2017 Tax Cuts Expiration
(and what you can do about it)

Reminder: 2017 Tax Cuts Expiration

The 2017 Tax Cuts and Jobs Act (TCJA) signed by President Trump in 2017, brought sweeping changes. Many of the law's provisions are set to expire at the end of 2025, so if Congress doesn't extend them, changes could be coming. It might be a good idea for retirees and near-retirees to take a look at their tax strategies now to avoid any surprises in the future.

Income taxes

Barring action from Congress, income-tax brackets will revert to their higher pre-2017 levels when the tax law expires in 2025. The top rate will go from 37% to 39.6%. People in this position who are planning to convert a portion of their retirement savings to a Roth IRA might want to do it now. Remember that Roth conversions come with a five-year waiting period before earnings can be withdrawn tax-free.

Estate taxes

Married couples can transfer a total of $25.84 million and individuals up to $12.92 million to beneficiaries without triggering federal estate taxes. If the tax law expires, the size of that exemption will be cut roughly in half. We're reminding our clients that they must consider their total assets – not just what is in an investment account. Once you factor in the appreciation of, say, a primary residence, as well as the growth of an investment account or privately held asset over time, the impact of estate taxes could be significant. Creating a trust is one way to transfer assets that might otherwise be subject to taxes after 2025. There are a variety of trust structures that can be used, depending on the needs of an individual, couple or family. A spousal trust, for example, provides for a surviving spouse without the survivor having to pay federal estate taxes. A couple also may decide to put a portion of their estate in a trust for their children, allowing it to grow over time without being subject to federal estate taxes.

Gifts

Individuals and couples can shrink the size of their taxable estates by giving away money and assets while they are still alive. Individuals currently can give any number of beneficiaries up to $17,000 each annually (it's $34,000 for married couples) without triggering gift taxes or having it count toward their overall gift and estate-tax exemption.   Such gifts could include contributions to a "529" education-savings plan, which can be "front-loaded" with up to five years' worth of gifts.

Charitable giving

The tax law increased the annual deduction limit for cash contributions to public charities to 60% of adjusted gross income from 50%. The limit will revert to 50% in 2026. If you've been considering a significant gift to charity, doing so now will result in a bigger tax deduction.

Don't Wait.

It can be tempting to think that Congress is likely to extend many or all of these cuts – they have done so with other tax cuts in the past. But that doesn't mean they'll do it at all or before the current cuts expire. If you don't utilize all of your exemptions, you lose them. People want to put this planning off because they don't like waking up one day 50% poorer than they were yesterday on paper, but it can be much more costly to wait.

Questions?

Contact us to discuss these and other strategies to preserve and transmit your wealth. We will work with your tax and legal advisors to ensure all avenues are explored – with the projected tax changes looming, now is not the time to be complacent.

For more information, visit your local branch today.

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