2024 TAX PLANNING & TIPS

The tax laws continue to provide opportunities for the wise and traps for the unwary. For many, tax savings can be achieved by acting before the year ends. With 2024 being an election year, anything can happen. The incoming administration can enact new tax laws or extend current ones. In addition, several provisions enacted under the Tax Cuts and Jobs Act in 2017 will expire at the end of 2025, unless they are extended. The information and strategies provided within this newsletter may or may not be appropriate for your situation. It's important to consult with your tax professional before implementing them.

New Rules Effective for 2024

Retirement Savings

Starting in 2024, certain individuals may take penalty-free withdrawals from their retirement accounts. These include:

- **Domestic Abuse Victims**. Individuals under age 59½ can withdraw up to $10,000 from their retirement accounts. The distribution is taxable but is not subject to the usual early withdrawal 10% penalty. Eligible distributions are those made with a 1-year period beginning on any date on which the individual is a victim of domestic abuse by a spouse or domestic partner. The term "domestic abuse" is defined in as physical, psychological, sexual, emotional, or economic abuse, including efforts to control, isolate, humiliate, or intimidate the victim, or to undermine the victim's ability to reason independently, including by means of abuse of the victim's child or another family member living in the household.

- **Emergency Withdrawals**. Taxpayers facing an emergency can withdraw up to $1,000 penalty-free. An emergency personal expense distribution is a distribution made to an individual for purposes of meeting unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses. An emergency personal expense distribution is includible in gross income, but it is not subject to the 10% percent additional tax.

Increased Retirement Contributions

- Beginning in 2024, catch-up contributions to IRAs will be indexed for inflation. For 2024, contributions to a traditional IRA are limited to $7,000. If you are age 50 or older, the catch-up contribution limit remains at $1,000 for 2024.

- In 2025, the catch-up contribution limit for 401(k) plans will increase from $7,500 to $10,000 for workers aged 60 to 63.

Required Minimum Distributions (RMDs)

- The RMD age remains 73 in 2024 and will gradually increase to 75 by 2033. This allows for more time to defer taxes on retirement savings.

- Beginning in 2024, RMDs are no longer necessary for Roth 401(k) account holders.

- Beneficiaries of a decedent's IRA generally have 10 years to withdraw the entire balance of the inherited IRA. Distributions are to begin the year following the year of death. However, the IRS postponed until 2025 the requirement for beneficiaries who were required to take RMDs in 2021, 2022, 2023 or 2024. This postponement does not extend the 10-year withdrawal period.

Additional Information

Adoption Credits. An individual may claim a tax credit for qualified adoption expenses which are reasonable and necessary adoption fees, court costs, attorney fees, and other expenses that are directly related to the legal adoption of an eligible child (an individual under age 18, or physically or mentally incapable of self-care.) The credit is a nonrefundable personal credit allowed against the income tax and alternative minimum tax. The total amount that may be taken as a credit for all tax years for the adoption of a child is $16,810 for 2024.

The credit begins to phase out for taxpayers with modified adjusted gross income (MAGI) in excess of $252,150. The phaseout is complete at MAGI of $292,150.

Student Loan Interest Deduction. The maximum amount of student loan interest you can deduct each year is $2,500. The deduction is phased out if your adjusted gross income (AGI) exceeds certain levels.

For tax years beginning in 2024, the $2,500 maximum deduction begins to phase out after modified AGI exceeds $80,000 ($165,000 for joint returns) and is completely phased out for taxpayers with modified adjusted gross income of $95,000 or more ($195,000 or more for joint returns).

Educator Expenses. Eligible educators are allowed a maximum $300 deduction for out-of-pocket classroom expenses in 2024. If both you and your spouse are eligible educators, each of you can deduct up to $300 for out-of-pocket classroom expenses.

Out-of-pocket expenses include books, supplies, computer equipment, related software and services and other equipment, and supplementary materials used in the classroom. Qualified expenses also include personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of COVID-19. Covered items include face masks, disinfectants, hand soap, hand sanitizer, disposable gloves, tape, paint, or chalk used to guide social distancing; physical barriers, such as clear plexiglass; air purifiers; and other items recommended by the Centers for Disease Control (CDC).

Eligible educators include teachers, instructors, counselors, principals, and aides who work at least 900 hours a school year in a school providing elementary or secondary education.

Expenses for homeschooling or nonathletic supplies for health or physical education are not eligible.

Standard Mileage Rate. Taxpayers can use the standard mileage rate instead of actual expenses when computing the deductible costs of operating vehicles owned or leased by them for business purposes. The following rates are applicable for the 2024 tax year:

Business	.67
Medical	.21
Moving	.21*
Charitable	.14

*Applies to members of the Armed Forces on active duty who move pursuant to a military order.

Health savings accounts. If you become eligible in December of 2024 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2024 provided you make them by April 15, 2025. For 2024, the maximum contribution you can make is $4,150 for self-only coverage, and $8,300 for family coverage. You can contribute an additional $1,000 if you are over age 55.

