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WEALTH WISDOM

MONTHLY FINANCIAL INSIGHTS

Welcome

Welcome to "NEIRG Wealth Wisdom: Monthly Financial Insights," your go-to source for insightful and educational content on various financial topics. Designed for the informed investor, our goal is to empower you with clear and concise knowledge, helping you stay ahead in the complex financial world.

Tax Planning Opportunities *with Potential 2026 Sunset*

Navigating the financial landscape is about to get a bit trickier. Key provisions of the Tax Cuts & Jobs Act (TCJA), which took effect on January 1, 2018, are set to expire by the end of 2025. This will result in a reversion to pre-2018 tax laws. As the likelihood of these provisions being extended remains low, it's vital to understand the impending changes and how they might impact you. In this month's Wealth Wisdom issue, we'll break down the essential aspects of the TCJA sunset, from tax rates to estate tax changes, and provide insights on potential strategies to consider. Whether you're an individual taxpayer or managing an estate, this overview aims to prepare you for what lies ahead.

Upcoming Tax Law Sunset – What to Know

Most of the individual tax and estate tax provisions of the Tax Cuts & Jobs Act (TCJA), which became effective January 1, 2018, sunset or expire at the close of the 2025 tax year. If this happens, these provisions will revert to pre-TCJA law (i.e. 2017 laws will be in effect again).

Although there is always a possibility of an agreement to extend these provisions, the probability seems very unlikely due to the political divide in Congress. As a result, we feel this is an excellent time to make advantageous preparations regarding some of the major provisions that are set to expire. In this article, we will examine the impact of the upcoming changes and suggest some potential strategies.

Tax Brackets and Rates

Currently, the top income tax bracket for individuals and certain estates and trusts is 37%. Assuming the provisions of the TCJA are not extended, this top bracket returns to 39.6%. Where controllable, consideration should be given to accelerating income in 2024 and 2025 to take advantage of the lower tax rate.

Tax Bracket & Rate Comparison - Pre & Post Potential Sunset (Married Filing Jointly) **Assumed CPI Adjustments from present

2026 Bracket (CPI Adjusted)	2026 Tax Rate	2025 Bracket (CPI Adjusted)	2025 Tax Rate
$0 - $20,275	10%	$0 -$20,275	10%
$20,276-$83,550	15%	$20,275-$83,550	12%
$83,551-$168,625	25%	$83,551-$178,150	22%
$168,626-$256,950	28%	$178,151-$340,000	24%
$256,951-$458,850	33%	$340,101-$431,900	32%
$458,851-$518,350	35%	$431,901-$647,850	35%
$518,350+	39.6%	$647,850+	37%

Individual Deductions & Personal Exemptions

The TCJA increased the standard deduction, which for 2023 is $27,700 for joint filers and $13,850 for single filers. This increase made it more advantageous and less administratively complex to use the standard deduction rather than itemizing deductions. Unless extended, these amounts will be reduced by about 50% after adjustment for inflation.

While the TCJA contained many beneficial provisions for taxpayers, one of the less advantageous parts was the “SALT” limitation. In 2018, the TCJA only allowed taxpayers to deduct $10,000 from state and local income taxes, personal property, and real estate taxes whereas previously there was no cap.

In addition to the SALT cap being lifted, there are a few other deductions that would be increased or reallowed:

- Qualified Mortgage Interest Deduction – Returns to $1million from $750,000
- Miscellaneous Itemized Deductions – The deduction of investment fees, tax preparation fees, and unreimbursed employee expenses will be reallowed.
- Personal and dependent exemptions will be allowed – but the child tax credit will be reduced.

These changes will make itemizing deductions much more appealing to taxpayers. As a result, it may make sense to maximize charitable gifts in 2026 to take advantage of the relatively high standard deduction today and the other reallowed deductions in 2026 and onward.

Estate Tax Changes

Today, the federal lifetime gift and estate exemption stands at $12.92 million per person. Assuming their estate is structured properly, couples with an estate less than approximately $26 million would not owe federal estate taxes. As part of the TCJA sunset, this exemption is set to revert to a base level of $5 million plus inflation adjustments at the end of 2025. This will result in a significant increase in the number of families who will have a taxable estate.

There was previously some concern about whether taxpayers who took advantage of the increased exemption amount tied to the TCJA would be subject to a future 'claw back' should this provision expire. The IRS issued final regulations that there will not be a 'claw back' and stated "individuals planning to make large gifts between 2018 and 2025 can do so without concern that they will lose the tax benefit of the higher exclusion level once it decreases after 2025." As many families elect to use their federal lifetime exemption during their lives by gifting assets out of their estate, this clarification provided welcome news and an opportunity for families that could have a taxable estate once the TCJA sunsets. Individuals likely to have a taxable estate should consider whether to gift assets while the exemption remains at a favorable level.

The headwind of the next few years combined with the current economic conditions and bear markets present numerous estate planning opportunities for people with more complex estates. Acting in the next couple of years has the potential to save **millions of dollars** in estate taxes.

State Inheritance Taxes

Many states have estate exclusion exemptions far below the federal level:

State	Exemption Amount
MA	$2M
RI	$1.733M
VT	$5M
ME	$6.41
NY	$6.58M

Even if your estate is less than the federal exemption, your estate plan should be reviewed to ensure your trust provisions incorporate federal and state tax limits.

At NEIRG, we work with a network of elite local and national attorneys to provide our clients with the best advice possible regarding this complicated topic. **Please do not hesitate to reach out to your NEIRG team if you have any questions regarding the TCJA sunset.**

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