**Tax Changes to 2024 and 2025**

Although no significant tax law changes were passed in 2024, major provisions in the law, including the higher standard deduction, lowered income tax brackets and other provisions which were part of the Tax Cuts and Jobs Act of 2017 are set to expire by the end of 2025.

**Standard deduction:**

The [TCJA increased the standard deduction](https://www.taxpolicycenter.org/briefing-book/how-did-tcja-change-standard-deduction-and-itemized-deductions) and eliminated personal exemptions. For example, if the TCJA expires as under current law, the standard deduction for a married couple will be approximately $16,525 in 2026, while the personal exemption will be about $5,275. If this provision of the TCJA were extended through 2026, the standard deduction would be roughly $30,725, and the personal exemption would be zero.

**Income Tax Brackets:**

 The TCJA lowered [marginal income tax rates](https://www.irs.gov/filing/federal-income-tax-rates-and-brackets) throughout much of the income distribution. For example, the TCJA cut the top marginal tax rate from 39.6% to 37%. These rates will increase to pre-2017 levels if the TCJA expires.

**State and local taxes(salt):**

The TCJA imposed a $10,000 cap on the deductibility of [state and local taxes (SALT).](https://www.pgpf.org/blog/2024/01/what-is-the-salt-cap) If this provision of the TCJA expires, all state and local property taxes and income taxes (or sales taxes in states without income taxes) will be deductible, primarily benefiting high-income taxpayers in high-tax states.

**Child Tax credit:**

The TCJA increased the [tax credit for each child under 17](https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit) from $1,000 to $2,000, and that is not adjusted for inflation. The maximum credit that can be refunded increased from $1,000 to $1,400 per child in 2018; that is adjusted for inflation and is set at $1,700 in 2024. The TCJA also increased the income thresholds at which the credit phases out. The child tax credit will fall back to $1,000 if the TCJA expires, which would make the real value of the credit about 25% lower than it was in 2017.

**Small business income deduction:**

The TCJA provided a 20% deduction for qualified pass-through income ([section 199A](https://crsreports.congress.gov/product/pdf/R/R46402)) for sole proprietorships, partnerships, and S-corporations. If the TCJA expires, this deduction will no longer be available.

**Alternative minimum tax (AMT):**

The TCJA increased the [AMT exemption](https://www.taxpolicycenter.org/briefing-book/what-amt) amounts and raised the income levels at which the exemptions phase out, resulting in fewer taxpayers liable for the AMT. If this provision of the TCJA expires, the 2026 AMT exemption for married couples filing jointly will be about $110,075, compared to about $140,300 if the provision is extended.

**Estate taxes:**

The [TCJA doubled the estate tax exemption](https://www.taxpolicycenter.org/briefing-book/how-do-estate-gift-and-generation-skipping-transfer-taxes-work). If this provision expires the exemption in 2026 will be about $14.3 million for married couples, compared to $28.6 million if the provision is extended.

**Corporate provisions:**

Most of the TCJA’s [provisions that affect corporations](https://www.taxpolicycenter.org/briefing-book/how-did-tax-cuts-and-jobs-act-change-business-taxes)—including the reduction in the corporate tax rate from 35% to 21%— do not sunset. One exception is the provision that permitted a 100% bonus depreciation deduction for assets with useful lives of 20 years of less. This deduction began being phased out in 2023 and will be fully phased out by 2026.

**Future of the TCJA**

* At the end of 2025, a significant portion of the [TCJA is set to expire](https://tax.thomsonreuters.com/blog/what-to-know-about-tcja-expiration/). While uncertainty remains, Republicans generally favor a broad extension of the sunsetting provisions. Let’s take a closer look at some of proposals.
* Trump is looking to extend the Qualified Business Income (QBI) deduction. The 20% deduction for certain QBI is currently set to expire at the end of 2025.
* Trump has proposed to reinstate and make permanent 100% [bonus depreciation](https://tax.thomsonreuters.com/en/glossary/bonus-depreciation). When enacted by TCJA, bonus depreciation enabled businesses to immediately write off 100% of the cost of eligible property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. Prior to TCJA, it was 50%. The bonus percentage is now decreasing 20 points each year (40% for 2025), and will fully phase out beginning Jan. 1, 2027.
* Individual income tax rates (10%, 12%, 22%, 24%, 32%, 35%, and 37%) will expire after 2025 and revert to pre-TCJA rates. Trump has proposed to extend or make permanent these rates and replace individual income tax with [increases in tariffs](https://tax.thomsonreuters.com/blog/challenges-and-opportunities-for-global-trade-professionals-in-a-new-trump-era/).
* Trump has proposed to reduce the corporate income tax rate from 21% to 20%; 15% for companies that manufacture in the U.S.
* Unless Congress acts, the lifetime gift and estate tax exemption will take a drastic drop in 2026, reverting to near-2017 levels of roughly $7 million. Unless changed with legislation, the 40% rate is permanent. Trump has proposed to extend the TCJA exemption amount increase and maintain the 40% rate.
* Trump has proposed to eliminate the $10,000 cap on [state and local tax deductions (SALT)](https://tax.thomsonreuters.com/en/glossary/salt-deduction) that was enacted with the passage of TCJA.

