

Major Tax Changes Expected With TCJA Sunset, Plan Now to Reduce Impact

TAX REFORM | 10/25/2024



Key insights

- Major tax changes may be coming for individuals and business owners with the upcoming expiration of key provisions of the Tax Cuts and Jobs Act.
- Expected changes include increased individual tax rates, the loss of the 20% deduction for pass-through business owners, changes to several itemized deductions, and estate tax limitations.
- Read through this Tax Cuts and Jobs Act analysis to understand how these changes could impact you.

Create a proactive strategy to guide you through uncertainty.

Connect With an Advisor

There may be a lot of uncertainty as we usher in a new president, but one thing is certain: tax changes are coming even if the details aren't yet clear. These substantial changes could impact your tax and personal wealth planning as early as 2025.

The Tax Cuts and Jobs Act (TCJA) introduced major tax changes for businesses and individuals, including significant tax rate cuts starting in 2018. Key provisions will expire, or "sunset," on December 31, 2025, reverting tax laws to pre-TCJA rules for 2026 — unless Congress acts to prevent this.

Tax Cuts and Jobs Act analysis

Having a proactive tax strategy can help guide you through uncertainty. Our Tax Cuts and Jobs Act analysis explores some of the upcoming changes:

- **Higher individual tax rates**
- **Expiration of 20% deduction for pass-through businesses**
- **Changes to itemized deductions**
- **Halving of estate and gift tax exclusions**

Higher individual tax rates

The TCJA temporarily lowered individual tax rates through 2025. Starting in 2026, tax rates are scheduled to revert to the higher pre-2018 levels. The table below shows the existing and anticipated tax rates if the TCJA sunsets.

2024 tax rate	Tax rate after TCJA sunset
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

In addition, the brackets will be compressed, causing higher tax rates to kick in at lower income thresholds.

Planning opportunity: Review your tax strategy to take advantage of lower rates in 2024 and 2025. Assess how these changes impact your overall financial plan, including retirement planning. Review your investment strategy to prepare for higher ordinary tax rates. Work with your advisor to estimate the impact of higher tax rates for your situation.

Expiration of 20% deduction for pass-through businesses

More significant is the sunset and **loss of the qualified business income (QBI) deduction** after 2025. While this is a deduction, it effectively reduces the income tax rates significantly on pass-through business income. Without an extension, the tax rate on pass-through business income could increase 10% for those in the top tax bracket.

- Current top tax rate if subject to QBI: 29.6% (80% of 37%)

- Top tax bracket in 2026: 39.6%

If the TCJA sunsets, conduct significant planning to help mitigate tax rate increases, especially as it relates to business income. Two considerations:

- Accelerating income to 2025
- Deferring deductions to 2026

Ultimately, both result in accelerating taxable income to take advantage of lower tax rates in 2025. For business owners, there is a real cost to paying tax earlier, given the current interest rates — increased borrowings on a line of credit or lost earnings on cash reserves.

The TCJA maintained the existing tax rates for capital gains. And although it notably decreased the C corporation tax rate to a constant 21%, this reduction is not set to expire.

Planning opportunity: Evaluate entity selection and tax strategies to potentially take advantage of lower rates in 2024 and 2025. Businesses should consult with their CPA to determine if **converting from an S corp to a C corp** might result in cost savings.

Changes to itemized tax deductions

Standard deduction

Starting in 2026, the standard deduction is scheduled to be cut by almost half.

SALT deduction

Under current law, the deduction for state and local income, property, and sales taxes is limited to \$10,000. After 2025, state and local taxes will be fully deductible. The SALT deduction is not allowed for alternative minimum tax (AMT) purposes, so the repeal of the SALT may cause you to be subject to the AMT.

Mortgage interest deduction

Starting in 2026, mortgage interest will be deductible on up to \$1 million of principal (increased from \$750,000 under current law) and home equity loan interest will be deductible on up to \$100,000 of principal.

Charitable contribution deduction

If the TCJA sunsets, taxpayers' cash charitable contributions will be limited to 50% of adjusted gross income (AGI) (versus 60% under current law).

Overall 3% phaseout of itemized deductions (a.k.a. Pease limitation)

If the TCJA sunsets, higher income taxpayers will lose part of their itemized deductions equal to 3% of their adjusted gross income exceeding a certain threshold.

Planning opportunity: Review itemized deduction planning strategies. Consider accelerating income and deferring deductions.

Halving of estate and gift tax exclusions

The TCJA made significant increases to an individual's lifetime exclusion. The lifetime exclusion is the amount a person can give during lifetime and pass at death without being subject to estate and gift tax.

Lifetime exclusion per person

	Under TCJA	TCJA sunset
Lifetime exclusion, adjusted for inflation	\$13.6 million (2024)	Est. \$6.4 million (2024)

It's yet to be seen how a sunset may impact those who have already **given away more than the lifetime exclusion** amount.

Planning opportunity: Assess your current situation and update your estate and gifting strategy as needed. Prepare related documents and get valuations done early.

What TCJA provisions are NOT expiring?

TCJA provisions not sunseting include:

- \$500,000 (adjusted for inflation) excess business loss limitation for individuals
- Net operating loss limited to offset 80% of taxable income with no carryback
- Section 174 research and development expense disallowance and required amortization over five years
- Section 163(j) interest expense limitation computed without the addback of depreciation expense
- The phase out of bonus depreciation by 2027

Planning opportunity: Analyze purchasing decisions and consider ways to plan around the business interest limitation.

How CLA can help you prepare for potential TCJA tax changes

The complexity of the looming expiration of key provisions of the Tax Cuts and Jobs Act combined with changes an election brings can leave many feeling uncertain. Make these potential changes part of your planning discussions to identify cost-saving strategies tailored to your situation.

CLA's **tax professionals** take time to get to know you and your business, and understand how these changes could impact you. We can also help you model variables for proactive

scenario planning that covers your entire financial picture. Our tax strategy team helps you focus on those areas so you can take timely and appropriate action.

Contact us

Plan to save. Complete the form below to connect with CLA's tax strategy team. We can help you create a proactive strategy to guide you through uncertainty.

If you are unable to see the form below, please [complete your submission here](#).

CONNECT



Terri Lillesand

PRINCIPAL

920-803-3135

MORE FROM THE CLA FAMILY

10/16/2024

Major Tax Change: How Losing the QBI Deduction Would Affect Businesses

10/15/2024

Employers: Prepare for FLSA Overtime Law Updates

10/10/2024

Federal Tax Proposals: Where the Presidential Candidates Stand

10/9/2024