2025 TAX PLANNING: CONSIDERATIONS AND OPPORTUNITIES

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As we think about year-end tax planning for 2024 and what may come in 2025 and beyond, it feels like everything hinges on the future of the 2017 Tax Cuts and Jobs Act (TCJA). This legislation introduced significant changes, and many of the provisions are set to expire at the end of 2025. Following the recent elections, we have some insight into how the new administration may manage tax policy, as well as what aspects of the TCJA may be extended, left to expire, or modified. Of course, nothing is certain, and there are still many unknowns about future tax policy developments. Nonetheless, the tax planning journey must continue with the information currently available. Here are the key tax planning considerations and opportunities to keep in mind as we close out 2024 and transition into 2025.

1. TAX POLICY CHANGES UNDER THE NEW ADMINISTRATION.

To pass legislation, Republicans will need bipartisan support as Democrats will retain enough Senate votes to filibuster legislation. However, fiscal policy bills using reconciliation will likely be the way to fast-track legislation with a simple majority vote; as has been the case in the recent past. This method could be used to pass extenders with respect to current tax brackets, the qualified business income (QBI) deduction, and the estate tax lifetime exemption. Even so, there is still plenty of uncertainty about what will happen with some of the key provisions in the TCJA, particularly the $10,000 cap on itemized deductions for state and local taxes (SALT). While many congressional leaders support extending or raising the cap, others have suggested allowing the cap to expire at the end of 2025.

What might this mean for planning? If the $10,000 cap does indeed sunset at the end of 2025, there will be many more taxpayers itemizing deductions beginning in 2026, as was the case pre-TCJA. And the sunset of the cap could also mean the TCJA's generous Alternative Minimum Tax (AMT) exemption will sunset as well. Pre-TCJA, these two provisions were at odds with each other; as the SALT deduction was added back and taxed under the AMT regime, even at moderate income levels. Allowing both provisions to sunset could also have major implications for the new pass-through entity tax (PTET) workaround where state and local income taxes are deducted as a business expense, which allows certain business owners an above-the-line deduction without having to worry about itemizing or AMT adjustments. The PTET regime could become a super-charged tax savings strategy for pass-through business owners, and a punishing blow for non-PTE owners unless something is done to level the proverbial tax playing field.

2. PREPARE FOR THE SUNSET OF TCJA PROVISIONS.

Individual tax rates: There is a possibility that the top individual tax rate of 37% will revert to the pre-TCJA level of 39.6% at the end of 2025. The adage of deferring income and accelerating deductions will need to be carefully considered in conjunction with other provisions that may either sunset or continue beyond the end of 2025. Not only will we need to consider accelerating income, but certain types of income may be better to accelerate than others. The QBI deduction, for example, will likely be extended, which means it may make more sense to defer business income into 2026 where the 20% deduction will be more powerful. At the same time, it may make sense to accelerate non-business income into 2025 to take advantage of lower tax rates. And we must also consider other deductions, such as charitable donations. The 60% Adjusted Gross Income (AGI) limitation for cash donations to public charities is set to revert to 50% at the end of 2025. Large donations could make a lot of sense for 2024, 2025, and 2026, depending on the circumstances. The scenarios can quickly become complex and will require careful modeling.

Standard deduction: The TCJA nearly doubled the standard deduction. If no action is taken, the standard deduction will revert to pre-TCJA inflation adjusted amounts. Many taxpayers may see their tax bill go up if they do not have sufficient mortgage interest and charitable donations that would allow them to itemize and make up the shortfall. Non-itemizers will want to focus their attention on above-the-line deductions available to everyone, such as deductible IRA contributions


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(subject to income limitations), student loan interest, and self-employed retirement contributions, among others. Those still working need to focus on pre-tax and tax-free benefits offered by employers such as 401(k), Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs).

Estate Planning: The lifetime gift exemption for 2024 is $13.61 million per individual, or $27.22 million for a married couple. These exemptions are expected to be cut in half if the TCJA is not extended. While there are talks about making these large exemptions permanent (or eliminating the estate tax altogether), careful consideration should be given to making annual exclusion and lifetime gifts now to use up this historically high exemption. After all, we do not know what will happen in the future. If you have not reviewed your estate plan in a while, the end of this year is the perfect time to dust off the plan and make updates. It may be worth discussing sophisticated vehicles, such as a charitable remainder trust, given the high-interest rate environment.

Corporate and business planning: It is worth noting that the current corporate tax rate of 21% is currently permanent, which means it will not change if the TCJA is allowed to sunset. But no tax law is truly permanent because Congress can and does frequently change tax policy. It seems likely that corporate tax rates will remain low for the near future and may come down to as low as 15% for domestic manufacturers under the new administration. Another key sunset for businesses is bonus depreciation, which was set at 100% from 2017-2022 and declined to 80% in 2023, 60% in 2024, 40% in 2025 and 20% in 2026. Bonus depreciation will effectively sunset after 12/31/2026 when the rate falls to 0%.

Other less impactful sunset provisions:

- *Mortgage interest deduction:* The TCJA suspended the home equity loan interest deduction and limited the mortgage interest deduction to the first $750,000 of debt for loans originating after December 16, 2017. In 2026, this limit will return to $1 million for home mortgage debt and $100,000 for home equity loans.

- *Miscellaneous deductions:* Miscellaneous deductions that were eliminated will return in 2026 to the extent they exceed 2% of adjusted gross income. However, these deductions are added back for AMT purposes.

- *The Child Tax Credit* is set to revert from $2,000 to $1,000.

- *Personal exemptions* were suspended under the TCJA but will return in 2026 to $2,000 per taxpayer and dependent, adjusted for inflation, with phaseouts at higher income levels.

3. LOSS HARVESTING AND CHARITABLE GIVING.

It is often best to hold appreciated investment assets for at least a year before selling to lock in favorable long-term capital gain tax treatment. Selling earlier means any gains on these assets will be taxed at less desirable ordinary income rates. If you have already locked in substantial capital gains for 2024, speak with your wealth advisor about implementing a loss harvesting strategy to help mitigate the tax burden. Taxpayers who itemize should consider donating long-term appreciated securities to charity (or a donor advised fund), which provides a two-fold benefit. You avoid paying tax on the capital gain, plus you get a charitable deduction equal to the fair market value of the securities.

4. MAXIMIZE TAX-ADVANTAGED ACCOUNTS.

If you can contribute more to your tax-advantaged accounts this year, such as retirement accounts and HSA plans, you might want to consider doing so for tax planning purposes. Contributions to many of these accounts are eligible for an above-the-line deduction whether you itemize or not. These accounts can not only help you save on taxes today (or, in the case of a Roth, provide tax-free income in the future), they also provide ongoing tax benefits in the form of tax deferral.

It is also advantageous to take a long-term view of tax deferral. The decision to pay more taxes today could even come in the form of making non-deductible Roth IRA contributions (for those who qualify), or by converting tax-deferred accounts into a Roth IRA to fill in a tax bracket and allow for tax-free growth.

CONCLUSION.

It is important to remember that each taxpayer's circumstances are different. Contact your wealth or tax advisor to develop an appropriate plan tailored to your individual situation. Despite uncertainty about how tax policy could evolve next year, proper planning can help put you on the right track to minimizing the impact of taxes while ensuring you are meeting key deadlines. Happy planning!