CPA
Practice Advisor

On February 10, 2020, President Trump unveiled his budget proposals for the 2021 fiscal year. Among other noteworthy items, including more resources being funneled to the IRS, the president is advocating an extension of individual tax provisions in the Tax Cuts and Jobs Act (TCJA) that are slated to be wiped off the books after 2025.

Although the White House's plan to extend the TCJA items faces an uphill battle in the current Congress, it's certainly bears watching.

The TCJA, enacted late in 2017, represents the biggest overhaul of the tax code in

2018 through 2025, the tax rates are 10%; 12%, 22%; 24%; 32%; 35%; and 37%.

- The standard deduction was effectively doubled to $12,000 for single filers and $24,000 for joint filers, with inflation indexing. The standard deduction on 2019 returns is $12,200 for single filers and $24,400 for joint filers.
- Personal exemptions, including exemptions available for qualified for dependent children and relatives, were suspended. Accordingly, the personal exemption phase out (PEP) rule was also revoked.
- The child tax credit (CTC) was doubled from $1,000 per qualified child to $2,000, subject to a phase-out for high-income taxpayers. Also, the TCJA created a $500 nonrefundable credit for non-child dependents.
- In a controversial provision, the TCJA limited the annual deduction for state and local income tax (SALT) payments to $10,000 for any combination of (1) state and local property taxes or (2) state and local income taxes or sales taxes.
- Although deductions for prior debt are grandfathered, the TCJA limited the mortgage interest deduction to interest paid on the first $750,000 of acquisition debt, down from $1 million. It also eliminated deductions for interest paid on home equity debt.
- The alternative minimum tax (AMT) system was retained, but exemption amounts, as well as the thresholds for phasing out exemptions, were significantly increased, subject to inflation indexing.
- The deduction for casualty and theft losses was eliminated, but was preserved for losses incurred in federal disaster areas.
- Under a new tax break, pass-through entities— such as partnerships, S corporations, limited liability companies (LLCs) and sole proprietors—were authorized to claim an up-to-20% deduction on qualified business income (QBI), subject to certain special rules and restrictions.
- The federal estate tax exemption was doubled from $5 million to $10 million. The inflation-indexed figure for 2020 is $11.58 million.

In particular, this last provision may affect long-term planning for clients. Many

Undoubtedly. we have not heard the last of this matter. At this point, it’s probably best to adopt a wait-and-see attitude, at least until the elections in November. Nevertheless, it makes sense to touch base with clients before to discuss ways that they will be able to maximize tax benefits and avoid potential pitfalls. Emphasize both a short-term and long-term outlook.

Keeping in regular touch with clients outside of tax return season goes way toward cementing long-lasting relationships. Become a valued member of their professional team.

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