Planning for the Tax Cuts & Jobs Act (TCJA) Sunset

The Tax Cuts and Jobs Act (TCJA) was signed into law in 2017, introducing many changes to the U.S. tax code with significant estate and income tax implications. Without affirmative congressional action, many of these provisions will expire at the end of 2025. To help with your tax planning, we have provided a summary of what's due to change on Jan. 1, 2026 below, as well as specific rates and amounts in the table on page 4.

Set to Increase:

Ordinary Income Tax Rates

The individual tax rates lowered by the TCJA will revert to their pre-2017 levels, with the top rate set to increase from 37% to 39.6%.

Capital Gains Taxes

Long-term capital gains tax rates are expected to revert to the slightly higher pre-TCJA rates and brackets as shown in the table on page 4.

State and Local Tax (SALT) Deduction

The $10,000 cap that the TCJA placed on the SALT deduction will be lifted.

Mortgage Interest Deduction

The limit on mortgage interest deduction for the first $750,000 of debt (for married filing jointly) will revert to $1,000,000. The home equity loan interest deduction will also return to its pre-TCJA limit of $100,000.

Set to Decrease:

Estate Tax Basic Exclusion Amount

The TCJA doubled the federal estate and gift tax basic exclusion amount (BEA) from $5 million to $10 million per person (both figures adjusted for inflation) and applied the same change to the Generation-Skipping Transfer (GST) tax exemption. This has allowed individuals to make more tax-free gifts during their lifetime or at death. At the end of 2025, the amount will revert to $5 million per person adjusted for inflation, which is estimated to be around $7.2 million.

That said, gifts made now are protected: In late 2019, the IRS issued "anti-clawback" regulations confirming that the applicable BEA will be the higher of the exclusion amount used or the exclusion amount at the time of the person's death. These regulations also ensure that the deceased spouse's unused exclusion (DSUE) will remain fixed based on the year of the deceased spouse's death and when the portability election was made, regardless of any BEA changes.

Maine Estate Tax is unaffected by this change. Unlike the federal exclusion, the Maine estate tax exclusion, currently $6,800,000, is defined independently and will not sunset.

Standard Deduction

The TCJA doubled the standard deduction (see table on page 4 for amounts by income level), causing many individuals to stop itemizing deductions. In 2026, the standard deduction will return to its 2017 level, indexed for inflation.

Child Tax Credit

The child tax credit, which the TCJA increased from $1,000 to $2,000 per child, will revert to $1,000 per child.

Alternative Minimum Tax (AMT) Exemption and Phaseout Threshold

These would revert to their lower pre-TCJA levels, making more taxpayers subject to the AMT.

Cash Charitable Donation Deduction Limit

Under the TCJA, cash charitable contributions were tax-deductable up to 60% of adjusted gross income (AGI). After the sunset, this limit is expected to revert back to 50% of AGI.

Set to Reappear:

Miscellaneous Itemized Deductions

These deductions, including investment/advisory fees, legal fees, and unreimbursed employee expenses, were mostly eliminated by the TCJA. These will be reinstated to the extent they exceed 2% of Adjusted Gross Income (AGI).

However, the Pease limitation will also be reinstated, reducing the value of itemized deductions for high-income taxpayers by phasing out many itemized deductions (including charitable contributions) by 3% of the amount by which AGI exceeds a certain threshold, up to 80% of total itemized deductions.

Personal Exemptions

Suspended by the TCJA, personal exemptions will return at $4,050 per family member in a household, adjusted for inflation.

Set to Expire:

Section 199A (QBI)

Section 199A of the TCJA allows for a 20% deduction on qualified business income (QBI) for pass-through entities. This would automatically go away with the sunset, leading to tax increases for many small businesses and self-employed individuals.

What Should You Plan For?

Before the sunset provisions take effect, it may be worth considering some of the following planning strategies:

What to Do Now

Accelerate Roth conversions: If you are considering a Roth conversion, doing so before higher tax rates return can avoid higher future rates and ensure tax-free growth and withdrawals. For more guidance on when to consider a Roth conversion, check out our planning note on the topic[1].

Exercise Incentive Stock Options (ISOs): Under the TCJA's increased AMT exemption level, an ISO is less likely to trigger the AMT. Current lower tax rates also mean that you could pay less on income recognized from the exercise.

For post-2020 inherited IRAs, consider accelerating distributions: Since the SECURE act requires most non-spouse beneficiaries who inherit IRAs in 2020 or later to distribute the entire account within 10 years (read more in our SECURE Act note[2]), it may help to take some or all of those withdrawals before tax rates rise.

Consider accelerating any planned gifts exceeding $7.2 million. These could include outright gifts, irrevocable trusts for the benefit of children or grandchildren, and/or spousal lifetime access trusts (SLATs). Making lifetime gifts may also help reduce your state estate tax exposure.

That said, this decision may not be right for everyone. Topics to consider and discuss with your team of financial planning and tax professionals include:

- **The uncertainty of the tax landscape.** The estate tax exemption has only gone down three times since its inception in 1916, so there's a chance it will go back up.
- **Your personal comfort level.** With factors like your age, health, and marital status in mind, how does your comfort level with living off remaining post-gift assets compare with your tolerance for paying estate taxes?
- **Weighing capital gains tax vs. estate tax.** A gift of assets during life will be given a transferred basis, meaning that the recipient may owe capital gains tax if they sell the assets. Conversely, a gift at death will receive a step-up in basis, which may eliminate the capital gains tax owed but make the gift subject to estate tax. You'll want to apply these scenarios to your situation and the gift(s) you have in mind.

