Watching the sunset : Tax provisions expiring in 2025

KPMG report on expiring provisions impacting individuals and families

September 4, 2024

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Introduction

With more than $4 trillion of tax increases scheduled to take effect at the end of 2025, next year could be the most consequential year for tax legislation since the 2017 enactment of the Tax Cuts and Jobs Act (TCJA). No matter the outcome of November's elections, next year's Congress and administration will be required to confront these looming tax increases.

The challenge facing policymakers in 2025 is a daunting one and the massive price tag associated with extending the 2017 tax cuts could force Congress to seek new tax increases to offset these costs. It is hoped that this report gives the reader an opportunity to examine some of the tax items impacting individuals and their families that may be part of a larger examination of the tax code and to analyze the potential impact to themselves.

This report outlines the many provisions that are set to expire that will have a particular impact on individual taxpayers. To highlight a few, the following changes are currently scheduled to take effect on January 1, 2026:

- Individual marginal tax rates will return to the pre-TCJA rate structure—replacing today's top marginal rate of 37% with a 39.6% top rate.
- The 20% deduction for an individual's domestic qualified business income from a partnership, S corporation or sole proprietorship will expire.
- The current $10,000 limitation on the deductibility of state and local taxes will expire.
- Modifications to the alternative minimum tax will expire, expanding the tax to more taxpayers.
- The ability to deduct the interest on mortgage acquisition debt will increase from the current generally applicable cap of $750,000 to $1 million and the home equity interest deduction will be available.
- The AGI limitation for certain charitable contributions will decrease from 60% to 50%.
- Rules governing the standard deduction, individual exemptions and the overall limitation on itemized deductions (PEASE) will revert to pre-TCJA rules.
- The TCJA's temporary increase in the lifetime gift and estate tax exemption (as well as the goods and services tax (GST) exemption) will expire—decreasing the exemption from $10 million to $5 million (to be adjusted for inflation).

Legislative outlook

Policymakers in Washington are beginning the process of analyzing alternatives for how to address the changes. However, plans and opinions about whether or how modifications should be made to these scheduled changes vary widely. Certainly, given the partisan nature of some of these policy decisions, it is extremely difficult to calculate what policymakers may ultimately decide, particularly without knowing the results of the November 2024 elections. As the House, Senate, and president all need to agree to the same version of legislation for it to become law, the results of the presidential, House and Senate elections must all be considered when assessing the prospects for particular proposals. As a general matter, it is often easier for major policy changes to become law when one party controls the White House as well as both chambers of Congress than when there is a "divided" government.

It is recommended that individuals watch legislative developments closely, as well as how political, economic, and other factors might affect tax policy, and be prepared to react quickly from a tax planning perspective. You can follow relevant future legislative developments by checking KPMG LLP's TaxNewsFlash-United States and TaxNewsFlash-Legislative Update sites.

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Individuals and families

Marginal tax rates

The United States imposes a progressive system of federal income tax with seven rates that apply to different ranges of income (tax brackets). A taxpayer's marginal tax rate increases as income increases. The TCJA retained the seven-rate structure but temporarily modified the tax rates for individual taxpayers. Prior to the TCJA, the tax rates were: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. Currently, the tax rates range from 10% to 37% (10%, 12%, 22%, 24%, 32%, 35%, and 37%). In addition, the TCJA increased the tax brackets subject to the new rates. Thus, lower rates and higher income tax brackets would mean that taxable income would generally attract a lower effective tax rate.

The TCJA also largely eliminated the "marriage penalty" that resulted when two individuals paid more income tax as a married couple than they would have paid had they remained unmarried. This occurred under pre-2018 law because the tax brackets applicable to married couples filing jointly were less than double the tax brackets for single individuals. For tax years 2018 through 2025, except for the top tax bracket, the married-filing-jointly tax brackets are double the single tax brackets. Thus, for example, in tax year 2024 the marriage penalty only applies to couples whose combined taxable income exceeds $731,200.

The net capital gains and qualified dividends tax rates (0%, 15%, and 20%) did not change under the TCJA but the income "breakpoints" to which the tax applies were modified.

The TCJA did not modify the 3.8% net investment income tax.

For tax years beginning after December 31, 2025, the tax rates will return to 2017 levels. The tax bracket amounts to which the rates apply will also revert to 2017 levels (adjusted for inflation).

KPMG observation

The TCJA significantly raised the income levels to which the highest tax brackets apply. Pre-TCJA a married couple filing jointly with taxable income greater than $480,050 would have been subject to tax at 39.6%. However, under the TCJA, the highest tax rate was lowered to 37% and applied to taxable income greater than $600,000 for the same taxpayers. Beginning in 2026 when the tax brackets revert to inflation-adjusted levels more of a high earner's taxable income will be subject to tax at 39.6%.

