Federal Tax Update: Key Changes & Planning Strategies for 2025

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Agenda

- Legislative Update and Policy Outlook
- TCJA Expiring or Changing Provisions
- Planning Considerations and Strategies

Legislative Update and Policy Outlook

Tax Legislative and Policy Outlook

- GOP tax policy priorities
- Budget resolution approved on April 10
- Reconciliation process unlocked – committee mark-up began on April 28
- Reconciliation package - challenges and obstacles
- Possible tax legislative scenarios and timing

GOP Tax Priorities

- **Extension of TCJA Provisions:** Republicans aim to extend the TCJA provisions. Some have expired and many are set to expire at the end of 2025.
  - For **businesses**, the GOP platform includes lowering the corporate tax rate to 20% (15% for domestic manufacturers) and making permanent:
    - 100% bonus depreciation
    - 100% current R&D deduction
    - EBITDA standard for measuring the business interest limitation
    - 199A qualified business income deductions for pass-through income
  - For **individuals**, the GOP platform supports:
    - Extending the individual tax rates
    - Eliminating cap or increasing the state and local tax (SALT) deduction limitation
    - Retaining existing capital gains and NIIT rates
    - Extend the child tax credit
    - Extend the current estate and gift exemption

GOP Tax Priorities

- **Additional Tax Proposals:**
  - Eliminating taxes on tips, overtime pay, and Social Security benefits
  - Deductions for auto loan interest and home generators
  - Child tax credit increase
  - Extending increase in estate tax exemptions
  - Extend and modify international tax provisions
- **Other potential tax proposals?**

Reconciliation Legislative Path

- **Joint Budget Resolution:** Both the House and Senate have agreed on a joint budget resolution, setting the stage for reconciliation.
- **Reconciliation Directives:** The resolution includes reconciliation directives to various committees to propose changes in spending, revenue, and the debt limit. <u>*Note that the House and Senate included separate instructions.*</u>
- **Committee Recommendations (mark-up):** Committees respond with recommended changes in law within their jurisdictions, consistent with the directives.
- **Omnibus Reconciliation Bill:** Typically, all committee submissions are combined into a single, omnibus reconciliation measure.
- **Conference Committee:** Any differences between the House and Senate versions are resolved via a conference committee or an exchange of amendments.
- **Final Passage:** Once both chambers pass the final text, the reconciliation bill is enrolled and sent to the President for enactment.

FY 2025 Budget Resolution

- H.Con.Res.14 established the congressional budget for the United States Government for fiscal year 2025:
  - Difficult negotiations resulted in passage of a concurrent budget resolution, as amended by the Senate, on April 10
  - Though passage by both chambers unlocked the reconciliation process, the resolution provides vastly different instructions for House and Senate Committees
  - Passing a final reconciliation bill that aligns with the President's agenda and can pass both chambers of Congress will be challenging

FY 2025 Budget Instructions & Reconciliation Directives

- **House** reconciliation instructions include:
  - $4.5 trillion Ways & Means committee for extension of TCJA and other tax cuts
  - $1.5 trillion floor in spending cuts from other committees ($2 trillion threshold to prevent Ways & Means reduction)
  - $4 trillion debt ceiling increase
- **Senate** reconciliation instructions include:
  - "Current policy baseline" for permanent extension of TCJA (no deficit impact)
  - $1.5 trillion for other tax cuts (tax exemption for tips, overtime, social security)
  - $4 billion floor in spending cuts
  - $5 trillion debt ceiling increase

Committee Mark-Up – Began April 28

- **Start Date:** The House committee mark-up process was scheduled to begin on April 28, 2025.
  - **Judiciary, Homeland Security, Armed Services Committees:** Expected to begin week of April 28, 2025.
  - **Transportation and Infrastructure Committee:** Expected to begin April 30, 2025.
  - **Energy and Commerce Committee:** Expected to begin May 7, 2025.
  - **Agriculture Committee:** Expected to begin week of May 5, 2025.
  - **Ways & Means Committee:** TBA (tax bills originate in the House)
- **Purpose**: This phase involves detailed review and amendments of proposed legislation by committee members.
- **Procedure**: Members will debate, propose amendments, and vote on changes to the bills.
- **Public Access:** Sessions are typically open to the public and can be viewed via live streams.
- **Impact**: The mark-up process is crucial for shaping the final content of legislation before it moves to the floor for a full vote.

Reconciliation Bill Timing

- **Target Date:** House Speaker Mike Johnson (R-LA) and Senate Majority Leader John Thune (R-SD) aim to send a reconciliation bill to President Trump by Memorial Day.
- **Comprehensive Package:** The bill is expected to be a comprehensive single package addressing multiple policy areas, including tax cuts, immigration, and energy reform.
- **Expedited Process:** The reconciliation process will be used to avoid the 60-vote threshold in the Senate, requiring only a simple majority.
- **Legislative Timeline:** To make the Memorial Day deadline, both the House and Senate will need to pass the bill by May 23, before the congressional recess.

