Navigating the Sunset of the TCJA Provisions

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Ong & Company
certified public accountants

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Introductions

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History of The Tax Cuts and Jobs Act

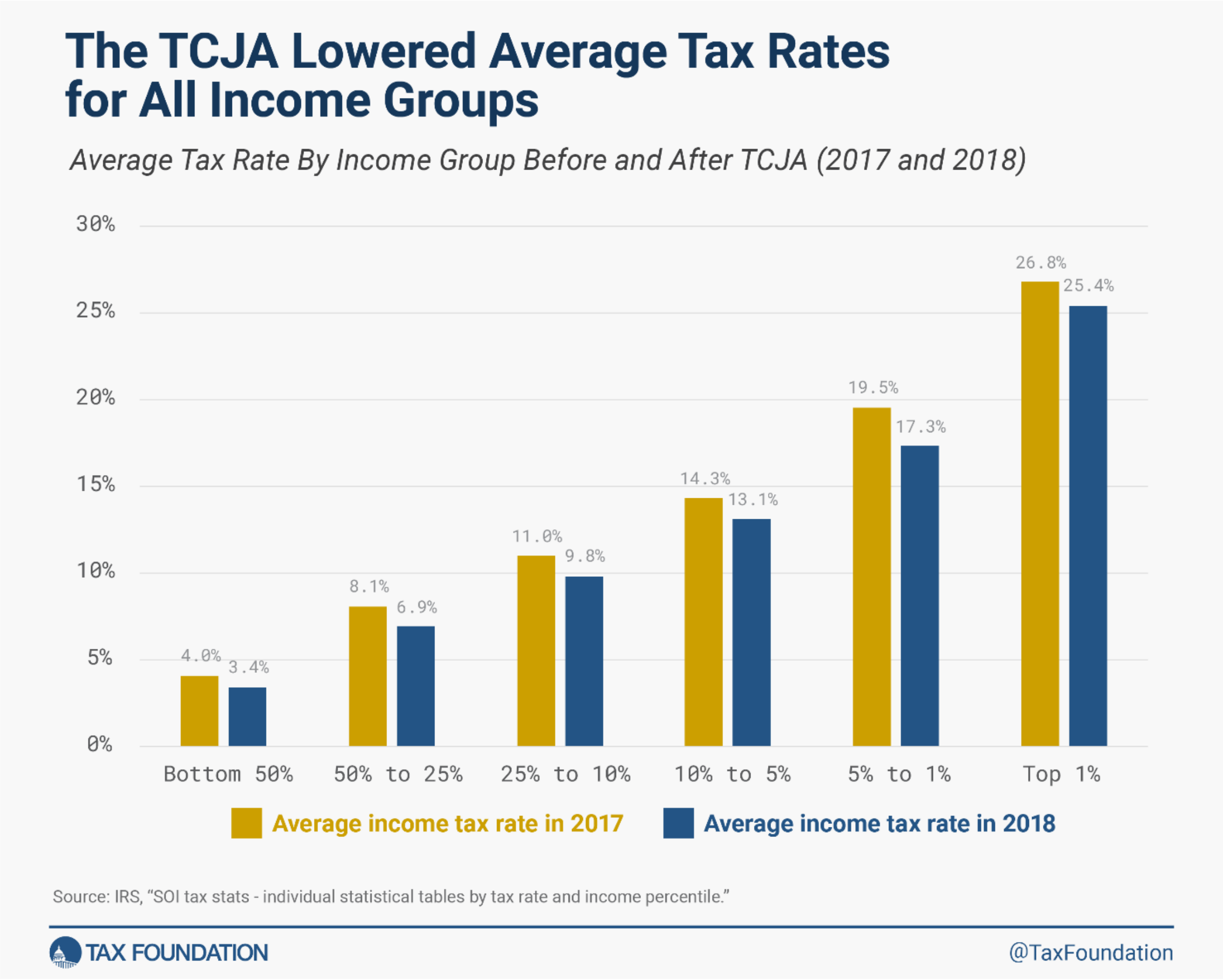
- The Tax Cuts and Jobs Act was passed by the House of Representatives on November 16, 2017
- A revised version of the Tax Cuts and Jobs Act was passed by the Senate on December 2, 2017
- On December 15, 2017, a House of Representatives and Senate Conference Committee released a unified version of the Tax Cuts and Jobs Act
- On December 22, 2017, President Trump signed into law H.R. 1, the "Tax Cuts and Jobs Act"
- On December 31, 2025, several provisions of the TCJA are set to expire

