

2024 GUIDE TO TAX PLANNING

SHINE THE LIGHT ON YOUR FINANCIAL PRIORITIES



Your 2023 taxes might be a hassle if you stopped working, experienced investment losses, created an estate plan, or switched to itemizing from claiming the standard deduction. That's not to mention the effects of inflation on your income. Various factors may impact whether your tax bill goes up or down, as well as whether you should alter your tax strategy.

It's important to consider tax diversification when constructing your retirement plan; different types of investments may affect your taxes differently. You should work with a qualified professional to determine how much you should have in each tax "bucket" to minimize your overall tax burden in retirement.

The tax code is notoriously complex, so, keep it basic when preparing your tax returns. **Here are five recommendations to help you prepare for this year's tax season:**

ORGANIZE AND
PREPARE 2023
TAXES

NOTE
DEDUCTIONS
YOU CAN CLAIM

5 TIPS FOR TAXES

TRACK
YEAR OVER YEAR
CHANGES

MINIMIZE TAXES
ON YOUR
RETIREMENT
INVESTMENTS

EMPLOY TAX
STRATEGIES TO
LOWER YOUR TAX
BURDEN

TAX

ORGANIZE AND PREPARE YOUR 2023 TAXES

Getting your W-2, receipts, and other data together as soon as possible is important. Home improvements, charitable contributions, business expenses, and so on, must be considered. A Certified Public Accountant (CPA) can assist you with your tax situation.

KNOW YOUR FUNDAMENTAL TAX TERMS

Make sure you're familiar with some fundamental tax terms. For example, tax credits, tax deductions, tax deferrals, and tax-exempt are all key terms that will come up whenever you're introducing a tax minimization strategy or filing your taxes.

Tax Credits are a payment to you in the form of a refund on your taxes.

Tax Deductions are dollar amounts that are excluded from your original tax bill.

Tax Deferrals are tax dollars that are excluded from your current year of taxes but will be owed for a later tax year according to your financial profile at that time.

Tax Exemptions are certain tax amounts that you're not obligated to pay. Items or investment vehicles often carry tax-exempt statuses, such as Roth IRA withdrawals or qualified charitable contributions.¹

SAFETY AND SECURITY ARE KEY

A certain precautionary safety measure comes as the last step in the organization process. The security breaches and cyberattacks of large corporations have been at the forefront of our minds. Given the convenience of online tax filing, we are more vulnerable than ever to cybersecurity threats if we're not careful.

IF YOU FILE YOUR TAXES ONLINE

- Make sure you're using a secure browser.
- Be careful if you receive a notice, tax bill, or income that does not relate to you.
- Be on the lookout for unsolicited e-mails or other contact requesting your bank account number, Social Security number, or other personal information/ documents.
- You could receive a spam call insisting that you call back to settle your tax bill.

The IRS does not demand immediate payment over the phone, threaten to arrest you, or demand your personal information, including your credit, debit or bank account numbers. If you receive any message with this tone, it's likely a scam.^{2,3}



UNDERSTANDING YOUR 2023 TAXES

NOTE DEDUCTIONS YOU COULD CLAIM

With the “Tax Cuts and Jobs Act,” the standard deduction has nearly doubled from its previous amount. More taxpayers are expected to choose the standard deduction rather than itemized deductions, since the amounts will increase due to inflation.

HERE ARE THE STANDARD DEDUCTION AMOUNTS⁴

In 2024, the additional standard deduction for married taxpayers ages 65 or older will be \$1,550 (up from \$1,500 in 2023). For a single taxpayer or head of household who is 65 or older, the additional standard deduction will be \$1,950 in 2024 (up from \$1,850 in 2023).⁵

Important 401(k)s and health savings accounts (HSAs) contribution limits were increased, as were other retirement savings incentives.^{6,7}

TAX TIPS FOR THE SELF-EMPLOYED

The “Tax Cuts and Jobs Act” went into effect for the 2018 tax year. TCJA offers up to 20% on pass-through income for the self-employed, sole proprietors (Schedule C on Form 1040), limited liability companies, partnerships, and S corporations. This deduction helps to curb high tax rates and the 15.3% self-employment tax by allowing self-employed people to keep more of their earnings tax-free.⁸

STANDARD DEDUCTION

The official IRS regulations for standard deductions in 2024 are:

- **Married couples filed jointly:** \$29,200 (up \$1500 from prior year)
- **Single taxpayers/married individuals filing separately:** \$14,600 (up \$750 from prior year)
- **Heads of households:** \$21,900 (up \$1100 from prior year)⁹

MEDICAL SAVINGS ACCOUNT

Medical Savings Accounts are a type of Medicare Advantage plan. These accounts combine medical savings accounts with a High-Deductible Health Plan. For 2024, people with self-only coverage must have the following deductible limits:^{10, 11}

- **Individuals:** minimum of \$2,800 and maximum of \$4,150
- **Families:** minimum of \$5,550 and maximum of \$8,350

“Almost all of the provisions in the Tax Cuts and Jobs Act (TCJA) expire after 2025, while most business provisions are permanent .”

