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NAVIGATING THE 2025 TAX LANDSCAPE: PLANNING FOR THE TCJA SUNSET

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OBJECTIVES

- Review which provisions of the TCJA are set to expire at the end of 2025.
- Consider strategies to optimize your client's taxes in an evolving tax environment.
- Discuss current legislative developments.

EXPIRING PROVISIONS

- Marginal tax rates
- Standard deduction
- Personal exemptions
- Child tax credit
- Credit for other dependents
- Moving expense deduction
- Charitable contributions
- State and local taxes
- Mortgage interest
- Personal casualty and theft loss
- Gambling losses
- Miscellaneous 2% itemized deductions
- Itemized deduction limitation
- Moving reimbursement exclusion
- Alternative minimum tax
- ABLE accounts
- QBI deduction
- Business loss limitation
- Bonus depreciation
- Estate and gift tax exemption
- Qualified opportunity zones

MARGINAL TAX RATES

- Tax rates and brackets will revert to what they were pre-TCJA, adjusted for inflation.
- This will subject more of your income to higher tax rates.

Under TCJA	If TCJA Expires
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

STANDARD DEDUCTION & PERSONAL EXEMPTIONS

Standard Deduction

- The current standard deduction will reduce to pre-TCJA levels, adjusted for inflation.

	Under TCJA	TCJA Expires (Est)
Single / MFS	$15,000	$8,350
HOH	$22,500	$12,250
MFJ	$30,000	$16,700

Personal Exemptions

- Taxpayers will get a personal exemption for themselves and each of their dependents.
- This deduction is estimated to be approximately $5,300 in 2026.

CHILD TAX CREDIT

- The maximum child tax credit will go down from $2,000 to $1,000 per qualifying child.

- The AGI threshold for phaseout of the credit will be reduced significantly.

	Under TCJA	If TCJA Expires
Single / MFS / HOH	$200,000	$75,000
MFJ	$400,000	$110,000

ITEMIZED DEDUCTIONS

State & Local Taxes

- The $10,000 limitation on the deduction for state & local income and property taxes will be removed.
- Note that many states enacted passthrough entity taxes to get around this limit. Many of these are also set to expire.

Charitable Contributions

- The AGI limitation for cash contributions to public charities will be reduced from 60% to 50%.

Mortgage Interest

- Mortgage interest will be deductible on loans up to $1M instead of $750,000.
- Interest on the first $100,000 of home equity loans will be deductible regardless of what the funds were used for.

ITEMIZED DEDUCTIONS

Personal Casualty and Theft Losses

- These losses will be deductible regardless of whether they result from a federally declared disaster.

Miscellaneous Expenses (2% AGI Limitation)

- Taxpayers will be able to deduct unreimbursed employee expenses, tax fees, investment fees, and other certain expenses that are in excess of 2% of their AGI.

Overall Limitation

- For taxpayers with AGI above certain thresholds, their total itemized deductions will be reduced by 3% of the excess.
- Prior to the TCJA, the threshold was $261,500 ($313,800 if MFJ). These will be adjusted for inflation.
- Note that this doesn’t apply to medical and dental expenses, investment interest, charitable contributions, casualty and theft losses, and gambling losses.

ALTERNATIVE MINIMUM TAX

- The AMT exemption and phaseout will revert to pre-TCJA levels, adjusted for inflation.
- There will also be more adjustment items, due to many of the deduction limitations that are expiring.
- As a result, more taxpayers are going to be subject to AMT.

Exemption	Under TCJA	If TCJA Expires
Single	$88,100	$70,900
MFJ	$137,000	$110,400

Phaseout	Under TCJA	If TCJA Expires
Single	$626,350	$157,700
MFJ	$1,252,700	$210,300

ABLE ACCOUNTS

- Designated beneficiaries who are employed will no longer be able to contribute an additional amount to their account. They'll be limited to only receiving the annual gift tax exclusion.

- Designated beneficiaries will not be able to claim the saver's credit for their contributions.

- All rollovers from 529 plans will be subject to taxation.

QBI DEDUCTION

- Taxpayers will no longer be able to get a deduction for qualified business income and REIT dividends.

- This deduction replaced the previous domestic production activities deduction, which was repealed and would require legislation to bring it back.

- The loss of the QBI deduction will have an impact on the optimal entity type for your client’s business.

EXCESS BUSINESS LOSS LIMITATION

- The amount of net business loss that can be deducted each year is currently limited.
  - This also applies to flowthrough losses from a partnership or S corporation.

- For 2025, the limitation is $313,000 ($626,000 if married filing jointly) and gets adjusted for inflation.

- Note that this provision is set to expire on 12/31/2028.

BONUS DEPRECIATION

- Bonus depreciation is currently at 40% and will decline to 20% for 2026.

- This is set to expire on 12/31/2026, so there will be no bonus depreciation starting in 2027.

ESTATE AND GIFT TAX

- The current lifetime exemption for estate and gift tax is $13,990,000 per person, so married couples can effectively shield $27,980,000 from taxation.
- After inflation, this will go down to a little over $7,000,000 in 2026.
- There will not be a clawback for taxpayers who utilize the higher exemption.

QUALIFIED OPPORTUNITY ZONES

- Taxpayers can defer capital gains by reinvesting them into a qualified opportunity zone fund.
- This provision is set to expire on 12/31/2026.
- Any gains that were deferred will need to be recognized in the 2027 tax year.

PLANNING FOR THE FUTURE

- Most of these provisions are set to expire at the end of this year, unless Congress passes legislation to extend them.

- While we most likely won't have a draft of legislation until later in the year, we can start planning for our clients now.

- With Donald Trump as president and the Republicans holding a small majority in both House and Senate, it is likely that many of the provisions will be extended.
    - However, without bipartisan support, any legislation must go through the reconciliation process.

QUESTIONS