

Three tips to plan for the 2026 “sunset” of the Tax Cuts & Jobs Act

The Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017¹. This legislation went into effect in 2018 and it impacted nearly every part of the tax code. However, one of its most unique features is its “sunset” in 2026, at which point most of the changes to the tax rules revert to their 2017 levels.

Although 2026 is still two years away, there are a few strategies that you can use now to take advantage of the current rules before they lapse. An important part of your year-end planning is to evaluate your current financial situation with your Mesirow Wealth Advisor and your tax and estate professionals to see if any these opportunities apply.

Take advantage of lower marginal income tax brackets

TCJA added new brackets for calculating your federal income tax. Most of these brackets resulted in a lower tax rate than before, with two of the brackets providing taxpayers with significant savings.

- In 2024, taxable income between \$47,150 and \$100,525 (single taxpayers) or \$94,300 and \$201,050 (married filing jointly) is taxed at marginal tax rate of 22%. In 2017 and before, this income was taxed at 25%².
- In 2023, taxable income between \$100,525 and \$94,300 (single taxpayers) or \$201,050 and \$383,900 (married filing jointly) is taxed at a marginal tax rate of 24%. In 2017 and before, this income was taxed at 33% or 28%.

One way to take advantage of these lower tax rates is to fund your Roth IRA and/or Roth 401(k) accounts. For example, if you already have a lot of pre-tax retirement savings, you may want to consider making Roth 401(k) contributions if you're in the 22% or 24% bracket³.

Since Roth contributions are funded with after-tax dollars, your withdrawals in retirement are made tax-free. Additionally, since Roth IRAs are not subject to Required Minimum Distributions, you can keep your money working for you longer.

It may also be good time to consider making a Roth IRA conversion of some or all your pre-tax accounts.

Maximize the tax benefits of charitable giving by using a multi-year plan

When calculating taxable income, you can elect to “itemize” your deductions for items like your state and local taxes, mortgage interest, and charitable contributions, or use the “standard” deduction available to every taxpayer.

TCJA had two provisions that significantly affected the way you might plan your tax deductions:

- TCJA increased the amount of the standard deduction to \$14,600 (single taxpayers) or \$29,200 (married filing jointly) from \$6,500 or \$13,000 in 2017.
- TCJA decreased the amount you deduct for your state and local taxes (SALT) by capping this amount at the greater of \$10,000 or the actual taxes paid.

The net effect of these changes is that more taxpayers will use the standard deduction rather than itemizing. This could change the way that you plan your charitable giving.

While charitable gifts are still deductible from your taxable income (subject to limits based on your AGI), the tax benefits of these deductions are lessened unless you itemize. This is when a “bunching” strategy can be an important part of your charitable gifting plans⁴.

For example, rather than gifting \$5,000 per year for three years, you could gift \$15,000 in one year. With this larger amount, you're more likely to exceed the amount of the standard deduction (\$14,600 or \$29,200) and receive more of the tax benefit by itemizing your deductions.

This doesn't have to affect timing of your charitable gifts either. Gifts to a Donor-Advised Fund (DAF) can be deducted from your income in the year that they're made, invested in the DAF, and directed to your preferred charity later.

Don't forget that taxpayers older than 70½ can take advantage of Qualified Charitable Distributions (QCDs). Since QCDs are

excluded directly from your income, this gifting strategy doesn't require you to itemize to receive a tax benefit from your gifts⁵.

Prepare for the changes to the lifetime estate tax exclusion

The Estate & Gift Tax Basic Exclusion is the amount of wealth that can be excluded from your estate when calculating whether estate taxes will be due after your death. Since the federal estate tax rate can be as high as 40%, it's essential to plan your how you transfer wealth to your loved ones and charitable missions during your lifetime.

TCJA nearly doubled the amount of this lifetime exclusion. In 2024, the lifetime estate tax basic exclusion is \$13.6 million per person. In 2026, this reverts to approx. \$7 million per person.

During the next few years, it's important to monitor potential changes to the estate tax laws and be prepared to work with your estate tax professional to draft contingency plans.

In the meantime, you should continue to take advantage of some of the typical methods to transfer wealth, such as the annual gift exclusions (of \$18,000 per donor per receipt per year), \$529 contributions, and charitable giving. These strategies have the benefit of removing both the current value of the gift along with any future appreciation from the value of your estate in the future.

Now is the time to check in with your Mesirow Wealth Advisor, along with you your tax and estate professionals, to review your family's investment and financial goals to be sure that planning is in place to navigate these upcoming changes.

¹<https://www.congress.gov/115/bills/hr1/BILLS-115hr1enr.pdf>

²<https://taxfoundation.org/data/all/federal/2024-tax-brackets/>

³<https://www.irs.gov/publications/p590a>

⁴<https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions>

⁵<https://www.irs.gov/newsroom/qualified-charitable-distributions-allow-eligible-ira-owners-up-to-100000-in-tax-free-gifts-to-charity>

Published March 2024

Mesirow does not provide legal or tax advice. Past performance is not indicative of future results. The views expressed above are as of the date given, may change as market or other conditions change, and may differ from views express by other Mesirow associates. This is not a solicitation to buy or sell the securities mentioned. Do not use this information as the sole basis for investment decisions, it is not intended as advice designed to meet the particular needs of an individual investor. Information herein has been obtained from sources which Mesirow believes to be reliable, we do not guarantee its accuracy and such information may be incomplete and/or condensed. All opinions and estimates included herein are subject to change without notice. This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If you are not the intended recipient, you are strictly prohibited from disclosing, copying, distributing or using any of the information. If you receive this communication in error, please contact the sender immediately and destroy the material in its entirety, whether electronic or hard copy. This material is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. ©2024, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Mesirow Financial Investment Management, Inc.'s Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC registered investment advisor. Securities offered by Mesirow Financial, Inc. member FINRA and SIPC.