TAX PLANNING 2024

To Our Clients, Colleagues and Friends:

The less hectic summer season is a suitable time to consider steps to cut your 2024 tax bill. Here are some planning strategies to consider, assuming our current federal tax regime remains in place through 2024.

GAME THE GENEROUS STANDARD DEDUCTION ALLOWANCES

The 2024 standard deduction amounts are $14,600 for singles and those who use married filing separate status, $29,200 for married joint filing couples, and $21,900 for heads of household. If your total annual itemizable deductions for 2024 will be close to your standard deduction amount, consider making enough additional expenditures for itemized deduction items between now and year end to exceed your standard deduction. That will lower this year's tax bill. Next year, you can always claim the standard deduction, which will be increased to account for inflation.

The easiest deductible expense to accelerate is included in the house payment due on January .1 Accelerating that payment into this year will give you 13 months of interest in 2024. Although 2017 tax reform put stricter limits on itemized deductions for home mortgage interest, you are probably unaffected. Check with us if you are uncertain.

Next up are state and local income and property taxes that are due early next year. Prepaying those bills before year end can decrease your 2024 federal income tax bill because your total itemized deductions will be that much higher. However, 2017 tax reform decreased the maximum amount you can deduct for state and local taxes to $10,000 or $5,000 if you use married filing separate status. So, beware of this limitation.

Also, consider making bigger charitable donations this year and smaller one's next year to compensate. That could cause your itemized deductions to exceed your standard deduction this year. Next year, you can always claim the standard deduction.

CAREFULLY MANAGE INVESTMENT GAINS AND LOSSES IN TAXABLE ACCOUNTS

If you hold investments in taxable brokerage firm accounts, consider the tax advantage of selling appreciated securities that have been held for over 12 months. The federal income tax rate on long-term capital gains recognized in 2024 is only 15% for most individuals, but it can reach the maximum 20% rate at higher income levels. The 3.8% Net Investment Income Tax (NIIT) can also apply at higher income levels.

To the extent you have capital losses that were recognized earlier this year or capital loss carryovers from pre-2024 years, selling winners this year will not result in any tax hit. Sheltering net short-term capital gains with capital losses is a sweet deal because net short-term gains would otherwise be taxed at higher ordinary income rates.

What if you have some loser investments that you would like to unload? Facing the situation and taking the resulting capital losses this year would shelter capital gains, including high-taxed short-term gains, from other sales this year.

If selling a bunch of losers would cause your capital losses to exceed your capital gains, the result would be a net capital loss for the year. That net capital loss can be used to shelter up to $3,000 ($1,500 if you use married filing separate status) of 2024 ordinary income from salaries, bonuses, self-employment income, interest, royalties, etc. Any excess net capital loss from this year is carried forward to next year and beyond.

If you still have a capital loss carryover after 2024, it will carry over to 2025.

TAKE ADVANTAGE OF 0% TAX RATE ON INVESTMENT INCOME

The federal income tax rate on long-term capital gains and qualified dividends from securities held in taxable brokerage firm accounts is still 0% when the gains and dividends fall within the 0% bracket. For 2024, you may qualify for the 0% bracket if your taxable income is $47,025 or less for single filers, $94,055 or less for married couples filing jointly, or $63,000 or less for heads of household.

While your income may be too high to benefit from the 0% rate, you may have children, grandchildren, or other loved ones who will be in the 0% bracket. If so, consider giving them some appreciated stock or mutual fund shares that they can then sell and pay 0% tax on the resulting long-term gains. Gains will be long-term if your ownership period plus the gift recipient's ownership period (before the recipient sells) equals at least a year and a day.

Giving away stocks that pay dividends is another tax-smart idea. If the dividends fall within the gift recipient's 0% rate bracket, they will be federal-income-tax-free.

If you give securities to someone who is under age 24, the Kiddie Tax rules could potentially cause some of the resulting capital gains and dividends to be taxed at the parent's higher marginal federal income tax rate. That would defeat the purpose. Please contact us if you have questions about exposure to the Kiddie Tax.

EXPLORE GIFTING STRATEGIES

If you want to make gifts to some favorite relatives, other loved ones, and/or charities, they can be made in conjunction with an overall revamping of your taxable account stock and equity mutual fund portfolios. Gifts should be made according to the following tax-smart principles.

Gifts to Relatives and Other Loved Ones. Do not give away loser stocks (currently worth less than what you paid for them). Instead, you should sell the shares and book the resulting tax-saving capital loss. Then, give the cash sales proceeds to your loved one.

On the other hand, you could give away winning stocks. Most likely, your gift recipient will pay lower tax rates than you would pay if you sold the same shares. As explained earlier, loved ones in the 0% federal income tax bracket for long-term capital gains and qualified dividends will pay a 0% federal tax rate on gains from shares that were held for over a year before being sold. For purposes of meeting the more-than-one-year rule for gifted shares, count your ownership period plus the gift recipient's ownership period. Even if the winning shares have been held for a year or less before being sold, your loved one will probably pay a lower tax rate on the gain than you would.

