Spring & Co.
CERTIFIED PUBLIC ACCOUNTANTS

2024 Year-End Tax Planning for Individuals

Dear Client,

Although 2024 (as of now) has not seen any major legislation, we might expect tax law changes following the election. In addition, taxpayers should be alert to the impending expiration of numerous Tax Cuts and Jobs Act (TCJA) of 2017 provisions at the end of 2025. A new administration and the sunset of tax relief for many individuals will put pressure toward significant tax reform in 2025. These factors create challenges and instability in developing a tax plan when there are multiple strategies to consider. However, the usual tactics of deferring income and increasing current deductions still apply for 2024. Each individual taxpayer should consider the unique challenges and opportunities that this year presents.

MINIMIZING INDIVIDUAL TAXES

The key to any year-end planning strategy is to minimize taxes. This is generally done by either reducing the amount of income received or increasing the amount of deductions.

Delaying and reducing gains

Like taxes on ordinary income, taxes on capital gains apply at different rates depending upon the amount of taxable income. For 2024, the thresholds have adjusted upward from 2023 by about 5 - 6% as follows:

	0%	**15%**	**20%**
MFJ/SS	$0 - $94,050	$94,051 - $583,750	over $583,750
MFS	$0 - $47,025	$47,026 - $291,850	over $291,850
HoH	$0 - $63,000	$63,001 - $551,350	over $551,350
Single	$0 - $47,025	$47,026 - $518,900	over $518,900
E&T	$0 - $3,150	$3,151 - $15,450	over $15,451

For taxpayers whose income tends to fluctuate from year to year, it would be wise to examine the impact of sales of investment items. For taxpayers who think they may have lower income in 2024, it would be smart to hold off on a sale of a capital item if their income is at or near a threshold for a higher capital gains bracket.

This type of consideration should not be limited to capital gain taxes, but also the net investment income (NII) tax. The 3.8% NII tax kicks in at $200,000 of modified adjusted gross income for single and head-of-household filers, $250,000 for joint filers, and $125,000 for married taxpayers filing separately.

Since the NII thresholds fall right in the middle of the 15% capital gains bracket, a taxpayer to whom the NII applies because of a sale of a capital item would likely not be able to reduce the tax to 0%. But a taxpayer who is barely in the 20% bracket could defer a sale and move into the 15% bracket, meaning a sale of a capital item would only be taxed at 18.8% instead of 23.8%.

Harvesting tax losses. A potential tax strategy involves selling investments at a loss to offset or reduce capital gains generated in the same tax year. However, the benefits only apply to high-income taxpayers. In addition, taxpayers must be mindful of the wash-sale rules that might disallow the loss if they reinvest in a 'substantially similar' asset within 30 days.

Maximizing deductions

For 2024, the inflation-adjusted standard deduction amounts are $29,200 for joint filers and surviving spouse, $21,900 for heads of households, and $14,600 for all other filers. With standard deduction amounts so high, coupled with the $10,000 limitation on the deduction of state and local taxes, it is difficult for many taxpayers to claim enough deductions to make itemizing beneficial. Thus, maximizing deductions may not be beneficial for all taxpayers.

One of the best ways to maximize the amount of deductions is to develop a bunching strategy. This involves accumulating charitable contributions, or even medical expenses, from two or more years into one year. For example, a taxpayer may not make any of their normal charitable contributions in 2024, and then make double the normal amount in 2025 in order to help surpass the standard deduction amount. The same strategy can be employed for deductible

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medical expenses where the timing is somewhat flexible, such as for elective procedures (remember that purely cosmetic procedures are not deductible).

Even with bunching, it might be difficult to achieve itemized deductions high enough in 2024 to surpass the standard deduction. Bunching can be a very effective strategy, but it must be effectively used, and potentially planned out two or three years in advance to maximize the benefit, while also considering shifts in tax policies as a result of political change.

Green energy

Home Energy Credits. The Energy Efficiency Home Improvement Credit became available in 2023. The credit is generally equal to 30% of the taxpayer's qualified expenses up to annual maximum of $1,200 (which can include doors, windows, other qualifying energy property, and even a home energy audit). Also available is the Residential Clean Energy Credit, which is also equal to 30% of qualified expenses but with no annual maximum or lifetime limit. This credit is applicable to the installation of certain energy property like solar cells, small wind turbines, or battery storage. Restrictions and limitations do apply to both credits.

Vehicle Credits. Eligible new clean vehicles may qualify for a tax credit of up to $7,500. The amount of the credit depends on when the eligible new clean vehicle is placed in service and whether the vehicle meets certain requirements for a full or partial credit.

A credit is available up to $4,000 for the purchase of an eligible previously owned clean vehicle with a sale price of $25,000 or less that is placed in service during a tax year by a qualified buyer. To claim the credit, a qualified buyer must meet certain income requirements, and must be the vehicle's first qualified sale since August 16, 2022, other than to the original owner.

