AMG National Trust
A Better Way To Wealth

SPECIAL REPORT:

# Are You Prepared for The Great Tax Cut Sunset?

*Position yourself for the potential expiration of advantageous provisions in the Tax Cuts and Jobs Act.*

The possibility that several favorable provisions in the Tax Cuts and Jobs Act (TCJA) of 2017 will be allowed to sunset at the end of 2025 could disrupt many high-net-worth individuals' long-term financial plans. While the expiration of these provisions is more than a year away, it is important to consider your planning options now to avoid last-minute decisions that could result in costly misjudgments.

The TCJA was the biggest tax overhaul since 1986, and it included a number of beneficial changes for individuals and businesses, but not all of these changes were made permanent.

**A key provision that is not scheduled to expire involves the corporate tax structure, with the federal corporate tax rate remaining at 21%, down from its top rate of 35% in 2017.**

## Where Do Things Stand Now?

Control of Congress as well as who wins the race for president will likely impact the outcome. However, even if one party gains control of both Congress and the White House, there is no guarantee that expiring provisions would return, as political priorities may change post-election, and the price tag of extending the TCJA could be considered too expensive.

## Sunset Strategies and Tax Rate Modifications

As you plan ahead, this report presents a few strategies to consider while the TCJA provisions still remain active. Also, evaluate whether acting now or waiting until 2026 offers a more favorable scenario for your tax situation. Your financial advisor can provide a more detailed list of options based on your unique financial needs.

### Accelerate Lifetime Gifting

The lifetime gift and estate tax exemption is $13.61 million per person in 2024 and is set to increase to $13.99 million in 2025. (This is different than the annual federal gift tax exclusion amount, which is not impacted by changes to the TCJA.) The higher lifetime exemption represents an

## Provisions Expected to Go

This is a partial list of some better-known provisions of the TCJA that are scheduled to change on Jan. 1, 2026, if Congress takes no further action.

- **Individual rates:** The TCJA-lowered tax rates (with the numbers in parentheses representing what they may be in 2026) are 10% (10%), 12% (15%), 22% (25%), 24% (28%), 32% (33%), 35% (35%), and 37% (39.6%).
- **Standard deduction:** Would revert to 2017 rates, which were about half (adjusted for inflation) the 2024 rates of $14,600 for single filers, $29,200 for married filing jointly, and $21,900 for head of household.
- **Estate exemption:** Lifetime gift and estate tax exemption would likely be trimmed significantly to about half the 2024 amount of $13.61 million per person.
- **Medical costs:** Lower threshold (7.5% of adjusted gross income, or AGI) to deduct medical expenses would return to 10% of AGI.
- **Credit for children:** Currently higher child tax credit and expanded eligibility would be reduced.
- **QBI deduction:** Expanded qualified business income (QBI) deduction for qualified pass-through entities would be phased out.

unprecedented opportunity for families to transfer wealth to the next generation. The rate is slated to revert to the 2017 level, adjusted for inflation, of about $7 million per person, meaning it may make sense for you to accelerate lifetime gifting to take advantage of the temporarily higher amount.

Responding to concerns, the Internal Revenue Service (IRS) has said large gifts made before 2026 generally will not be clawed back and taxed in a post-2026 estate tax calculation. (Note that there are proposed amendments that would create some exceptions to this anti-clawback protection if finalized.) For example, say you have a large estate but did not begin making gifts until after 2018, when the higher exemption was in place. In all, you make gifts totaling $9 million to children and grandchildren, using Form 709 to report the gifts to the IRS. If you were to pass away after 2025, the gifts made between 2018 and 2025 would remain eligible for the tax benefit at the previously higher exemption level.

Accelerating your lifetime gifts may make sense in circumstances where the value of the gift(s) exceeds the projected 2026 exemption amount. Also, any gift(s) should be made in concert with your overall estate plan. Be mindful of your own financial security and future needs before making sizable lifetime gifts.

In deciding whether to "gift" now or later, also think of the tax consequences to recipients of accelerating the process. Gifting an appreciated asset, such as stock, while you are alive results in your own cost basis being transferred to the recipient, whereas inheriting it later puts the cost basis as the market value on the date of death.

