NAVIGATING UNCERTAINTY IN TAX STRATEGY SURROUNDING THE TAX CUTS AND JOBS ACT SUNSET

by

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Project Abstract:
Throughout history, taxpayers have relied on tax strategies to reduce the proportion of income that is deemed taxable by the government. Today's tax environment is no exception, and with the changes surrounding the Tax Cuts and Jobs Act (TCJA) Sunset, taxpayers need to prepare their tax plans. In 2025, much of the current tax legislation for individual taxpayers will potentially revert to the pre-TCJA legislation. Preparing a strategy during this time period will be difficult because when the current legislation sunsets in 2025 many of the legislation changes will depend on which political party controls the presidency.

This paper seeks to identify the best strategy that taxpayers can utilize to minimize their tax liability despite the uncertainty surrounding the 2025 deadline, by looking at historical strategies, pre-TCJA legislation strategies, and current strategies. By understanding these strategies, taxpayers can come closer to understanding their ideal strategy for the sunset. The research finds two tax plans can be created that are specific to the political party of the new president, Democrat or Republican. If taxpayers feel they know which party will win the election, some tax strategies can be implemented now. Otherwise, this research offers a third suggestion that is applicable, but not as tax efficient, regardless of which political party controls the presidency. However, this research cannot recommend a definitive best course of action until after the presidential election, as government elections will ultimately determine the legislation following the sunset.

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A history of the tax environment

The United States federal government has used taxes as a vital income-producing instrument for over a century, and other nations have done the same since early history. The government created income taxes as we know them in 1913 with the ratification of the Sixteenth Amendment, which states: "Congress shall have power to lay and collect taxes on incomes, from whatever source derived" (Laffer et al., 2022, p.24). This critical clause gives Congress the power to tax whatever income it may choose, how it chooses. For example, the federal government currently chooses not to tax items such as state and local bond interest but chooses to tax refunds that taxpayers receive from overpaying state taxes.

To illustrate the variation in tax policy even further, a review of United States history summarized from *Taxes Have Consequences: An Income Tax History of the United States* shows just how Congress's method has varied as the US has progressed. In 1913 when Congress implemented the first income tax, the highest marginal tax rate was seven percent. Just five years later, that top rate skyrocketed to seventy-seven percent, though that rate was for the highest-income earners. In the time between 1918 and 1928, the top rate dropped back down to twenty-five percent, but this low rate did not stay long. One year later, President Herbert Hoover proposed a tax bill that increased the top rate to sixty-three percent. He signed the bill into action in 1930, and the rate change took effect that year. 1936 presented another increase, and the top rate was raised to seventy-nine percent. Though the top personal income tax rate was already high, World War II brought yet another increase, with income tax rates topping out at ninety-four percent between 1942 and 1945. When the war was over and government spending calmed, the rates fell to just above eighty percent. Those "low" rates did not last long, and in 1952 the rates

were back to ninety-two percent. High rates remained until President John F. Kennedy pushed to lower them, and by 1967 he had helped lower rates down to just seventy percent.

Shortly after the presidency changed, the country experienced severe inflation, and because taxes did not change with inflation, the top seventy percent rate was much harsher than it had been. These harsh rates lasted until Ronald Reagan was elected president, when rates were dropped drastically. By the end of his second term in 1989, Reagan had helped lower the top rates to a mere twenty-eight percent. Since then, the top rate has never risen above forty percent (Laffer et al., 2022, pp.37-43).

Although the tax code income tax rates were rarely consistent and often outrageously high for long periods of time, one thing remained consistent, the effective income tax rate. The average tax rate differs from the marginal tax rate, in that the marginal tax rate is the rate that applies to the next dollar earned (the rate from an individual's tax bracket), whereas the average (effective) tax rate is the individual's total taxes paid divided by the total income earned. As stated in the book, *Taxes Have Consequences: An Income Tax History of the United States*, "this number was, as we best are able to ascertain with modern data, about 20 percent" (Laffer et al., 2022, p.24). How did the rich upper-class society retain a twenty percent average tax rate in an environment with a ninety-four percent tax rate? They did it through the use of legal tax strategies.