House & Senate Divided on Fiscal Strategy

- **House Demands:** House conservatives are pushing for at least $2 trillion in spending cuts over the next decade.
- **Senate Division:** Senate Republicans are divided on the use of the "current policy baseline", debt ceiling increases and the extent of spending cuts, with some members opposing deep reductions, particularly to Medicaid.
- **Medicaid Concerns:** Senators like Susan Collins (R-ME) and Lisa Murkowski (R-AK) have voiced concerns about significant cuts to Medicaid affecting low-income families and rural hospitals.
- **Negotiation Challenges:** Reconciling these differences, along with agreement on offsets, is crucial for passing a reconciliation legislation.

Reconciliation Bill Challenges

- Budget Parameters:
  - **Deficit Concerns:** The federal deficit for FY 2024 was $1.8 trillion, representing 6.4% of GDP.
  - **Spending vs. Revenue:** Total spending increased to $6.883 trillion, while total revenues were $5.036 trillion, leading to a significant deficit.
  - **Fiscal Constraints:** Tight budgetary constraints necessitate careful allocation of funds to avoid exacerbating the deficit.
- TCJA Extension Scoring:
  - **Deficit Impact:** Extending the Tax Cuts and Jobs Act (TCJA) provisions could add $4.6 trillion to the deficit over 10 years.
  - **Economic Impact:** Analyses suggest that the economic effects of extending TCJA would offset only a small fraction of the revenue loss.
  - **Current Policy Baseline Scoring:** Unclear if the method of scoring has support or can be sustained under Senate rules.

Reconciliation Bill Challenges

- Unknown or Controversial Offsets:
  - **Revenue Offsets:** Revenue offsets likely needed to extend TCJA and other tax items have not been identified.
  - **Proposed Cuts:** House budget resolution targets up to $880 billion in potential federal Medicaid cuts over a decade.
  - **Political Opposition:** Opposition from both parties due to potential impacts on low-income families and healthcare providers.
- Congressional Calendar

Congressional Holiday/Recess Schedule

House (79 legislative days left)

May 12, 23–30

June 2, 16-20

June 30–July 4

July 11, 18

July 25–September 1

September 5, 12, 22–26

October 1-6, 13, 24, 31

November 7–14

November 21–28

December 5, 8, 18 (tentative adjournment)

Senate (103 legislative days left)

May 26-30

June 19-20

June 30-July 4

August 4-September 1

September 22-26

October 2-6

October 13-17

November 10-14

November 24-28

December 19 (tentative adjournment)

TCJA Expiring or Changing Provisions

TCJA Expiring or Changing Provisions - Individuals

- Increase in marginal tax rates
  - From 10% / 12% / 22% / 24% / 32% / 35% / 37%
  - To 10% / 15% / 25% / 28% / 33% / 35% / 39.6%
- Decrease in child tax credit and threshold limitations
  - From $2,000 to $1,000
  - Eligibility threshold decreases from $200,000 to $75,000 for unmarried taxpayers and from $400,000 to $110,000 for married filing joint filers
- No tax credit for other dependents (currently $500)
- Deduction for personal exemptions reinstated
  - $4,150 adjusted for inflation
- Standard deduction decreases to pre-TCJA amount
  - Reduced to roughly half of current levels
  - More taxpayers would itemize, but may find their itemized deductions aren’t as much as their higher standard deduction

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TCJA Expiring or Changing Provisions – Individuals (continued)

- Deduction for state and local taxes restored to pre-TCJA amounts without limitations
- Mortgage limitations increase from $750,000 to $1,100,000 (including HELOC interest)
- Cash contribution deduction limitation reduced from 60% to 50% of adjusted gross income
- Itemized deduction for miscellaneous expenses in excess of 2% of AGI restored, including
  - Unreimbursed employee expenses
  - Tax preparation fees
  - Investment advisory fees
- Overall limitation on itemized deductions reinstated (Pease limitation)
- Alternative Minimum Tax exemption and exemption phase-out reinstated to pre-TCJA levels

TCJA Expiring or Changing Provisions – Individuals (continued)

- Estate and gift exclusion amount reduced
  - From $13,990,000 per person
  - To $5,000,000 per person adjusted for inflation
- Qualified opportunity zones – Investments no longer eligible for deferral, adjustments to basis or deferral of gain

TCJA Expiring or Changing Provisions - Businesses

- Most business provisions of TCJA were "permanent" changes
  - Decrease in corporate tax rate to a flat 21%
  - Limitations on the business interest deduction
    - 30% of adjusted taxable income
    - Beginning in 2022, computed after deductions for depreciation, amortization and depletion
  - Changes to depreciation rules
    - Increased Section 179
    - 15-year life for qualified improvement property
    - Increased limitations for depreciation on luxury autos
  - Elimination of 50% deduction for entertainment expenses
  - Limitation on like-kind exchange treatment to cover only real property
  - New rules for deduction of research and development costs under Code Section 174
    - Fully deductible prior to TCJA
    - Amortized over five years beginning in 2022 (15 years for non-domestic costs)

