Income Taxes: Changes and Ideas for Personal and Business

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Topics for Today

1. Understanding the Current Landscape
2. Planning Considerations and Strategies for Individuals
3. Considerations for Business Owners

Understanding the Current Landscape

Favorable tax environment for most

- Lower marginal tax rates
- Scaling back of popular deductions means the overwhelming majority of taxpayers claim the standard deduction
- Alternative minimum tax (AMT) no longer an issue for most taxpayers
- Favorable estate and gift tax environment — but what about the future?
- Uncertainty on tax rates after 2025 … or before?

Key tax figures for 2024

Ordinary income tax rates	10%, 12%, 22%, 24%, 32%, 35%, 37%
Long-term capital gain and qualified dividend tax rates	0%, 15%, 20%
Net investment income surtax	3.8% ($200,000 single, $250,000 couples)
Standard deduction	$14,600 (single), $29,200 (couples)
SALT deduction	Capped at $10,000
Mortgage interest deduction	Limited to $750,000 of aggregate debt*
Charitable deduction	Max of 60% of AGI in one tax year
Maximum salary deferral to retirement plan	$23,000 ($30,500 if age 50 and older)
Maximum contribution to IRA	$7,000 ($8,000 if age 50 and older)

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How do estate and gift taxes look for 2024?

18% to 40%	Range of marginal tax rates on estates and gifts in excess of lifetime exemption amount
$13,610,000	Lifetime gift and estate tax exemption
$18,000	Annual gifts to as many recipients without resulting in a taxable gift and reducing the lifetime exemption amount
Portability	Allows surviving spouse to utilize deceased spouse unused exemption (DSUE)

SECURE 2.0 law changed rules on retirement accounts

- RMD age increased last year to age 73 and eventually age 75 by 2033
- Additional catch-up contributions at ages 60, 61, 62, and 63
- More opportunities to save in Roth accounts
  - Catch-up contributions in retirement plans for those with previous year's wages > $145k must be contributed to a designated Roth account in the plan
- More ways to avoid early 10% penalty on withdrawals (emergency, terminal illness, domestic abuse)
- Plans can treat student loan payments as contributions for purposes of making an employer-matching contribution

New option for unused college savings funds

- Up to $35,000 (per beneficiary) in 529 account funds can be transferred to a Roth IRA in the name of the 529 beneficiary
- 529 account must be established for at least 15 years and the last five years of contributions and earnings cannot be transferred
- While annual contribution limits apply, income restrictions for making a Roth IRA contribution do NOT apply (currently phaseouts apply at $138,000 for individuals, $218,000 for married couples

Risk of higher taxes?

1. Legislative efforts on Capitol Hill
2. Expiration of tax provisions at the end of 2025
3. Fiscal pressures facing the federal government

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Planning Considerations and Strategies for Individuals

Actionable planning strategies

1. How to maximize popular deductions
2. Take advantage of lower tax brackets
3. Estate planning under the new law
    - Preserve step-up in cost basis at death
    - Take advantage of the increased annual exemption amount
    - Planning as a result of the SECURE Act

Consider “lumping” charitable gifts

Assumptions: H & W, age 65, who donate $15,000 annually to charity; other deductions include $10,000 for SALT and $5,000 for mortgage interest; their marginal income tax bracket is 24%

	2024	2025
ANNUAL GIFTS	 $15,000	 $15,000
“LUMP” GIFTS	 $30,000	NO GIFT

Result: With annual gifting their total deductions = $61,400 ($30,700 x 2 years); by lumping gifts, their total deductions = $69,700 ($45,000 + $30,700), resulting in a difference of $8,300 for a tax savings of approximately $2,000, assuming a 24% marginal tax bracket

Donate IRA assets to a charity

- Requirements
  - Must be age 70½ or older
  - Distribution must be sent directly to a qualified charity and can count towards RMD
  - 2024 $105K limit per account owner indexed for inflation and one-time distribution of up to $53,000 to charitable trust or gift annuity
- Benefits
  - Tax-free RMD lowers AGI — may have beneficial impact in other tax areas such as taxation of Social Security benefits or Medicare Part B premiums
  - Avoids AGI threshold for charitable gifts
  - May benefit state taxes since some states do not allow residents to deduct a charitable contribution
  - May benefit legacy planning by preserving assets, which may benefit from step-up in cost basis while the IRA is taxable to heirs

Does a Roth conversion make sense?