The nature of tax strategy

There are many different types of tax strategies, but one important note is that it was most often the top percentage of income earners who practiced these expensive strategies. For example, one strategy high-income earners use during periods of high tax rates is to move

income out of taxable vehicles (methods of investment) to vehicles less impacted by the tax rate, such as non-taxable state and municipal bonds (Laffer et al., 2022, p.54). Because many of the highly compensated members of society want to invest in these non-taxable bonds, the price increases with demand, and those individuals in lower-income classes are unable to afford non-taxable bonds, requiring them to invest in taxable bonds instead; consequently, those lower-income earners sometimes pay a higher percentage of their income in taxes, making it even more difficult to increase their wealth.

Another example of the tax strategy segregation found between income classes is the use of deferred compensation agreements (Laffer et al., 2022, pp.35-36). A normal worker paid in W-2 wages has a difficult time deferring income, but a C-suite executive whose compensation is made up of a large number of stock options has a much easier time delaying this income. Additionally, with the right kind of compensation agreement, a preferential capital gains tax rate is given and the tax rate is decreased, resulting in even less taxes being paid. The W-2 worker, whose income is classified as ordinary income, has no such opportunity.

In addition to deferred compensation, C-suite executives and other business owners have the opportunity to expense some personal items as business expenses. In 1960, one Manhattan executive was quoted as having said, “I haven’t paid for my lunch in thirty-one years” (Laffer et al., 2022, p.37). If lunches cost an average of $8.00 a meal and that executive worked 5 days a week for 50 weeks each of the thirty years, that executive retained $62,000 that would have been spent on lunch but did not have to pay extra taxes, and the business reduced taxable income by a portion of that amount. Normal workers do not typically receive this type of treatment, and as such, the higher-income earners again have the advantage.

These three examples highlight some of the ways that high-income earners reduce their taxable income, but there are many additional ways these individuals accomplish this. It is important to recognize that high earners are not doing any illegal or arguably unethical, but that they have more opportunities to implement tax strategies because their income is higher.

Another aspect that makes tax strategy so difficult is the volatility and lack of consistency in the tax environment. The summary of tax history points out that wars, politicians, and other economic and social factors all combine to determine the tax rate for the current period. With each change, to minimize tax expense, taxpayers must shift their tax strategy to match the tax environment – meaning no one strategy would work well across every tax regime. Additionally, these strategies often require planning and preparation, which can involve predicting what tax rates, laws, and other factors may come into play. When laws and regulations are often changing, taxpayers have a difficult time planning for the upcoming tax season. Thankfully, in today's day and age, there is some predictability in what rates may be, as each political party has different tendencies. When there is uncertainty surrounding which party is in control, taxpayers and accountants need to use more judgment when making tax strategy decisions. This judgment is particularly important in times surrounding large tax bills, and the associated sunset dates (the date on which certain elements of the policy will expire, reverting to the previous policy).

Overview of major tax reformation acts

The first major tax act, the 1986 Tax Reform Act, came amidst high rates and was designed to change the United States tax environment. This tax reform act had many large changes that affected tax planning, but a few are of special importance. One major aspect of the 1986 Tax Reform Act as described by Daniel Simmons in his article *The Tax Reform Act of*

1986: An Overview was the elimination of the capital gains rate, emphasizing that there was no difference in the type of income individuals were receiving. Because the new law eliminated capital gains rates, the tax planning element of shifting income to capital gains-favored investment vehicles was no longer relevant (Simmons, 1987, pp.179-180).

Another major change to investing came by way of passive investor restrictions, which limited "the deduction of losses from passive investment activities to the income produced by the activity" (Simmons, 1987, p.203). Furthermore, the law reclassified most rental activities as passive income even when the taxpayer was participating in everyday operations. Some taxpayers who used rentals to create tax losses were now, in many instances, unable to fully deduct losses. In contrast, one upside for business owners was that the law increased other deductions by giving self-employed individuals the ability to deduct 25 percent of their health insurance (204).

Most individuals, specifically the high earners, were better off as the 1986 Tax Reform Act set the top tax rate for individuals to twenty-eight percent (Simmons, 1987, p.164). This shift changed tax strategy yet again, as high-income earners no longer needed to shift as much income to tax-sheltered investment vehicles to maintain their 20 percent effective tax rate. These individuals' post-tax income stayed the same, even though a larger portion of that income was subject to tax. One other aspect of the 1986 Tax Reform Act was the reduction of the "marriage penalty," which resulted when a married couple paid more tax than two single individuals, despite making the same amount of money. The marriage penalty affected high-wealth individuals more strongly, but lower-income taxpayers could file tax returns jointly with less of a negative effect (Simmons, 1987, p.213).