You are eligible to make contributions into a health savings account if you are covered under a high deductible health plan.

Notable Changes for 2025

The tax year 2025 adjustments described below generally apply to income tax returns to be filed starting tax season 2026. The tax items for tax year 2025 of greatest interest to many taxpayers include the following dollar amounts:

Standard Deductions. For single taxpayers and married individuals filing separately for tax year 2025, the standard deduction rises to $15,000 for 2025. For married couples filing jointly, the standard deduction rises to $30,000. For heads of households, the standard deduction will be $22,500 for tax year 2025.

Alternative Minimum Tax Exemption Amounts. For tax year 2025, the exemption amount for unmarried individuals increases to $88,100 ($68,650 for married individuals filing separately) and begins to phase out at $626,350. For married couples filing jointly, the exemption amount increases to $137,000 and begins to phase out at $1,252,700.

Earned Income Tax Credits. For qualifying taxpayers who have three or more qualifying children, the tax year 2025 maximum Earned Income Tax Credit amount is $8,046.

Health Flexible Spending Cafeteria Plans. For the taxable years beginning in 2025, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements rises to $3,300. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount rises to $660.

Medical Savings Accounts. For tax year 2025, participants who have self-only coverage the plan must have an annual deductible that is not less than $2,850 (a $50 increase from the previous tax year), but not more than $4,300 (an increase of $150 from the previous tax year).

The maximum out-of-pocket expense amount rises to $5,700. For family coverage in tax year 2025, the annual deductible is not less than $5,700; however, the deductible cannot be more than $8,550. For family coverage, the out-of-pocket expense limit is $10,500 for tax year 2025.

Foreign Earned Income Exclusion. For tax year 2025, the foreign earned income exclusion increases to $130,000.

Estate Tax Credits. Estates of decedents who die during 2025 have a basic exclusion amount of $13,990,000, increased from $13,610,000 for estates of decedents who died in 2024.

Annual Exclusion for Gifts increases to $19,000 for calendar year 2025, rising from $18,000 for calendar year 2024.

Adoption Credits. For tax year 2025, the maximum credit allowed for the adoption of a child with special needs is the amount of qualified adoption expenses up to $17,280.

Year-End Planning

As the end of the year approaches, now is the perfect time to review your investment portfolio and consider your options for managing capital gains and losses. Below are some helpful strategies and important considerations to keep in mind.

When to Recognize Gains and Losses

The key to effective tax planning is timing. As your income, gains, and losses for the year become clearer, you can plan to make strategic decisions to reduce your tax liability.

- **Recognize Long-Term Gains**: If you expect to be subject to a higher tax rate in the future, it may be beneficial to recognize long-term capital gains in 2024 to take advantage of the lower current rate.

- **Stay Below the Zero-Rate Threshold**: For taxpayers with income below the zero-rate threshold, recognizing long-term gains up to that amount can be advantageous. If your income is already below the threshold, avoid recognizing long-term capital losses this year.

- **Capitalize on Capital Losses**: If you have no gains to offset, you can still recognize up to $3,000 in capital losses ($1,500 if married filing separately) to reduce your taxable income.

Bond Swaps

If you're holding municipal bonds that have declined in value, a bond swap may be a smart move. Selling a bond at a loss and buying a similar bond can help you recognize a capital loss, offset short-term capital gains, or reduce your overall income by up to $3,000.

Wash Sales and How to Avoid Them

The "wash sale" rule prevents you from claiming a tax loss on the sale of stock or securities if you repurchase substantially identical ones within 30 days before or after the sale. However, there are strategies to work around this:

- **Wait It Out**: Sell the original stock and wait 31 days to repurchase the same shares.

- **Shift Investments**: Sell your original stock and invest in similar stocks or mutual funds within the same industry. Remember that the wash sale rules only apply if identical securities are purchased within the 60-day period.

Important Note: The wash sale rule only applies when selling at a loss. You can sell stock at a gain and immediately repurchase it without triggering this rule.

Deferring Gains with Installment Sales

If you're looking to defer gains from the sale of assets, consider using the installment sale method. With this option, you only recognize gain when payments are received.

Deferring Gains with a Like-Kind Exchange

A like-kind exchange can allow you to defer taxes on eligible property (i.e., real estate held for business use or for investment purposes) by exchanging it for similar property without triggering a taxable event.

Donating Appreciated Securities

If you plan to make charitable contributions, consider donating appreciated securities instead of cash. By donating the securities directly, you avoid paying capital gains taxes on the appreciation, and the organization still benefits from the full value.

Selling Your Home?

If you're selling your principal residence, strategic timing can lead to big tax savings. If you've lived in your home for at least two of the last five years, you can exclude up to $500,000 of gain if married filing jointly, or $250,000 for other taxpayers. Surviving spouses may also qualify for the $500,000 exclusion if they sell within two years of the spouse's death.