2024

37%
$731,200
35%
$487,450
32%
$383,900
$250,000
24%
$201,050
22%
$94,300
12%
$23,200
10%

3.8% surtax applies

PROJECTED

39.6%
$580,400
35%
$513,750
33%
$287,550
28%
$188,700
25%
$93,450
15%
$22,900
10%

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Roth accounts can hedge the risk of higher taxes in the future

- Consider tactical Roth IRA conversions to “top-off” tax brackets or during years when income is lower or deductions are higher
- Do Roth 401(k) contributions make sense?
- There may be alternative ways to fund Roth accounts even if income is higher

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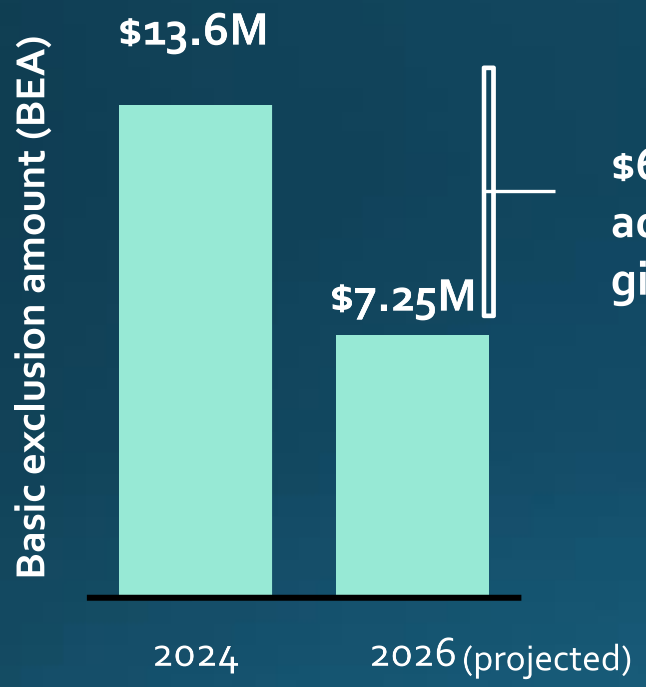
Estate planning considerations

- Review existing trusts to determine if changes are needed
- Be mindful of state death taxes
- Plan for low cost-basis property
  - Ensure stepped-up cost basis is maintained when property is transferred at death
- HNW families may want to consider a gifting strategy for the additional lifetime exclusion amount
- Work with an estate planning professional to account for the potential “sunset” of the law in 2026

Consider gifting before the current law sunsets



$6M additional gift exclusion → **Federal estate tax savings of over $2 million**

Higher-net-worth families may see this as an opportunity since the estate and gift tax figures are scheduled to revert to 2017 levels after 2025

Considerations for Business Owners

Planning Considerations for Businesses

- Depreciation Considerations
  - Bonus Depreciation is now down to 60% for many assets in 2024, and is set to go down again to 40% in 2025.
  - Lower by 20% each year until 2027.
- Meals & Entertainment
  - All entertainment is non-deductible, since the TCJA
  - Meals have returned to 50% deductible for 2024 and 2025.
  - Company parties for employees remain 100% deductible
- State Pass-Through Entity Tax Elections
  - A way to deduct state taxes at the business rather than the individual level, which gets around the $10,000 SALT cap for itemized deductions

Deduction for small-business owners

- Applies to businesses that are structured as pass-through entities for taxation purposes (sole proprietorship, LLC, partnership, S Corp)
- 20% on qualified business income (QBI), cannot include compensation or investment income
- At higher income levels, specified service trade or businesses (SSTBs) are not allowed to take the deduction
  - According to the law, *"A specified service activity means any trade or business activity involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees, or investing, trading, or dealing in securities, partnership interests, or commodities."*

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Closing thoughts

- Most taxpayers are benefitting from relatively favorable tax policy currently
- Careful consideration must be taken to hedge the risk of taxes increasing in the future
- Work with professionals to assess income and estate tax planning strategies

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