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Income Tax Sunset

The Tax Cuts and Jobs Act (TCJA) was passed in 2017, and unless Congress acts, it will expire at the end of 2025. The unpredictability of the upcoming presidential election, coupled with the looming expiration of several individual tax provisions, poses a unique challenge for taxpayers. There will also likely be little time to adjust tax planning once a decision or bill is signed, considering TCJA was not signed into law until December 22, 2017, just 10 days before most of its provisions were set to take effect.

For now, we will focus our attention on what is scheduled to happen with tax laws as of January 2026. Our goal is that the items listed will equip you to have thoughtful conversations in the months to come with your family and advisory team. We will continue to closely monitor proposed regulations and be prepared to provide recommendations and advice on whatever the changes may be and how you will be impacted.

Note: The following is not meant to address all changes. Instead, we have focused on strategic areas where we feel there is significant room for planning and discussion opportunities.

TOPIC	PLANNING / DISCUSSION POINTS
TAX BRACKETS INCREASING	

Currently, the top tax bracket is 37%. It will revert to 39.6% when TCJA sunsets. Additionally, nearly every tax bracket and the corresponding rate is projected to increase in 2026.	• Consider accelerating or delaying income. It will be particularly important in 2025 to accurately estimate your income. Some things to consider:
	  • Roth conversions
	  • Business sales
	  • Exercising Non-qualified Options

TOPIC	PLANNING / DISCUSSION POINTS
STANDARD DEDUCTION REDUCED	
The standard deduction was greatly increased under TCJA. These increased amounts are scheduled to sunset at the end of 2025.	• More taxpayers will have to strategically make decisions on whether to take the standard deduction or itemize deductions. This will affect the timing of certain itemized deductions, such as charitable contributions and medical expenses. You could consider grouping expenses in the same year to maximize your deductions.
RETURN OR INCREASE OF CERTAIN ITEMIZED DEDUCTIONS	

The following itemized deductions are scheduled to be impacted once TCJA sunsets at the end of 2025.
• State and Local tax (SALT) deduction: Currently capped at $10k, changes to an unlimited deduction
• Mortgage interest deduction: Limit increases from $750k to $1 million of mortgage debt. Also, $100k of qualified home equity interest debt
• Miscellaneous Itemized Deductions allowed beyond 2% of AGI
    • Hobby Expenses
    • Tax Preparation Fees
    • Investment Management Fees
	• Determine your income for the year to consider, once again, whether to accelerate or reduce the items you can control to qualify for certain credits and deductions due to income thresholds.
	• Due to the return of several larger deductions and the decrease in the standard deduction, more taxpayers will be able to itemize to decrease their taxable income.
	• Consider the after-tax impact of a mortgage now that there is a possibility of capitalizing on this deduction, especially considering higher interest rates.
	• If possible, consider the timing of your tax payments carefully. State, local and property taxes are deducted in the year they are paid, which may not align with the year they are assessed. Delaying the payment of certain state and local taxes until after the cap is lifted could be a beneficial strategy.

ALTERNATIVE MINIMUM TAX (AMT)	
Before TCJA, approximately 5 million taxpayers were affected by the AMT. During TCJA, that number dwindled to roughly 200,000. It is projected that 7 million taxpayers will once again be impacted by AMT.	• A main consideration for AMT is whether to exercise any vested ISOs while in more favorable AMT thresholds or sell them if in a more favorable tax bracket. • There are various "add-back" items that could result in you having to pay AMT. • Due to the complexity of AMT, it will be important to discuss your specific income and tax considerations with your CPA to strategically limit your AMT exposure.

TOPIC	PLANNING / DISCUSSION POINTS
PERSONAL EXEMPTIONS RETURN AND CHILD TAX CREDIT DECREASED	
Personal exemptions are scheduled to return in tax year 2026. While the standard deduction could be reduced, personal exemptions returning could result in added tax savings for certain taxpayers. Additionally, the child tax credit is reduced to $1,000 per child.	• Review your possible deductions from personal exemptions and child tax credits and the impact they could have on withholdings and your total tax liabilities for the year. • Discuss who you provide support for and if they qualify as a qualifying child or relative. This could include elderly parents you care for.
QUALIFIED BUSINESS INCOME (QBI) DEDUCTION	
TCJA provided a 20% deduction for qualified business income, set to sunset after 2025.	• Business owners should evaluate their cash flows and estimated payments to ensure they have enough cash to cover a possible increase in tax liability.

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