

Smart Bear Educational White Paper
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The Tax Cuts and Jobs Act (TCJA) was enacted in 2017, and will expire in 2025, which means that your tax obligation will likely go up anywhere between 19% to 27%, even with increased deductions starting in 2026!

How much more will *you* owe? What moves should you consider to make now to optimize taxes in advance of this increase?

Let's look at the TCJA, what it means, and what you can do now to prepare strategies that will minimize your liabilities and/or avoid unexpected financial obligations.

Overview of TCJA

Many provisions of TCJA will expire unless extended or changed by Congress and the President. The expected expiration will present challenges for most taxpayers and investors, who may want to consider strategies for minimizing tax liabilities, optimizing long-term income and savings, or maximizing the values of charitable giving or estates.

If TCJA is allowed to expire key impacts include:

- Income tax rates increase
- Estate and Gift tax lifetime exemptions decrease
- Standard exemption decrease
- Threshold for owing Alternative Minimum Tax (AMT) reduce

The remainder of this document will provide details about the changes and examples of the expected impact of the changes. We also suggest several strategies to successfully navigate these changes in order to minimize their impact on your taxes, financial planning and well-being, and plans for your charitable contributions and estate.

Changes:

Tax rates are increasing in most brackets.

Income tax rate changes	
2023	2026 (expected)
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%

35%	35%
37%	39.6%

The Lifetime estate and gift tax exemption is being reduced by more than half.

Estate Tax changes			
	Before 2018	2024	2026 (expected)
Lifetime estate and gift tax exemption (single/married couple)	\$5M / \$10M	\$13.6M / \$27.2M	~\$5M / ~\$10M + Inflation adjustment
Annual Gift tax exclusion	\$15k	\$18k	?

Standard deductions are returning to the 2018 baseline and State and Local Tax (SALT) limitations are going away

Standard Deduction			
	2018	2023	2026 (expected)
Single	\$6,350	\$13,850	\$6350 + inflation adjustment
Married filing jointly	\$12,700	\$27,700	\$12,700 + inflation adjustment
<ul style="list-style-type: none"> • State and Local Tax (SALT) deduction cap of \$10k lifted • Mortgage Interest deduction cap reverts to \$1M (from \$750k) • Home equity loans deductible up to \$100k - not limited to home repair and improvements • Itemized deduction phase outs returns (aka PEASE¹) - 3% reduction above AGI of \$266,700 single and \$320,000 married filing jointly up to 80% reduction of deductions. 			

Alternative Minimum Tax (AMT) will apply to millions of more taxpayers (again).

Other

¹ This provision, named after the late Congressman Donald Pease, reduces the value of itemized deductions for high income taxpayers.

- **Threshold for owing AMT reduced - more people will be hit with AMT**
- **Long Term Capital Gains (LTCG) brackets re-attached to ordinary income tax brackets**
 - **0% LTCG tax rate for those in 10% and 15% ordinary income tax bracket**
 - **15% LTCG tax rate for those in 25%, 28%, 33%, and 35% ordinary income tax bracket**
 - **20% LTCG tax rate for those in 39.6% ordinary income tax bracket**
- **199a (Qualified Business Deduction) eliminated**
- **Personal exemptions return**

Tax calculation examples:

Married Filing Jointly			
	Federal Taxes paid in 2023	Federal Taxes paid in 2026	Tax increase
Annual Income: \$100,000	\$8,236	\$10,453	26.9%
Annual Income: \$150,000	\$17,521	\$21,722	24.0%
Annual Income: \$250,000	\$40,152	\$48,127	19.9%

Source: Smarter Bear calculations using Holistiplan and “apples to apples” assumptions about deductions, capital gains, personal exemptions

Strategies to consider before TCJA provisions sunset:

- Consider accelerating income if possible to fill up brackets before 2026 at existing lower rates
- Consider whether a Roth conversion strategy makes sense given the totality of your circumstances and the current lower income tax rates
- Consider deferring expenses such as Charitable donations and timing of tax payments that could be more valuable as itemized deductions post TCJA
- Depending on circumstances - consider recognizing capital gains, if rates are currently lower, and buying back positions. This is referred to as “capital gains harvesting” - no wash sale on gains

- Consider actions now to minimize impact of AMT preference items such as incentive stock options, private activity bond interest, foreign tax credits, passive income and losses, and net operating loss deductions when higher exemption and exemption phaseouts sunset. ISO exercise and hold is a very complex area and scenarios should be run for the specific circumstances.
- For high net worth families - consider gifting strategies that utilize currently higher lifetime gift and estate tax exemptions. Gifting appreciated assets to family members in lower capital gains tax brackets can result in significant tax savings.
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- One potential strategy would wait until after TCJA sunset. Depending on other circumstances it might make sense to delay Donor Advised Fund (DAF) funding, or other substantial charitable donations, until after sunset when the deductions could be more valuable.

Smarter Bear is always available for a no cost initial consultation to answer questions and discuss whether our services can help with your needs. We also offer no-cost second opinions for professionals, retirees, or investors who are experienced and comfortable directing their own investment and strategies, or who are working with another investment or financial advisor.