax-free future growth and distributions. There are some catches to how distributions must be made, so make certain you understand the rules.

Charitable giving using cash

Under the Tax Cuts and Jobs Act, the deduction for cash contributions directly to charity increased from 50% of Annual Gross Income to 60%, including for gifts to a donor-advised fund. After sunset, this limit will revert to 50%, so donors should consider maximizing their cash gifts.

Business will feel the pain

Many businesses were positively impacted by the 2017 Tax Cuts and Jobs Act. These benefits could disappear with the sunset of the Act. These impacts are beyond the scope of this brief article, but something business owners need to discuss with their accountants.

These strategies are intended for informational purposes only and are by no means a financial recommendation. Brian Carruthers & Associates does not offer tax or legal advice. Any approaches made to reduce future tax liability need to be made with the advice of your tax and financial advisors. Given the complexity of our tax law, there are undoubtedly a number of other tactics you can use to capture savings under the TCJA before the end of 2025.

Tax Brackets in 2017 before TCJA.

2024 Tax Brackets and Taxes – Married Filing Jointly and Qualifying Surviving Spouse			
Tax Bracket	Income Range	Your Tax Is...	Long-term Capital Gains Rate
10%	$0-$23,200	10% of your taxable income	0%
12%	$23,201-$94,300	$2,320 plus 12% of your income above $23,201	Over $94,050 15%
22%	$94,300-$201,050	$10,852 plus 22% of your income above $94,300	15%
24%	$201,051-$383,900	$34,337, plus 24% of your income above $201,051	15%
32%	$383,901-$487,450	$78,221 plus 32% of your income above $383,901	15%
35%	$487,451-$731,200	$111,357 plus 35% of your income above $487,451	Over $583,750 20%
37%	$731,201 and above	$196,670 plus 37% of your income above $731,201	20%

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