Higher marginal tax rates and generally lower tax brackets might result in taxable income being subject to a higher effective tax rate. However, because the personal exemption deduction and certain itemized deductions currently suspended under the TCJA may be reinstated, not all taxpayers will necessarily face a higher tax burden.

Absent action by Congress the marriage penalty will once again apply to married couples outside the highest tax bracket for tax years after 2025.

For wage withholding purposes, supplemental wages (up to $1 million) are subject to withholding at a rate equal to the third lowest income tax rate (currently, 22%). Supplemental wages in excess of $1 million are taxed at the highest marginal income tax rate (37%). Beginning in 2026, the supplemental wage withholding rates will increase to 25% and 39.6%, respectively.

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Filing status, standard deduction, and personal exemptions

Congress sought to consolidate the standard deductions, personal exemptions, and certain other tax benefits into a larger standard deduction to simplify the tax code while allowing a minimum level of income to be exempt from federal income tax.

Filing status

The TCJA retained the five filing statuses available to individual taxpayers:

- Single
- Married filing jointly
- Married filing separately
- Head of household
- Qualifying widow(er) with dependent child

Standard deduction

The standard deduction is a specific dollar amount that reduces the amount of income on which an individual is taxed. An individual who does not elect to itemize deductions reduces adjusted gross income (AGI) by the amount of the applicable standard deduction in arriving at taxable income.

The standard deduction consists of the basic standard deduction and additional standard deduction amounts for age and/or blindness.

The basic standard deduction was significantly increased for tax years 2018 through 2025.

Filing Status	2017	2024 under TCJA (inflation adjusted)
Single or Married filing separately	$6,350	$14,600
Married filing jointly and surviving spouses	$12,700	$29,200
Head of household	$9,350	$21,900

The increase in the amount of the basic standard deduction will not apply to tax years after 2025. The standard deduction amounts will return to their pre-2018 levels (indexed for inflation).

The additional standard deduction for the elderly and the blind was unchanged.

KPMG observation

For tax year 2021, the most recent year for which statistics are available, the IRS reports that 88.2% of tax returns claimed a standard deduction. In 2017, 68% of all tax returns filed claimed the standard deduction.

After the enactment of the TCJA, which made major revisions affecting taxpayer withholding, the IRS issued revised Form W-4, *Employee's Withholding Certificate.* Should the standard deduction revert to pre-2018 levels, employees may need to adjust their Form W-4 currently on file with their employer.

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Personal exemptions

In determining taxable income, an individual reduces AGI by any personal exemption deductions and either the applicable standard deduction or their itemized deductions. Personal exemptions generally are allowed for the taxpayer (both taxpayers in the case of a joint return) and any dependents of the taxpayer.

The personal exemption deductions were suspended (reduced to zero) for tax years 2018 through 2025.

Beginning in 2026, the personal exemption deduction will revert to pre-2018 amounts (indexed for inflation).

KPMG observation

U.S. citizens and residents who are married and file separate (MFS) returns, and nonresident alien individuals (regardless of filing status) must file federal income tax returns if their gross income equals or exceeds the exemption amount. If the TCJA had not been enacted, the 2018 personal exemption amount for a single taxpayer would have been $4,150. MFS taxpayers and nonresident aliens would have been required to file a tax return only if their incomes exceeded the exemption amount (adjusted for inflation).

With the personal exemption amount reduced to $0, MFS taxpayers and nonresidents alien individuals (for example, short-term business travelers from non-treaty countries) are required to file a federal income tax return if they have gross income equal to or greater than $0. The IRS provided filing relief for MFS taxpayers by setting the filing threshold at $5. For nonresident alien individuals the IRS set a similar threshold for the 2018 tax year but has not done so for subsequent years.

If the personal exemption reverts to pre-2018 amounts, indexed for inflation, the filing threshold for MFS taxpayers and nonresident alien individuals will return to an amount equal to the personal exemption, thus eliminating the filing burden for taxpayers whose income exceeds $5 (or $0) but who do not have a tax liability.

Child tax credit and credit for other dependents

Congress sought to provide an increased tax benefit for families raising children, and to provided that all members of a household were accounted for in determining a family's ability to pay tax. An expanded child tax credit and a new family tax credit were seen as an equitable means of achieving this goal.

Child tax credits

Individual taxpayers are currently allowed a child tax credit (CTC) of $2,000 for each qualifying child. For tax year 2024, if the credit exceeds the individual's tax liability, up to $1,700 of the credit is refundable but the taxpayer must have earned income of at least $2,500 to be eligible for any refund. The CTC begins to phase out when modified AGI exceeds $400,000 (for married filing joint filers) and $200,000 for all other taxpayers. The credit is allowable against both regular tax and the alternative minimum tax.