All of these changes affected tax strategy, though some changes had the potential to affect taxpayers more negatively, such as the elimination of the preferential capital gains rate (Simmons, 1987, pp.179-180). For the unsuspecting taxpayer who had carefully designed their investment portfolio to favor capital gain-generating investments, this single change would have greatly increased how much tax the taxpayer owed. If the taxpayer were using their judgment and guessed this clause was going to be put into effect, they would have potentially wanted to sell off those investments and shift their income to a different investment, so that they could take advantage of the more favorable investments. However, if they shifted their income into rental properties, they may yet again have been disappointed, especially if some of the investments generated a loss that would have previously been deductible. Each of these considerations increases the complexity of tax planning, and the 1986 Tax Reform Act is a good example of demonstrating why tax planning can be so difficult.

In 2017, President Donald Trump signed the other major reformation of the United States tax code into law. This law was titled the Tax Cuts and Jobs Act (TCJA) and was a push by the president and his team to boost the economy. This bill has changed the United States tax landscape and is alleged to have changed the economy as well. The new law provided incentives, lowered tax rates, and encouraged taxpayers to pay their taxes. In *Taxes Have Consequences: An Income Tax History of the United States,* the Laffer et al. (2022) shared a quote from President Trump, where he stated exactly what the impacts resulted from the newly-created incentives.

> Businesses responded to the greater incentives: they earned more, their workers earned more, products were produced more efficiently, tax shelters shrunk, and noncorporate tax revenues rose by a good deal more than corporate tax revenues shrank!

> In fact, in the two years following my tax bill – from the fourth quarter of 2017 through the third quarter of 2019 – total federal tax revenues grew by 7 percent (or $245 billion) from the two years prior to the tax cut. That increase was substantially greater in absolute and percentage terms than was the increase up to the two years prior to my Tax Cuts and Jobs Act.
>
> This revenue increase in only two years should be lesson number one for all those who claimed that revenues would fall following the tax cuts. When marginal tax rates are cut, tax revenues sometimes don't fall, and in this case, they didn't. The tax cuts paid for themselves and did so within the first two years (p.18).

While the book does not provide data to support these claims, the claims highlight an important point about this policy. Tax rate cuts are not always negative from a government perspective, and if these claims are correct, some cuts can even increase government tax revenues. This point returns us to the idea that the top one percent will typically maintain a twenty percent effective tax rate, regardless of what the marginal rate currently is. With lower rates, those high-income earners likely changed their tax planning to switch more of their income to taxable investments, consequently deeming a higher portion of their income as taxable.

What does the Tax Cuts and Jobs Act do?

The TCJA included many changes, but one unique aspect was that some of those changes were only temporary. When the law was signed, it changed many aspects of individual tax law until 2025, which "conveniently" lines up with when President Trump would have finished, had he been re-elected to office for a second term. This reversion of the temporary clauses of the tax

law is referred to as the Tax Cuts and Jobs Act sunset. We clearly see a political aspect driving this law, but the sunset also adds an aspect of complexity for tax planners. Because an understanding of the Tax Cuts and Jobs Act becomes essential for taxpayer compliance and for understanding tax planning surrounding this law, the Internal Revenue Service (IRS) published a list of changes resulting from the TCJA.

First, the law majorly affected deductions. Prior to the TCJA, individuals received a personal exemption deduction, meaning they received a deduction for every member of the household. However, the TCJA eliminated this deduction, raising taxable income in that area (Internal Revenue Service “Individuals”, n.d., pp.5-7). Another deduction the TCJA changed was the standard deduction. The standard deduction is a deduction that all taxpayers automatically have when filing. If a taxpayer has deductions coming from personal items that exceed the standard deduction, the taxpayer can choose to itemize, rather than use the standard deduction. However, if the taxpayer does not itemize, then the taxpayer is automatically given the standard deduction (IRS “Topic no. 501, Should I itemize?”, n.d., p.4). Under the TCJA, the standard deduction doubled for almost all taxpayers (IRS “Individuals”, n.d., pp.8). This increase meant that fewer taxpayers utilized the option to itemize, as their deduction amount would have had to be very large, and depending on how many deductions individuals had, this essentially eliminated one area of tax planning.

