

# *Navigating the Tax Cuts and Jobs Act (TCJA) 2026 Sunset*

## *TCJA In Summary*

The Tax Cuts and Jobs Act (TCJA) of 2017 made significant changes to the Internal Revenue Code. Some of the most notable TCJA changes include the increased lifetime estate and gift tax exemption which almost doubled the previous levels, a reduction to individual and business income tax rates, and significant increases to the standard deduction. The TCJA provisions are not permanent and are scheduled to sunset on December 31, 2025 unless Congress acts to extend them.

## *Income Tax Bracket Changes*

A major provision of the TCJA set to expire at the end of 2025 is the current lower individual income tax brackets. The TCJA reduced the maximum tax rate for individual income tax to 37% and increased the income level at which it became applicable. When the TCJA expires, individual tax rates will increase with the top rate returning to 39.6% and tax brackets will become compressed, triggering higher rates at lower thresholds. The TCJA sunset will also reduce the standard deduction amount but will eliminate the \$10,000 cap on deductible state and local tax payments, allowing many individuals to benefit from an increased itemized deduction.

It is possible that Congress will act to extend the current tax rates, but it's not guaranteed. Gridlock in Washington and appetite for lower tax revenue will factor into the decision. Accelerating income into 2024 and 2025, ahead of potentially higher income tax rates in 2026, may make sense for some individuals plans.

## *Estate and Gift Tax Exemption Cut in Half*

The federal estate and gift tax exemption is the maximum value of assets an individual can transfer to other individuals either during their lifetime or upon their death without incurring federal estate or gift tax. Under TCJA, the current lifetime estate and gift tax exemption amount is \$13.61 million per individual and \$27.22 million for a married couple. If the TCJA is not extended, in 2026 the estate and gift tax exemption will revert to around \$7 million per individual and \$14 million for a married couple.

If your estate is expected to be below approximately \$7 million, this reduction of exemption will likely not impact you. However, if your family has an estate that could potentially be impacted by the reduction in the estate tax exemption, reach out to your advisor and attorney now about estate planning strategies available.



**Step 1** Connect with your Bartlett Financial Planner to get updated net worth and cash flow projections. Now is also a good time to confirm all asset titling is accurate.

**Step 2** If your net worth exceeds \$7 million, schedule a meeting with your attorney to explore estate planning solutions. It is expected that attorney backlogs could be at least 6 months.

**Step 3** Following your meeting with your attorney, connect with your CPA to determine any tax implications and filing requirements of proposed gifting strategies.

**Step 4** Be ready to implement gifting strategies well before December 31, 2025.

# What Might be Changing?

## 2024 · TCJA SUNSET PROVISION COMPARISON GUIDE



### TCJA (2024)

### POST-TCJA (2017 TAX NUMBERS INFLATED TO 2024) <sup>1</sup>

#### ORDINARY INCOME TAX BRACKETS

#### ORDINARY INCOME TAX BRACKETS

TAX RATE	MFJ BRACKETS	SINGLE BRACKETS
10%	\$0 - \$23,200	\$0 - \$11,600
12%	\$23,201 - \$94,300	\$11,601 - \$47,150
22%	\$94,301 - \$201,050	\$47,151 - \$100,525
24%	\$201,051 - \$383,900	\$100,526 - \$191,950
32%	\$383,901 - \$487,450	\$191,951 - \$243,725
35%	\$487,451 - \$731,200	\$243,726 - \$609,350
37%	Over \$731,200	Over \$609,350

  

TAX RATE	TRUST BRACKETS
10%	\$0 - \$3,100
24%	\$3,101 - \$11,150
35%	\$11,151 - \$15,200
37%	Over \$15,200

TAX RATE	MFJ BRACKETS	SINGLE BRACKETS
10%	\$0 - \$23,100	\$0 - \$11,500
15%	\$23,101 - \$94,100	\$11,551 - \$47,050
25%	\$94,101 - \$189,850	\$47,051 - \$113,950
28%	\$189,851 - \$289,250	\$113,951 - \$237,650
33%	\$289,251 - \$516,750	\$237,651 - \$516,750
35%	\$516,751 - \$583,750	\$516,751 - \$518,850
39.6%	Over \$583,750	Over \$518,850

  

TAX RATE	TRUST BRACKETS
15%	\$0 - \$3,150
25%	\$3,151 - \$7,400
28%	\$7,401 - \$11,300
33%	\$11,301 - \$15,500
39.6%	Over \$15,500

