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TCJA Sunset - Take Action Now

October 22, 2024



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Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
- 4 Polling Questions will be launched during this session. You must respond to a minimum of 3 to receive the full 1 CPE credit.

****Both requirements must be met to receive CPE credit****



Learning Objectives

At the end of this session, you will be able to:

- Identify the key provisions of the TCJA that are scheduled to sunset and how they may affect your individual income tax, estate and gift tax, business tax, and valuation.
- Recognize the possible scenarios and outcomes of the TCJA sunset, depending on the political and economic environment
- Identify how to plan for leading practices and recommendations for tax planning and wealth management considering the TCJA sunset
- Recognize common pitfalls and mistakes to avoid when dealing with the TCJA sunset



Speakers



Sahan Totagamuwa
Principal



Rachael O'Leary
Principal



Avery Frank
Manager



Nick Dietzen
Principal



Agenda

- TJCA overview
- Panel discussion topics:
 - Estate/gift provisions
 - Individual income tax
 - Business provisions
 - Valuation



Polling *Question*

Have you already projected the impact of a possible TCJA sunset on your business or individual finances?

1. Yes, I'm all set
2. Yes, and I need to do some tax or estate planning
3. No, but I'm not worried about it
4. No, and I need help with the projection
5. Not applicable





Overview of the TCJA Sunsetting Provisions





The Tax Cuts and Jobs Act (TCJA)

What is it?

Why does
it sunset?

How will
Congress's actions
affect it?



Estate and Gift Tax Provisions



TCJA *significantly increased* an individual's lifetime exclusion amount for gift and estate taxes



Action Items: Estate Planning

Good ideas even without sunset provision

1 Create, review,
and update estate plans

2 Amplify effectiveness
of estate plan by
using trusts

3 Understand state
estate tax liability

4 Review beneficiary
designations on
retirement plans

5 Review ownership and
beneficiaries on life
insurance policies

6 Consider trusts to
address special family
circumstances



Example: Two spouses with less than \$14M in net estate



Fund 529 plans



Annual gifting



Charitable giving



Fund a grantor trust

An example of a “wait” estate – provide currently to beneficiaries and establish structures to support future appreciation.

Example: Two spouses with between \$14M and \$28M in net estate



Consider gifting
without gift
splitting



Life insurance
trusts



Use discountable
assets

An example of “await signature” estate – have already done the basics and establish a standby plan to shift significant value when the time is right.



Example: Two spouses with more than \$28M in net estate



Make gifts which
cause gift tax



Generate taxable
income in
grantor trusts



Sell assets to
grantor or non-
grantor trusts

An example of a “time to gift” estate – income taxes and gift taxes are less costly than estate tax – it's time to consider prepaying tax!



Sunset of Individual Income Tax Provisions

Individual Income Tax Rates

Current top rate

37%

(2024 MFJ 731,201+)

Sunset rate

39.6%

(2024 (470,701 +
inflation%) ~ 585k)



TCJA Sunset Provision – Married Filing Jointly

TCJA (2024)		Post TCJA 2017 tax numbers inflated to 2024	
Tax Rate	MFJ	Tax Rate	MFJ
10%	\$0 - \$23,200	10%	\$0 - \$23,200
12%	\$23,201 - \$94,300	15%	\$23,201 - \$94,300
22%	\$94,301 - \$201,050	25%	\$94,301 - \$190,000
24%	\$201,051 - \$383,900	28%	\$190,001 - \$290,000
32%	\$383,901 - \$487,450	33%	\$290,001 - \$520,000
35%	\$487,451 - \$731,200	35%	\$520,001 - \$585,000
37%	\$731,201 +	39.6%	\$585,001 +



Repeal of State and Local Tax Cap

The \$10,000 limitation on the state and local tax itemized deductions will be lifted.

Income, real estate, and other taxes will be unlimited in deduction.

This will create alternative minimum tax (AMT) for many taxpayers.

The pass-through entity tax (PTET) will continue to exist in some states.

Some states' PTET is repealed if the SALT cap is lifted.

What will be the strategy of electing or not electing PTET?



Sunsetting of Itemized Deductions

- **Lowering of the standard deduction by one-half**
Many more taxpayers will itemize, especially considering no SALT cap
- **Pease limitation**
3% phaseout of itemized deductions based on AGI exceeding certain thresholds
- **Reinstatement of home equity loan interest and interest deductions for higher mortgage balances**
\$1 million versus \$750,000
- **Reinstatement of 2% misc. itemized deductions**
- **Reinstatement of personal exemption (with phase out)**



Individual Tax Planning Strategies

- Explore strategies to mitigate the impact of increased tax rates and loss of deductions
- Defer deductions from 2025 (and 2024?) to 2026
- Accelerate income to 2025 (and 2024?) from 2026
- Obtain an income tax projection
- Consider the interaction of changes to taxes on pass-through entities and individual tax changes



Individual Income Tax Provisions: Plan Now

Increase collections

Defer equipment purchases

Roth conversions

Sell appreciated assets

Accelerate bonuses or deferred compensation

Exercise stock options

Complete installment sales

Increase retirement distributions (*post 59.5 years old, or inherited IRA*)



Individual Income Tax Provisions: Plan Now

DEFER DEDUCTIONS

Postpone equipment purchases

Defer charitable contributions

Delay paying certain expenses

Use accrual accounting

Increase retirement plan contributions

Hold off on claiming losses

Consider timing of debt forgiveness

Adjust tax credits

Manage inventory accounting

Review depreciation schedules

Pledge - *but delay* - charitable contributions



Polling *Question*

Given the increased IRS activities and focus on tax audits, we are considering offering an annual Tax Resolution and Audit Defense Plan to our clients. This coverage aims to provide peace of mind and professional support in responding to tax authority inquiries and tax audits. Would you find this valuable?

- Yes, I'm interested in learning more about how to protect myself in the event of an IRS audit
- Not at this time



QBI will no longer be allowed as a deduction

With no QBI, the highest pass-through rate will increase to 39.6%

Loss of Qualified Business Income (QBI) Deduction

The C corporate rate will NOT sunset, remaining at 21%

Some might look at terminating their S election



Example: A business owner who took the QBI deduction

Year	2024	2026 (post-sunset)
Qualified business income (QBI)	\$1 million	\$1 million
QBI deduction (20% of QBI)	\$200,000	\$0
Taxable business income	\$800,000	\$1 million
Federal income tax rate on business income	37%	39.6%
Federal income tax liability on business income	\$296,000	\$396,000



Example: A business owner who took the QBI deduction



Review your
business tax
structure



Accelerate
income



Defer deductions



Polling *Question*

I would like to talk to CLA about how the TCJA sunset affects:

- Estate and gift tax plans
- Valuation needs
- Pass-through entity structure and tax planning
- Projected individual income tax bracket and planning
- Transition plans for business
- Nothing at this time



Items Not Sunsetting ... *Unfortunately*

\$500,000 (adjusted for inflation)
excess business loss limitation
for individuals

Net operating loss limited to
offset 80% of taxable income
with no carryback

Section 174 R&D
expense disallowance and
required amortization over five years

Section 163(j) interest expense
limitation computed without the
addback of depreciation expense

Gradual phaseout of bonus
depreciation through 2027



Year-End Tax Planning — Don't Leave Money on the Table

November 12 | 1 – 2 p.m. CT

Join us after the election for a year-end
tax planning webinar.

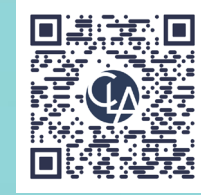
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