ADVANCED PLANNING

THE TAX CUTS AND JOBS ACT OF 2017 (TCJA)

Don't wait to see it sunset. Make the most of it today.

Many individuals and businesses have paid less in taxes since the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law in December 2017. If you're not familiar with the TCJA, it doubled the federal estate, gift, and generation-skipping transfer tax exemptions, lowered income tax rates, and more.

Most of these benefits are scheduled to sunset, or come to an end, on January 1, 2026. Here's what you should know:

The federal estate, gift, and generation-skipping transfer tax exemptions will be cut in half.

The TCJA doubled the estate, gift, and generation-skipping transfer tax basic exclusion amounts to:

- **$10 million per person, indexed for inflation. In 2023, the amount is equal to $12.92 million.**
- **$20 million per married couple, indexed for inflation. In 2023, the amount is equal to $25.84 million.**

On January 1, 2026, the exemption amount will revert to:

- **$5 million per person, adjusted for inflation, or**
- **$10 million per married couple, adjusted for inflation**

This planned decrease in the exemption caused concern over what would happen after 2026 if large gifts were made between 2018 and 2025. This left many people wondering:

- **Would their large gifts be clawed back once the exemption had been lowered?**
- **Would the planned gifts they had made during life be taxed unfavorably at death?**

IN GENERAL, THE ANSWERS TO THESE QUESTIONS ARE NO.

WHAT ABOUT PORTABILITY?

Portability is the availability of the unused exemption of the first spouse to die to be transferred to the surviving spouse.

If your spouse dies before 2026, the deceased spouse's unused exemption amount that is ported to the surviving spouse will not decrease because of the sunset.

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"Clawback" is the potential for gifts made during life to be taxed unfavorably at death. IRS regulations (Regs. Sec. 20.2010-1(c)) prevent most lifetime gifts that exceed the available basic exclusion amount at death from being "clawed back" and taxed as part of the donor's estate.

FOR EXAMPLE:

THIS YEAR, YOU DECIDE TO MAKE A $10 MILLION GIFT.

You pass away in 2026, after the sunset, and the exemption has decreased to $5 million (indexed for inflation = $6.5 million).

Your estate gets the benefit of an estate tax exemption amount of $10 million. However, you have no remaining exemption amount left because in your lifetime you used more than the exemption amount in your year of death ($6.5 million).

DO YOU THINK YOUR ESTATE IS TOO SMALL TO WORRY ABOUT THIS?

What will it be worth in 5, 10, or 20 years at a mere 4% growth rate?

Year	Today's Estate Value $3 million	Today's Estate Value $5 million	Today's Estate Value $8 million
0	$3,000,000	$5,000,000	$8,000,000
5	$3,649,959	$6,083,265	$9,733,223
10	$4,440,733	$7,401,221	$11,841,954
20	$6,573,369	$10,955,616	$17,528,985

Even if you don't have a federal estate tax problem today, when you factor in the potential growth of your estate, will you have a problem in 2026? Do you live in a state that has state death taxes as well?

This is a "use it or lose it" opportunity. If you don't use your increased exemption amounts that are available through the end of 2025, then you will have missed the opportunity to take advantage of these higher exemption amounts.

PLANNING OPPORTUNITY

Life insurance is a powerful tool to use in comprehensive estate plans. It can give your estate the liquidity it needs to enhance the wealth transferred to your loved ones. Do you have a plan already in place? Revisit it to ensure no opportunities have been overlooked.

CONSIDER THIS

The federal estate tax exemption increased by $860,000 from 2022 to 2023 due to the current state of inflation. If you're married, that increase was doubled! If you had previously used your existing exemption in full, you have almost an additional $1 million to use this year.

Federal income tax rates will go up.

The TCJA reduced the tax rate for certain brackets, including the top bracket. Additionally, the legislation increased income thresholds for higher tax brackets. When the TCJA ends, so do the lower tax rates.

Here's how the 2023 tax brackets would be impacted by the upcoming changes:

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Income	2023 Tax Rate	2026 Tax Rate
$0 – $11,000	10%	10%
$11,001 – $44,725	12%	**15%**
$44,726 – $95,375	22%	**25%**
$95,376 – $182,100	24%	**28%**
$182,101 – $231,250	32%	**33%**
$231,251 – $578,125	35%	35%
Above $578,125	37%	**39.6%**

MARRIED FILING JOINTLY

Income	2023 Tax Rate	2026 Tax Rate
$0 – $22,000	10%	10%
$22,001 – $89,450	12%	**15%**
$89,451 – $190,750	22%	**25%**
$190,751 – $364,200	24%	**28%**
$364,201 – $462,500	32%	**33%**
$462,501 – $693,750	35%	35%
Above $693,750	37%	**39.6%**

PLANNING OPPORTUNITY

Will you be taxed at a higher rate come 2026?

CONSIDER THIS

Tax-diversified strategies to help minimize your tax burden in the future.

Life insurance that builds cash value can help reduce overall exposure to taxes and round out a diversified tax strategy as part of your portfolio.

[1] Certificate of deposit/money market accounts.

[2] Does not include amounts invested in Roth 401(k)/403(b)/457(b).

[3] Non-qualified annuities purchased with after-tax dollars enjoy the same tax-deferred growth and ordinary income taxation as qualified annuities.

[4] Please note, generally only bonds issued by local and state governments are tax-exempt. May be subject to alternative minimum tax (AMT) and may impact taxation of Social Security benefits.

[5] Life insurance death benefits are generally income tax-free pursuant to U.S. IRC §101(a).Contract cash values can be accessed during the insured's life-time via loans and withdrawals. Loans are generally income tax-free as long as the policy remains in force. Withdrawals are tax-free to the extent of basis. Policies that are modified endowment contracts (MECs) receive less favorable tax treatment.

[6] Qualified distributions are income tax-free. Roth IRA distributions are qualified if the account has been open for 5 tax years, and the owner is age 59½, dies, is disabled, or is a first-time homebuyer ($10,000 lifetime limit). Roth 401(k) distributions are qualified if the plan participant has contributed to the account for 5 tax years, and is 59½ , dies, or is disabled.

There are other notable provisions sunsetting in 2026:

- The standard deduction will be reduced by almost half, adjusted for inflation.
- The $10,000 limit on state and local taxes (the SALT deduction) will be removed.
- The mortgage interest deduction (MID) will increase from $750,000 back to the $1 million limit. This deduction will also be expanded to include up to $100,000 in home equity debt.
- The annual deduction limit for cash contributions to public charities will decrease to 50% of adjusted gross income (AGI).
- Key for businesses and business owners! The Section 199A qualified business income deduction that allowed for a tax deduction of up to 20% of business income for pass-through entities will be eliminated.
- The increased alternative minimum tax (AMT) exemption and income exemption phase-out limits will revert to the pre-TCJA levels, increasing the amount of AMT taxpayers, once again.

What should you do now?

Make sure your strategy meets your needs and you're ready for 2026 and beyond. Use this checklist to get started.

EXPLORE TAX REDUCTION STRATEGIES.

- ❑ Gifting
- ❑ Trust planning
- ❑ Charitable planning

CONSIDER WHERE YOU WANT YOUR ESTATE TO GO TO WHEN YOU DIE.

- ❑ Your heirs — This isn't guaranteed unless it's planned appropriately.
- ❑ Charity — This must be purposely established.
- ❑ Taxes — Without a strategy, taxes are likely.

Talk about estate planning and tax planning strategies with your financial professional and advisors today.

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