## Retirement Contributions and Distributions

The timing of when income, such as wages or dividends, will be received generally is beyond an individual's control and potentially could push the taxpayer into a higher tax bracket. Individuals can exert far more control, however, in areas such as how to make retirement account contributions and when to take distributions, such as from a 401(k) or Individual Retirement Account (IRA).

**TAX BRACKETS FOR INCOME EARNED IN 2024**

| Tax Rate Bracket* | Single Filers | Married Filing Jointly |
|---|---|---|
| 10% (no change expected in 2026) | Up to $11,600 | Up to $23,200 |
| 12% (15%) | $11,601 to $47,150 | $23,201 to $94,300 |
| 22% (25%) | $47,151 to $100,525 | $94,301 to $201,050 |
| 24% (28%) | $100,526 to $191,950 | $201,051 to $383,900 |
| 32% (33%) | $191,951 to $243,725 | $383,901 to $487,450 |
| 35% (no change ex-pected in 2026) | $243,726 to $609,350 | $487,451 to $731,200 |
| 37% (39.6%) | $609,351 and up | $731,201 and up |

*Source: Internal Revenue Service*

* The percentages in this column reflect two numbers: the 2024 tax brackets and, in parentheses, the expected change to the tax rate if the Tax Cuts and Jobs Act is not extended after 2025. Note that the corresponding dollar ranges for each bracket show IRS figures for 2024 only and are not indicative of potential amounts for subsequent years.

## Deductions Slated to Return

- **State and local tax (SALT):** TCJA capped the deduction on real estate taxes, state or local income taxes, and person-al property taxes at $10,000 per calendar year for taxpayers who itemize (and $5,000 for a married person filing separate). After 2025, there could be no cap on the value of the SALT deduction.
- **Interest on home loans:** Deductions for mortgage or home equity loan interest took a hit in the TCJA. The rules could revert to pre-2017 levels, allowing interest to again be deducted on the first $1 million in mortgage debt and $100,000 of a home equity loan.
- **Miscellaneous itemized deductions:** Investment/advisory fees, legal fees, and unreimbursed employee expenses would be allowed, to the extent they exceed 2% of the taxpayer's adjusted gross income.

One consideration in retirement account calculations is tax rates today versus the bracket you may land in if rates are reset higher in 2026, and how expected distributions can impact that equation. That can lead you to analyze whether it is more suitable to your unique financial situation to contribute to a traditional account (using pre-tax dollars today but paying tax on the funds plus any accumulated growth upon qualified withdrawals) or a Roth account (contributions are taxed upfront but qualified distributions are tax-free).

- Roth contributions may be more beneficial if you anticipate being in a higher tax bracket in retirement.
- If you anticipate being in a lower tax bracket in retirement, than the future value of a traditional account may be higher.

The use of traditional or Roth accounts is not necessarily an either/or decision; the best choice for your financial planning in a post-TCJA environment may be a mix of both.

### When Do You Take RMDs?

Required Minimum Distributions (RMDs) from retirement accounts (an event that in some instances could raise your income) are not required until at least December 31 of the year you reach age 73 (and could potentially be delayed until April of the following year). That age rises to 75 in 2033.

**QUALIFIED ACCOUNT CONTRIBUTION LIMITS (2024)**

| Account Type | Contribution limit | Catchup contributions (age 50 and above) |
|---|---|---|
| 401(k) traditional or Roth, 403(b), 457 (employee limit) | $23,000 | $7,500 |
| IRA (traditional or Roth) | $7,000 | $1,000 |
| SEP IRA | $69,000, or 25% of employee's compensation | N/A |
| SIMPLE IRA or 401(k) | $16,000 | $3,500 |

*Source: Internal Revenue Service*

***Tax advantage of Roth conversions.*** Knowing that individual tax brackets will increase can be an incentive to consider converting from a traditional IRA to a Roth IRA to take advantage of lower rates today. Income tax would be due on the amount converted, net of non-deductible contributions, but future appreciation will not be taxed when making a qualified withdrawal. Another consideration is that Roth IRA accounts do not have Required Minimum Distributions (for 2024 and later) during the original account owner's lifetime, meaning that withdrawals can be timed after age 59½.

***Impact on beneficiaries.*** Many non-spouse beneficiaries would have to withdraw all the inherited account within 10 calendar years, which could elevate them to a higher tax bracket. The beneficiary of a Roth account, while still subject to this 10-year rule, is free of taxes on qualified withdrawals, while the beneficiary of a traditional account would be subject to ordinary income taxes.

