PERSONAL WEALTH ADVISORY BY
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Change on the Horizon: What the Sunset of the TCJA Could Mean for You

2024 FPA Puget Sound Symposium

May 9, 2024

AGENDA

What is the Tax cuts and Jobs Act (TCJA) of 2017?

Individual Income Taxes

- What will and will not change
- Income Tax Planning

Gift and Estate Tax Implications of Sunset

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What is the Tax Cuts and Jobs Act of 2017

Overview

- The Act took effect on January 1, 2018.
- The purpose was to reduce taxes and lower tax rates for most Americans.
- The legislation made sweeping changes to U.S. tax code but many of its changes were temporary because the Act included a sunset provision.

Sunset Provision

- Most TCJA ***individual*** income tax changes revert in 2026 to what they were in 2017 (adjusted for inflation) unless Congress acts to extend some or all of them.
- The Tax Policy Center estimated that making the expiring individual tax cuts permanent would add more than $3 Billion to the deficit over the next 10 years. The Penn-Wharton Budget Model projects a $2.8 Billion increase. Either way, it’s a BIG number.

Income Tax Changes from TCJA Sunset

TCJA Changes That Expire after 2025

- Decreased individual income tax rates and widened many brackets
- Modified Alternative Minimum Tax to reduce (dramatically) the number who pay
- Doubled the standard deduction
- Eliminated personal exemptions
- Increased allowable charitable deductions
- Limited deductions for state and local taxes (SALT)
- Limited some home mortgage interest
- Eliminated miscellaneous itemized deductions
- Eliminated the Pease 3% limitation on overall itemized deductions
- Added a 20% Qualified Business Income deduction for some business owners
- Increased child tax credit and the number of families eligible to claim it

NO SUNSET (2024)

Taxable Income			Tax Rate
0	to	$ 23,200	10.0%
$ 23,201	to	$ 94,300	12.0%
$ 94,301	to	$ 201,050	22.0%
$ 201,051	to	$ 383,900	24.0%
$ 383,901	to	$ 487,450	32.0%
$ 487,451	to	$ 731,200	35.0%
OVER		$ 731,200	37.0%

SUNSET (2017 inflated to 2024[1])

Taxable Income			Tax Rate
0	to	$ 23,100	10.0%
$ 23,101	to	$ 94,100	15.0%
$ 94,101	to	$ 189,850	25.0%
$ 189,851	to	$ 289,250	28.0%
$ 289,251	to	$ 516,750	33.0%
$ 516,751	to	$ 583,750	35.0%
OVER		$ 583,750	39.6%

Income = $250,000 Tax = $ 46,085

Income - $500,000 Tax = $115,750

Income = $250,000 Tax = $ 53,740

Income - $500,000 Tax = $134,280

1) Estimated inflated 2024 Amounts are Courtesy of fpPathfinder.com

TAX BRACKET AND RATE ESTIMATES – SINGLE

NO SUNSET (2024)

Taxable Income				Tax Rate
0	to	$	11,600	10.0%
$ 11,601	to	$	47,150	12.0%
$ 47,151	to	$	100,525	22.0%
$ 100,526	to	$	191,950	24.0%
$ 191,951	to	$	243,725	32.0%
$ 243,726	to	$	609,350	35.0%
OVER		$	609,350	37.0%

Income = $250,000 Tax = $ 55,680

Income - $500,000 Tax = $143,370

SUNSET (2017 inflated to 2024[1])

Taxable Income				Tax Rate
0	to	$	11,500	10.0%
$ 11,501	to	$	47,050	15.0%
$ 47,051	to	$	113,950	25.0%
$ 113,951	to	$	237,650	28.0%
$ 237,651	to	$	516,750	33.0%
$ 516,751	to	$	518,850	35.0%
OVER		$	518,850	39.6%

Income = $250,000 Tax = $ 57,845

Income - $500,000 Tax = $144,420

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1) Estimated inflated 2024 Amounts are Courtesy of fpPathfinder.com

Alternative minimum tax returns from the dead

The AMT was de-clawed by TCJA

- Increased the exemption slightly
- Dramatically increases the level at which the exemption was reduced
- Eliminated many deductions that were “add-backs” in computing AMT

TCJA (2024)	
Exemption	
• Married	$ 133,300
• Single	$ 85,700
Exemption Phase-out	
• Married	$1,218,700
• Single	$ 609,350
Exemption Eliminated	
• Married	$1,751,900
• Single	$ 952,150

SUNSET (2017 INFLATED TO 2024)	
Exemption	
• Married	$104,800
• Single	$ 67,300
Exemption Phase-out	
• Married	$199,500
• Single	$149,700
Exemption Eliminated	
• Married	$618,700
• Single	$418,900

