
# Tax Cuts and Jobs Act

***What's set to expire in 2025 and how to prepare.***

***Note ~ President-elect Trump has announced plans to extend or make permanent many of these provisions, so there's nothing currently set in stone.***

- **Tax brackets for individuals** – Under TCJA, tax brackets are 10%, 12%, 22%, 24%, 32%, 35% and 37%. At the end of 2025, tax brackets will return to pre-TCJA amounts of 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. Additionally, taxpayers generally reach the next higher tax bracket under a higher taxable income point under the current TCJA.

  *Consider accelerating Roth conversions or other taxable events to 2024 or 2025 to mitigate tax.*

- **Standard deduction –** TCJA increased the standard deduction dramatically and eliminated personal exemptions. As a result, many more taxpayers found that the standard deduction was more beneficial, and itemized deductions were not utilized. If the TCJA expires, the standard deduction for a married couple will be approximately $16,525 in 2026, while the personal exemption will be about $5,275. If this provision of the TCJA were extended through 2026, the standard deduction would be roughly $30,725, and the personal exemption would be zero.

  *Consider deferring any potential itemized deductions to 2026, if possible.*

- **Child Tax Credit** – The TCJA increased the child tax credit for each child under age 17 from $1,000 to $2,000 and increased the income phaseout limitation from $75,000 for individuals and $110,000 for married couples to $200,000 for individuals and $400,000 for married couples. If TCJA expires, the child tax credit will return to $1,000 per child and will be subject to the much lower income thresholds.

  *Consider accelerating the birth of children to 2025 and keeping your child under age 17 as long as possible. Kidding.*

- **State and local tax (SALT) limitation** – The TCJA imposed a $10,000 cap on the deductibility of state and local taxes (SALT). If this expires, all state and local property taxes and income taxes (or sales taxes in states without income taxes) will be deductible, primarily benefiting high-income taxpayers in high-tax states. (AMT limits still apply.) For business clients, if the SALT limitation is eliminated, the corresponding pass-through entity tax election will also be eliminated.

  *Do not prepay state or local taxes in 2025 if you have the option to defer until 2026.*

- **Itemized deduction phaseout** – The TCJA eliminated the itemized deduction phaseout that reduced the amount of itemized deductions higher-income taxpayers were eligible to claim. If this provision expires, itemized deductions will again be subject to phaseout limitations for higher-income taxpayers.

- **Capital gain breakpoints** – Prior to TCJA, taxpayers in the 10% and 15% tax brackets paid 0% long-term capital gains rate. Taxpayers in the 39.6% tax bracket paid a 20% LTCG rate. All others paid a 15% rate. Under TCJA, the breakpoints for LTCG were based on a set taxable income amount.

  *The impact of this is probably miminal, but should be regarded if you are considering or anticipating any significant LTCG transactions before 12/31/25. If this provision does expire and you are in this position, please contact us. As a reminder, it's always good to consider selling assets generating capital losses in the same year as realized capital gains so they can offset.*

*Continued on next page.*

- **Mortgage interest deduction –** TCJA disallowed the deduction of interest on non-grandfathered qualified debt in excess of $750,000. If this provision expires, interest will be deductible on a maximum qualified debt amount of $1,000,000 and an additional $100,000 of qualified home equity interest debt.

  *<u>If you are thinking of borrowing home equity debt for either a non-qualified purpose or that will push you over the $750,000 limit, consider deferring any borrowing until 2026, if possible.</u>*

- **Miscellaneous itemized deductions –** Under TCJA, deductions such as investment fees, tax preparation fees, and unreimbursed employee expenses (including home office expenses for W-2 employees) were not deductible. If this provision expires, these expenses will be eligible as itemized deductions again, but still subject to the 2% income threshold.

  *<u>Consider deferring any such expenses to 2026, if possible.</u>*

- **Alternative minimum tax (AMT) –** The TCJA increased the AMT exemption amount and the AMT exemption phaseout threshold, thereby decreasing the number of taxpayers subject to AMT. If this provision expires, AMT would apply to significantly more taxpayers.

  *<u>Again, consider accelerating income or AMT triggering income to 2024 or 2025.</u>*

- **Estate and gift tax –** The TCJA basically doubled the unified lifetime exclusion amount from $5.6 million per decedent in 2017 to $11.2 million in 2018, with an adjustment for inflation each year. If this provision expires, the lifetime exclusion will return to approximately $5 million.

  *<u>Consider planning accordingly.</u>* 😊

- **Qualified business income deduction (199a deduction) –** Under TCJA, owners of businesses including LLC's, partnerships, sole-proprietorships, S-corporations and owners of certain rental properties were able to claim a deduction of 20% of qualified business income on their individual tax returns. If this provision expires, this deduction will be eliminated.