To receive the credit (both the refundable and nonrefundable portions), the taxpayer must include the Social Security number (SSN) of each qualifying child for whom the credit is claimed on the tax return. The SSN must be issued before the due date for filing the return. The SSN must also be issued either to a U.S. citizen or for the lawful admission for employment in the United States.

The temporary increase in the CTC expires for tax years after December 31, 2025.

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KPMG observation

A child who does not qualify for an SSN is not eligible for the CTC but may qualify for the credit for other dependents (discussed below).

If the law reverts to the pre-2018 provisions, a taxpayer may claim the CTC for a qualifying child with an Individual Taxpayer Identification Number (ITIN) issued by the IRS.

Credit for other dependents

The TCJA temporarily provides for a $500 nonrefundable credit for dependents who do not qualify for the CTC, including children aged 17 or over, children with no SSN, and qualified dependents who are not children (e.g., parents or siblings). The credit is available for dependents who are U.S. citizens, U.S. nationals, or U.S. resident aliens who have either an SSN or an ITIN. The credit for other dependents begins to phase out at the same modified AGI ranges as the CTC ($200,000, or $400,00 for married taxpayers filing a joint return).

The $500 credit for other dependents is not available for tax years beginning after December 31, 2025.

KPMG observation

Upon expiration of the other dependent credit a qualifying child with an ITIN would be eligible for the larger CTC.

Although the credit for non-child dependents would no longer be available, the tax impact may be minimized due to the reinstatement of the personal exemption (discussed above).

Expansion of premium tax credits

The premium tax credit is provided to certain individuals who purchase health insurance through a marketplace exchange. The credit is refundable and may be payable in advance directly to the insurer. Eligibility for an advance payment is based on household income and family size, determined by reference to an individual's most recent available tax data. The size of the premium tax credit is based on a sliding scale. Those who have a lower income get a larger credit to help cover the cost of their insurance. As the advance payment of the credit is based on prior year tax data, some taxpayers must reconcile their premium tax credit by either paying back the advance payment (because actual income exceeded estimated income) or receiving a refund (because actual income was less than the estimated income).

Historically, individuals and families could be eligible for the premium tax credit if their household income for the year was at least 100% but no more than 400% of the federal poverty line for their family size. For tax year 2021, if a taxpayer or the taxpayer's spouse (if filing a joint return) received, or was approved to receive, unemployment compensation for any week beginning during 2021, the amount of the taxpayer's household income is considered to be no greater than 133% of the federal poverty line for his or her family size and the taxpayer is considered to have met the household income requirements for being allowed a premium tax credit.

For tax years 2021 through 2025, Congress temporarily expanded eligibility for the premium tax credit by eliminating the requirement that a taxpayer's household income may not be more than 400% of the federal poverty line. Under this rule, taxpayers with household income of more than 400% of the federal poverty line for their family size may be allowed to claim a premium tax credit, if otherwise eligible. In addition, the percentage of annual income that households are required to contribute towards the premium was reduced through 2025. Through 2025, full premium subsidies (toward benchmark exchange plans) are available to

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eligible households with annual incomes between 100% and 150% of the federal poverty level. Eligible individuals and families with higher incomes may receive partial subsidies for such plans. For all eligible households with incomes at or above 400% of federal poverty line, each such household would be required to spend up to 8.5% of their income (prorated monthly) before receiving any credit. For some higher-income households, this results in receiving no credit despite being eligible.

KPMG observation

If the modifications to the premium tax credits made over the past few years were to expire, households with higher incomes (i.e., incomes in excess of 400% of the federal poverty line) may lose any subsidies for purchasing health insurance through a marketplace exchange, regardless of how much of their income is used to purchase such insurance.

Above-the-line deductions

Moving expense deduction

The TCJA suspended the deduction for moving expenses for years 2018 through 2025. The rules providing income exclusions to members of the U.S. Armed Forces (or their spouse or dependents) were retained.

For tax years beginning after December 31, 2025, individuals will be allowed the above-the-line deduction for moving expenses paid or incurred in connection with starting work either as an employee or as a self-employed individual at a new principal place of work. The expenses will be deductible only if specific distance and employment status requirements are met. The moving expense deduction is an above-the-line adjustment to gross income which means the moving expense deduction will be available to individuals regardless of whether they itemized their deductions.

Moving expenses will continue to be deductible for members of the U.S. Armed Forces (and their families). The rules governing moving expenses provide a special rule creating a targeted income exclusion for moving and storage expenses furnished in kind.

KPMG observation

An above-the-line deduction is subtracted from a taxpayer's gross income when determining the taxpayer's AGI. Lowering AGI is important because a number of tax benefits available to individual taxpayers are only available if a taxpayer's AGI, or modified AGI, is below certain limits. Reducing AGI with above-the-line deductions may qualify a taxpayer for more tax benefits.