## Consider Charitable Contributions

In addition to the potential halving of the lifetime and estate tax exemption to about $7 million in 2026, individuals also could see a lower annual limit on charitable contribution deductions.

The TCJA raised the annual deduction limit for cash contributions to qualified charities from 50% to 60% of adjusted gross income. That could return to 50% in 2026.

## AMT Rates and Exercising Stock Options

The alternative minimum tax (AMT) can come into play for individuals when determining their tax liability for exercising incentive stock options (ISOs). The sunset of TCJA provisions regarding the AMT can have significant tax consequences for high-earning executives who also receive ISOs as part of their compensation.

The AMT essentially serves as a limit on the number of deductions available to taxpayers, leading to a bigger tax liability—particularly to high-income earners. However, the TCJA reduced the impact of AMT on taxpayers by increasing exemption amounts and the income levels at which the exemptions phase out. The number of AMT payers is estimated to have declined from more than 5 million in 2017 to about 200,000 in just the first year of the TCJA.

Therefore, you may decide to avoid a potentially higher tax bill starting in 2026 by exercising ISOs. However, also consider other variables, such as the trajectory of the stock.

### Timing of Individual Deductions

Other deductions that will either expire or be brought back also deserve consideration. If an expenditure is involved and it can be delayed until 2026, the deductions could prove more valuable when applied against higher income tax rates.

***Standard deduction.*** The TCJA nearly doubled the standard deduction, making it less beneficial for tax filers to itemize their deductions. After 2026, the standard deduction would be halved. A pre-TCJA alternative to the standard deduction was personal exemption deductions (which exclude income below a certain level from being taxed) for yourself, spouse, and dependents. Zeroed out in 2018, personal exemptions are set to return in 2026.

Another option could be to consolidate, or bunch, deductible expenses (such as elective medical procedures of certain charitable donations) in a specific time frame to maximize itemized benefits, while in other years you could take the standard deduction.

***State and local (SALT) tax.*** Individuals in high-tax states may benefit in 2026 and later by again being able to deduct more of their state and local taxes on their federal return. Currently, SALT deductions are limited to $10,000 under TCJA.

***Mortgage interest.*** Prior to 2018, homeowners could deduct up to $1 million in mortgage interest ($500,000 for married couples filing separately) as an incentive for homeownership. The TCJA reduced that to $700,000 ($375,000 for married couples filing separately).

***Miscellaneous itemized deductions.*** Prepare for the return of deductions for unreimbursed job expenses (such as work-related travel and meal expenses, investment/advisory fees, legal fees, hobby expenses, and unreimbursed employee expenses) to the extent that they exceed 2% of adjusted gross income.

## Business Considerations

***Qualified Business Income (QBI) deduction.*** Subject to some limitations, the TCJA allows partnerships, limited liability companies, S corporations, sole proprietors, and other pass-through entities to deduct up to 20% of their QBI. The Section 199A deduction is set to expire after 2025, and qualifying entities may instead choose to explore whether it is more tax-effective to change their corporate structure, such as to a C corporation, to take advantage of the flat 21% corporate tax rate that was made permanent in 2018.

***Bonus depreciation on qualified property.*** Known formally as IRS Section 168(k), this deduction allows a bonus depreciation deduction on qualified property, such as equipment, fixtures, autos, and furniture, that was purchased after Sept. 27, 2017, and before Jan. 1, 2027. This was a major expansion for businesses, and the allowable percentage started at 100% but began scaling down in 2023 and is set to sunset after Dec. 31, 2026. However, there is still time to claim significant tax benefits for property placed into service after Dec. 31, 2023.

## Prepare for Possibility of TCJA Sunset

The outcome of temporary provisions of the Tax Cuts and Jobs Act remain highly uncertain, particularly in an era of divided government. It's a good idea to speak with a tax professional as you work to formulate a financial plan with the TCJA, and its potentially sunsetting provisions, in mind.

AMG's Personal Financial Management (PFM) can also help you prepare through a rigorous analysis of your unique financial situation and careful consideration of your options.

Find out more about AMG's wealth management solutions or to book a **free consultation** call 800.999.2190 or email with the best day and time to reach you.

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