POTENTIAL TAX LAW CHANGES ON THE HORIZON

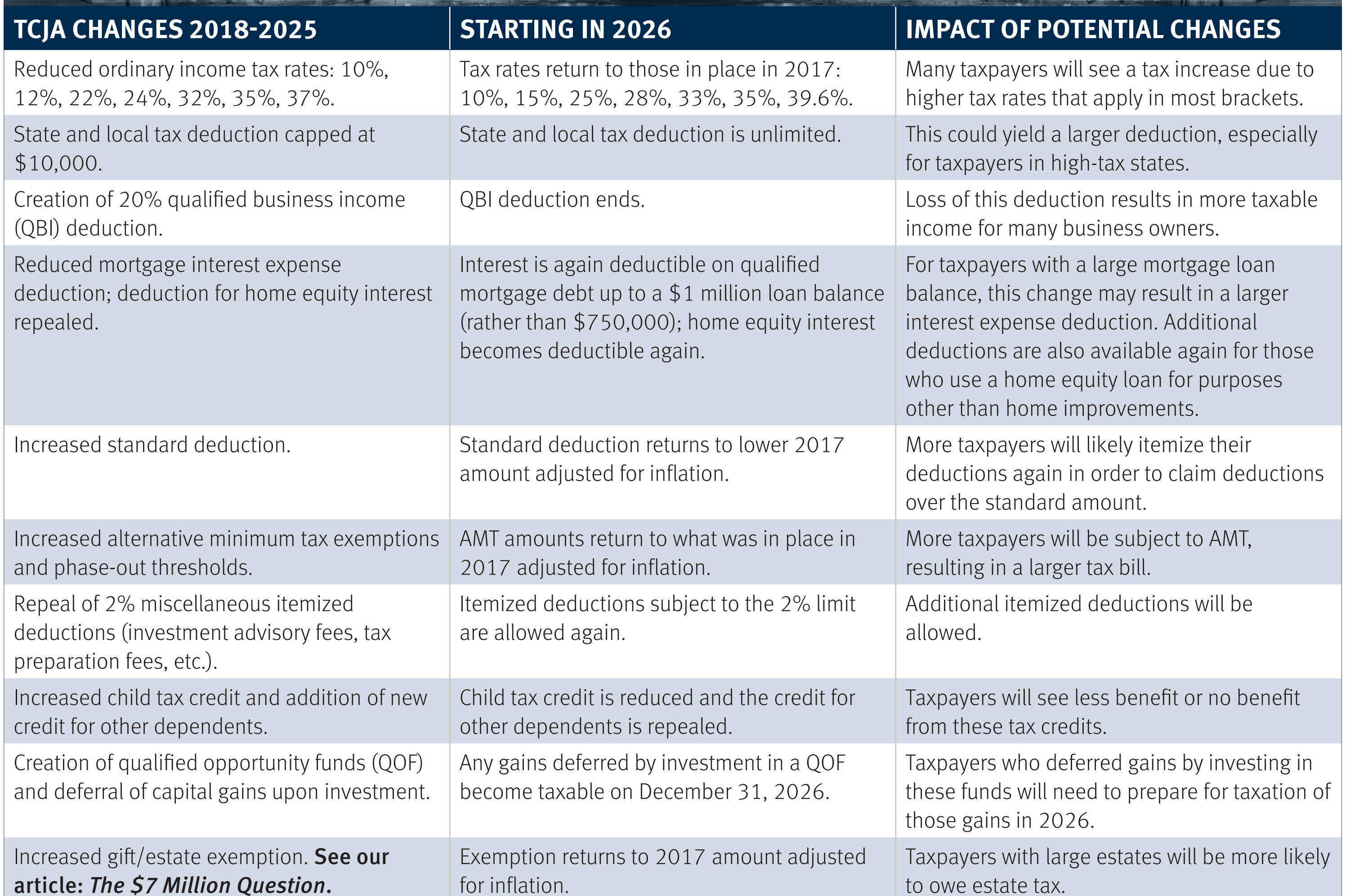
Wealth Planning | Estate and Tax Planning

POSSIBLE CHANGES

Action, or lack of action, by Congress could soon have a significant impact on your income taxes. The many temporary tax changes in the expansive Tax Cuts and Jobs Act of 2017 (TCJA) expire at the end of 2025. Here are three possible outcomes for 2026:

- Congress does nothing and the temporary items in the current tax structure revert to what was in place in 2017, with adjustments for inflation.
- Congress extends TCJA.
- Congress extends or modifies some provisions and lets others expire.

The uncertainty in these outcomes makes tax planning a challenge. This article provides context around some of the major provisions that are set to expire and some considerations for tax planning prior to and also beginning in 2026. The items listed below are a summary of some of the most notable scheduled changes.



