

Tax planning question of 2025:

Will TCJA shine on?

The question is not whether TCJA will sunset or be extended, but rather which provisions will remain and which may have some modification or change in the next tax bill.



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The November 2024 election results provided temporary relief in the sense of urgency clients' estate and tax planning needs require. But the ultimate fate of the Tax Cuts and Jobs Act (TCJA) provisions sunsetting in 2026 still depends on Congress. What has not changed post-election is the need to monitor legislative developments in 2025.

Will TCJA stay or go?

Primary among the sunset provisions are the estate and gift tax exemption amounts, with 2025 at \$13.99 million per person/\$27.98 million for a married couple. If Congress takes no action, the exemption will likely drop to around \$7 million per person and \$14 million for a couple at the end of 2025.

The estate and gift exemption is not the only thing scheduled to sunset. Here are some of the other major items:

1. The top income tax bracket is scheduled to return to 39.6% from the current 37%.
2. The standard deduction is scheduled to return to pre-TCJA levels or move from the 2025 levels of \$15,000 for an individual and \$30,000 for married filing joint to roughly half that.
3. Personal exemptions went away with the doubling of the standard deduction but are scheduled to return.
4. The \$10,000 cap on deducting state and local taxes is scheduled to be lifted.
5. The 199A business deduction for pass-through business entities, designed to provide relief similar to the reduced corporate tax rate, is scheduled to go away.

So, the question is not so much whether TCJA will sunset or be extended, but rather which provisions will remain in their current form and which may have some modification or change in the next tax bill. At this point, what we do know is that all of them will go away if Congress does nothing. But with so much at stake and the Republicans in control, it seems likely Congress will do something. But it may be late 2025 before we know what that something is.

So, should people just sit tight and wait? No!

The coming months are an ideal time to develop plans with clients and position them for whatever happens next. If a client believes that the income tax provisions will be extended for an additional two or four years, there is an opportunity to do some income tax planning. Perhaps they should consider how to pay income taxes in this low-tax environment and begin building assets that will generate tax-free income if rates do go back up. And you know the best ways to do that — add Roth IRAs, Designated Roth Accounts and/or cash accumulation life insurance to their portfolio. If the income tax reductions don't sunset, your clients get a few extra years to build those assets in the most efficient way possible.

This new year will have more than the usual amount of uncertainty, but your clients can face that with the certainty of flexible options.