In addition to the standard deduction being raised, the itemized deduction section was changed drastically as well. Prior to the TCJA, a taxpayer could deduct losses due to theft or casualty. If a taxpayer’s expenses were above a certain portion of their income, the taxpayer could also deduct many miscellaneous deductions including employee business expenses, tax preparation fees, investment and management fees, employment-related educational expenses,

job search expenses, hobby losses, safety deposit box fees, and investment expenses from pass-through entities. The pre-TCJA law also included a limitation on itemized deductions for certain high-wealth taxpayers (IRS "Individuals", n.d., p.8). Under current TCJA law, all of these deductions were eliminated and the limitation was lifted. Again, we see an area where tax strategy must change.

One other category included under itemized deductions is the state and local income tax category. This category includes property taxes, sales taxes, and state and local income taxes (IRS "Individuals", n.d., p.9). For high-wealth individuals, this was an opportunity through which individuals could deduct large sums of money, significantly decreasing their tax bill. However, the TCJA limited this, capping the deductible amount at $10,000. Tax strategy that benefitted from large deductions from the state and local tax category needed to change and compensate for this loss of allowable deductions in other ways.

Along with those deductions, the TCJA disallowed the alimony and moving expense deductions and no longer considered alimony income to be taxable. For alimony, any divorce after December 31, 2018 is included in this clause and is not deductible. Furthermore, moving expenses were changed to only be deductible for special situations, such as an active military member being required to move due to military service. Non-military taxpayers are not allowed access to this deduction (IRS "Individuals", n.d., pp.10-12).

Depreciation options also changed for those who were able to deduct depreciable property. This change affects individual taxpayers who own pass-through entity businesses such as sole proprietorships, single-member limited liability companies, partnerships, and s-corporations. This new law increased the maximum Section 179 deduction and the phase-out range, so more business owners qualified for this deduction. The TCJA also temporarily

increased bonus depreciation to 100 percent, allowing taxpayers the option to deduct, rather than capitalize, purchased property (IRS "Individuals", n.d., p.11).

The TCJA included changes to retirement account regulations, health savings accounts, and a change to the estate and gift tax. Restrictions for converting traditional IRAs to Roth IRAs were lifted, and taxpayers were able to convert more accounts to Roth IRAs. Additionally, the TCJA lowered the maximum deductible contribution for a health savings account. Finally, the law significantly raised the estate and gift tax basic exclusion amount (IRS "Individuals", n.d., p.25). One reason this section is so important is that retirement planning is a major way that tax planners can manage taxable income. By planning when to invest in each type of account, taxpayers can either decrease or increase taxable income to better match what their current goal is for their desired tax rate. The Tax Cuts and Jobs Act gave taxpayers a better opportunity to move their assets in a way that made sense for them.

When the TCJA was signed into law, it changed the regulations surrounding credits. When considering credits and deductions, it is important to understand that a deduction decreases taxable income, whereas a credit decreases tax liability, dollar for dollar. For example, if taxable income was $100, the credit or deduction was $10, and the tax rate was ten percent, income after a credit would be calculated using the following formula. $100 income*10% tax rate = $10 tax liability - $10 credit = $0 owed. The deduction, on the other hand, would be calculated as follows: $100 income - $10 deduction = $90 taxable income * 10% tax rate = $9 of taxes owed.

The Tax Cuts and Jobs Act expanded the allowable child tax credits from $1,000 to $2,000 but required that a social security number, rather than a social security number or individual taxpayer identification number, be included on the tax return for each child the taxpayer claims (L. Wilkey, personal communication, February 28, 2024). For anyone who may

have previously been claiming an individual who had no social security number, the credit amount likely went down, but for those claiming legitimate children, the credit went up significantly. Furthermore, the TCJA raised the maximum income a person can have before the credits begin to phase out, enabling more individuals to take advantage of this credit (IRS "Individuals", n.d., p.5).

The TCJA also created a new credit which allowed taxpayers to receive $500 for each dependent they claimed. This credit is specifically for dependents who are not eligible for the child tax credit, due to age or relationship limitations (IRS "Individuals", n.d., p.6).

