

Practical Planning: Plan for Coming Tax Changes



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Individual tax cuts from the Tax Cuts and Jobs Act of 2017 are set to sunset on December 31, 2025, giving taxpayers just a few years to maximize the benefits of the current rules. Here are a few strategies that can help you make the most of current tax laws:

It has been about a year and a half since the Tax Cuts and Jobs Act of 2017 was passed by Republicans in Congress and the White House. The bill divided voters at the time of its passing — largely due to the different treatment afforded corporations versus individuals — and it is far too soon to judge the long-term impact of the cuts. What is clear, however, is that the tax cuts for individuals are scheduled to sunset on December 31, 2025. This means that, unless Congress passes further legislation in the meantime, families have about five and a half years to take advantage of the current rules.

There are two sets of current rules individuals ought to keep an eye on: income taxes and estate taxes.

Income Taxes

On the income tax front, the path is fairly clear: If you believe the current income tax rates are low relative to historic rates (they are), then it may make sense to recognize income during these lower-tax-rate years, rather than waiting. Some potential strategies to consider include:

- Taking extra funds from retirement accounts (taxed as ordinary income upon withdrawal)
- Electing against deferring compensation to future years
- Taking Social Security earlier
- Exercising stock options in lower income tax years

Estate Taxes

The estate tax planning is trickier. The Tax Cuts and Jobs Act doubled the federal estate tax exemption from \$5.6 million to \$11.2 million per person. This means that a married couple can now pass (via lifetime gifts or bequests at death) over \$22 million to their loved ones, with no federal tax due. Under current law, this provision is set to be eliminated in 2025 so that, starting in 2026, the estate tax exemption will return to the much lower 2016 levels (adjusted modestly for inflation). It is expected that the new threshold will be approximately \$6 million per person.

What this means is that a family with \$22 million in assets may go to bed on 12/31/25 with no federal estate tax issue. This same family, however, may wake up the next morning and be staring at a potential estate tax in the neighborhood of \$4 million (40% of the \$10 million excess above the combined \$12 million exemption in 2026).

Planning around this tax provision is complicated and involves some guesswork at this point: we have never before seen a situation where the exemption amount went down, so we are in unprecedented territory. The IRS has given some indication that taxpayers will



not be penalized for making gifts of the larger exemption amount (in the event things sunset as expected in 2026). Our expectation is that interest in making these substantial gifts will pick up as we get closer to 2025 and hopefully have more clarity on what the rules will look like thereafter.

The best thing families can do now is to be aware of the rules and to begin conversations with their professional teams to formulate a plan. Our team is currently running all financial projections in a manner that returns to the previous tax regime in 2026, so that our clients can see how things stand under current law. If you would like to talk with us about the tax changes, or if you'd like us to run projections showing how this may impact your family, please let us know.