TCJA CHANGES 2018-2025	STARTING IN 2026	IMPACT OF POTENTIAL CHANGES
Reduced ordinary income tax rates: 10%, 12%, 22%, 24%, 32%, 35%, 37%.	Tax rates return to those in place in 2017: 10%, 15%, 25%, 28%, 33%, 35%, 39.6%.	Many taxpayers will see a tax increase due to higher tax rates that apply in most brackets.
State and local tax deduction capped at $10,000.	State and local tax deduction is unlimited.	This could yield a larger deduction, especially for taxpayers in high-tax states.
Creation of 20% qualified business income (QBI) deduction.	QBI deduction ends.	Loss of this deduction results in more taxable income for many business owners.
Reduced mortgage interest expense deduction; deduction for home equity interest repealed.	Interest is again deductible on qualified mortgage debt up to a $1 million loan balance (rather than $750,000); home equity interest becomes deductible again.	For taxpayers with a large mortgage loan balance, this change may result in a larger interest expense deduction. Additional deductions are also available again for those who use a home equity loan for purposes other than home improvements.
Increased standard deduction.	Standard deduction returns to lower 2017 amount adjusted for inflation.	More taxpayers will likely itemize their deductions again in order to claim deductions over the standard amount.
Increased alternative minimum tax exemptions and phase-out thresholds.	AMT amounts return to what was in place in 2017 adjusted for inflation.	More taxpayers will be subject to AMT, resulting in a larger tax bill.
Repeal of 2% miscellaneous itemized deductions (investment advisory fees, tax preparation fees, etc.).	Itemized deductions subject to the 2% limit are allowed again.	Additional itemized deductions will be allowed.
Increased child tax credit and addition of new credit for other dependents.	Child tax credit is reduced and the credit for other dependents is repealed.	Taxpayers will see less benefit or no benefit from these tax credits.
Creation of qualified opportunity funds (QOF) and deferral of capital gains upon investment.	Any gains deferred by investment in a QOF become taxable on December 31, 2026.	Taxpayers who deferred gains by investing in these funds will need to prepare for taxation of those gains in 2026.
Increased gift/estate exemption. **See our article: *The $7 Million Question*.**	Exemption returns to 2017 amount adjusted for inflation.	Taxpayers with large estates will be more likely to owe estate tax.

PREPARE FOR POTENTIAL CHANGES

Although Congress may delay any action on this legislation until the end of 2025, you don't have the luxury of waiting until that time to work with your tax professional and attorney to create a personalized plan to address the potential changes. Instead, work with your team of professionals now to develop strategies that will help you mitigate the adverse impact of any tax law changes that ultimately occur. Here are some of the strategies you may consider.

Roth Conversions

Roth conversions allow you to convert funds from a traditional IRA into a Roth IRA. Converted amounts are taxed as ordinary income and may then grow tax free. Executing a Roth conversion prior to the scheduled changes in the income tax framework may be beneficial for two reasons. First, the tax rate imposed on the converted amount before 2026 may be lower than the tax rate imposed on any amount converted in the future. Second, Roth conversions reduce the balance of your traditional IRA, effectively lowering future required minimum distributions (RMDs). Lower RMDs may potentially help keep you out of a higher tax bracket in the future.

Accelerating Income

In order to guard against the potential for higher future tax rates starting in 2026, you may benefit from accelerating income into the current tax year. This could include taking retirement plan distributions sooner than required by law, exercising more stock options, or choosing to make Roth contributions to retirement plans rather than pre-tax contributions. When assessing whether you may benefit from accelerating income, be mindful of how accelerating income to the current tax year will impact your overall tax and financial situation.

Delaying Deductions

As an alternative (or supplement) to accelerating income, also consider delaying potential deductions to future tax years. A few items you could review include the best timing for charitable contributions, state and local tax payments, or expense deduction elections if you're a business owner. Such deductions may be more valuable to you in the future if you are subject to higher tax rates. For example, if you have a certain amount of money earmarked for charitable giving in the next several years, you may choose to forego making a charitable contribution now in order to make a larger contribution in future years.

Take Advantage of the Current Heightened Federal Estate and Gift Tax Exemption

Lifetime gifts of any amount can be a valuable estate planning tool, as they remove future appreciation on the gifted asset from your estate. The benefit of lifetime gifts made this year will be magnified should the federal estate and gift tax exemption be reduced in the future. In essence, you may face a "use it or lose it" scenario when it comes to the current heightened exemption threshold. If you are married, a spousal lifetime access trust (SLAT) may help you utilize your current heightened exemption without the loss of flexibility and access typically associated with lifetime gifting and estate tax planning strategies. A SLAT is an irrevocable trust established by one spouse (the grantor) for the benefit of the other spouse. The grantor makes a gift of assets to the SLAT and utilizes his or her gift tax exemption to shield the gift from gift taxes and to remove the assets from the grantor's estate. Typically, the SLAT terms provide that the trustee may make discretionary distributions to the grantor's spouse and descendants. **See our Article: *Using a Spousal Lifetime Access Trust for Flexible Estate Planning*.**

For more information on how potential tax law changes in 2026 may impact you, contact your Financial Advisor at Stifel or a tax professional.