The TCJA suspended the moving expense deduction, thereby increasing the cost of relocating employees. In addition, employer moving expense reimbursements (including any gross up for taxes) are includible in income (see discussion below). Consequently, businesses that must relocate employees to meet business needs now incur higher costs after taking into account the gross-up for taxes.

If the moving expense deduction is reinstated in 2026, qualified moving expenses will be available to reduce a taxpayer's AGI and may qualify the taxpayer for additional tax deductions and credits. For businesses, moving expense reimbursements will be less expensive as any reimbursement will not have to be grossed up to cover the worker's additional income tax liability.

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Itemized deductions

State and local tax (SALT) deduction not paid or accrued in a trade or business

For pre-2018 tax years, individuals were allowed to claim a deduction for certain taxes paid or accrued, whether or not incurred in a trade or business or in an activity for the production of income. These taxes include state and local, and foreign real property taxes; state and local personal property taxes; and state and local, and foreign income, war profits, and excess profits taxes. At the taxpayer's election, an itemized deduction may be claimed for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes.

When calculating alternative minimum taxable income, the itemized deductions for the aforementioned taxes are not permitted. Due to this disallowance and the relatively low exemption amounts in effect for AMT purposes, taxpayers who itemized deductions for these taxes may be subject to an AMT liability.

For tax years 2018 through 2025, the TCJA temporarily limits itemized deductions for state and local income taxes, state and local property taxes, and sales taxes to $10,000 in the aggregate (not indexed for inflation). The limit does not apply to taxes incurred in carrying on a trade or business or otherwise incurred for the production of income. Foreign real property taxes, other than those incurred in a trade or business, are not deductible.

Beginning in tax year 2026, the cap on the SALT deduction and the disallowance of the foreign real property tax deduction are eliminated.

KPMG observation

For individuals who live in states that impose relatively high state income taxes (e.g., California, New Jersey, and New York) the imposition of the $10,000 cap may have caused their tax liability to increase notwithstanding the reduction in the marginal tax rates.

The $10,000 limitation on tax deductions and the increased AMT exemption amounts and income thresholds at which the AMT exemptions begin to phase out (discussed below) expire as of December 31, 2025. In 2026, taxpayers who claim an itemized deduction for taxes when calculating their regular tax liability may find they are subject to the AMT due to the disallowance of the state and local tax deduction for AMT purposes.

Although both the SALT cap and the disallowance of the foreign real property tax deduction will expire, these deductions may be limited due to the "Pease limitation" discussed below.

Mortgage interest deduction

Generally, personal interest is not deductible. Qualified residence interest is not considered personal interest and is allowed as an itemized deduction, subject to limitations. A qualified residence is the taxpayer's principal residence or a qualifying second home (e.g., a vacation home).

For pre-2018 tax years, qualified residence interest includes interest paid or accrued on up to $1 million of debt ($500,000 if married filing a separate return) incurred in acquiring, constructing, or substantially

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improving a taxpayer's residence ("acquisition indebtedness") and secures the residence. Acquisition indebtedness is deductible in computing alternative minimum taxable income.

Home equity indebtedness is debt (other than acquisition indebtedness) not to exceed $100,000 ($50,000 if married filing separately) that is secured by a qualified residence. Interest on qualifying home equity indebtedness is deductible, regardless of how the proceeds of the debt are used but is not deductible in computing alternative minimum taxable income. The TCJA suspended the deduction for interest on home equity indebtedness for tax years 2018 through 2025.

For the same tax years, the deduction available for interest paid or accrued on acquisition indebtedness is reduced from $1 million to $750,000. Debt incurred before December 15, 2017, is not affected by the reduction and is grandfathered. Any debt incurred before December 15, 2017, but refinanced later, is covered under pre-TCJA law to the extent the amount of the debt does not exceed the amount refinanced.

For tax years after December 31, 2025, the $1 million limitation on acquisition indebtedness applies, regardless of when the debt was incurred, and the deduction for home equity indebtedness is available.

KPMG observation

The TCJA did not modify the treatment of mortgage interest paid or accrued on debt secured by a second home. Currently, interest on the combined acquisition debt secured on the taxpayer's principal residence and a second qualifying residence cannot exceed $750,000, or $1,000,000 for grandfathered debt.

Charitable contribution deduction

Individuals may claim an itemized deduction for charitable contributions of money or property in the year of the gift. The deduction is generally equal to the amount of cash, or the fair market value of the property contributed. Limits on charitable contribution deductions vary depending on whether the contribution is to a qualifying public or private charity and whether the contributions are of money or property.

For tax years 2018 through 2025, gifts of cash to public charities are fully deductible up to 60% of a donor's AGI, an increase from the 50% AGI limit in effect prior to 2018.

KPMG observation

Although the TCJA retained the charitable contribution deduction and increased the amount individual taxpayers may claim as an itemized deduction in a tax year, lower marginal tax rates and a higher standard deduction may have had an indirect impact on charitable giving.

