The 'great sunset' of 2026

Wealth Management

With significant changes on the horizon, taxpayers should think more urgently about their estate and income tax planning.

In just a few short years, many high-net-worth Americans might be surprised by the possibility of a larger estate tax liability as well as other significant tax changes as favorable provisions enacted by the 2017 Tax Cuts and Jobs Act (TCJA) are set to expire, or sunset, at the end of 2025.

Along with other tax cuts, the TCJA provided 10 years of estate and gift tax relief through an elevated exemption that is now nearly $13 million per individual but will be reset to an estimated $7 million in 2026. For families with a taxable estate above $24 million, consider using the current exemption before it sunsets.

With this great sunset looming, Americans should better understand the implications of the expiring tax cuts and begin to think more urgently about their estate and income tax planning. Because without additional policy changes, the tax year of 2026 could be a big shock to many U.S. taxpayers.

What expires with the sunset? Here are the most notable sunset provisions

Estate and gift tax

For many individuals with larger estates, the sunset of the current estate and gift tax provisions provides the greatest gloom. Baby boomers—the first generation of retirement savers—have grown their wealth substantially over the years through skyrocketing home values, employment stock options, inheritances and sales of businesses. For this demographic, it's no wonder that estate taxes have quickly risen to the top of their concerns.

The TCJA doubled the 2011 estate and gift tax exemption of $5 million, which is adjusted by inflation to slightly over $11 million for single filers and $22 million for couples. For 2023, the federal estate and gift tax threshold is $12.92 million per individual and $25.84 million for couples. In 2026, the estate and gift exemption will revert to pre-TCJA levels, effectively reduced by half, and is expected to be in the ballpark of $6.8 million per individual, or close to $14 million for a married couple.

For individuals with a taxable estate above $13 million, or families with taxable estates above $24 million, it's important to shore up your estate plans and, where possible, take advantage of the current high exemption amount using estate and gifting strategies.

The IRS has provided clarity on how significant gifts will be accounted for prior to 2026 when a death occurs in 2026 or later. In general, you benefit if you gift more than the estate and gift exemption amount expected for 2026, where not doing so may cause the loss of this benefit of the currently historic high exemption amounts. For example, if an individual gifts $12 million now and the gift and estate exemption becomes $6.8 million in 2026, they have moved an additional $5.2 million out of their estate tax-free. However, this gets complex very quickly, and should only be done with the guidance of your estate attorney and tax advisor.

It's also important to mention that if you live in a state with a state estate tax or inheritance tax, you

> ### The great sunset of 2026
>
> **What will sunset**
>
> - Significant effects to federal and gift tax exemption
> - SALT deduction limit of $10,000
> - Mortgage interest deduction cap of $750,000
> - Cash contributions to public charities of 60% of AGI
> - And more
>
> **What does not sunset**
>
> - Deductions for medical expenses
> - The repeal of deductions for alimony
> - Student loan interest deductions
> - Corporate tax law changes

likely already have cause to review your estate plan. There are a host of estate and gifting strategies to explore. Again, due to complexity, you should utilize the guidance of your advisors, including your attorney and tax advisor.

Income taxes

Additionally, the expiration of income tax cuts enacted by the TCJA could also directly affect many Americans. With the sunset, tax brackets will revert to pre-TCJA levels, which means many taxpayers will see their tax rate increase. For example, the top individual, estate and trust income tax bracket would go back up to 39.6% from the current rate of 37%.

With a potentially higher tax environment on the horizon, it could be wise to explore ways to take advantage of the current lower brackets, including accelerating income where possible, such as a Roth IRA conversion.

Estate planning changes

	Current	Sunset
Taxable estate	$25,840,000	$25,840,000
Exemption per couple	$25,840,000	$13,840,000
Fed est tax	$0	$4,848,000
Net to heirs	$25,840,000	$20,992,000

Deductions

The TCJA also repealed personal exemptions, but increased the standard deduction, which in 2023 is $27,700 for joint filers and $13,850 for single taxpayers. For families with dependents, it replaced the dependent exemptions with an increased child tax credit, by doubling the maximum per child credit amount and extending it to higher-income families by substantially increasing the income thresholds for the benefit phase out.

Income tax brackets

2017 Married filing jointly tax brackets	
Tax rate	**Income**
10%	$18,650
15%	$75,900
25%	$153,100
28%	$233,350
33%	$416,700
35%	$470,700
39.6%	$470,700+

The TCJA removed the phase out for the overall allowable itemized deduction impacting filers above certain adjusted gross income (AGI) thresholds, but also changed the structure of several major itemized deductions. Under prior tax law, those who itemize could claim deductions for all state and local property taxes and the greater of income or sales taxes (subject to various limits on itemized deductions). The TCJA limited the itemized deduction for total state and local taxes to $10,000 annually, for both single and joint filers, and did not index that limit for inflation.

The mortgage interest deduction also changed. Prior to the TCJA, taxpayers could deduct interest on mortgage payments associated with the first $1 million of indebtedness incurred to purchase (or substantially renovate) a primary and secondary residence plus the first $100,000 in home equity debt.

For taxpayers taking new mortgages after the effective date, the TCJA limited the deductibility to the interest on the first $750,000 of home mortgage debt and suspended the deductibility on home equity up to $100,000 of indebtedness on loans unless they are used to buy, build or substantially improve the taxpayer's home. All these deductions will revert back to pre-TCJA levels for 2026.

Income tax brackets

2023 Married filing jointly tax brackets	
Tax rate	**Income**
10%	$22,000
12%	$89,450
22%	$190,750
24%	$364,200
32%	$462,500
35%	$693,750
37%	$693,751+

Charitable giving

In general, a tax deduction for charitable donations was preserved by the TCJA. In fact, for 2018 through 2025, the annual deduction limit for cash contributions to public charities increased from 50% of AGI to 60% of AGI and will sunset back to 50% in 2026. This means for certain individuals who are considering making significant charitable contributions, they may be able to deduct a larger amount (or 10% more of their AGI) from their taxable income in the year of the contribution, if made before 2026.

All of this should be caveated with the potential for there to be new tax legislation before the sunset in 2026. But with that said, waiting to see what will happen may put you at risk of running out of time to put a prudent and thoughtful plan in place. Preparing early and working with a team of advisors, such as your financial advisor, your attorney and your tax advisor, to put together a plan that understands the tax provisions both today and in 2026 can help make any sunset what it should be: great.

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