**Changes to 2024**

**STANDARD DEDUCTIONS:**

For tax year 2024, the standard deduction for married couples filing jointly rises to $29,200.00, an increase of $1,500 from 2023.

For Single taxpayers, $14,600.00, an increase of $750.00 from 2023.

For Head of Household, or unmarried taxpayers with dependents and who pay more than half of the expenses of a household, can take a standard deduction of $21,900.00 in 2024, an increase of $1,100.00 from 2023.

The standard deduction for the 2025 tax year (tax returns filed in 2026) is $15,000 for single filers and married people filing separately, $22,500 for heads of household, and $30,000 for those married filing jointly and surviving spouses.

**Tax Brackets:**

With new tax brackets in 2024, some taxpayers may find that their tax bill is lower than expected.

**After Sunset:**

The maximum individual tax rate will return to 39.6%, up from 37% under TCJA and the tax brackets will shrink, resulting in more being taxed at higher rates.

**Retirement Plan Contribution Changes:**

In 2024, taxpayers can increase their contributions to tax-advantage retirement savings plans. The contribution limit for employees who contribute to 401-K and 403-B plans increases to $23,000.00 annually, up from $22,500.00. employees age 50 and over can contribute an additional $7,500.00, for a total of $30,500.00

The IRA contribution limit for 2024 is $7,000.00 for workers below the age of 50 and $8,000.00 for those over 50. This is an increase from 2023, when the limit was $6,500.00 and $7,500.00 for people over 50.

The annual contribution limit for employees who participate in 401(k), 403(b), governmental 457 plans, and the federal government's Thrift Savings Plan is increased to $23,500, up from $23,000. The limit on annual contributions to an IRA remains $7,000 for below age 50 and $8,000 for those over 50.

While a TCJA extension may postpone potential income tax hikes, there are strategies you can consider now to mitigate future tax exposure. One effective approach is converting traditional IRAs to Roth IRAs, which can help manage and potentially reduce your tax burden down the line.

 **Consider Tax Credit Options for Large Purchases:**

Taxpayers who purchase an electric vehicle in 2024 may qualify for a tax credit up to $7,500. Rather than waiting until you file taxes next spring, you can actually take the credit as a rebate when you buy the vehicle, or as a discount on the price of your EV.

**Changes to the Kiddie Tax**

For a child wage earner under age 19, the first $1,300 of any unearned income is tax free in 2024. Accordingly, to the IRS, “unearned income” includes investment-type income such as taxable interest, ordinary dividends, and capital gain distributions. The next $1,300 is taxes at the child’s rate. Any unearned income above $2,600 is taxed at the parents’ tax rate.

**Capital gains new threshold**

For 2024 tax year individual tax filers will not have to pay any capital gains tax if their total taxable income is $47,025 or less. The capital gains rate jumps to 15% if your income is $47,026 to $518,900. If your income is higher than that, you ‘ll pay 20% in capital gains if you sell your investments.

For the 2025 tax year, individual filers won’t pay any capital gains tax if their total taxable income is $48,350 or less. The rate jumps to 15 percent on capital gains, if their income is $48,351 to $533,400. Above that income level the rate climbs to 20 percent.

In addition, those capital gains may be subject to the [net investment income tax](https://www.bankrate.com/investing/net-investment-income-tax-niit/) (NIIT), an additional levy of 3.8 percent if the taxpayer’s income is above certain amounts. The income thresholds depend on the filer’s status (individual, married filing jointly, etc.) and are not adjusted for inflation.

