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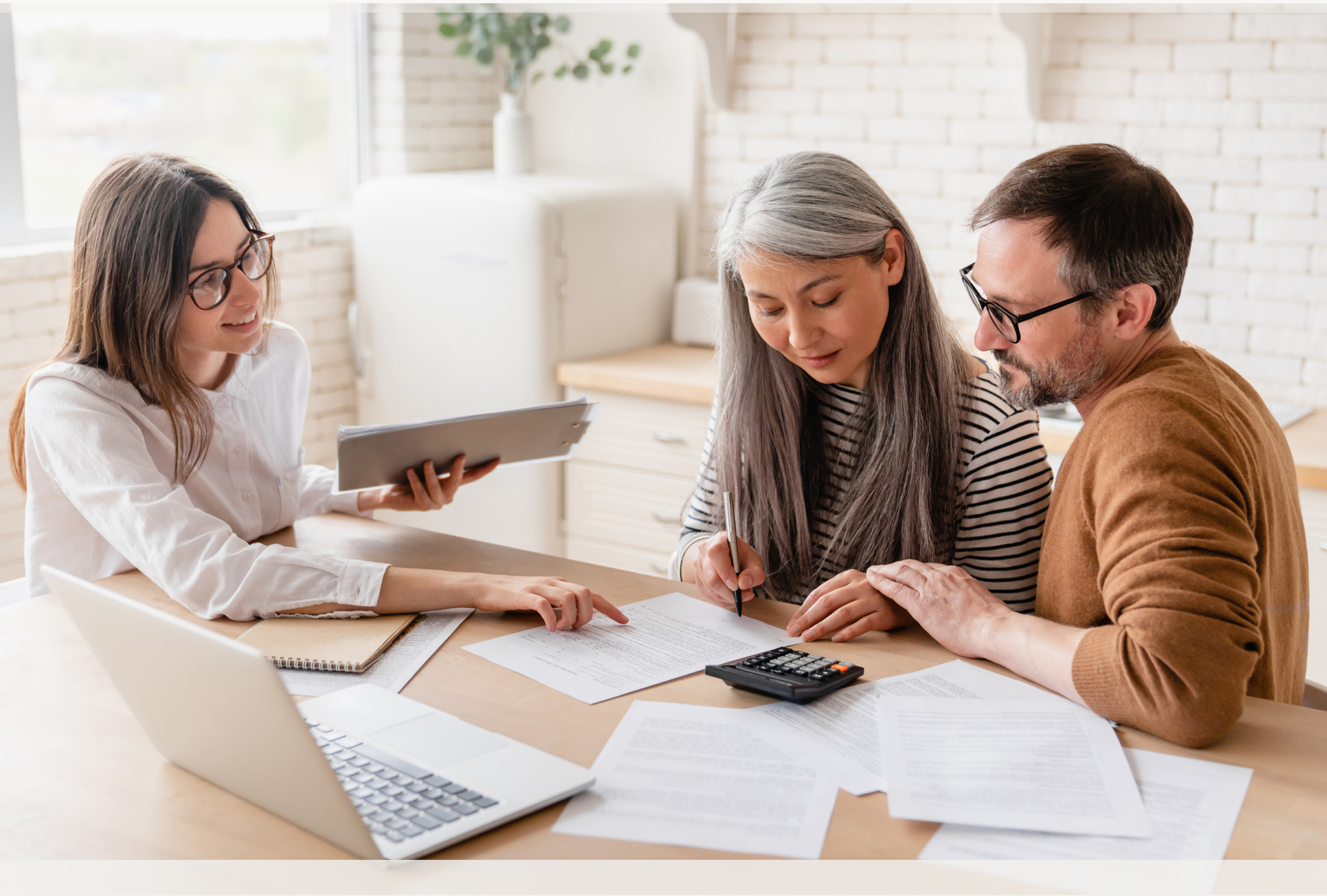

2024 Year-End Tax Planning Opportunities

Tax planning is an all-season activity, but year-end provides the urgency that many need to focus on and unearth any additional opportunities for the current tax year and beyond. Previously, it was predicted that the provisions in the 2017 Tax Cuts and Jobs Act would expire at the end of 2025. However, because of the 2024 election results with Donald Trump winning the presidential race and the House and Senate set to be controlled by Republicans, it is anticipated that the law will be extended.