Gifts to Charities. The principles for tax-smart gifts to relatives and other loved ones also apply to donations to IRS-approved charities. You should sell loser shares and collect the resulting tax-saving capital losses. Then, you can give the cash sales proceeds to favored charities and claim the resulting tax-saving charitable deduction (assuming you itemize). Following this strategy delivers a double tax benefit: tax-saving capital losses plus a deductible charitable donation.

On the other hand, you should donate winner shares instead of giving away cash. Why? Because donations of publicly traded shares that you have owned over a year result in charitable deductions equal to the full current market value of the shares at the time of the gift (assuming you itemize). Plus, when you donate winner shares, you escape any capital gains taxes on those shares. So, this idea is another double tax-saver: you avoid capital gains taxes while getting a tax-saving donation deduction (assuming you itemize). Meanwhile, the tax-exempt charitable organization can sell the donated shares without owing anything to the IRS.

CONVERT TRADITIONAL IRAS INTO ROTH ACCOUNTS

The best profile for the Roth conversion strategy is when you expect to be in the same or higher tax bracket during your retirement years. If that turns out to be true, the current tax hit from a conversion done this year could be a relatively small price to pay for completely avoiding potentially higher future tax rates on the account's earnings. In effect, a Roth IRA can insure part or all of your retirement savings against future tax rate increases.

DO NOT OVERLOOK ESTATE PLANNING

The unified federal estate and gift tax exemption for 2024 is historically high, at $13.61 million, or effectively $27.22 million for married couples. Even though these exemptions probably mean you are not currently close to being exposed to the federal estate tax, your estate plan may need updating to reflect the current tax regime. Also, you may need to make some changes for reasons that have nothing to do with taxes, such as various life changes.

Finally, be aware that in 2026, the unified federal estate and gift tax exemption is scheduled to fall back to what it was before 2017 tax reform with a cumulative inflation adjustment for 2018-2025. That might put it in the $7 million to $8 million range, depending on what inflation turns out to be through 2025.

Estate planning can be a moving target. Personal and tax changes happen. Contact us if you would like to discuss conducting an estate planning update.

ESTABLISH A TAX-FAVORED RETIREMENT PLAN

If your business does not already have a retirement plan, now might be the time to consider. Current rules allow for significant deductible contributions. For example, if you are self-employed and set up a SEP plan for yourself, you can contribute up to 20% of your net self-employment income, with a maximum contribution of $69,000 for 2024. If you are employed by your own corporation, up to 25% of your salary can be contributed, with a maximum contribution of $69,000 for 2024.

Other small business retirement plan options include the 401(k) plan, which can be set up for just one person; the defined benefit pension plan; and the SIMPLE-IRA, which can be an excellent choice if your business income is modest. Depending on your circumstances, non-SEP plans may allow bigger deductible contributions.

TIME BUSINESS INCOME AND DEDUCTIONS FOR TAX SAVINGS

If you conduct your business using a pass-through entity (sole proprietorship, S Corporation, LLC, or partnership), your shares of the business's income and deductions are passed through to you and taxed at your personal rates. Assuming no legislative changes, next year's individual federal income tax rates will be the same as this year's, with significant bumps in the rate bracket thresholds thanks to inflation adjustments.

The traditional strategy of deferring income into next year while accelerating deductible expenditures into this year makes sense if you expect to be in the same or lower tax bracket next year. Deferring income and accelerating deductions will, at a minimum, postpone part of your tax bill from 2024 until 2025. And, after the inflation adjustments to 2025 rate bracket thresholds, the deferred income might be taxed at a lower rate.

On the other hand, if you expect to be in a higher tax bracket in 2024, take the opposite approach. Accelerate income into this year (if possible) and postpone deductible expenditures until 2025. That way, more income will be taxed at this year's lower rate instead of next year's higher rate.

EMPLOYING FAMILY MEMBERS

Employing family members can be a useful strategy to reduce overall tax liability. If the family member is a bona fide employee, the taxpayer can deduct the wages and benefits, including medical benefits, paid to the employee on Schedule C or F as a business expense, thus reducing the proprietor's self-employment tax liability. In addition, wages paid to your child under the age of 18 are not subject to federal employment taxes, will be deductible at your marginal tax rate, are taxable at the child's marginal tax rate, and can be offset by up to $14,600 (your child's maximum standard deduction for 2024). However, your family member must be a bona fide employee, and basic business practices, such as keeping time reports, filing payroll returns, and basing pay on the actual work performed, should be followed.

CONCLUSION

This letter only covers a few tax planning moves that could potentially benefit your business for this year. Please contact us if you have questions, want more information, or would like us to help in evaluating your best business tax planning options for 2024.

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