Largest tax overhaul in 31 years (since the Tax Reform Act of 1986)

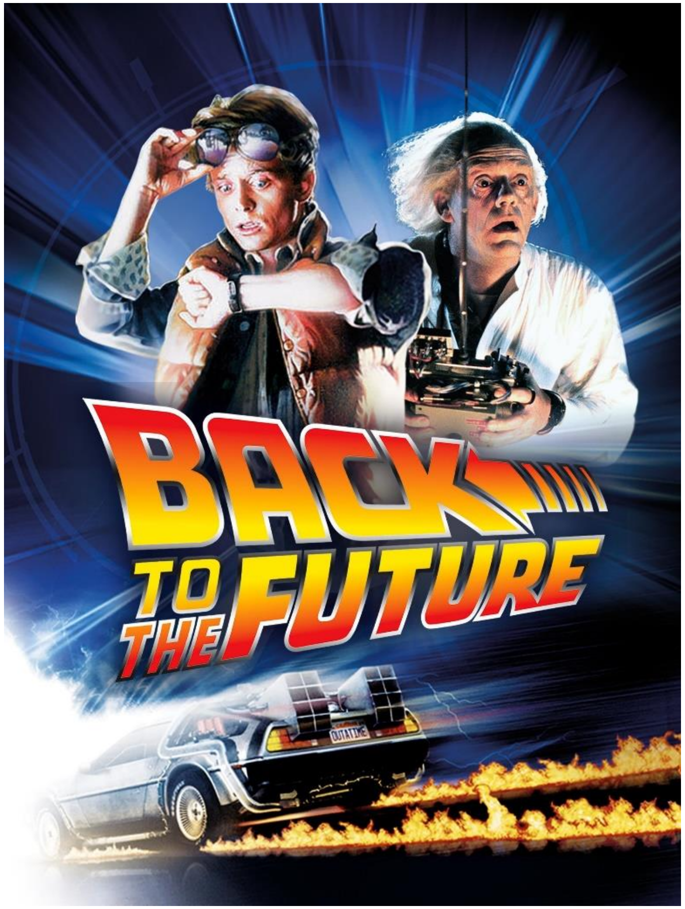
Why is this Important?

- The Tax Cuts and Jobs Act (TCJA) of 2017, a tax reform law that reduced tax rates across the income spectrum, is set to expire on December 31, 2025
- If Congress does nothing, most Americans will face higher taxes, worse incentives for work and investment, and a more complicated tax system starting in 2026
- Although it remains uncertain whether Congress will extend these provisions or allow them to expire, it is crucial for both individuals and businesses to understand and prepare for the potential expiration of the TCJA provisions

Why is this Important?



Why is this Important?



An Overview of the Changes for Individuals

Provision	TCJA	Previous
Personal exemption	Suspended through 2025	$4,050
Standard deduction •Single •Joint returns and surviving spouses •Married filing separately •Head of household •Additional for elderly or blind (married) •Additional for elderly or blind (single)	 $12,000 $24,000 $12,000 $18,000 $1,300 $1,600	 $6,350 $12,700 $6,350 $9,350 $1,250 $1,550
Income at which itemized deductions and personal exemptions start to phase out •Single •Joint returns and surviving spouses •Married filing separately •Head of household	Not applicable Not applicable Not applicable Not applicable	$261,500 $313,800 $156,900 $287,650
Alternative minimum tax (AMT) exemption •Single •Married, joint •Married, separate	 $70,300 $109,400 $54,700	 $54,300 $84,500 $42,250

Tax Brackets for Ordinary Income Under Previous Law and the Tax Cuts and Jobs Act (2018 Tax Year)