With that in mind, we share some opportunities to discuss with your advisors before the end of 2024. While not exhaustive, these highlights illustrate the array of possibilities we can explore together.

RETIREMENT TAX PLANNING

The SECURE Act 2.0, which passed in 2022, and its predecessor, the SECURE Act, made several changes to rules relating to retirement plans and required minimum distributions. Talk with your advisors to take full advantage of any changes that work in your favor, including:

Maximize retirement plan contributions

Confirm that you have contributed the maximum amounts allowed under current tax law — and feasible given your financial situation — to retirement accounts. In addition to contributions to employer-sponsored plans, this may also include:

- You and/or your non-working spouse contributing to an IRA or Roth IRA.
- Making additional catch-up contributions if you are age 50 or older. As of 2024, you can contribute an extra $7,500 per year to your 401(k) account. For those aged 60 – 63, the amount will increase to $11,250 per year starting in 2025. Starting in 2026, if your annual earnings exceed $145,000 you will only be able to make catch-up contributions on an after-tax basis.
- If self-employed, deferring large amounts of earnings through simplified employee pension (SEP) IRAs, or in some cases, through a defined benefit pension plan to which you also may be able to make significant contributions over several years.
- The SECURE 2.0 Act also allows for a Roth SEP IRA or an after-tax retirement plan contribution to a SEP.

Strategically take your required minimum distribution (RMD):

If you are over 73 years of age, take your RMD before the end of 2024 and think strategically about how you do it. For example, time the withdrawal around any major expenditures so that you don't need to take withdrawals from taxable accounts. Other considerations include:

- The SECURE Act 2.0 raised the RMD age in 2023 to 73 and increased it to age 75 starting in 2033.
- If you turned 73 in 2024, you can delay taking your first RMD until April 1, 2025. Your second RMD will need to be taken by December 31, 2025, but you could face tax implications if you withdraw two RMDs within the same year.
- If you have inherited an IRA, the IRS waived penalties for missed distributions in 2024 for IRAs specifically inherited from 2020-2023. These accounts are subject to the 10-year distribution rule. As of 2024, required pre-death distributions will be eliminated altogether from non-IRA Roth accounts, including Roth 401(k) plans.
- If you have significant charitable intentions, consider making a qualified charitable distribution (QCD), an otherwise taxable distribution of up to $105,000 from an IRA to a qualified charity.

Consider converting your traditional IRA to a Roth IRA

Owners of traditional IRAs may convert them into Roth IRAs, which involves taking an immediate income tax hit in exchange for future tax-free withdrawals. Generally speaking, you may benefit from a Roth conversion if your income tax rate has decreased (e.g., in retirement) or if you don't expect to need your Roth IRA assets during your lifetime and wish to leave them to your beneficiaries.

INCOME TAX PLANNING

Maximize your charitable impact:

Review charitable giving strategies with your advisor. By being more strategic with your charitable dollars, you can make a bigger impact, including by allocating more to the causes you care about as opposed to taxes. One example to consider is a donor-advised fund (DAF), which is an account or fund, owned by a sponsoring organization, that you make contributions to.

The sponsoring organization manages the DAF's investments and distributions. The potential benefits of a DAF include relative ease (since the sponsoring organization manages it), simplified record-keeping for tax reporting, privacy, and flexibility on when, if, and how to make donations.

Contribute to 529 accounts, which now offer greater flexibility for unused funds:

While there are no deadlines for making contributions to 529 college savings plans, many states offer income tax deductions or state tax credits for contributions. Check with your advisors to understand if you qualify, and if so, whether funding more this year could help offset your taxable income.

With SECURE Act 2.0, your beneficiaries can now roll over up to $35,000 from their 529 plans to a Roth IRA over the course of their lives, which should help alleviate concerns about the money being "trapped" if the funds aren't used for education. Please note that these rollovers count toward Roth IRA annual contribution limits and that the 529 account must have been open for more than 15 years.

Review your payroll tax withholding:

Evaluate your withholding elections for 2024 to ensure you will have enough (but not too much) federal and state taxes taken from your paycheck in 2025.