What to Wait On

Defer charitable giving: Higher future tax rates will increase the tax-savings impact of your charitable gifts; and for many people, the lower stan-

1. https://hmpayson.com/insights/planning-note-roth-conversions/
2. https://hmpayson.com/insights/what-you-need-to-know-about-the-secure-act/

dard deduction will make it once again more advantageous to itemize deductions.

Defer property tax payments: Property tax deductions will provide more value when applied to a higher tax-rate year, and when not limited to the current $10,000 SALT deduction cap.

Reevaluate retirement savings strategies in 2026: Depending on your situation, higher tax rates and changes in deductions and exemptions may lead you to prioritize contributing to tax-deductible accounts like traditional IRAs and 401(k)s over after-tax accounts like Roth IRAs and Roth 401(k)s.

Conclusion

Without affirmative congressional action, the TCJA provisions will automatically sunset, so it's smart to plan accordingly. However, there is still a chance that Congress will act to keep the provisions in place. For high-net-worth individuals, the best path forward may involve hedging strategies like setting up trusts but waiting to fund them until we have a clearer legislative outlook. As always, your HM Payson team is here to assist in collaboration with your team of tax and estate professionals, so please don't hesitate to reach out.

TCJA Sunset Changes, at a Glance

ORDINARY INCOME TAX RATES AND BRACKETS

Tax Rate		TCJA Brackets*	Post-TCJA Brackets**
10%	MFJ	$0 - $23,200	$0 - $23,100
	Single	$0 - $11,600	$0 - $11,500
	Trust	$0 - $3,100	
12%	MFJ	$23,201 - $94,300	
	Single	$11,601 - $47,150	
	Trust		
15%	MFJ		$23,101 - $94,100
	Single		$11,551 - $47,050
	Trust		$0 - $3,150
22%	MFJ	$94,301 - $201,050	
	Single	$47,151 - $100,525	
	Trust		
24%	MFJ	$201,051 - $383,900	
	Single	$100,526 - $191,950	
	Trust	$3,101 - $11,150	
25%	MFJ		$94,101 - $189,850
	Single		$47,051 - $113,950
	Trust		$3,151 - $7,400
28%	MFJ		$189,851 - $289,250
	Single		$113,951 - $237,650
	Trust		$7,401 - $11,300
32%	MFJ	$383,901 - $487,450	
	Single	$191,951 - $243,725	
	Trust		
33%	MFJ		$289,251 - $516,750
	Single		$237,651 - $516,750
	Trust		$11,301 - $15,500
35%	MFJ	$487,451 - $731,200	$516,751 - $583,750
	Single	$243,726 - $609,350	$516,751 - $518,850
	Trust	$11,151 - $15,200	
37%	MFJ	Over $731,200	
	Single	Over $609,350	
	Trust	Over $15,200	
39.6%	MFJ		Over $583,750
	Single		Over $518,850
	Trust		Over $15,500

CAPITAL GAINS TAX RATES AND BRACKETS

0%	MFJ	$0 - $94,050	$0 - $94,100
	Single	$0 - $47,025	$0 - $47,050
15%	MFJ	$94,051 - $583,750	$94,101 - $583,750
	Single	$47,026 - $518,900	$47,051 - $518,850
20%	MFJ	Over $583,750	Over $583,750
	Single	Over $518,900	Over $518,850

DEDUCTIONS, CREDITS, AND EXEMPTIONS

		Under TCJA	Post-TCJA
State & Local Taxes (SALT)		$10,000 Limit	Unlimited
Mortgage Interest		$750,000 Limit	$1,000,000 Limit
Standard Deduction	MFJ	$29,200	$15,750
	Single	$14,600	$7,850
	Dependent	Up to $14,600	Up to $7,850
Personal Exemptions	MFJ		$10,100
	Single		$5,050
	Dependent		$5,050
Exemption Phaseout	MFJ		$389,150 - $511,650
	Single		$324,300 - $446,800
Child tax credit amount		$2,000	$1,000
Child tax credit refundable		Up to $1,700	Up to $1,000
Other dependent tax credit		$500	
AMT Exemption Amount	MFJ	$133,300	$104,800
	Single	$85,700	$67,300
28% Tax Rate on Income Over	MFJ	$232,600	$232,900
	Single	$232,600	$232,900
AMT Exemption Phaseout Threshold	MFJ	$1,218,700	$199,500
	Single	$609,350	$149,700
AMT Exemption Elimination	MFJ	$1,751,900	$618,700
	Single	$952,150	$418,900
Cash charitable gift deduction		Limited to 60% AGI	Limited to 50% AGI
Financial advisory fee deductions			Subject to 2% AGI Floor
Pease Limitation (MFJ)			$389,150
Pease Limitation (Single)			$324,300
Section 199A (QBI) deduction		Up to 20% of QBI	

*TCJA figures (green) are current/2024 rates and dollar amounts **Post-TCJA figures (red) are 2017 numbers, adjusted for inflation.