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Dear Clients:

The **Tax Cuts and Jobs Act (TCJA)**, signed into law in December 2017, brought about substantial tax reforms, many of which were temporary and are set to **expire in 2025**.

If Congress doesn't renew or amend TCJA tax provisions, then individual filers will see:

- A rise in their income tax rates
- A lower standard deduction
- Changes to itemized deductions
- A rollback of the child tax credit

2020 thru 2025 tax rates and other tax information

- **Reduction in tax rates**: The TCJA reduced the tax rates for most individual income brackets. Currently indexed to inflation.

- **TCJA nearly doubled** the standard deduction, which reduces taxable income for individuals who do not itemize deductions. Currently indexed to inflation.

- **SALT deductions** of **$10,000 cap on state and local income tax** are set to **expire after 2025**, meaning the full **SALT** deduction could be reinstated for taxpayers who itemize their deductions, potentially benefiting those in high-tax states, like California or New York.

- **Mortgage Interest Deduction**: The **TCJA** limited the mortgage interest deduction for new home mortgages to **$750,000** (down from $1 million), which could revert to the $1 million cap after 2025.

- **Child Tax Credit** Under the **TCJA**, the credit was expanded from **$1,000 to $2,000 per qualifying child** (under age 17). In addition, the income threshold for eligibility was raised, making more families eligible for the credit.

- **Qualified Business Income Deduction (QBI)**: The TCJA created a **20% deduction** for pass-through businesses (such as partnerships, LLCs, S corporations and Schedule C) to benefit with a 20% reduction of tax.

In the future, if the expanded standard deductions from **TCJA** are extended or made permanent, most taxpayers will never have to itemize on their federal return. Continue to gather any documents that you previously used for deductions on a federal return, to deduct on a state return.

Overall, **about 80-90% of taxpayers** received a benefit from the **Tax Cuts and Jobs Act** in terms of reduced taxes. However, the size of the benefit varied depending on income level.

Our current tax system > progressive vs a flat tax

The federal tax system in the United States is **progressive**, meaning that as a person's income increases, the rate at which they are taxed also increases. In this system, people with higher incomes pay a higher percentage of their income in taxes compared to those with lower incomes.

The purpose of the progressive tax system is to ensure that those who can afford to pay more do so. Higher-income earners are taxed at higher rates because they generally have more disposable income.

Would a flat tax be more equitable?

For the U.S., the **nominal GDP in 2022** was approximately **$25.46 trillion**. If 5 trillion dollars need to be replaced from a progressive to a flat tax, the calculation below for 2022 shows that most would pay more under a flat tax.

$$\text{Tax Rate} = \frac{\text{5 trillion}}{\text{25.46 trillion}} * 100$$

Tax Rate ~ 19.6%

A flat tax would benefit the **highest income bracket**, raise the next **5 brackets**: and severely impact the **3 lowest income brackets**.

Contrary to the claim that millionaires and billionaires need to pay their fair share. **Fair share** is never defined, it's a talking point, punchline by politicians **(It polls well!)** and has been constantly in media since the **Tax Cuts and Jobs Act (TCJA)** passed in 2017**.**

Tax Foundation's analysis of the IRS data from 2022

Percent	Income	Average Tax Rate
Top 1%	Above $663,000	26.10%
1% to 5%	Above at least $262,000	18.80%
5% to 10%	Above at least $179,000	14.30%
10% to 25%	Above at least $100,000	10.70%
25% to 50%	Above at least $50,000	7.70%
Bottom 50%	Under $50,000	3.70%

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Please contact me if you would like a checklist of the documents used in preparing your 2023 tax return.

Kind Regards,

Paul Laird EA