TCJA Expiring or Changing Provisions – Businesses (continued)

- Expiring
  - Qualified business income deduction (Section 199A)
    - Up to 20% of ordinary income for flow-through entities and sole proprietors
    - Meant as an offset to the reduction in the tax rate for C corporations
  - Deduction for meals provided on premises at the convenience of employer
  - Bonus depreciation – decreased to 20% in 2026 and phases out entirely after 12/31/26
  - Limitation on excess business losses for noncorporate taxpayers expires after 12/31/28

"Tax Extenders" Expiring in 2025

- Exclusion from income of employer payments of student loans
- Tax exclusion for canceled mortgage debt on principal residence
- New Markets tax credit
- Work Opportunity tax credit

Planning Strategies & Opportunities

Retirement & Investment-Focused Strategies

- Maximize retirement contributions
  - "Super Catch-up" contributions beginning this year
    - Secure Act 2.0 provides additional catch-up contributions for those aged 60 to 63
    - $11,250 versus $7,500 for 401(k), 403(b) and 457(b) plans
    - $5,250 versus $3,500 for SIMPLE plans
  - Cash balance plan
  - Health savings account contributions
    - $4,300 self-only
    - $8,550 family
    - Additional $1,000 for age 55 and older

Retirement & Investment-Focused Strategies (continued)

- Consider Roth conversions
  - Take advantage of depressed values in accounts to maximize potential future benefit of conversion
  - Reduced Flow-through business income may create opportunity for Roth conversion at lower marginal rates
  - Pair Roth conversion with larger charitable contribution to lessen tax impact
  - Consider Mega backdoor Roth conversion if,
    - 401(k) plan allows for after-tax contributions and
    - In-service distributions into a Roth IRA or 401(k)
    - Earnings are taxed at time of conversion
    - Total 401k contribution limit for 2025 is $70,000 for those 50 and under (include pre-tax, Roth and after-tax)
  - Watch impact of conversion on Medicare premiums for those age 65 and older

Retirement & Investment-Focused Strategies (continued)

- Evaluate accelerating distribution of inherited IRAs
  - Decreased account values
  - Potential for increased tax rates
- Tax-loss harvesting
  - Evaluate during the year versus waiting until year-end
  - Ongoing harvesting through direct indexing
  - Tactically recognize gain in low-basis stock in coordination with tax-loss harvesting

Legacy Strategies

- Create and fund a Spousal Lifetime Access Trust to utilize current estate and gift exemption level
- Utilize 529 account to fund Roth IRA contributions for account beneficiary
  - 529 account open for at least 15 years
  - Earnings and contributions must have been in account at least 5 years to be rollover eligible
  - Subject to Roth IRA contribution limits
  - $35,000 lifetime limit per beneficiary
  - Rollover must be direct trustee-to-trustee transfer
- Gift marketable securities, closely held business interests or real estate with depressed values
  - Leverage use of annual exclusion or exemption
  - Gift directly to heirs
  - Utilize trusts or LLCs (e.g. GRAT)

Charitable Giving & Tax-Efficient Philanthropic Strategies

- Qualified Charitable Distribution - $108,000 per taxpayer aged 70 ½ and older
- Donation of publicly-traded appreciated securities directly to charity or donor advised fund
- Donation of shares of closely-held business to a donor advised fund
  - Preferably prior to signed letter of intent
  - Avoid recognition of gain on shares transferred
  - Charitable contribution for value of shares donated (valuation required)

Tax Credit & Incentive Strategies

- Federal Tax Credits
  - Transferrable tax credits (45X)
  - Retirement Plan Start Up credits
- Indiana Tax Credits
  - Transferrable tax credits (DINO, Venture Capital Credits)
  - 529 contribution credit
- Utilize Pass-through Entity Tax provisions for LLCs, partnership and S corporations
  - Consider change in structure for sole proprietor or S-election for single member LLC

Presenters

Valerie Brennan

Managing Director

Valerie is a Managing Director with a focus on Tax and Financial Planning. She specializes in wealth management as well as tax compliance and consulting services. She works with high-net-worth individuals and entrepreneurs, furnishing tax and accounting expertise, and developing financial planning strategies.

Throughout her career, Valerie has focused on supporting entrepreneurial businesses and their owners across a variety of industries. In addition to her expertise in tax and accounting, she specializes in developing personalized financial planning strategies to help her clients achieve their goals. Valerie is a Personal Financial Specialist and holds Series 7 and 66 securities licenses.

Dave Burnett

Managing Director

Dave provides proactive direction on complex tax, business and estate planning initiatives for clients. He is focused on tax compliance and consulting for flow through entities and their owners. Dave has extensive expertise in entity and transaction structure, mergers and acquisitions, joint ventures, reorganizations and succession planning for closely held businesses.

Dave provides wealthy individuals, many of whom are business owners, and their families with sound guidance in the areas of income tax compliance, tax planning, estate and gifting strategies, wealth transfer and private equity. His background allows Dave to effectively communicate with various members of the client's advisory team to provide comprehensive and practical solutions.

Questions?

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