Estimated inflated 2024 Amounts are Courtesy of fpPathfinder.com

Changes to Deductions and Exemptions

TCJA (2024)		SUNSET (2017 INFLATED TO 2024)	
Personal Exemption:		Personal Exemption:	
Per dependent	None	Per Dependent	$ 0, 100
Exemption Phase-out Threshold:		Exemption Phase-out Threshold:	
Married, Joint filing	N/A	Married, Joint filing	$ 389,150
Single	N/A	Single	$ 324,300
Exemption Eliminated:		Exemption Eliminated:	
Married, Joint filing	N/A	Married, joint filing	$ 511,650
Single	N/A	Single	$446,800

Standard Deduction		Standard Deduction	
Married	$ 29,200	Married	$ 15,750
Single	$ 14,600	Single	$ 7,850

Estimated inflated 2024 amounts are courtesy of fpPathfinder.com

Changes to Itemized Deductions

TCJA (2024)		SUNSET (2017 INFLATED TO 2024)	
Itemized		Itemized	
State and Local Taxes	$ 10,000	State and Local Taxes	No Limit
Mortgage Interest	$ 750,000	Mortgage Interest	$1,000,000
Home Equity Line of Credit Int.	Disallowed	Home Equity Line of Credit Int.	$ 100,000
Cash Charitable Deductions	60% of AGI	Cash Charitable Deductions	50% of AGI
Misc. Itemized Deductions*	Disallowed	Misc. Itemized Deductions*	> 2% AGI

*Misc. Itemized Deductions include Unreimbursed business expenses, tax return preparation fees, investment management fees and other investment

PEASE 3% Deduction Limitation** Threshold		PEASE 3% Deduction Limitation** Threshold	
Married	N/A	Married	$ 389,150
Single	N/A	Single	$ 324,300

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**PEASE limit maximum is 80% of itemized deductions. Medical and Inv. Int. not limited

Other Significant Changes

- **Qualified Business Income (QBI) Deduction** allowed a deduction of up to 20% certain pass-through business income. This deduction is eliminated after 2025.
    - Many investors benefited through the deduction's applicability to certain REIT dividends, an unexpected boon to those who didn't think of that investment as a pass-through
- The expanded **Child Tax Credit** was anticipated to be that largest tax expenditure in the TCJA
    - Over half of the estimated total net tax cost of all TCJA changes for individuals
    - Credit increased to $2,000 for dependents <17 w/SSNs,: ***will revert to $1,000***
    - Added new credit of $500 for other dependents; ***this will be eliminated***
    - Most importantly, the credit phase-out threshold was dramatically increased
        - To $400,000 for married filing jointly: will revert to $110,000
        - To $200,000 for unmarried filers; will revert to $75,000

NO CHANGES HERE

TCJA and Other Notable Tax Provisions That Do Not Change

- TCJA Provisions that will not expire:
  - Roth recharacterizations - still disallowed
  - Alimony and separate maintenance remain non-deductible, non-taxable
  - Section 1031 (like-kind exchange) applies only to real estate
  - 21 percent Corporate tax rate
- Other notable provisions that remain in place - and the same
  - Qualified dividend and long-term capital gain tax rates and brackets
  - 3.8 percent Net Investment Income tax (same thresholds from 2013)
  - Unrealized gains still get a step-up in basis at date of death

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PLANNING

Where Do You – and Your Clients Fall?

- ❑ Tax liability is a function of income, deductions, and tax rates. Tax planning considers the timing of all of these components over multiple years.
  - Changes to any one of the variables will change the tax
  - Sometimes changes to different variables offset each other
- ❑ Collaboration between tax advisors, wealth advisory teams and clients is essential to maximizing planning.
  - A great starting place is a multi-year tax projection, prepared by a tax advisor or wealth advisor with tax experience.
- ❑ Are there planning opportunities that would improve your situation if
  - Your taxes will increase in 2026 if Sunset occurs
  - Your taxes will roughly stay the same in 2026 if Sunset occurs
  - Your taxes will decrease in 2026 if Sunset occurs

If expected rate increases will meaningfully increase tax liability

- Consider Roth conversions while rates are lower
- Consider taking retirement account distributions to "fill up" low tax brackets and increase the size of taxable accounts
- Consider other methods to accelerate ordinary income before tax rates increase
- Consider deferring discretionary deductions until tax rates increase until tax rates increase the marginal value of extra deductions
- Consider donating IRA assets to charity to minimize income and maximize the temporarily larger standard deduction
- Consider using a Donor Advised Fund opportunistically to offset income subject to the higher tax rates

Case Study 1 – Peak Earning Years

- **Married. Both spouses age 55.**

Currently in peak earning years and are in the 37% marginal tax bracket

Plan to retire in 10 years at age 65

Significant taxable assets as well as significant tax-deferred accounts (Traditional 401k/Traditional IRA)

Required Minimum Distributions don't begin until age 75

- **Opportunities to Consider:**

Defer as much as possible into traditional 401Ks, deferred compensation plans, etc. at current high income tax rates, 37% through 2025, then 39.6% to retirement

From retirement until age 74, do partial Roth conversions to fill up low income tax brackets

Case study 2 – Recently Retired Window of Opportunity

- **Married. Both Spouses age 65 and recently retired.**

Significant taxable assets as well as very large tax-deferred accounts (Traditional 401k/Traditional IRA).