All of these items, among others, increased the complexity of tax planning, but the biggest event related to the Tax Cuts and Jobs Act that tax planners are anticipating is the TCJA sunset. The uncertainty surrounding this event is difficult to predict because although the sunset will happen, many of the laws following the sunset are still unclear. If politicians wish, they may push for similar laws to those in the TCJA, or they could extend the temporary aspects. On the other hand, lawmakers could sit still and let the tax law revert back to the pre-TCJA law. Or, they could change the law even further than the pre-TCJA law. In any case, taxpayers still need to strategize so that they are minimizing their tax bill.

Current strategy under the TCJA

Though no one-size-fits-all strategy exists, there are a few common strategies that many tax planners use in the current tax environment. In this section, those common strategies will be explained in the context of three taxpayer classifications: W-2 employees, earners from other income sources, and retired individuals. Further explanation will be given as to what each classification entails, but it is important to note that each classification opens the doors to

different types of tax planning, and some aspects of planning will only work for one category. This information comes from personal interviews with Lacee Wilkey, a CPA and lecturer at Utah State, and Tyler Alleman, Brent Sandberg, Rick Arnell, and Erik Gardner, four tax partners at Jones Simkins CPA.

W-2 Earners

This category of planning is for individuals who only have W-2 income. Though some tax planning can take place, under the TCJA this category is more limited than the others. Under current law, taxpayers can most effectively strategize by utilizing the itemized deduction election (T. Alleman, personal communication, December 4, 2023). If taxpayers are paying state and local taxes, they should deduct all these taxes up to the $10,000 limit.

One of the main keys for W-2 employees is managing charitable deductions if the taxpayer is charitably inclined. A taxpayer can deduct donations of up to 60% of their income, meaning they can reduce income by a large amount. This opportunity is useful if the taxpayer receives a larger bonus or raise that results in the individual having an undesired tax rate. A Donor Advised Fund (DAF) is especially useful because it allows the individual to donate charitable contributions to a qualified fund where the individual can delay giving the contributions to the charity of the taxpayer's choosing (T. Alleman, personal communication, December 4, 2023). For example, if a taxpayer wishes to donate $10,000 per year to a charity, but the taxpayer needs to deduct $20,000 of charitable contributions in order to maintain the desired effective tax rate, the taxpayer can accomplish this with a DAF, which holds the extra $10,000 donation until the taxpayer wishes to donate.

To itemize, despite the much higher standard deduction, taxpayers who are close to the threshold have begun using a strategy called “bunching” (L. Wilkey, personal communication, February 28, 2024). Taxpayers using this strategy will take the standard deduction and delay charitable contributions and other itemizable deductions that would have been used in that tax year. In the following tax year, the taxpayer will then use the previous year's and current year's deductions to qualify for itemizing.

The other main way taxpayers control W-2 income is by contributing to retirement accounts and health savings accounts (E. Gardner, personal communication, December 4, 2023). If taxable income is too high, contributing to a traditional IRA will allow the taxpayer to reduce taxable income, therefore lowering the immediate tax liability. This income will be taxed when pulled from the account, but with correct planning, the taxpayer will be in a position where that taxable income fits their plan. Maximum contributions to health savings accounts (HSA) also reduce taxable income, which reduces tax liability. In addition, if funds from an HSA are used for qualifying medical expenses, the funds can be pulled tax-free from the account and the individual will never pay taxes on this money.

By using these three categories and maximizing other itemized deductions, a W-2 taxpayer can manipulate their tax situation to become more desirable. The amount of control a W-2 taxpayer has is limited, but it is important to take control of any area available for planning.

Individuals Earning Income From Other Sources

In this category, individuals receive income from personal businesses, pass-through entities, and other investments. This category requires extensive planning as there are countless

actions a taxpayer can take. The strategies listed below are some of the most common strategies in today's tax environment.

For individuals who own businesses, entity structuring is incredibly important. First, one must ensure that the entity structure matches the business activity. For real estate companies, tax professionals typically recommend that the owner use an LLC (R. Arnell, personal communication, December 4, 2023). By using an LLC, the taxpayer to avoids corporate double taxation without having personal liability. Additionally, though this is not tax-related, one can easily add new partners to an LLC. For other businesses, taxpayers should typically use s-corporations to reduce payroll taxes. To reduce payroll taxes as much as possible, the taxpayer should take as low of a salary as possible, but it must be reasonable for the IRS to accept it as valid (R. Arnell, personal communication, December 4, 2023). S-corps reduce self-employment taxes but retain the limited liability of an LLC.