Single Filer			
Previous Law		**Tax Cuts and Jobs Act**	
10%	$0-$9,525	10%	$0-$9,525
15%	$9,525-$38,700	12%	$9,525-$38,700
25%	$38,700-$93,700	22%	$38,700-$82,500
28%	$93,700-$195,450	24%	$82,500-$157,500
33%	$195,450-$424,950	32%	$157,500-$200,000
35%	$424,950-$426,700	35%	$200,000-$500,000
39.6%	$426,700+	37%	$500,000+

Tax Brackets for Ordinary Income Under Previous Law and the Tax Cuts and Jobs Act (2018 Tax Year)

Married Filing Jointly			
Previous Law		Tax Cuts and Jobs Act	
10%	$0-$19,050	10%	$0-$19,050
15%	$19,050-$77,400	12%	$19,050-$77,400
25%	$77,400-$156,150	22%	$77,400-$165,000
28%	$156,150-$237,950	24%	$165,000-$315,000
33%	$237,950-$424,950	32%	$315,000-$400,000
35%	$424,950-$480,050	35%	$400,000-$600,000
39.60%	$480,050+	37%	$600,000+
Note: The Head of Household filing status is retained, with a separate bracket schedule			

Individual Tax Changes with Sunset of TCJA in 2026

- **Individual tax rates:** The TCJA lowered tax rates to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate decreased to 37% from 39.6%. These tax rates are set to sunset Dec. 31, 2025. The top tax rate beginning Jan. 1, 2026, reverts to 39.6%.
- **Standard deduction:** The standard deduction was nearly doubled for all filing statuses ($12,000 for single filers and $24,000 for married filing jointly) by the TCJA. As a result, many taxpayers have not itemized deductions. Starting in 2026, the standard deduction will be about half of what it is currently, adjusted for inflation.
- **Itemized deductions:** The following items were temporarily modified or suspended by the TCJA:
    - SALT: The state and local tax (SALT) deduction was capped at $10,000. After 2025, this limitation will expire, allowing greater benefit from deducting taxes paid during the calendar year, including real estate taxes, state or local income taxes, and personal property taxes.
    - Mortgage interest deduction: The TCJA generally suspended the home equity loan interest deduction. It limited the home mortgage interest deduction to the first $750,000 of debt (if married filing jointly) for any loan originating on or after Dec. 16, 2017. Beginning in 2026, the mortgage interest deduction will revert to pre-TCJA levels, allowing interest to be deducted on the first $1 million in home mortgage debt and $100,000 in a home equity loan.
    - Miscellaneous itemized deductions: The TCJA temporarily eliminated most miscellaneous itemized deductions, such as investment/advisory fees, legal fees, and unreimbursed employee expenses. These deductions will once again be allowed, starting Jan. 1, 2026, under the previous rules, to the extent they exceed 2% of the taxpayer's adjusted gross income.
- **Child tax credit:** The child tax credit was increased from $1,000 to $2,000 per qualifying child. This higher tax credit will revert to pre-TCJA levels in 2026 of $1,000 per qualifying child.
- **Personal exemptions:** The TCJA temporarily suspended personal exemptions. The personal-exemption rules will return in 2026 once the provision sunsets. The personal exemption will be $4,050 per taxpayer and qualified dependents, adjusted for inflation. The personal exemption phases out at higher income levels.
- **Alternative minimum tax (AMT) exemption and phaseout:** The TCJA increased exemption amounts as well as the exemption phaseout threshold, lessening the AMT burden on taxpayers. At sunset, the AMT exemption will revert to pre-TCJA levels.