Harvest tax losses:

Consider harvesting losses in your taxable accounts — the practice of selling investments trading at a loss, replacing them with similar assets (while being careful not to run afoul of the "wash sale" rule), and then offsetting gains with those losses. After capital gains and losses are netted against one another, any remaining losses can be used to offset ordinary income up to $3,000 per year and carried over in unlimited amounts until exhausted to be used against future gains and income.

Monitor the Alternative Minimum Tax (AMT):

If you expect to be subject to the AMT, consider shifting income and deductions from one year to another, to the extent possible, to minimize your overall income tax liability.

Evaluate whether you meet the threshold for the 3.8% net investment income tax:

Consider whether there are strategies to defer and/or reduce your modified adjusted gross income (MAGI) to reduce or avert the 3.8% surtax on net investment income (which, in 2024, applies to MAGI over $200,000 for individuals and $250,000 for married couples filing jointly).

Fully fund health savings accounts (HSAs):

If you participate in a high-deductible health insurance plan, you are eligible for an HSA to help offset out-of-pocket medical expenses. HSAs offer significant, triple-tax benefits: Contributions are tax-deductible, grow tax-deferred, and are not taxed when withdrawn to cover eligible healthcare expenses.

In 2024, individuals can contribute up to $4,150 — plus an additional $1,000 as a catch-up contribution if you are 55 or older — and $8,300 if your insurance covers your family.[1]

Spend flexible spending account (FSA) money:

If you have one, confirm that you have spent the entire balance in your FSA by the plan deadline. FSAs generally have a "use it or lose it" rule, meaning you must incur qualifying expenditures by the last day of the plan year — or at the latest, by the 15th day of the third month following the close of the plan year.

Establish domicile if you have moved to a new state:

If you plan to change your state residency for tax purposes, particularly if you have multiple residences, make sure you have taken all necessary actions to qualify for residency in the new state (e.g., spending enough days there, registering for a driver's license, changing your mailing address, etc.).

Consider taking advantage of Inflation Reduction Act tax credits: These include:

- Enhancements and increases to certain green energy tax credits, such as a $4,000 credit for taxpayers with income below certain thresholds to purchase a used clean-energy vehicle, and a $7,500 credit for the purchase of a new clean-energy vehicle.
- Limited energy efficient home improvement credits, such as for installing new doors, windows, skylights, insulation and heat pumps that more efficiently regulate temperature.
- Residential clean-energy credits for installing clean-energy units (e.g., solar systems, geothermal heat pumps, etc.), which can provide federal tax credits of up to 30% of the costs.

GIFT AND ESTATE TAX PLANNING

Transfer wealth to your family ahead of lower exemption amounts:

If you plan to transfer significant wealth to your loved ones, consider taking advantage of increased exemption amounts (in 2024, $13.61 million per person and $27.22 million per married couple; in 2025, $13.99 million per person and $27.98 million per married couple)[2], which will be cut roughly in half when they expire at the end of 2025.

There are several tax-efficient estate planning strategies to consider, including grantor retained annuity trusts (GRATs) and other types of grantor trusts, gifting stocks, and intrafamily transactions and installment sales.

Gift to family members:

Consider taking advantage of the annual gift tax exclusion — the maximum you can give to a single person within a calendar year without needing to file a gift tax return and pay gift taxes. For 2024, this amount is $18,000 per recipient for an individual and $36,000 per recipient for a married couple. Please note that direct payments of tuition and medical expenses do not count toward these limits; these types of gifts have unlimited exclusions. For example, you could even "front-load" a 529 plan with five years' worth of annual exclusions, allowing a greater amount of assets to grow tax free for a longer period of time.

Reach Out to Us for Help

For more details on any of the above strategies, or for additional tax planning ideas, please reach out and we can collaborate with you and your other advisors. We look forward to hearing from you soon.

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[1] HSA contribution limits and eligibility rules for 2024 and 2025. (2024, August 29). https://www.fidelity.com/learning-center/smart-money/hsa-contribution-limits

[2] Orem, T., & Parys, S. (2024, October 22). Gift tax: 2024-2025 Annual limits and exclusions. NerdWallet. https://www.nerdwallet.com/article/taxes/gift-tax-rate