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Tax Laws Hang in the Balance: Preparing Clients for a Potential Sunset

By: Holly Swan | February 16, 2024

Let's look past the typical 2024 election headlines and consider one issue that might not be in your election newsfeed—the possible sunset of the Tax Cuts and Jobs Act of 2017 (TCJA) at the end of 2025.

Now is a great time to discuss the potential changes resulting from the TCJA with your clients to identify how they can capitalize on the current opportunities and prepare for the possibility of a sunset.

Income Tax

If the sunset occurs, tax brackets will revert back to pre-TCJA levels and many taxpayers will see their rates increase. The impact will extend beyond ultra-high net worth (UHNW) clients as rate increases start as low as the 12% bracket, which is scheduled to return to 15%. This could lead clients to accelerate income into 2024 and 2025 to lock-in the lower rates.

The TCJA also changed many deductions and exemptions, which would revert to pre-TCJA levels in 2026 without congressional intervention. Under the TCJA:

- Personal exemptions were eliminated, while the standard deduction was increased.
- The alternative minimum tax (AMT) exemption was increased.
- Certain itemized deductions, such as the state and local property tax deduction (SALT) and the mortgage interest deduction were dramatically reduced.
- Other deductions, like financial advisory fees and tax preparation (for non self-employed individuals) were eliminated.
- The deductibility of some charitable contributions was increased for those who itemize.

Let's take a look at some of these potential changes and how they may impact your clients depending on their sources of income and state of residence:

Alternative Minimum Tax (AMT)

The increased AMT exemption may have had a positive impact on clients. These clients may want to talk to their accountants about the possible benefits of accelerating income in 2024 and 2025 while the larger AMT exemption is more certain to be in place.

Itemized Deductions

The limitations on certain itemized deductions may have had a negative impact on clients. Clients who live in states with high real estate prices and high tax rates may have been particularly impacted by these limitations. Such clients would likely benefit should these provisions revert to the old law post-sunset.

Estate and Gift Tax

The sunset of the current estate and gift tax provisions are a large concern for UHNW clients since the TCJA doubled the prior estate and gift tax exemption. For 2024, the federal estate and gift tax exemption is $13.61 million per individual, and $27.22 million for married couples.

Unless the next congress acts to change the current law, the estate and gift tax exemption will revert back to pre-TCJA levels in 2026, and is expected to be in the ballpark of $7 million per individual, or close to $14 million for a married couple. Clients who have a federally taxable estate should consider implementing a gifting program that takes advantage of the current exemption in the event a decrease occurs.

Bottom line: Help your clients avoid any sunset surprises by discussing potential changes and identifying opportunities to capitalize on the current TCJA provisions.

The Firm does not provide tax advice. The tax information contained herein is general and is not exhaustive by nature. Tax laws are complex and subject to change. Investors should always consult their own legal or tax professional for information concerning their individual situation.

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