Individual Tax Changes with Sunset of TCJA in 2026

TABLE 3

Standard and Itemized Deductions

TPC

Prior Law	Tax Cuts and Jobs Act
Standard deduction	
$6,500 (single), $13,000 (joint), $9,550 (head of household); indexed for inflation	$12,000 (single), $24,000 (joint), $18,000 (head of household); indexed for inflation
State and local tax deduction	
Real estate, personal property, and either income or sales taxes are deductible	Real estate, personal property, and either income or sales taxes are deductible; total deduction capped at $10,000
Mortgage interest deduction	
Interest payments on up to $1.1 million of debt (including $100,000 of home equity debt) are deductible; applicable to principal and one other residence	Interest payments on up to $750,000 of new acquisition debt are deductible; applicable to principal and one other residence
Medical expense deduction	
Out-of-pocket medical expenses in excess of 10 percent of AGI are deductible	Out-of-pocket medical expenses in excess of 7.5 percent of AGI are deductible
Overall limit on itemized deductions	
Itemized deduction phases out at AGI above $266,700 (single), $320,000 (joint); amounts indexed for inflation	Repealed

Sources: Gale, William G., et al. June 2018. Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis. Washington, DC: The Urban-Brookings Tax Policy Center; Internal Revenue Service. *Revenue Procedures*. Various years.
Notes: AGI = adjusted gross income.

Individual Tax Changes with Sunset of TCJA in 2026

TABLE 2

Family Benefits

Prior Law	Tax Cuts and Jobs Act
Personal and dependent exemptions	
$4,150; indexed for inflation	Repealed
Child tax credit	
$1,000 per qualifying child under 17; phases out at AGI above $75,000 (single), $110,000 (joint); refundable portion equals 15 percent of earnings in excess of $3,000	$2,000 per qualifying child under 17, $500 for other dependents; phases out at AGI above $200,000 (single), $400,000 (joint); refundable portion equals 15 percent of earnings in excess of $2,500 up to a maximum credit of $1,400 per qualifying child; maximum refundable portion indexed for inflation; requires valid social security number

Sources: Gale, William G., et al. June 2018. Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis. Washington, DC: The Urban-Brookings Tax Policy Center; Internal Revenue Service. *Revenue Procedures*. Various years.

Notes: AGI = adjusted gross income.

Individual Tax Changes with Sunset of TCJA in 2026

TABLE 4
Capital Gains, Dividends, and the Alternative Minimum Tax

TPC

Prior Law	Tax Cuts and Jobs Act
Tax rate on capital gains and qualified dividends	
Zero rate for taxpayers below the 25 percent tax bracket; 15 percent rate for taxpayers in the 25 to 35 tax brackets; 20 percent rate for taxpayers above the 35 percent tax bracket; 3.8 percent NIIT at AGI above $200,000 (single), $250,000 (joint)	Zero rate if taxable income is below $38,600 (single), $77,200 (joint); 15 percent rate if taxable income is between $38,600 and $425,800 (single) $77,200 and $479,000 (joint); indexed for inflation; 3.8 percent NIIT at AGI above $200,000 (single), $250,000 (joint)
Individual Alternative Minimum Tax	
AMT exemption equal to $55,400 (single), $86,200 (joint); phases out at AGI above $123,100 (single), $164,100 (joint); indexed for inflation	AMT exemption equal to $70,300 (single), $109,400 (joint); phases out at AGI above $500,000 (single), $1,000,000 (joint); indexed for inflation

Sources: Gale, William G., et al. June 2018. Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis. Washington, DC: The Urban-Brookings Tax Policy Center; Internal Revenue Service. *Revenue Procedures*. Various years.

Notes: AGI = adjusted gross income; AMT = alternative minimum tax; NIIT = net investment income tax.

Individual Tax Changes with Sunset of TCJA in 2026

- The 2017 Tax Cuts and Jobs Act (TCJA) included provisions that significantly reduced the impact of the alternative minimum tax (AMT). The TCJA enacted a higher AMT exemption, raised the income level at which the exemption begins to phase out, and repealed or scaled back some of the largest AMT preference items. As a result, TPC projects that the number of AMT payers fell from more than 5 million in 2017 to just 200,000 in 2018.

