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The Tax Cuts and Jobs Act Sunsets: How it Affects Your Business



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The Tax Cuts and Jobs Act (TCJA) of 2017 is scheduled to have many important provisions expire at the end of 2025. These expiring provisions could have immense impacts on business owners. Today, we are going to focus on three of the biggest changes that you can anticipate and address before these provisions sunset.

1. The End of the Qualified Business Income Deduction

One of the biggest potential changes to the TCJA is the expiration of the Qualified Business Income (QBI) deduction. This deduction gave several kinds of businesses—particularly, sole proprietorships, partnerships, and S corporations—a 20% deduction on qualified business income, plus a 20% deduction on

qualified real estate investment trust dividends and publicly traded partnership income.

In short, this deduction potentially saved small businesses a decent chunk in terms of taxes owed. After December 31, 2025, this deduction could go away. If this provision does go away, as it is currently scheduled to do, it could mean that an additional 20% of your business income is taxable. In other words, if this provision sunsets, it could equate to a tax hike for your business.

Legally minimizing the amount you pay in taxes is a powerful strategy to support business growth and financial planning. If the QBI deduction does indeed expire and your business is currently using this deduction, it could have negative effects on your planning.

One important thing to know is that, unlike S corporations, C corporations were not eligible for this deduction and thus will not experience the effects of this deduction expiring.

If you are the owner of a sole proprietorship, partnership, or S corporation, you may want to consider consulting with a tax advisor to address the potential consequences of the QBI deduction expiring. And the earlier you do it, the better. Tax advisors are likely to be inundated with requests for help as the QBI deduction expiration approaches.

2. Estate and Gift Tax Exemptions Cut in Half

This change can have huge effects on your plans to transfer your wealth.

Currently, the lifetime estate and gift tax exclusion sits at about \$13.6 million for individual filers (\$27.2 million for joint filers). If this provision in the TCJA expires, as it is scheduled to after December 31, 2025, these exclusions will essentially be cut in half.

So, if a business owner were to die in 2025 with an estate valued at \$20 million, every dollar above the current \$13.6 million threshold (i.e., \$6.4 million) could be eligible for both federal and applicable state estate taxes. However, if that business owner were to die in 2026, as it stands, every dollar above \$6.8 million (i.e., \$13.2 million) would be taxed.

If you have a valuable estate, or intend to give large gifts to family members or others, the fact that these exemptions are expiring could cost you a large sum of money in taxes if you don't take advantage of the exemptions before they expire.

One benefit of addressing this issue in 2025 is that the TCJA does not allow clawbacks after this exemption expires. So, if you are eligible for this exemption and use it in 2025, it will be grandfathered in after the provision expires.

As with the QBI deduction expiration, it's a good idea to begin planning for the consequences of the reduction in the estate and gift tax exemptions early.

Legally protecting millions of dollars in assets against tax collection can be complex and stressful in perfect situations. Waiting until the last second to try to do it could be especially difficult if others also wait until the last minute to consult with their advisors.

Consider staying ahead of the game and beginning the conversation with your estate planning attorney now.

3. Individual Tax Rate Changes

In addition to these business-focused changes, another provision of the TCJA that is set to expire at the end of 2025 relates to individual tax rates.

When the TCJA went into effect, it lowered the highest tax bracket rate from 39.6% to 37%. It also doubled the individual standard deduction.

When the TCJA individual tax rate provision expires at the end of 2025, it's possible that the tax rates for all brackets will go back to what they were before the TCJA was enacted. Additionally, the brackets themselves may change, and it's likely that the individual standard deduction will be cut in half. This could mean higher individual tax rates for you, which could have an effect on your personal financial planning.

What to Do Next

You may want to consider consulting with your tax advisor, estate planning attorney, and other advisors to determine exactly how the TCJA's provision sunseting can affect you.

It is possible that the federal government will extend certain provisions. However, it is unclear which ones, if any, the federal government might consider extending.

As it stands, a prudent financial move would be to consult with your advisors to be prepared for as many scenarios as possible.

And remember: many other business owners are facing the same uncertainty as you are regarding the TCJA. Beginning to plan and address these issues early could help position you for more success in addressing the changes that may occur if important TCJA provisions expire.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

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