#### LONG-TERM CAPITAL GAINS TAX BRACKETS

#### LONG-TERM CAPITAL GAINS TAX BRACKETS

TAX RATE	MFJ BRACKETS	SINGLE BRACKETS
0%	\$0 - \$94,050	\$0 - \$47,025
15%	\$94,051 - \$583,750	\$47,026 - \$518,900
20%	Over \$583,750	Over \$518,900

TAX RATE	MFJ BRACKETS	SINGLE BRACKETS
0%	\$0 - \$94,100	\$0 - \$47,050
15%	\$94,101 - \$583,750	\$47,051 - \$518,850
20%	Over \$583,750	Over \$518,850

	STANDARD DEDUCTION	PERSONAL EXEMPTIONS
MFJ	\$29,200	-
SINGLE	\$14,600	-
DEPENDENT	Up to \$14,600 <sup>2</sup>	-

	STANDARD DEDUCTION	PERSONAL EXEMPTIONS
MFJ	\$15,750	\$10,100
SINGLE	\$7,850	\$5,050
DEPENDENT	Up to \$7,850 <sup>2</sup>	\$5,050

#### PERSONAL EXEMPTION PHASEOUT (PEP)

#### PERSONAL EXEMPTION PHASEOUT (PEP)

MFJ	-
SINGLE	-

MFJ	\$389,150 - \$511,650
SINGLE	\$324,300 - \$446,800

## 2024 · TCJA SUNSET PROVISION COMPARISON GUIDE



### TCJA (2024)

ITEMIZED DEDUCTIONS LIMITS (SCHEDULE A)	
STATE & LOCAL TAXES (SALT)	\$10,000
MORTGAGE INTEREST	\$750,000
CHARITABLE DONATIONS MADE IN CASH	Subject to 60% AGI Limitation
DEDUCTIBILITY OF FINANCIAL ADVISORY FEES <sup>3</sup>	–
PEASE LIMITATION THRESHOLD (MFJ)	–
PEASE LIMITATION THRESHOLD (SINGLE)	

<b>SECTION 199A (QBI) DEDUCTION</b>	Up to 20% of QBI
-------------------------------------	------------------

CHILD & OTHER DEPENDENT TAX CREDIT	
CHILD TAX CREDIT AMOUNT	\$2,000
CHILD TAX CREDIT REFUNDABLE PORTION	Up to \$1,700
OTHER DEPENDENT TAX CREDIT	\$500

ALTERNATIVE MINIMUM TAX (AMT)		
AMT FACTOR	MFJ	SINGLE
EXEMPTION AMOUNT	\$133,300	\$85,700
28% TAX RATE ON INCOME OVER	\$232,600	\$232,600
EXEMPT PHASEOUT THRESHOLD	\$1,218,700	\$609,350
EXEMPTION ELIMINATION	\$1,751,900	\$952,150

<b>ESTATE &amp; GIFT TAX LIFETIME EXEMPTION</b>	\$13,610,000
---	--------------

### POST-TCJA (2017 TAX NUMBERS INFLATED TO 2024) <sup>1</sup>

ITEMIZED DEDUCTIONS LIMITS (SCHEDULE A)	
STATE & LOCAL TAXES (SALT)	Unlimited
MORTGAGE INTEREST	\$1,000,000
CHARITABLE DONATIONS MADE IN CASH	Subject to 50% AGI Limitation
DEDUCTIBILITY OF FINANCIAL ADVISORY FEES <sup>3</sup>	Subject to 2% AGI Floor
PEASE LIMITATION THRESHOLD (MFJ)	\$389,150
PEASE LIMITATION THRESHOLD (SINGLE)	\$324,300

<b>SECTION 199A (QBI) DEDUCTION</b>	–
-------------------------------------	---

CHILD & OTHER DEPENDENT TAX CREDIT	
CHILD TAX CREDIT AMOUNT	\$1,000
CHILD TAX CREDIT REFUNDABLE PORTION	Up to \$1,000
OTHER DEPENDENT TAX CREDIT	–

ALTERNATIVE MINIMUM TAX (AMT)		
AMT FACTOR	MFJ	SINGLE
EXEMPTION AMOUNT	\$104,800	\$67,300
28% TAX RATE ON INCOME OVER	\$232,900	\$232,900
EXEMPT PHASEOUT THRESHOLD	\$199,500	\$149,700
EXEMPTION ELIMINATION	\$618,700	\$418,900

<b>ESTATE &amp; GIFT TAX LIFETIME EXEMPTION</b>	\$6,810,000
---	-------------

<sup>1</sup>The Pre-TCJA 2017 tax numbers were inflated to today's dollars (2024) to give a like-for-like comparison with the current TCJA tax numbers. To arrive at these numbers, we took the current 20% long-term capital gains rate and divided it by the 2017 number to get our inflation factor (1.240174). We then multiplied that amount by the various 2017 tax numbers (e.g., income brackets, exemption amounts, etc.) to arrive at our 2024 numbers. Be mindful that these numbers are estimates. The Post-TCJA numbers in 2026 will be different.