Itemized deduction for miscellaneous expenses

Under pre-2018 law, individuals could claim itemized deductions for certain miscellaneous expenses. Most were not deductible unless, in the aggregate, they exceeded 2% of the taxpayer's AGI. These included investment fees, certain repayments of income, unreimbursed business expenses incurred by an employee (such as home office expenses), and certain losses related to activities not undertaken with a profit motive ("hobby losses"). The TCJA suspended itemized deductions for this category, which will be reinstated beginning in tax year 2026.

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KPMG observation

Though not claimed by a large number of taxpayers, for those who were able to deduct miscellaneous expenses, it was often a large number, due to the fact that only the amount in excess of 2% of AGI was deductible. Since enactment, work-from-home and other flexible work arrangements have become much more common, and many more employees find themselves incurring unreimbursed employee business expenses such as home office expense. Such taxpayer may be relieved to once again be able to benefit from this deduction.

Overall limitation on itemized deductions

Prior to enactment of the TCJA, the total amount of allowable itemized deductions (other than medical expenses, investment interest, and casualty, theft, or gambling losses) was reduced by the lesser of 3% of the amount by which the taxpayer's AGI exceeded a threshold amount or 80% of the otherwise allowable itemized deductions (referred to as the "Pease limitation").

The Pease limitation was suspended for tax years 2018 through 2025 but will return beginning in tax year 2026.

KPMG observation

Many taxpayers who welcome the "sunset" of TCJA limitations on deductions for mortgage interest and state and local tax may be surprised to find that they may not benefit due to the return of the Pease limitation.

Personal casualty and theft loss deduction

Under pre-TCJA law, a deduction could be claimed for any loss sustained during the tax year that was not compensated by insurance or otherwise, subject to certain limitations. The TCJA limited the deduction for personal casualty and theft losses to those incurred in a federally declared disaster (effectively denying a deduction for victims of theft or victims of smaller natural disasters). Beginning in tax year 2026, individual taxpayers will regain the ability to claim a deduction for such losses incurred in 2026 or after.

KPMG observation

Taxpayers may not have realized that this deduction was not available until they suffered a loss. Thus, in tax years 2026 and after, taxpayers will not be subject to the unpleasant surprise of not being eligible to claim a deduction for a theft or casualty loss.

Wagering loss deduction

The TCJA suspended the deduction available to professional gamblers for the ordinary and necessary business expenses incurred in carrying on their trade or business as professional gamblers to the extent that these expenses exceed their net gambling winnings. The effect of the TCJA amendment is to treat all losses and expenses incurred in carrying on wagering transactions as subject to the limitation of wagering gains, thus negating the ability of professional gamblers to generate a loss in excess of their wagering gains.

For tax years beginning on or after January 1, 2026, professional gamblers will once again be able to deduct their ordinary and necessary business expenses such as travel and accommodation even if these amounts exceed their gambling winnings.

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KPMG observation

As noted in the Committee Report to the TCJA, the intention of this TCJA amendment was to reverse the result of the Tax Court in *Mayo v. Commissioner*, 136 T.C. 81 (2011), when the court held that a taxpayer's expenses incurred in the conduct of a trade or business of gambling, other than the cost of wagers, were not limited and thus were deductible. For tax years beginning after 2025, professional gamblers will once again be able to utilize this rule unless or until it is addressed by further litigation, legislation or regulatory guidance.

Exclusions

Moving reimbursement exclusion

The TCJA suspended the exclusion from gross income and wages for qualified moving expense reimbursements for tax years 2018 through 2025. However, the exclusion was preserved for U.S. Armed Forces members (and family members).

For tax years beginning on or after January 1, 2026, the exclusion would once again be available with the result that employees would be able to exclude from their income (and from their wages for employment tax purposes) amounts received directly or indirectly from an employer as payment or reimbursement of expenses that would be deductible as moving expenses if paid or incurred by the employee.

KPMG observation

In parallel with the suspension of the moving expense deduction (discussed above) the suspension of the exclusion for moving expense reimbursements increased the cost of relocating employees for companies. If the exclusion becomes available again, this will reduce the cost of domestic and international assignments where the employer would otherwise be obliged to gross up moving expense reimbursements that were included in employees' wages.

The exclusion would reduce gross income, which in turn would lower the AGI and modified AGI of affected employees, making them eligible for various tax benefits if their AGI or modified AGI were reduced below the relevant thresholds.