The amount of either the new or previously owned clean vehicle credit that is more than the income tax liability for the year cannot be refunded, for either personal or business use. However, eligible taxpayers who purchase an eligible vehicle after December 31, 2023, for personal use may transfer the entirety of the allowable credit to an eligible entity (a registered dealer) in exchange for a financial benefit and file a federal income tax return reporting the transfer of the credit. The entire amount of allowable credit may be transferred even if the credit amount is more than the taxpayer's income tax liability.

Retirement Savings

Starting in 2023, the age at which required minimum distributions (RMDs) must begin is increased to 73 for individuals who turn 72 after 2022 and age 73 before 2033.

Remember that taxpayers who are in their first RMD year have until April 15 of the following year to make that first RMD. So, while action isn't absolutely necessary before the end of the year, affected taxpayers should start to plan for those RMDs. Keep in mind that the RMD for 2025 is required by December 31, 2025. If a taxpayer were to take both RMDs in 2025, it could push them into a higher tax bracket because both distributions would be taxable in one tax year.

Qualified charitable distributions, or QCDs, offer eligible taxpayers aged 70 ½ or older a great way to easily give to charity before the end of the year. For those who are at least 72 years old, QCDs count toward the IRA owner's RMD for the year. QCDs are tax free if they are paid directly from the IRA to an eligible charitable organization. The annual limit for QCDs increases for the first time in 2024. The annual QCD limit is $105,000 (up from $100,000 in 2023).

Other year-end strategies

A number of other traditional year-end strategies may apply. These include:

- Determining if any adjustments need to be made to tax withholding or estimated payments.
- *Maximizing Education Credits*. Individuals can claim a credit for tuition paid in 2024 even if the academic period begins in 2025, as long as the period begins by the end of March.
- *Maximize retirement contributions*. Adjusted gross income can be reduced if individuals increase the amount of their 401(k) contributions. Individuals eligible for deductions for IRA contributions can claim deductions, and thus reduce AGI, for amounts contributed generally through April 15, 2025.
- *Teacher deductions*. Educators can claim a deduction for up to $300 of classroom expenses (like books, supplies, and computer equipment), and should maximize those expenses by year-end.

- *Make annual exclusion gifts*. The annual gift exclusion limit is $18,000 for 2024, up $1,000 from 2023 limits.
- *Fund FSA or HSA*. Consider funding an FSA or HSA during your employer's annual benefits enrollment period for 2025.
- *Roth IRA conversion*. The value of pretax contributions and any earnings are taxable and the timing for making this conversion can be optimized in a year with lower income.
- *Fund 529 plans*. Many states offer a credit for contributions to 529 education plans or 529A ABLE accounts.
- *Exercise stock options*. Determine whether now is the time to exercise or disqualify company-granted stock options.

Looking Ahead

Prepare for a possible sunset of TCJA individual income tax provisions at the end of 2025. These include:

- *Tax brackets*. Adjustment to individual tax brackets would mean high marginal tax rates in 2026.
- *Exemptions*. Reinstatement of the personal exemption and dependent exemption.
- *Child Tax Credit*. Modifications to the child tax credit and repeal of the other dependent credit.
- *Standard Deduction*. The standard deduction will decrease significantly, from $15,000 to $8,350, for single filers and from $30,000 to $16,700 for taxpayers under 65 filing jointly. Therefore, making it more favorable to itemize deductions.
- *SALT Deduction*. TCJA limited the state and local tax deduction to $10,000. This limit will expire after 2025.
- *Mortgage Loan Interest Deduction*. The deduction for interest on a home equity loan was eliminated and interest deduction was limited to mortgages of $750,000 or less. After 2025, interest on home equity loans of up to $100,000 and on mortgages of up to $1,000,000 will be deductible.
- *Charitable Deductions*. The deduction for cash gifts to public charities will drop from up to 60% of AGI to 50% of AGI.
- *Casualty Losses*. Casualty losses not related to a federal disaster declaration will be deductible again after 2025.
- *Miscellaneous Itemized Deductions*. Miscellaneous itemized deductions will be reinstated for things like investment advisory fees, legal fees and out-of-pocket employee expenses. These items will again be deductible to the extent they exceed 2% of the taxpayer's AGI.
- *Pease limitation on itemized deductions*. The amount of itemized deductions that a taxpayer can claim will phase out for higher-income taxpayers after 2025.
- Alternative Minimum *Tax. The threshold for the AMT will drop significantly. More taxpayers with lower incomes* will be at risk after 2025.

Contact Us

Please call our office to schedule an appointment to discuss your year-end strategy. There is no one size fits all for tax planning and any strategy may have unintended consequences if the taxpayer's situation is not evaluated holistically considering the changing landscape. Please call our office to discuss all your options.

Sincerely,

Spring & Co., CPAs

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