TABLE 1

Alternative Minimum Tax (AMT) Parameters

Tax years 2017 and 2023

Parameter	Single	Married Filing Jointly or Surviving Spouses	Head of Household	Married Filing Separately
2023				
Exemption	$81,300	$126,500	$81,300	$63,250
28 Percent Bracket Threshold	$220,700	$220,700	$220,700	$110,350
Exemption Phaseout Threshold	$578,150	$1,156,300	$578,150	$578,150
2017: Pre-TCJA				
Exemption	$54,300	$84,500	$54,300	$42,250
28 Percent Bracket Threshold	$187,800	$187,800	$187,800	$93,900
Exemption Phaseout Threshold	$120,700	$160,900	$120,700	$80,450

Source: Internal Revenue Service. Revenue Procedure 2022-38, October 2022.
Notes: All parameters are indexed annually for inflation.

Overview of Alternative Minimum Tax

Individual Income Tax Returns (Form 1040)	Alternative Minimum Tax (Form 6251)
Input all income, including wages, salaries, tips, taxable interest, capital gains, IRA distributions, pension and annuity income, Social Security benefits, other income etc.	Enter taxable income (if zero, enter adjusted gross income) from form 1040
Make adjustments to income, including for educator expenses, certain business expenses, health savings accounts, moving expenses for Armed Forces members, self-employment tax, etc.	Add back or reduce certain tax preferences taken under the ordinary income tax, including: •State and local tax deduction (SALT) •Standard deduction •Investment interest expense •Net operating loss deduction •Private activity bond interest •Depreciation •Passive activities •Loss limitations •Exercise of Incentive Stock Options
= Adjusted Gross Income (AGI)	= Alternative Minimum Taxable Income (AMTI)
Choose the larger of the standard deduction or itemized deductions Apply qualified business deduction (if applicable)	Apply the following AMT exemptions if income is under the phaseout threshold ($518,400 in AMTI for single filers and $1,036,800 for married taxpayers filing jointly, both for tax year 2020) •$72,900 for single or head of household •$113,400 for married filing jointly •$56,700 for married filing separately
= Taxable income	Apply AMT tax rates and take AMT foreign tax credit if applicable •26 percent on AMTI below $197,700 •28 percent on AMTI above $197,700
Apply ordinary tax rates and take applicable tax credits	
= Total ordinary tax	= Tentative minimum tax
Pay whichever amount is greater	

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Overview of Alternative Minimum Tax

- Credit for Prior Year Minimum Tax
  - A taxpayer may claim a tax credit against regular income tax liability for some or all of alternative minimum tax (AMT) paid in previous years
  - The minimum tax credit is generally the amount of adjusted net minimum tax for all tax years reduced by the minimum tax credit for all prior tax years
  - Any unused credit may be carried forward indefinitely as a credit against regular tax liability to the extent that regular tax liability reduced by all other nonrefundable credits exceeds tentative AMT liability for the tax year
  - The credit may not offset AMT liability
  - *Note – this credit can take several years to absorb due to the credit triggering AMT can being cut off at that point in future years*

Business Tax Changes with Sunset of TCJA in 2026

- **Corporate tax rate:** The TCJA permanently changed the corporate tax rate structure, which previously had a top rate of 35%, to a flat 21% tax rate regardless of the amount of corporate taxable income. This provision is one of the few that will not expire at the end of 2025.
- **Qualified business income (QBI) 20% deduction (Sec. 199A):** Owners of passthrough businesses, such as partnerships and S corporations, as well as sole proprietorships, may currently claim a deduction of up to 20% of QBI. Beginning in 2026, the Sec. 199A QBI deduction no longer will be available.
- **Bonus depreciation on qualified property:** Sec. 168(k) allows an additional first-year depreciation deduction equal to an applicable percentage of the cost basis of qualified property placed in service during the year. The TCJA changed the applicable percentages and qualifying property. Used property currently qualifies for bonus depreciation, except for property purchased from related parties.
  - 100% for property placed in service after Sept. 27, 2017, and before Jan. 1, 2023;
  - 80% for property placed in service after Dec. 31, 2022, and before Jan. 1, 2024;
  - 60% for property placed in service after Dec. 31, 2023, and before Jan. 1, 2025;
  - 40% for property placed in service after Dec. 31, 2024, and before Jan. 1, 2026;
  - 20% for property placed in service after Dec. 31, 2025, and before Jan. 1, 2027; and
  - 0% (bonus expires) for property placed in service after Dec. 31, 2026.