In addition to entity structure, there are other important aspects for business owners. The taxpayer should make sure the business can qualify for a QBI (qualified business income) deduction. If one business does not qualify for QBI on its own but the taxpayer owns multiple businesses, the non-qualifying business could be grouped with other businesses to qualify. If the business is a service business, the taxpayer should keep income under the IRS-specified QBI threshold (T. Alleman, personal communication, December 4, 2023).

For all cash method businesses, if income is high, the taxpayer should delay the collection of accounts receivable and accelerate payment of accounts payable. If income is lower, one should do the opposite. If the business is capital-intensive, the taxpayer should utilize asset management. Applying section 179 depreciation and bonus depreciation when buying needed assets allows taxpayers to take large deductions (potentially up to 100% of the asset cost) in

years with more income (B. Sandberg, personal communication, December 4, 2023). Using these strategies allows business-owning individuals to control taxable income and take full advantage of deductions allowed by the government.

Individuals also receive other income through investments. When investing in stocks, it is important to hold investments longer than a year before selling in order to take advantage of the preferential capital gains rate. Taxpayers can also shift investments to state and municipal bonds to have non-taxable income, depending on the tax rate environment. When individual rates are high, this strategy is ideal. However, when rates are low, investing in corporate bonds is a better option. When the taxpayer chooses to invest in real estate, they should maximize capital gains and limit net investment income (NII) to avoid the 3.8% NII tax (B. Sandberg, personal communication, December 4, 2023). If the taxpayer is receiving income from a pass-through entity (PTE), the taxpayer should do their best to have taxes paid at the entity level. Then, the taxpayer can take the state PTE tax credit if the taxpayer's filing state has the option.

Gains and losses are an important part of business, and different business activities generate different types of gains and losses. If the taxpayer has many passive losses, the individual should manage income generators to generate passive income to free those losses (B. Sandberg, personal communication, December 4, 2023). Otherwise, passive losses will never be able to reduce taxable income. Additionally, taxpayers can use capital loss harvesting to offset capital gains. However, when doing this, the taxpayer needs to avoid wash sales so that the loss is not disallowed. The taxpayer must wait thirty days before reinvesting in the stock from which the loss was harvested.

By managing income recognition, controlling the nature of gains and losses, and managing tax payments on a business level, taxpayers receiving income from multiple sources can maximize their income while reducing their taxes.

Retired Individuals

This aspect of tax planning is relevant to every taxpayer, regardless of whether they are a W-2 employee or earn income from other sources, as this section is for individuals who are currently withdrawing from retirement accounts or individuals who will one day in the future. Tax planning for retired individuals is more limited than planning for other income, but strategies still exist for this category.

Before the taxpayer gets to retirement, it is often wise to roll a portion of the traditional IRA into a Roth IRA using a Roth conversion. With changes found in the TCJA, this is easier than ever before. One tax director recommended having $400,000 to $500,000 in a traditional IRA, with the remainder of savings in a Roth IRA (J. Barker, personal communication, February 8, 2023). As with all tax planning, this figure will vary for taxpayers, so it is important that the taxpayer plan for their individual situation. Ideally, tax planning would require that enough income comes from the traditional IRA to match the taxpayer's deductions (standard or itemized), and the remainder of the taxpayer's desired income can come from a Roth IRA.

If taxpayers are unable to itemize during retirement utilizing the qualified charitable distribution (QCD) option from a traditional IRA is a great way to reduce income (E. Gardner, personal communication, December 4, 2023). With a QCD, money can be donated out of the IRA, meeting the required distribution amount but reducing the taxable income a taxpayer must claim from the distribution. Though this does not count towards itemizing, it reduces taxable

income directly, having the same effect as the deduction. If the taxpayer still wishes to itemize, this could be a good opportunity to utilize the bunching strategy.

For individuals who are retired now, gifting can be used to manage estate taxes. Under current TCJA law, gifting is very favorable because the estate and gift tax exemption is very high, so taxpayers can gift far more of their assets before hitting the threshold where they must pay tax. If a taxpayer is considering gifting, many tax professionals recommend gifting now to take full advantage of this favorable treatment. (E. Gardner, personal communication, December 4, 2023).