Exclusion from gross income of discharge of indebtedness on principal residence

In general, if debt is forgiven, a debtor must recognize income for the amount the person is no longer obligated to repay. However, there are exclusions for certain categories of debt discharge. The Mortgage Forgiveness Debt Relief Act of 2007 added a temporary exclusion for discharges of mortgage debt associated with a taxpayer's principal residence, subject to dollar limitations. The exclusion is available regardless of whether the debt is entirely forgiven through foreclosure or is discharged in whole or in part via a "short sale" or a renegotiation of loan terms (a "workout"). Originally set to expire after 2009, this exclusion has been extended a number of times, but is now scheduled to expire for discharges occurring after December 31, 2025.

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KPMG observation

In most cases taxpayers are aware when they face foreclosure, or otherwise need debt relief with respect to their mortgage debt. Those in this position would be well advised not to delay in seeking relief, as there is no guarantee that the related exclusion will be available after tax year 2025.

The exclusion from gross income would still be available for cancelled debt when an individual is insolvent when debt is discharged (the "insolvency exception"). Subject to certain conditions, forgiven debt may be excluded up to the amount by which the individual's liabilities exceed their assets.

Exclusion for certain employer payments of student loans

As employers face labor shortages, student loan repayment programs are a popular benefit to entice new employees and retain current ones. Since adoption in 2020 as part of the Consolidated Appropriations Act, employers have been permitted to offer up to $5,250 in student loan repayment benefits with no corresponding inclusion in taxable compensation on the part of the employee.

This benefit will expire after tax year 2025.

Bicycle commuter reimbursement

Certain employer-provided fringe benefits are excluded from an employee's gross income (and wages for employment tax purposes), including qualified transportation fringe benefits. A qualified bicycle commuting reimbursement is considered a qualified transportation fringe. Qualified transportation fringe exclusions are subject to monthly limits.

Pre-2018 law excludes up to $20 a month in qualified bicycle commuting reimbursement from an employee's gross income. This amount is not indexed for inflation.

For tax years 2018 through 2025, the exclusion is suspended, and any reimbursement of the expense is taxable.

KPMG observation

While the bicycle commuting benefit has been taxable to an employee since TCJA, the employer has been provided a deduction, which is a temporary exception. If the fringe benefit exclusion returns for employees after 2025, the benefit is not deductible by employers as the deduction changes are permanent.

Combat zone tax benefits for members of the Armed Forces in the Sinai Peninsula

The TCJA extended combat zone tax benefits to members of the U.S. Armed Forces performing services in the Sinai Peninsula of Egypt. The benefits include limited exclusions from gross income for certain military pay, exemptions from certain taxes imposed on death while serving in a combat zone or dying as a result of injuries or disease incurred while serving, exemptions from certain excise taxes, special estate tax rules, and filing extensions.

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The provision was effective beginning June 9, 2015, and ceases to be effective for tax years beginning on or after January 1, 2026.

KPMG observation

If the provision is not extended, the Sinai Peninsula will cease to be treated as a combat zone for purposes of the tax benefits applicable to members of the U.S. Armed Services serving there which may result in a higher tax burden.

Alternative minimum tax (AMT)

AMT exemption and phaseouts

The AMT is a parallel tax regime that is imposed in tandem with the regular tax. The AMT was enacted so that taxpayers at higher income levels pay at least a minimum amount of tax. The AMT is calculated by reducing or disallowing certain tax deductions (including those for state income tax and property tax) and exclusions that are allowed for regular tax purposes to arrive at alternative minimum taxable income, subtracting the AMT exemption amount and applying the applicable AMT tax rate. For tax year 2024, AMT income is taxed at 26% on the first $232,600 ($116,300 if married filing separately) and 28% for AMT income over these amounts.

The TCJA increased the AMT exemption amounts and thresholds at which AMT exemptions phase out for individuals for tax years 2018 through 2025. These exemption amounts and thresholds are adjusted annually for inflation and the amounts for 2024 are as follows:

- For married taxpayers filing a joint return (or for a surviving spouse), the AMT exemption amount is $133,300; the phase-out threshold is $1,218,700
- For married taxpayers filing a separate return, the AMT exemption amount is $66,650; the phase-out threshold increased to $609,350
- For all other individual taxpayers, the exemption amount is $85,700; the phase-out threshold is $609,350

If the AMT amendments are not extended for tax years beginning on or after January 1, 2026, the AMT exemption amounts and phase-out thresholds will revert to their 2017 levels, adjusted for inflation for tax years since 2018.

KPMG observation

The AMT amendments introduced by the TCJA significantly reduced the number of taxpayers subject to AMT. The IRS reports that the number of individual taxpayers subject to AMT fell from over 5 million in 2017 to 244,000 in 2021. If the exemption amounts and phase-out thresholds revert to their 2017 levels (albeit adjusted for inflation) many more individuals will find themselves paying AMT on their annual federal income tax returns.