TRACK YEAR-OVER-YEAR CHANGES



There are no alterations to the seven tax brackets this year. The same seven marginal tax rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37% remain the same.¹²

However, the income ranges for each bracket have been adjusted for inflation. So, with that in mind, here's a guide for the 2023 tax brackets:

MARGINAL TAX RATE	SINGLE	MARRIED FILLING JOINTLY	HEAD OF HOUSEHOLD
10%	\$0 - \$11,600	\$0 - \$23,200	\$0 - \$16,550
12%	\$11,601 - \$47,150	\$23,201 - \$94,300	\$16,551 - \$63,100
22%	\$47,151 - \$100,525	\$94,301 - \$201,050	\$63,101 - \$100,500
24%	\$100,526 - \$191,950	\$201,051 - \$383,900	\$100,501 - \$191,950
32%	\$191,951 - \$243,725	\$383,901 - \$487,450	\$191,951 - \$243,700
35%	\$243,726 - \$609,350	\$487,451 - \$731,200	\$243,701 - \$609,350
37%	\$609,351 or more	\$731,201 or more	\$609,351 or more

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There are a few types of income, particularly qualified dividends, and long-term capital gains, that are taxed based on different rates. Please contact your financial professional for more information regarding those taxes.



MINIMIZE TAXES ON YOUR RETIREMENT INVESTMENTS

A major expense that retirees face today is taxes. Using certain investment vehicles, you can reduce your tax burden without reducing your investment gains, withdrawals, or distributions.

MAKE THE MOST OF YOUR RETIREMENT ACCOUNTS

Contributing to a 401(k) through your employer – or if you're self-employed, a defined-benefit or defined-contribution plan – can help boost your investments while lowering your tax burden. Your 401(k) is financed with pre-tax money, thus lowering your taxable income, possibly resulting in additional taxes and penalties if you withdraw early from your account. If you withdraw early, the amount you withdraw will become part of your taxable income, so be careful when taking early distributions.¹⁵

TAX-LOSS HARVESTING FOR WHEN INVESTMENT DECLINE

You can delay paying your total tax bill by taking your losses earlier, delaying the payment on your gains, and keeping the money for a longer period. By doing this, you may earn a return on the money you otherwise would have spent on taxes.

You can use this strategy to help reduce your tax liability with investment losses. If you have more capital losses than gains in a year, you may claim up to \$3,000 of those losses and deduct them against other forms of income, such as wage or salary income. In addition, you may carry capital loss deductions forward at any time.¹⁶

Note that there are risks of tax loss harvesting. The status of your income, capital gains, losses, and more can be complex and there is no guarantee that you will catch everything the IRS will when you make your decisions and structure your tax year timelines. Sometimes, this can end up costing you more rather than saving you more. Consult a tax professional before engaging in tax-loss harvesting.





STRATEGIES FOR CHARITABLE GIVING

Donate Shares

If you'd like to donate to a charity you care about, you may donate shares that you own, either in the short or long-term. First, make sure you find out how much of the charity's revenue is spent on real programs versus administration and fundraising costs. To make a charitable contribution in the short-term, you may receive a full deduction for your cost basis, however, you would not be able to deduct your additional investment gains. If you hold the stock for over a year, the holding period starts on the day after you buy it, and ends on the day you sell it, so you may deduct the market value as of the date of the donation. Even though it must be itemized, you may claim the benefits of these giving strategies as long as you hold the stock for a year.¹⁷

Donate RMDs

Additionally, if you are over 70.5, you can use required minimum distributions (RMDs) for charitable donations if you don't need that money. You can also use up to \$100K from your RMD to directly donate to a charity if you take RMDs from your IRA.¹⁸ This is known as a Qualified Charitable Distribution, or QCD, but only works if the amount goes directly from the IRA to the charity and doesn't pass through your hands first. Doing QCDs is advantageous because you will not be taxed on the amount of money you donate which would have otherwise counted towards your income level for taxes.¹⁹

Designate a Beneficiary

You may also designate a charity as the beneficiary of your IRA if you desire to make charitable donations part of your estate plan.²⁰ Because the charity will receive the IRA assets tax-free, and your estate will be eligible for a charitable deduction, your other beneficiaries might be better off inheriting non-IRA assets and letting the charity benefit from what you provide through your IRA.

TAX PLANNING FOR YOUR ESTATE

Due to inflation, the unified credit amount will increase to \$13.61 million, or \$27.22 million for married couples, on January 1, 2024. This means that each taxpayer will be able to transfer an additional \$690,000 to an heir or beneficiary without incurring transfer tax liability.²¹ It is important to note that these limits will expire in 2026 if the "Tax Cuts and Jobs Act" is repealed. The annual gift exclusion amount is \$18,000.²²





EMPLOY TAX STRATEGIES TO LOWER YOUR TAX BURDEN

A major expense that retirees face today is taxes. Using certain investment vehicles, you can reduce your tax burden without reducing your investment gains, withdrawals, or distributions.