Mixing the Categories

As one can imagine, different combinations of these categories exist. Some W-2 taxpayers also earn income from other sources. In an ideal society, every taxpayer would invest in their retirement. These categories are not mutually exclusive. Rather, they will include taxpayers from multiple categories. Using tax planning and understanding the TCJA, a taxpayer can successfully plan to pay taxes in the way that fits their goals.

Strategy for the Sunset

Assuming the sunset happens, much of the strategy will remain the same, but some aspects will change. Because previous sections discussed strategy in detail, the topics addressed in this section will focus on changes in strategy, rather than revisiting the many points that will remain unchanged.

W-2 Earners

W-2 Earners focus on itemizing deductions. After the sunset, there will no longer be a $10,000 cap on state and local taxes. These deductions can again be utilized to reduce income to the maximum amount possible. In addition to state and local taxes having no cap, miscellaneous deductions will again be allowed. Deductions such as accountant fees, investment expenses, and other aforementioned deductions will return, and the standard deduction will be reduced. Consequently, more taxpayers will itemize than were itemizing under the TCJA (Daigle et al., 2023, p.3). If taxpayers are barely above the standard deduction under the TCJA, it may be wise to utilize the bunching strategy and save itemized deductions until after the sunset.

Individuals Earning Income From Other Sources

For individuals with income from other sources, many of the business aspects will be the same. However, QBI (qualified business income) is set to sunset, so these individuals can expect to pay more taxes and receive less benefit from following the guidelines that qualify a business for QBI. Therefore, tax planning will change, in that the QBI requirements will no longer be as important. Service businesses can earn more income and businesses will not need to be grouped for that reason.

Depreciation will also change. Bonus depreciation is set to phase out, though it will happen completely in 2027. In the past few years, the bonus depreciation benefit has been decreasing, In 2024, businesses can deduct sixty percent of the purchase price of an asset. This percentage will change until being completely eliminated in 2027 (Thomson Reuters, p.3).

One aspect of the TCJA was lower individual tax rates. These lower rates caused people to switch assets from tax-favored bonds to assets that had higher tax rates. With the sunset, the

top rate will go from thirty-seven percent up to 39.6 percent (Daigle et al., 2023, p.2). More high-wealth taxpayers will want to prioritize investing in tax-favored vehicles that earn the taxpayer money tax-free.

Retired Individuals

The main change happening for retired individuals will come through changes in the estate and gift tax. When the law sunsets, the exclusion will be cut in half, meaning taxpayers can no longer gift as much as they had under TCJA law, requiring much more robust estate planning (E. Gardner personal communication, December 4, 2023).

Bringing the Strategy Together

There are a few items that apply to all categories. The law included major changes with credits. The TCJA dependent credit will be eliminated and the child tax credit will be cut in half, but a new personal exemption deduction will be reinstated, which will provide the taxpayer a deduction (rather than a credit) of at least $2,000 for each taxpayer and that taxpayer's qualified dependents. This deduction is adjusted for inflation, and many tax professionals are expecting this deduction to be above $4,050 (L. Wilkey, personal communication, February 28, 2023).

Ultimately, much of the tax strategy will stay the same, but some aspects will change. Tax planners will need to adjust and relearn many of the rules relevant to the pre-TCJA period. These planners will also need to know what to do in advance so that the tax strategy is in place for the taxpayer and those high-wealth individuals can maintain their twenty percent rate.

Navigating Uncertainty, the Conclusion

As mentioned before, the most difficult piece of the Tax Cuts and Jobs Act is the sunset in 2025. So, how do taxpayers navigate the uncertainty surrounding the 2025 sunset? There is no good answer, yet… Tax law will all be determined by the result of elections this election season. If Republicans control the presidency, the act will likely be extended, and taxpayers should use the tax planning guide that would have been used during the TCJA. No deviation should be made from the previous year's tax planning. If Democrats control the presidency, a taxpayer will likely need to change tax planning to the post-sunset tactics. However, changes affecting the United States tax landscape could come from either party, so it remains to be seen. The one consistent element that taxpayers can plan on is uncertainty.

Word Count: 5,811

Reflection

Entering HONR 3900, I was unsure what format I wanted my capstone to take and was even more unsure of what I was going to choose for the topic. Accounting is somewhat unique, in that the main research I had done up to this point in my education revolved around searching through the Internal Revenue Code for laws surrounding specific tax-related questions. I had never developed a research question, conducted in-depth research, or written a large paper on my methods and analysis. Rather, I had answered the questions and turned in the answers. This capstone project pushed me very far outside of my comfort zone; consequently, I was able to learn a great deal.

