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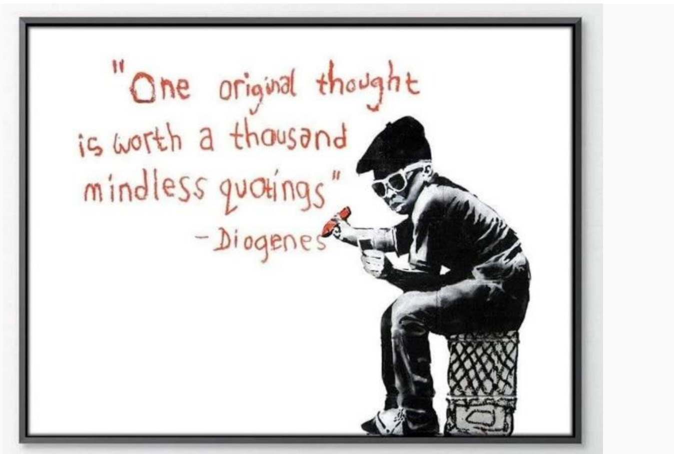
Dramatic Changes in Sunsetting Tax Code



By Joseph W Tucciarone, CEO National Network of Accountants

In 2025, several key tax provisions, established under the Tax Cuts and Jobs Act (TCJA) of 2017, are set to expire. This sunsetting could bring significant changes to the financial landscape, particularly affecting individuals and families in various tax brackets, as well as business owners. Estate planning is one of the areas that will be affected. As the deadline approaches, understanding these provisions and preparing for their expiration will be critical to maintaining financial stability and optimizing tax strategies.

What are the 2025 Tax Provisions?

The Tax Cut and Jobs Act was signed into law in December 2017 and was a huge change to the U.S. tax code. While many of the corporate tax cuts were made permanent, the provisions affecting individual taxpayers are set to expire at the end of 2025. Some of these provisions include:

1. **Reduced Marginal Income Tax Rates**: The TCJA lowered the tax rates for nearly all individual income brackets. For instance, the top marginal rate was reduced from 39.6% to 37%.
2. **Increased Standard Deduction**: The standard deduction nearly doubled under the TCJA, from $12,700 to $24,000 for married couples filing jointly, and from $6,350 to $12,000 for single filers.
3. **Increased Estate Tax Exemption**: The estate tax exemption—the amount of wealth that can be transferred without being subject to federal estate tax—was raised from approximately $5.49 million to $11.18 million per individual, with a potential to pass on $22.36 million for married couples.

These provisions will revert to their pre-TCJA levels unless Congress takes legislative action before the expiration date.

Who Will Be Affected by the 2025 Expirations?

The expiration of these provisions will have widespread effects across various income groups, but the impact will be particularly significant for high-income earners, families, and estates.

1. **Middle-Class Families**: Middle-class families may face higher income taxes as the lower marginal tax rates increase.
2. **High-Income Individuals**: The wealthiest Americans are likely to see the most significant tax increases. The top tax bracket will rise back to 39.6%, and the estate tax exemption will likely fall back to its 2017 level of around $5.5 million, making large estates more vulnerable to taxation.
3. **Small Business Owners**: While corporate tax cuts are permanent, many small business owners file their taxes as individuals under the pass-through deduction, which is set to expire in 2025. This change will result in higher tax liabilities for small business owners unless additional legislative measures are passed.
4. **Estates and Heirs**: One of the most affected areas is estate planning. The reduced estate tax exemption

will result in many estates that were previously exempt from taxation now becoming taxable. Heirs of wealthy individuals will face larger tax liabilities when receiving assets as part of an inheritance.

How the Expirations Will Affect Estate Planning

Under current law, individuals can transfer up to $11.7 million, and married couples up to $23.4 million, free of estate taxes. When the exemption drops to its pre-2017 level, estates valued above approximately $5.5 million ($11 million for married couples) will be subject to estate taxes at a rate of 40%. A huge change!

Wealthy individuals will need to reconsider their estate plans to avoid exposing heirs to significant tax liabilities. Some key considerations include:

How to Prepare for the 2025 Sunsetting

Proactive planning is essential for individuals, families, and business owners seeking to mitigate the tax impact of the 2025 expirations. Some preparatory steps include:

1. **Review and Update Estate Plans**: For individuals with estates approaching or exceeding the reduced exemption levels, it is critical to review existing estate plans. Estate planning strategies that were effective under the higher exemptions may no longer be sufficient.

2. **Maximize Gifting Opportunities**: Before 2025, individuals should consider using the increased estate and gift tax exemption to make lifetime gifts. Transferring wealth now, under the current rules, can reduce future estate tax burdens and allow for the appreciation of assets outside of the taxable estate.

3. **Consider Trusts and Other Vehicles**: Various trust structures can offer solutions for high-net-worth individuals aiming to reduce estate taxes. Trusts can also provide protection and flexibility for beneficiaries while keeping assets out of the taxable estate.

4. **Now is the time to investigate a known system that will protect your estate assets now and after 2025. Therefore, no matter who sits in the White House, your estate will be protected. We are referring to a known, successful system – "The Kanban System."**

   The uniqueness of this methodology is that the IRS is paid in full while the client has a straight forward business arrangement -- the use of financial leveraging, often used in business and real estate transactions.

Conclusion

The sunsetting of the TCJA's provisions in 2025 will have far-reaching consequences especially in the estate planning area. Estate planning, in particular, will require careful attention, as the reduction in the estate tax exemption will expose many estates to taxation that have previously enjoyed exemption under the current law. By acting now and investigating "the one original thought" … a known methodology, "The Kanban System," taxpayers can position themselves to minimize their tax liabilities and safeguard their financial legacies. As the deadline approaches, we believe, as Banksy said in his artwork, "one original thought is worth a thousand mindless quoting." This is the key to navigating the post-2025 tax environment

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