**Increased foreign earned income exclusion:**

If you earn income in a foreign country or from an employer in a foreign country, you may benefit from the foreign earned income exclusion, which increased to $126,500. In 2024.

**Estate exemption increase:**

If a family member dies during 2024, their estate has a basic estate tax exclusion amount of 13.6 million, an increase from $12.92 million for estates owned by people who died in 2023.

The [estate tax exemption](https://www.kiplinger.com/taxes/whats-the-new-estate-tax-exemption) per individual jumps to $13.99 million in 2025 (up from $13.6 million in 2024), offering additional planning opportunities for high-net-worth individuals.

**Gift tax exclusion increase:**

 If you want to give gifts to friends or family members, you can give up to $18,000. To each individual in 2024 before incurring gift tax, that’s an increase over the $17,000. exclusion in 2023.

Annual exclusion for gifts increases to $19,000 for calendar year 2025 (2017 $14,000.)

**ENERGY CREDIT**

If you gave your home an eco-friendly makeover in 2024, don’t forget to look into the IRS’ new and improved energy tax credit for additional savings.

**Tax Enforcement:**

**IRS Notices;**

* IRS has resumed most automatic notices;
* Harder to contact the IRS;
* Use tracking or certify delivery for important documents send to the IRS;

 **Working with the IRS;**

* Without documentation, expenses can be lost, and revenue can be recognized even if it’s not actually revenue;
* Good record keeping is very important;
* Know your rights-if you don’t think it is going well, the independent Office of Appeals is always available.
* Learn collection Appeals Due Process Hearings (DPH) and other Collection Appeals Rights.

**National Taxpayer Advocate 2025 recommendations:**

* Elevate the importance of the Taxpayer Bill of Rights by redesignating it as Section 1 of the Internal revenue Code.
* Clarify that supervisory approval is required under IRC section 6751(b) before proposing penalties.
* Authorize the IRS to establish minimum competency standards for federal tax return preparers and revoke the ID numbers of sanctioned preparers.
* Require that math error notices describe the reason(s) for the adjustment and inform taxpayers about the right to request abatement within 60days, and be mailed by certified or register mail.
* Extend the time for small businesses to make S elections.

**In the courts:**

* In the case of Mukhi v. Commissioner (163 T.C. No. 8, November 18, 2024), the U.S. Tax Court ruled that the IRS lacks the authority under Code Section 6038 (b) (1) to impose an assessment for failure to file Form 5471 (Information Return of U.S. Persons With Respect to Certain Foreign Corporations).
* In Farhy v. Commissioner, 160 T.C. No. 6 (April 3, 2023), the United States Tax Court held that the statutory penalty for failure to file certain information reports was not assessable. The decision was widely applauded by tax practitioners representing clients with similar, if not identical, forms of noncompliance. On May 3, 2024, however, the U.S. Court of Appeals for the District of Columbia Circuit examined the statutory scheme at issue in Farhy and reversed the Tax Court's decision. Farhy v. Commissioner, \_\_\_ F.4th \_\_\_, 2024 WL 1945977 (D.C. Cir. 2024).

The complexity of reporting obligations involving foreign entities often leads U.S. taxpayers to unintentional non-compliance with penalties. While the $10,000 per year penalty under section 6038(b)(1) remains unchanged, the enforcement mechanism per Mukhi now requires the IRS to pursue civil action rather than administrative assessment. The IRS will likely disagree with the decision in Mukhi and will continue to systemically assess penalties for late-filed forms 5471. The decision remains a hazard of litigation for the IRS, which will likely lead to more settlements.

**Form 7217-Partner’s Report of Property Distributed by a Partnership-New Form for 2024.**

Purpose of Form 7217 is filed by any partner receiving a distribution of property from a partnership in a non-liquidating or liquidating distribution to report the basis of the distributed property, including any basis adjustment to such property as required by section 732(a)(2) or (b).

Who Must File with your annual tax return a separate Form 7217 for each date during the tax year that you received distributed property subject to section 732. If you received distributed properties subject to section 732 on different days during the tax year, even if part of the same transaction, file a separate Form 7217 for each date that you received the properties. Do not file Form 7217 if the distribution consisted only of money or marketable securities treated as money under section 731(c). Also, do not file Form 7217 for payments to you for services other than in your capacity as a partner under section 707(a)(1) or for transfers that are treated as disguised sales under section 707(a)(2)(B).