To better understand my options, and because HONR 3900 strongly advised, I reached out to the Departmental Honors Advisor for the accounting program, Jim Cannon. We sat down and discussed what I had done up to that point, and he suggested a few different topics that might interest me. One topic in particular stuck out to me, and that was the topic I ultimately decided to pursue. Meeting with Jim also helped me understand some of the different options I had as far as format was concerned. I also discussed my concerns with Dr. Miller and settled on writing a thesis paper. Having finished the paper, I am grateful that I chose this format, as it was greatly beneficial to me.

When I began the paper, I was panicked about the page count and amount of content that I had decided I needed to have. I was unsure how I could fill more than a few pages with my thoughts, as I had never been required to write more than a 6 or 7 page paper. However, that worry was not justified, as I found that after diving in I had a very large topic with more than enough material.

Although some papers had briefly addressed my topic, it was relatively unexplored and I was able to use much of my experience in tax accounting to guide me in my research.

The main reason I chose to write about the uncertainty surrounding the 2025 Tax Cuts and Jobs Act Sunset was because I will be entering the public accounting field as a tax accountant in 2025. As such, I will be expected to have some familiarity with what the sunset entails and how to do the taxes for the years before and after the sunset. However, I will likely not be expected to know many of the tax planning strategies to use for the sunset, which is where this paper gives me a major advantage over other accounting students entering the field. Because I have done in-depth research into the topic of tax planning for current years and surrounding the sunset, I will be able to make recommendations to the managers and partners I work with. As such, I will be able to progress my career faster. I also have a firm understanding of how accounting research works, which will allow me to research additional questions that I will have in the future.

One aspect of my capstone that added great value to my life was the relationship that I developed with my mentor, Lacee. Lacee was invaluable as I prepared my paper, and with the added stressors of a new baby, I most likely would not have finished my paper had she not kept me on track with my work plan. Her support helped me develop ideas for my paper, finish my capstone, and showed me that she genuinely cared about my success. She is already working in the career that I would like to have when I graduate, so I am grateful to have a mentor who has been where I am and is currently where I would like to be.

My capstone thesis also helped me strengthen my writing and public presentation skills. As I mentioned, I had never written this style (or length) of paper, so completing a paper this significant gave me a lot of confidence in my ability to write (and do research, of course). Presenting at the research symposium also allowed me to answer on-the-spot questions and work on my presenting skills. I have had some opportunities to present during my time here at USU, but I appreciated the additional opportunity to hone my presentation skills. I also worked on a research poster, which I have only done a few times before. After working on my paper, I realized there was a great deal that I had not known about presenting research, and in the event I decide to pursue a PhD at some point in my life, it will be very important that I know how to present research.

One of the reasons I chose to do my research on the topic of tax strategy was because I felt it could add value. Most people in the United States will have to file their taxes, but a large percentage will not have an accountant. Within this paper, I feel I have developed strategies that regular people can study and implement for their personal situations. Furthermore, I have already been able to help family and friends file their taxes and plan for taxes and retirement, largely because of the material I learned while completing this capstone. Because of my capstone, I have found an area where I can help others. Although my work will likely not be as beneficial as having an accountant might be, I hope that taxpayers can take my work and implement a few of the suggestions I have listed to potentially save money on their tax bills.

My capstone project was incredibly beneficial. I learned a great deal about the tax accounting landscape and the major changes that are set to happen in 2025. Additionally, I learned the

importance of surrounding oneself with great people who can keep you accountable. I also learned that when I have questions about different tax topics, I am capable of finding answers and conducting the necessary research. I am grateful for my project and will utilize the things I learned for many years to come.

Word Count: 1,027

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Author Bio

Tate Smith is a Utah State University graduate who majored in accounting and minored in German. During his time at USU, Tate maintained a 3.96 GPA and was a member of both the Huntsman Scholar Program (Honors program for the Jon M. Huntsman School of Business) and the USU Honors Program. Upon graduation, Tate began his Masters of Accounting and plans to work in the public accounting sector as a tax accountant. He hopes and plans to one day become a partner at an accounting firm.