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Achieving A Better Life Experience (ABLE) accounts

ABLE account contribution limit

The TCJA increased the contribution limit by a designated beneficiary to ABLE accounts. The overall limit on contributions remained the same ($14,000 for 2017 and inflation adjusted to $18,000 in 2024). After the limit is reached, the designated beneficiary may contribute an additional amount up to the lesser of the Federal poverty line for a one-person household as determined for the preceding calendar year, or the individual's compensation for the tax year. The designated beneficiary may claim the saver's credit for contributions to the ABLE account.

Provisions providing that ABLE contributions are eligible for the saver's credit and allowing certain contributions above the contribution limits will expire.

529 to ABLE account rollover

The new law provides that amounts from qualified tuition programs under section 529 may be rolled over to an ABLE account without penalty provided that the ABLE account is owned by the designated beneficiary of the 529 account or a member of the designated beneficiary's family. The rollover counts toward the overall limitation on amounts that can be contributed to an ABLE account in a tax year. Amounts in excess of the limit would be included in income as provided under section 72. The provision is effective for tax years beginning after the date of enactment but does not apply to distributions after December 31, 2025.

Provisions allowing 529 plans to be rolled into ABLE plans will expire.

KPMG observation

Taxpayers who are considering a rollover need to consider doing so prior to the end of 2025.

Business provisions

Deduction for pass-through business income

The centerpiece of the TCJA is the permanent reduction in the corporate income tax rate from 35% to 21%. The provision of a temporary deduction for pass-through business income reflects Congress's belief that the reduction in the corporate income tax rate does not completely address the federal income tax burden on businesses.

Under current law, noncorporate owners (i.e., individuals, trusts, or estates) of certain partnerships, S corporations, or sole proprietorships, may deduct up to 20% of their qualified business income (QBI), subject to limitations, plus up to 20% of qualified real estate investment trust (REIT) dividends and qualified

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publicly traded partnership income. Income earned by a C corporation or by providing services as an employee is not eligible for the deduction.

The 20% deduction is allowed as a deduction in reducing taxable income and is available whether or not the individual taxpayer itemizes deductions.

The deduction indirectly reduces a taxpayer's marginal tax rate on their QBI. The amount of the reduction depends on the taxpayer's income tax bracket. A taxpayer who is subject to the highest rate of tax (37%) would receive an effective tax rate reduction of 7.4% (20% deduction x 37% tax rate) resulting in an effective tax rate on QBI of 29.6%.

The deduction for QBI expires for tax years beginning after December 31, 2025.

KPMG observation

The 20% deduction is not allowed in computing AGI. Instead, the deduction reduces taxable income and therefore does not affect limitations based on AGI.

Temporary 100% expensing for certain business assets

Generally, the cost of property used in a trade or business or held for the production of income must be capitalized and recovered over time through annual deductions for depreciation or amortization. The depreciation or amortization period generally begins when the asset is placed in service.

For certain property placed in service through 2026, a "bonus depreciation" deduction is allowed in the year the property is placed in service. Bonus depreciation is generally available for assets used in the United States with a recovery period of 20 years or less and for depreciable computer software. Any remaining basis after bonus depreciation is claimed is depreciated using the depreciation method that otherwise applies to the asset.

Prior to the TCJA, an additional first-year depreciation deduction was allowed equal to 50% of the adjusted basis of qualified property placed in service before January 1, 2020 (January 1, 2021, for certain property with a recovery period of at least 10 years or certain transportation property or certain aircraft).

The TCJA increased the bonus depreciation percentage from 50% to 100% for property acquired and placed in service after September 27, 2017, and before January 1, 2023. The bonus depreciation percentage is phased down by 20% per calendar year for property acquired after September 27, 2017, and placed in service in tax years 2023 through 2026.

Placed in service	Bonus percentage
September 28, 2017 – December 31, 2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

Employer credit for paid family and medical leave

A general business credit is available for employers that provide paid family and medical leave to their employees. The credit is equal to a percentage of wages paid to qualifying employees while they are on

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leave, subject to certain conditions. The minimum percentage is 12.5% increased (but not above 25%) by 0.25% for each percentage point by which the amount paid to a qualifying employee exceeds 50% of the employee's wages. In certain cases, an additional limit may apply.

The credit is effective for wages paid in tax years beginning after December 31, 2017, and before January 1, 2026.

KPMG observation

To be eligible for the credit, paid leave must be provided to all employees, including part-time employees. Due to the difficulty in satisfying all the statutory requirements, if there has been any use of the credit, it has been limited.

Deductibility of de minimis meals in and related to employer eating facility, and meals for the convenience of the employer

Fringe benefits are a non-cash payment for the performance of services. With certain exceptions, fringe benefits are included in an employee's income and are subject to income tax withholding and employment taxes. Generally, the amount includible in income is the amount by which the fair market value of the benefit exceeds what the employee paid for the benefit. Depending upon the type of fringe benefit there may be alternative methods to value the benefit to determine the amount to impute in income. Certain employer-provided fringe benefits, including de minimis fringes, are excluded from an employee's gross income (and wages for employment tax purposes).

