Sunset of Certain Income Tax Provisions of the Tax Cuts and Jobs Act

Introduction to the Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act ("TCJA") that was passed and signed into law in December 2017, made significant changes across multiple areas of the tax code. Since the TCJA was passed via the budget reconciliation process, sunset provisions had to be built in for some of the major components. Unless legislative action is taken, many key provisions of the TCJA are expected to sunset (or expire) on December 31, 2025.

Sunset of Key Individual Tax Provisions

The TCJA overhauled many areas of the individual tax code, including lowering individual tax rates, widening tax brackets, and altering personal deductions and exemptions, which are set to expire at the end of 2025.

When the TCJA went into effect on January 1, 2018, it maintained the seven-bracket individual tax rate structure, but reduced both the income thresholds and most individual income tax rates. For example, the pre-TCJA top individual tax bracket was 39.6% for single taxpayers with incomes greater than $418,401 and for married taxpayers with incomes greater than $470,701. The TCJA reduced the top individual tax rate to 37% for single taxpayers with incomes greater than $500,000 and for married taxpayers with incomes greater than $600,000. The income thresholds for each bracket are adjusted for inflation each year.

Below is a comparison of how marginal tax rates could differ upon expiration of the TCJA:

2024 Tax Rates	Projected Post-TCJA Tax Rates
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

The TCJA also increased the standard deduction to $12,400 for single taxpayers and $24,800 for married taxpayers (tax year 2020), compared with $6,500 (single) and $9,550 (married) under prior law. The bill eliminated the personal exemption and a variety of other miscellaneous deductions. It also limiting certain itemized deductions, such as those for state and local tax (SALT), mortgage interest, and charitable contributions (see page 3 for a detailed summary).

Sunset of Key Business Tax Provisions

The TCJA also made significant changes to many areas of the business tax code, including reducing the corporate tax rate and altering or eliminating certain business deductions.

The TCJA lowered the corporate income tax (CIT) rate from 35% to 21% starting in 2018 – note that this reduced CIT rate was made permanent by the TCJA. The TCJA also allows full and immediate expensing of short-lived capital investments for five years and increases the section 179 expensing cap from $500,000 to $1 million. The bill also eliminated or curtailed a variety of business taxes and expenditures, including the deductibility of net interest, net operating loss carrybacks and carryforwards, the corporate alternative minimum tax, and tax treatment of like-kind exchanges.

Planning Opportunities

There are many significant opportunities available for individuals and families who may be impacted by the pending sunset of certain TCJA tax provisions. While the sunset is not scheduled to happen until December 31, 2025, below are some considerations when reviewing your current financial plan with your advisor to determine if additional action steps are appropriate:

1. Timing of certain income and deductions.
2. Reviewing your current portfolio holdings with your portfolio manager.
3. Congress may act to extend some or all TCJA modifications/provisions.
4. Possible further increase of certain tax rates for wealthy individuals.
5. The potential for future legislation to:
   a. Increase tax rates on capital gains.
   b. Limit or eliminate certain strategies that are currently permitted.

In conjunction with your legal, tax, and financial advisors, City National Rochdale's Private Wealth Solution team specializes in educating clients and assisting them in making these important financial decisions. Our Comprehensive Wealth Assessment will focus on identifying gaps and solutions and empower you to make informed decisions that optimize your financial well-being. Reach out to your financial advisor if you are interested in learning more about how City National Rochdale can help.

Summary of Key Expiring or Changing Income Tax Provisions Under the TCJA

Tax Provision	Pre-TCJA	Changes Under TCJA	12/31/25 Sunset
Individual Income Tax Rates	Top marginal rate of 39.6%.	Top marginal rate of 37%.	Reverts to pre-TCJA law.
State & Local Tax (SALT) Deduction	No cap.	Capped at $10,000.	Reverts to pre-TCJA law.
Mortgage Interest Deduction	Interest deductible on first $1,000,000 in home mortgage debt and $100,000 in a home equity loan.	Interest deductible on first $750,000 of debt for any loan originating after December 16,2017.	Reverts to pre-TCJA law.
Charitable Deduction	Deduction limited up to 50% of Adjusted Gross Income (AGI).	Deduction limited up to 60% of AGI.	Reverts to pre-TCJA law.
Miscellaneous Itemized Deductions	Itemized deductions such as legal fees, investment/ advisory fees deductible to the extent they exceed 2% of taxpayer AGI.	2% deduction eliminated.	Reverts to pre-TCJA law.
Corporate Tax Rate	35%	21%	Made permanent by the TCJA.
Opportunity Zones	No previous law.	Deferral of qualified capital gains until 12/31/26 and step up in basis if held for 10 years.	Program set to expire 12/31/26
Like-Kind Exchange	Treatment applies to certain exchanges of real, personal or intangible property.	Treatment applies only to certain exchanges of real property.	May be eliminated as proposed in the FY Budget 2025.
Section 199A Deduction (QBI)	No previous law.	Deduction up to 20% of qualified business income for owners of certain types of businesses.	Set to expire 12/31/25.
Net Operating Loss (NOL) Deduction	Fully deductible and could be carried back 2 years or carried forward 20 years.	Limited to 80% of taxable income and can only be carried forward indefinitely.	n/a