No pension or deferred compensation income.

Will defer Social Security until age 70 to claim higher benefit.

Required Minimum Distributions don’t begin until age 73 (nine years)

Currently in a low ordinary income tax bracket but only until RMDs begin.

- **Opportunities to Consider:**

Prior to 2026, do partial Roth conversions to fill up brackets below 24% or 32%

From 2026 until age 72, do partial Roth conversions to fill up lower tax brackets

Gift and Estate Tax Implications of Sunset

What Happens to My Wealth at the Time of My Passing?

- Estate planning attempts to help you transfer property to those you wish to benefit, in the right amounts, and at the appropriate time with as little taxation as possible. This can be done during your life or at your passing.
- Ultimately at death there are only three possible recipients of your assets:

Heirs

- Inheritors will receive the amount of the federal estate tax exemption less any lifetime taxable gifts and 60% of the estate value in excess of the federal estate tax exemption ($13.61M in 2024 indexed to inflation for 2025))

Government

- The government will receive 40% of assets transferred to heirs in excess of the federal estate tax exemption ($13.61M in 2024 indexed to inflation for 2025) in the form of an estate tax.

Charity

- If assets are transferred to charity, those charitable assets are not subject to estate or gift tax, and the amount received by heirs and the government are reduced accordingly.

Gifting Opportunities For Loved Ones

- Annual Gift Tax Exclusion - $18,000 ($36,000 per couple) per year to any recipient without eroding the Lifetime Gift Tax Exemption and without gift tax. This amount increases with inflation.

  Not Impacted By The Expiration Of The TCJA

- Medical and Educational Gifts - Unlimited gift tax exclusion for direct payments to an educational institution and direct payment of medical expenses (including health insurance premiums) to qualified institutions.

  Not Impacted By The Expiration Of The TCJA

- Federal Gift and Estate Tax Exemption - $13.61M per person in 2024, indexed for inflation in 2025. To the extent taxable gifts are made with exemption during life, the amount of exemption available at death is reduced.

Transfer Tax Rates - Federal

Calendar Year (inflation adjusted)	Estate Tax Exemption	GST Tax Exemption	Gift Tax Exemption	Estate, GST, and Gift Tax Rate
2011	$5 million	$5 million	$5 million	35%
2012-2016	Annual inflation adjustments			40% (increased in 2013)
2017	$5.49 million	$5.49 million	$5.49 million	40%
2018	$11.18 million	$11.18 million	$11.18 million	40%
2019-2022	Annual inflation adjustments			40%
2023	$12.92 million	$12.92 million	$12.92 million	40%
2024	$13.61 million[1]	$13.61 million[1]	$13.61 million[1]	40%
2025	Annual inflation adjustments			40%
2026 (Without Congressional Action)	$6.8-$8 million ($5 million subject to inflation)	$6.8-$8 million ($5 million subject to inflation)	$6.8-$8 million ($5 million subject to inflation)	40%
Biden Proposal - 2020 (not law and not formal proposal currently)	$3.5 million	$3.5 million	$1 million	45%

[1] In addition to the $13.61 million lifetime gift tax exclusion in 2023, you may gift $18,000 (indexed for inflation - $18,000 per person in 2024) each year to one or more individuals. A married couple may gift $36,000 (indexed for inflation) to each donee. This amount, called the annual gift tax exclusion, is not counted against the $13.61 million lifetime gift tax exclusion.

"Bonus" Exemption Opportunity

- Opportunity Size: The exemption amount that if not used before 2026 will be lost.
- Clawback: Treasury regulations make clear that exemption used currently will not cause a tax if the exemption reduces.

Gifting Considerations

Your lifestyle

- Do not engage in wealth transfer that will appreciably reduce the quality of life you want to have.

Your wealth

- What is your potential exposure to estate taxes currently? What would your estate tax obligation be after the TCJA expires?

Your family

- Is wealth transfer an important piece of your successful estate plan?

