Trump Tax Policy Sunset

FEBRUARY 2025

PALLAS CAPITAL ADVISORS

The Trump tax policy sunset: What it means for you

As the sun sets on key provisions of the Tax Cuts and Jobs Act (TCJA) of 2017, small business owners, families, and individuals must prepare for potential changes that could significantly impact their financial planning. With many tax benefits set to expire on December 31, 2025, understanding what's at stake and how to navigate the transition is crucial.

Business tax changes: What to watch

Corporate Tax Rate: The TCJA permanently lowered the corporate tax rate from 28% to 21%. During his recent campaign, President Trump proposed reducing it further to 15% for domestic manufacturers—a move that could benefit family-owned manufacturing firms by freeing up capital for reinvestment or expansion. However, businesses with offshore operations wouldn't qualify for this reduction.

Qualified Business Income Deduction: Certain eligible owners of pass-through entities like S-Corps, partnerships, and LLCs have enjoyed a 20% deduction on qualified business income under Section 199A. This deduction, however, is set to expire at the end of 2025. Without an extension, business owners will face higher tax rates based on their organizational structure. Additionally, eligibility for the deduction currently depends on income thresholds and the nature of the business, which will further complicate tax planning if the provision sunsets.

Individual tax provisions: What's changing?

Ordinary Income Tax: Today's lower tax rates could revert, pushing the top rate from 37% back to 39.6%. The income threshold for reaching the top bracket would also drop, meaning more taxpayers would face higher rates on their earnings.

Capital Gains Taxes: If the TCJA sunsets, the 20% top capital gains tax rate will apply at lower income thresholds, increasing tax burdens for high earners. Taxpayers should review income thresholds for each rate to avoid unexpected taxes. To mitigate this, taxpayers might consider harvesting gains before the provisions expire.

Standard Deduction: The nearly doubled standard deduction—currently $15,000 for individuals and $30,000 for married couples filing jointly—will be halved if the TCJA expires. This change would increase taxable income for those who don't itemize deductions.

Child Tax Credit: The child tax credit, currently $2,000 per qualifying child, will drop back to $1,000 in 2026 if the TCJA provisions expire. This reduction would significantly impact families with multiple dependents.

SALT Deductions: The $10,000 cap on state and local tax (SALT) deductions will be lifted post-2025, benefiting those in high-tax states. However, the Alternative Minimum Tax (AMT) exemption is also scheduled to be reduced, potentially offsetting the SALT benefit for some taxpayers.

Alternative minimum tax (AMT) exemption and phaseout: The TCJA increased exemption amounts as well as the exemption phaseout threshold, lessening the AMT burden on taxpayers. At sunset, the AMT exemption will revert to pre-TCJA levels, thus exposing more taxpayers to the AMT.

Mortgage Interest: The mortgage interest deduction will revert to pre-TCJA levels, allowing deductions on up to $1 million in home mortgage debt and $100,000 in home equity loans. This could benefit homeowners with larger mortgages, particularly in high-cost housing markets.

Miscellaneous Deductions & Personal Exemptions: Investment fees, legal expenses, and unreimbursed employee costs—currently non-deductible—will return in 2026 if they exceed 2% of adjusted gross income. Personal exemptions, temporarily suspended under the TCJA, will also return at $2,000 per taxpayer and dependent, adjusted for inflation.

Estate & Gift Tax: Currently, the federal estate and gift tax exemption is a record-high $13.99 million per individual and $27.98 million per married couple. Without congressional action, this exemption will be halved in 2026, exposing more estates to taxation. For business owners, whose business interest is often their most valuable asset, strategic gifting into trusts can ease succession planning while minimizing tax exposure.

Importantly, the IRS has clarified that there will be no "clawback"—gifts made under current law won't face retroactive taxes if the exemption decreases.

Will the tax cuts be extended?

Although Republicans typically favor tax cuts and currently hold narrow control in both chambers of Congress, an extension isn't guaranteed. The slim majority and budgetary constraints could complicate efforts to preserve these provisions. Even with Republican control, a few dissenting votes could determine the fate of the TCJA's expiring benefits.

Next steps: Plan, prepare, and stay informed

To navigate these potential changes:

1. **Review Your Tax Strategy:** Assess how your business structure and personal finances will be affected.
2. **Harvest Gains Wisely:** Consider selling appreciated assets before rates rise.
3. **Explore Trusts:** If estate taxes concern you, consult with a tax advisor about strategic gifting.
4. **Monitor Legislation:** Stay updated on congressional decisions and adjust plans accordingly.

While the future of tax policy remains uncertain, proactive planning can help you adapt, protect your assets, and seize opportunities as the tax landscape shifts.

This article is for general information only, does not reflect the opinions of Pallas Capital Advisors, LLC, and is not intended as an offer or solicitation for tax, estate planning, or financial advice.