The value of meals provided to employees at an employer operated eating facility is excludable from income as a de minimis fringe benefit provided that the revenue from the facility equals or exceeds the direct operating costs. While employees may pay an amount well below fair market value for their meals at an employer operated eating facility, so long as the facility has revenue to cover or exceed their direct operating costs, the value in excess of what the employee pays is excluded from compensation as a de minimis fringe benefit. In addition, the value of meals provided to an employee by the employer on the business premise and for the convenience of the employer are excluded from employee compensation.

Prior to the TCJA, food and beverages expenses related to the de minimis fringe provided from an employer operated dining facility, and meals provided on-premises to employees for the convenience of the employer were 100% deductible.

For tax years after 2017 and before 2026, the employer deduction is reduced to 50% for expenses for food and beverages provided to employees through a qualified eating facility and meals provided for the convenience of the employer.

After 2025, the meals provided from an employer operated dining facility, and meals for the convenience of the employer, as well as the facility, will be nondeductible.

KPMG observation

Taxpayers are awaiting guidance on the loss of deduction and how this will apply to the facility. Although an employer's business deduction is limited, the fringe benefit income exclusion rules still apply with respect to the employee. Qualifying de minimis meals provided by an employer may be excluded from an employee's income (and wages for employment tax purposes).

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Estate, gift, and generation-skipping transfer tax

Increase in estate and gift tax exemption

Federal law provides a lifetime exemption that allows an individual to gift or bequeath a certain amount of wealth without having to pay transfer tax. Under the TCJA, from 2018 through 2025, this exemption is doubled to $10,000,000 from its prior base amount of $5,000,000. This amount is adjusted annually for inflation. Thus, for 2024, the lifetime exemption amount is $13,610,000 per person. This means that, except to the extent an individual has already used this exemption for prior gifting, up to $13,610,000 of assets ($27,220,000 collectively with a spouse) may be given in 2024 without incurring a gift or estate tax. The generation-skipping transfer tax exemption is also $13,610,000 for 2024.

However, the increase is scheduled to sunset at the end of 2025, with the exemption reverting to $5 million per person (as adjusted for inflation) in 2026. Assuming no acceleration of the sunset and moderate inflation over the next year or so, the lifetime exemption could decrease from approximately $14 million in 2025 to approximately $7 million in 2026.

KPMG observation

Individuals who can afford to part with $13.61 million ($27.22 million for married couples), and in some cases, even those who feel they cannot, need to undertake planning now. Even those who have done extensive estate planning in the past need to review their estate plan and to see how they might make best use of any remaining exemption. For example, an individual who used all their exemption on gifts in 2023 or before, can still make at least $690,000 ($1,380,000 per couple) of additional tax-free gifts in 2024 using the 2024 inflation adjustment to the lifetime exemption.

Other expiring provisions

Qualified opportunity zones

A temporary deferral of inclusion in gross income is allowed for capital gains reinvested in a “qualified opportunity fund,” and capital gains from the sale or exchange of an investment held for at least 10 years in a qualified opportunity fund may be permanently excluded. A qualified opportunity fund is an investment vehicle organized as a corporation or partnership for the purpose of investing in and holding at least 90% of its assets in qualified opportunity zone property. Qualified opportunity zone property includes any qualified opportunity zone stock, any qualified opportunity zone partnership interests, and any qualified opportunity zone business property.

The TCJA created procedures for the designation of qualified opportunity zones, and a certification process for qualified opportunity funds. Creation of qualified opportunity funds was effective as of the date of enactment of the TCJA. No gain deferral will be available with respect to any sale or exchange made after December 31, 2026, and no exclusion is available for investments in qualified opportunity zones made after December 31, 2026.

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> **KPMG observation**
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> Taxpayers who are looking for tax-beneficial investments, and those contemplating investment in qualified opportunity funds, need to be aware of the date by which investments in such funds must be made in order to take advantage of the potential tax savings.

Special rule for certain discharges of student loans

Forgiveness of student loans generally results in income recognition for the amount of debt forgiven. Special exceptions exist for cancellation that results from meeting certain requirements, and for certain student loan repayment assistance programs. Also, a broader exemption for cancellation of many other types of student loans was implemented by the American Rescue Plan Act of 2021, applicable to discharges of student loans in 2021 through 2025. Without further action by Congress, discharges of most types of student debt after December 31, 2025, will result in taxable income.

> **KPMG observation**
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> As with the exclusion for discharge of indebtedness for a principal residence, those contemplating seeking relief from student loan debt must be cognizant of the expiration date of this provision.
>
> As noted in the observation above, the insolvency exception may still be available to a taxpayer who is insolvent when debt is cancelled.

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