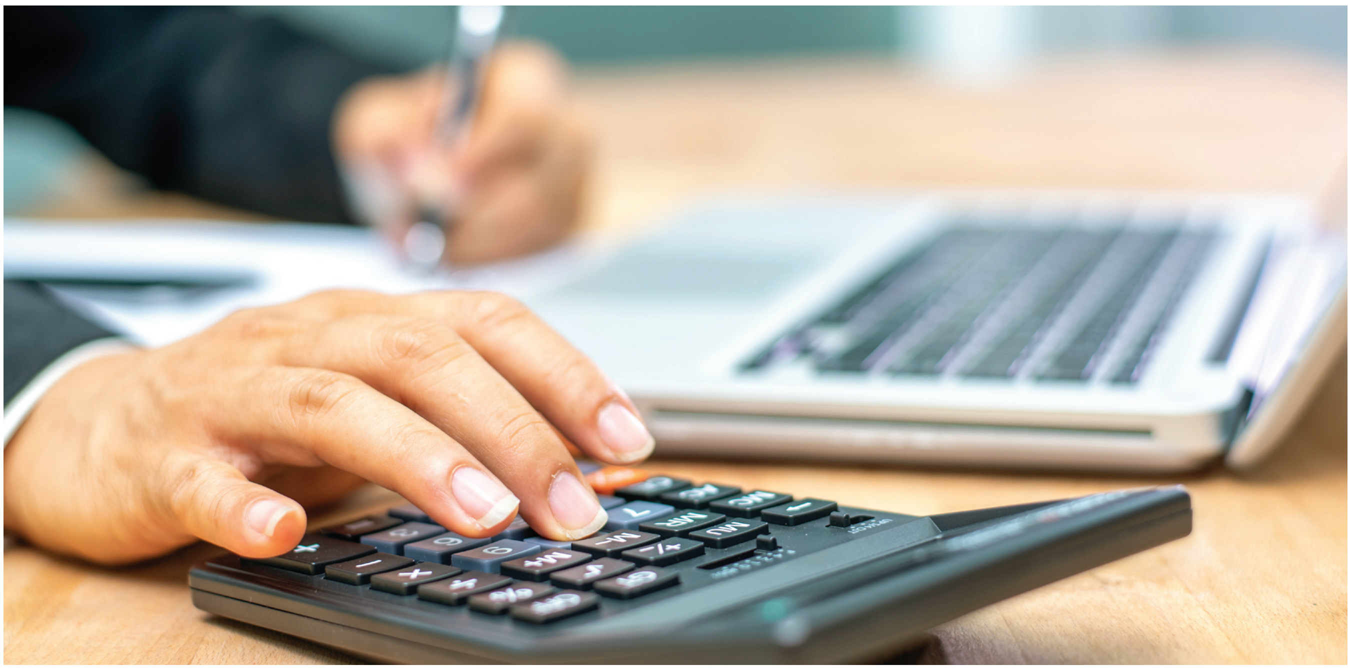
Key Wealth

Key Family Wealth — Business Advisory Services (BAS)

The Urgency of Tax Planning: Preparing for the Sunset of the 2017 Tax Cuts and Jobs Act



As the end of 2024 approaches, owners of closely held businesses face a critical juncture in planning — not only for their own futures, but also for those of their families. The federal income tax and estate and gift tax cuts introduced in the 2017 Tax Cuts and Jobs Act (TCJA) are set to expire and revert to pre-2017 levels.

This sunset provision presents both a challenge and an opportunity. The challenge will be navigating the impending changes. The opportunity will be taking active steps to protect generational wealth and optimize tax strategies. Early planning is imperative.

In light of the imminent sunset, business owners should consider implementing income and estate tax strategies now.

Understanding the impact of the 2017 Tax Cuts and Jobs Act

The TCJA changed the tax landscape in several ways, including:

Federal income tax

Reduced individual income tax rates, increased the standard deduction, limited state and local tax (SALT) deductions, doubled the child tax credit, and temporarily increased the exemption amount for the Alternative Minimum Tax (AMT).

Estate and gift tax

More than doubled the federal estate, gift, and generation-skipping transfer tax (FEGGST) exemptions to the current rates of $13.61 million for individuals and $27.22 million for married couples.

These provisions will expire at midnight on December 31, 2025, unless Congress acts to extend them. The impending return to pre-2017 levels signifies higher tax rates and lower exemptions. Income and estate taxes will be affected significantly.

The importance of planning early

By planning early, owners of closely held businesses can maximize the benefits of lower tax rates and higher FEGGST exemptions before they vanish. The benefits include:

- **Lower income tax rates –** Lock in the current lower rates through strategic income deferral and timing.
- **Higher standard deduction –** Benefit from the increased standard deduction while it lasts.
- **Enhanced estate and gift tax exemptions –** Use the doubled exemptions to transfer wealth tax-efficiently through trust vehicles and entity planning.

Owners can also mitigate future uncertainty and compound benefits over time. Tax policy is inherently uncertain, and waiting until the last minute could mean missing out on favorable conditions. Early planning allows for:

- **Strategic flexibility –** Implementing strategies now allows you to adjust as policies change.
- **Avoiding rushed decisions –**Last-minute planning can lead to suboptimal decisions and missed opportunities.

Early implementation of tax-efficient strategies can yield substantial long-term benefits, enhancing overall wealth preservation and growth.

The importance of using tax and trust strategies to mitigate taxes

To navigate the impending changes, owners of closely held businesses should consider a variety of tax and trust planning strategies.

Income tax planning strategies

- **Retirement plans**
  Maximize contributions to tax-advantaged retirement accounts such as 401(k)s and individual retirement accounts (IRAs). These accounts offer immediate tax benefits and long-term growth potential.
- **Charitable contributions**
  Use charitable remainder trusts (CRTs), charitable lead trusts (CLTs), and donor-advised funds (DAFs) to achieve tax-efficient philanthropy while supporting causes you care about.
- **Income deferral**
  Consider deferring income to future years to manage taxable income within favorable tax brackets.

Estate tax planning strategies

- **Irrevocable trusts**
  Establish spousal lifetime access trusts (SLATs), irrevocable life insurance trusts (ILITs), and intentionally defective grantor trusts (IDGTs) to remove assets from your taxable estate while retaining some control over their management and access to trust assets in some cases.
- **Gifting strategies**
  Take advantage of the current higher gift tax exemptions by making significant gifts now. This includes using the annual gift tax exclusion and FEGGST lifetime exemption.
- **Grantor retained annuity trusts (GRATs)**
  Transfer appreciating assets out of your estate with minimal gift tax implications, allowing future growth to occur outside the taxable estate.
- **Family limited partnerships (FLPs)**
  Transfer closely held business interests to heirs at discounted values, leveraging valuation discounts for estate and gift tax purposes.

Conclusion

The sunset of the 2017 Tax Cuts and Jobs Act provisions is a pivotal moment for owners of closely held businesses. By planning early, you can maximize current benefits, reduce future uncertainties, and leverage powerful tax and trust planning strategies. Acting now not only ensures you are well-prepared for the coming changes but also positions you to safeguard and grow your wealth in a tax-efficient manner. So, seize the opportunity to plan for the future and secure your family's legacy.

For more information, please call your relationship manager.

The Key Family Wealth BAS team is dedicated to providing guidance and support to privately held business owners like you. Specifically, the BAS team helps owners prepare for an eventual business transition with strategies and advice on how to maximize the after-tax value of a business transition.

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