Estate Tax Changes with Sunset of TCJA in 2026

- The TCJA effectively doubled the estate and gift tax basic exclusion amount from $5,490,000 in 2017 to $11,180,000, adjusted each subsequent year for inflation, beginning with decedents dying and gifts made in 2018. The 2023 exclusion amount is $12.92 million per person ($25.84 million for married couples).
- Taxpayers who die through 2025 with a taxable estate greater than the exclusion amount can be subject to a federal tax rate of up to 40%.
- At the end of 2025, this tax provision will sunset, cutting the exclusion roughly in half. Individual taxpayers with significant estates that are above the amount that the exclusion will revert to should consult with their tax advisers and estate attorneys as soon as possible to take advantage of the TCJA's temporary increase in the exclusion by making gifts before the end of 2025. It is important that clients start planning now to be well prepared for when the estate tax and gifting exclusion decreases.

Marital Status	2017 (pre-TCJA)	2018	2024	2026 (projected, after TCJA sunset)
Individual	$5.49 million	$11.18 million	$13.61 million	$7 million
Married Couple	$10.98 million	$22.36 million	$27.22 million	$14 million

2026 Scenario Examples

- https://taxfoundation.org/data/all/federal/tax-calculator-tcja-expiration/

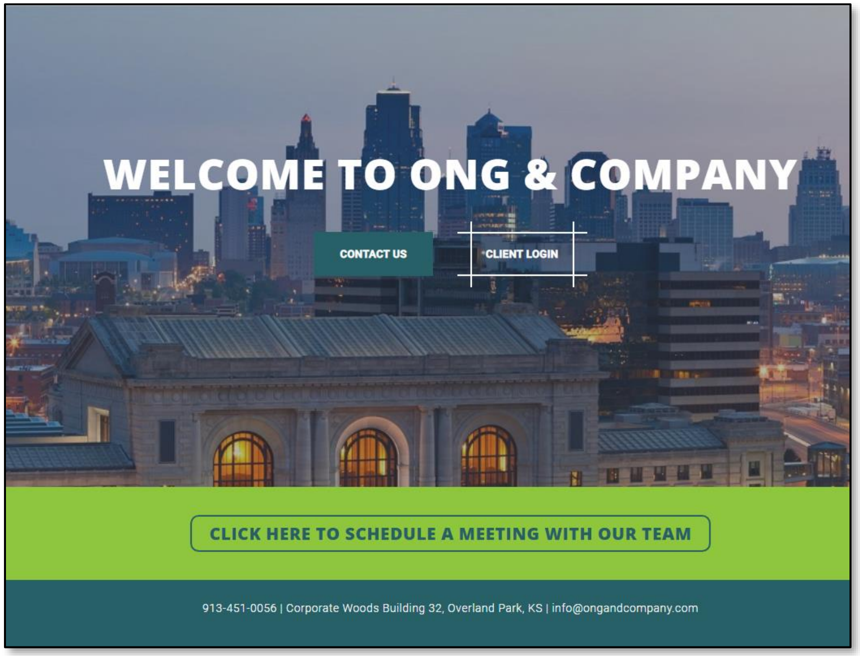
Planning Opportunities for Sunset of TCJA in 2026

- Accelerate Income Into 2024-2025
- Roth Conversions
- Accelerate Distributions on Inherited IRAs
- Consider Distributions in Excess of RMD
- Gifting and Transfer of Income-Producing Assets
- Defer Deductions to 2026
  - Business Deductions
  - Charitable Contributions
  - Miscellaneous Itemized Deductions
  - Mortgage Interest
  - State and Local Taxes
- Reconsider Roth Versus Traditional Contributions After 2025 and Optimize Retirement Contributions
- Reconsider Business Structure
- Maximize the Qualified Business Income Deductions
- Strategically Realize Capital Gains (requires careful planning)
- Exercise ISOs (requires careful planning)

Keep an Eye Out for Changes

Questions? We're here to help

Visit our website or click https://calendly.com/ongandcompany to select an available time for a virtual meeting with our team to discuss these updates and how they apply to your situation.



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