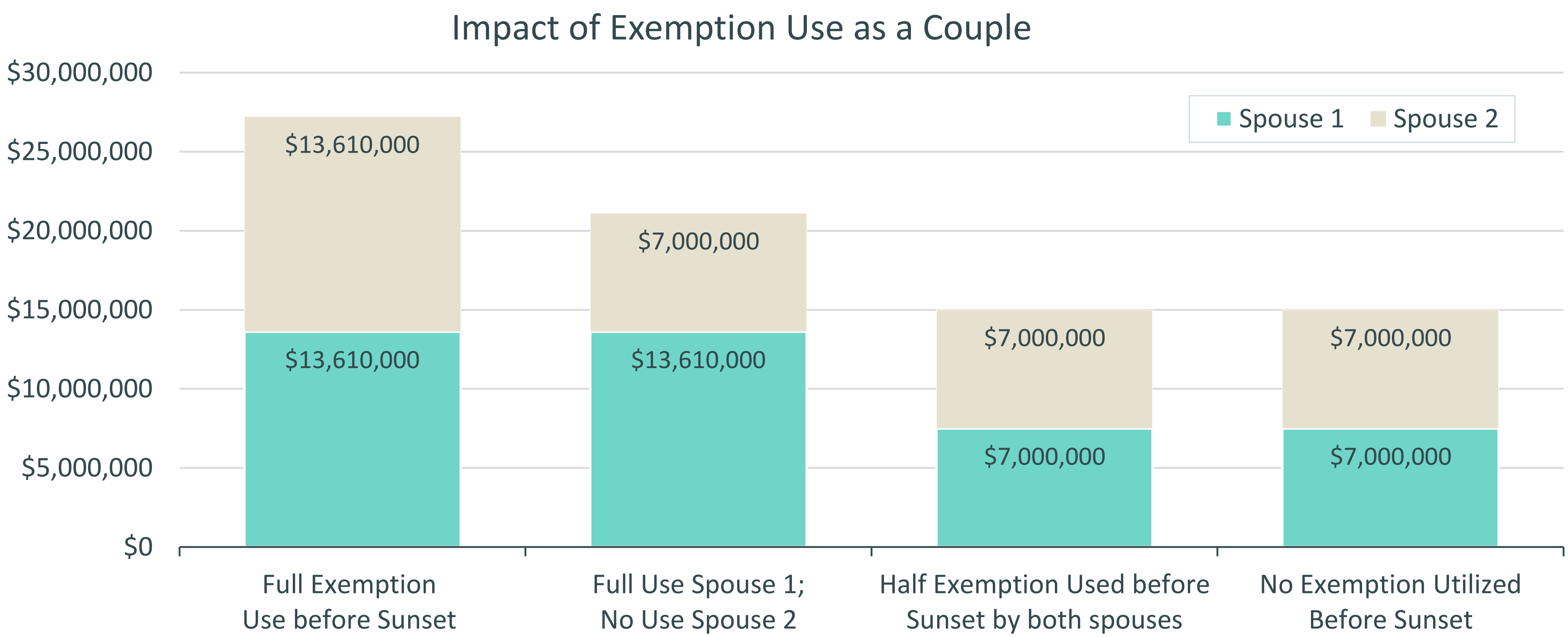
Your tolerance of complexity

- Wealth transfer adds complexity to your life for a benefit to subsequent generations.

Thoughtful Planning as a Couple

Several options to consider:

- Lock in full exemption transfer
- Utilize full exemption of one spouse and none of the other spouse
- Wait and see



Strategies to Consider Before Sunset

Basics

- Freeze – Utilize techniques to keep estate values at today’s level.
- Squeeze – Utilize techniques to employ valuation discounts and reduce value of assets transferred.
- Burn – Utilize annual exclusions and techniques to transfer appreciation outside of primary wealth holder's taxable estate.

Irrevocable Trusts

- Alphabet Soup of Strategies
- Trust options that provide for spouses (SLATs), descendants (IDGTS and Irrevocable Trusts), and charity (CLTs and CRTs).
- Consider your intent and the amount of exemption remaining for each spouse.

Revocable Trusts

- Consider whether these changing limits will adversely impact your intent and whether revocable trust planning you have in place accomplishes what you want.
- Is an adjustment to your planning warranted?

Brandon Smith, L.D, LL.M

Brandon Smith serves as the Director of Estate Planning for LNW. His role there is twofold: to help clients understand their prior decisions and current options relating to estate planning and to educate the internal team to be even more comfortable with the world of trusts and estates. Brandon practiced law in both Pennsylvania and California before moving in house to the Advanced Planning Group at UBS Financial Services and the Director of Estate Planning role at Wetherby Asset Management.

Kristi Mathisen, J.D., CPA, PFS

Kristi Mathisen serves as a technical resource for LNW wealth managers and analysts, helping to develop protocols for identifying appropriate tax and financial strategies for the benefit of clients, including guidance on philanthropic strategies and trusts and estate planning. An important aspect of Kristi's work is monitoring developments in tax and finance law at the federal and state levels to provide LNW colleagues and clients with proactive analysis and insights. Prior to LNW and predecessor firm Laird Norton Wealth Management, Kristi was Co-Director of the tax practice at Bader Martin P.S. for 16 years.

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