<sup>2</sup>The standard deduction for dependents is limited to the greater of: 1) \$1,300, or 2) their earned income + \$450, not to exceed the standard deduction amount for a single person.

<sup>3</sup>The deductibility of advisory fees is just one of several miscellaneous itemized deductions (subject to 2% AGI floor) that are scheduled to return starting in 2026.

# TCJA 2026 - Common Questions

## 1. How can I accelerate income into 2024 or 2025 in advance of the possible tax rate increases?

One potential way to accelerate income is to convert money from a traditional IRA to a Roth IRA. This will increase the tax diversification of your portfolio during your lifetime, but the largest benefit may be for your eventual beneficiaries. The original SECURE Act of 2020 changed how inherited IRAs are treated and now most beneficiaries will be required to distribute their inherited IRAs within ten years. If the IRAs have a sizeable balance, this can lead to a significant tax bill.

Roth IRAs are distributed tax-free, making inheriting Roth dollars even more advantageous for beneficiaries. Roth IRAs are still required to be distributed within ten years of the original owner's date of death, but the distributions are tax-free which leaves significantly more money for your heirs.

## 2. If my cumulative taxable gifts at the end of 2025 total \$6M and the federal estate and gift tax exemption amount reverts to approximately \$7M, how much exemption do I have available beginning 2026?

The available exemption will be approximately \$1,000,000. The estate tax exemption is "use it or lose it," so come 2026, any portion of the doubled exemption that hasn't been utilized will no longer allow tax-free transfers of amounts exceeding the reduced exemption.

### 3. Do the annual gifts I made to my kids over the years reduce my lifetime estate and gift tax exemption amount?

Gifts up to the annual gift exclusion amount (\$18,000 per individual is the 2024 amount), gifts to IRS-approved charities, gifts to your spouse (if a US citizen), gifts to a political organization, and payments made directly to medical providers or educational institutions on behalf of others do not affect your lifetime estate and gift tax exemption amount. It is important to note that the number of annual exclusion gifts an individual can make per year is unlimited, but the portion in excess of the annual gift exclusion will reduce your lifetime exemption.

### 4. I am uncertain if I should be gifting assets now or wait until my passing. How is the basis determined if gifted during my lifetime versus at my death?

The recipient's basis in gifted assets is equal to the donor's basis at the time of the gift and is often referred to as the carryover basis. The carryover basis can be increased by any gift tax paid that is attributable to appreciation in the value of the gift, however, the carryover basis cannot exceed the FMV of the property at the time of the gift.

The recipient's basis in inherited assets will be equal to the fair market value of the asset at the time of the donor's death. This is often referred to as a step up in basis, however, the basis can also be stepped down to FMV.

Minimizing the tax impact to the recipient is important, so careful consideration should be taken when choosing assets to gift. Generally, cash and assets with little appreciation are best for gifting while highly appreciated assets are better to transfer at death.

## 5. Can I use the unused estate tax exemption of my deceased spouse?

Yes, the estate tax exemption is “portable” between spouses so the surviving spouse may use the deceased spouse’s unused exclusion amount if portability is elected on a timely filed estate tax return.

## 6. If I use \$13M of my exemption by the end of 2025 and the federal exemption amount reverts to approximately \$7M, will the excess gifts be taxed at my passing?

Even if the exemption amount is reduced, there is no claw back or recapture, so you will not be taxed on the larger exemption amount used at your passing.

---

### Cincinnati

600 Vine Street, Suite 2100 • Cincinnati, OH 45202  
513.621.4612

### Chicago

150 South Wacker Drive, Suite 3050 • Chicago, IL 60606  
312.630.9666

### Louisville

4350 Brownsboro Road Suite 120 • Louisville, KY 40207  
502.719.1000



[bartlett1898.com](http://bartlett1898.com)