

Taxes on the Horizon

Every year, taxpayers and financial professionals brace for a new round of changes to the tax laws, and it's a huge understatement to say that constant fiddling with how we are taxed makes planning far more difficult than it should be. To make things even more complicated, the more recent tax changes are now created in 10 year increments, which means they revert to the previous tax rates and laws upon expiration.

So what's currently on the horizon? You probably know that the estate tax exemption—currently \$12.92 million per person, just under \$26 million per couple, is due to sunset in 2025. When the current exemptions were created in the 2017 Tax Cuts and Jobs Act, that seemed like a long way off. Today, one doesn't need a calculator to realize that, in two short years, estate taxes will apply to all amounts over \$5 million, indexed for inflation.

At the same time, the 40% maximum gift and estate tax rate will go up to 45%, the highest individual tax rate will go up to 39.6% and the doubling of the standard deduction will expire.

There are some new tax proposals in the early stages of introduction that professionals are watching. One of them would change the capital gains tax for investors earning at least \$1 million a year, from the current upper limit of 20% to 39.6%. Another is a minimum tax rate of 25% on all households with a net worth of at least \$100 million—compared to an average effective rate of 8% for the wealthiest taxpayers currently.

Will any of this happen? Who knows? It's entirely possible—indeed, probable—that there will be a major tax 'reform' package working its way through Congress by this time next year, which might push the sunsets back another decade. Or they might simply tinker with the rates, exemptions and rules, capturing some lobbyist money along the way. There's an old cartoon which shows a TV commentator cheerfully announcing that "Congress has just simplified the tax code by adding

another 1,000 pages to it.” It was funny back then; now it’s just the reality we all face.

Sources:

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