REQUIRED MINIMUM DISTRIBUTIONS (RMD'S)

There is no doubt that tax-deferred retirement saving is an excellent tool for investors; however, you can't let your money grow forever. At some point, you'll have to start withdrawing it. The IRS' RMD rule requires you to start taking withdrawals from certain retirement accounts starting at age 72, 73 for those who turn 72 in 2023. If you have a 403(b), SEP IRA, 457(b), or traditional IRA, the government will require you to take distributions each year. Starting

in 2024, you aren't required to take RMDs from designated Roth accounts. Even if you don't want or need the money, you must withdraw it, or the IRS may take 25% of what you were supposed to take.^{23,24}

Every year after you are required to take withdrawals, the IRS provides an IRA RMD table which gives IRA holders the distribution factor for their age. Pre-tax money you save over the course of your career, for example, through a traditional IRA or 401(k), will be subject to tax upon withdrawal. When it comes to RMDs, the IRA has a specific method of calculating how much you must withdraw each year.^{25,26}

AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD
73	26.5	87	14.4
74	25.5	88	13.7
75	24.6	89	12.9
76	23.7	90	12.2
77	22.9	91	11.5
78	22.0	92	10.8
79	21.1	93	10.1
80	20.2	94	9.5
81	19.4	95	8.9
82	18.5	96	8.4
83	17.7	97	7.8
84	16.8	98	7.3
85	16.0	99	6.8
86	15.2	100	6.4



By 2029, 71 million people who live in the U.S. will be 65 years and older.

<https://apnews.com/article/growth-population-demographics-race-hispanic-f563ebc4537f83792f3f91ba5d7cdade>

For example, if you turn 73 in 2024, you will not have to take your first RMD until April 1, 2025.²⁷ By postponing your initial RMD, you may have to take two RMDs in one year, as all subsequent RMDs are due by December 31.²⁸ Doing so could result in having to withdraw more money than you desire, which then could result in a higher tax burden. This means that RMDs should be planned based on your unique financial picture.²⁹

The IRS penalty can be waived if the account owner must establish that they shorted their withdrawal due to reasonable error and that reasonable steps are being taken to remedy the shortfall.³⁰ You can find the link to Form 5329 here to pay your penalty tax, with instructions to fill it out. If you think there's a mistake, fill it out with a letter of explanation with your federal tax return for the year with the reason why the shortfall happened.

CLAIMING SOCIAL SECURITY BENEFITS

The Social Security benefit is a monthly payment from the government that everyone receives. You may be surprised to learn that up to 85% of your Social Security benefit is subject to taxation.³¹ To avoid these penalties, you should take control of your income and cash flow. Although the Social Security benefit laws are complicated, it usually depends on your age, current income, income throughout your life, and other factors. "Income" refers to any money you receive, and "cash flow" refers to your money after taxes. The amount of tax you must pay on your Social Security benefits can be minimized by lowering your taxable income.

CONVERT A TRADITIONAL IRA TO A ROTH IRA

Roth IRAs can be a unique and effective way to save for retirement because you pay taxes upfront on a Roth IRA. After that, all growth and withdrawals are tax-free!³² This can be a beneficial strategy when your taxes are lower now than you expect they will be in the future.

THE PROBLEM

The standard Roth IRA rules prohibit people from opening an account if they earn over a certain amount. If you think that tax-free income in retirement would be important to you, but you earn too much to open a Roth IRA, you might want to consider the backdoor approach. First, you contribute to a Traditional IRA, and then you convert it to a Roth IRA.³³

There are two ways to open a backdoor Roth IRA: 1) You can contribute money to an existing Traditional IRA, sell the assets, and then transfer the money to a Roth IRA, or 2) you can convert an entire Traditional IRA to a Roth IRA.³⁴

Note: You will still pay taxes on these assets when you transfer or convert them.

BACKDOOR ROTH IRA'S - STEP BY STEP

STEP 1: OPEN & FUND A TRADITIONAL IRA

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STEP 2: UNDERSTAND HOW A ROTH IRA CONVERSION WORKS

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STEP 3: CONVERT TRADITIONAL IRA TO A ROTH IRA

INCOME LIMITS FOR ROTH IRA'S

If your modified adjusted gross income is \$161,000 (single) or \$240,000 (married filing jointly or qualifying widow[er]) or higher, you will not be able to make contributions to a Roth IRA. These restrictions do not apply to Roth IRA backdoor conversions, given that the backdoor strategy is executed by rolling over funds from one account to another rather than contributing directly.³⁵

CONTRIBUTION LIMITS FOR ROTH IRA'S

In 2024, Roth IRA annual contribution limits will increase to \$7,000. If you are 50 or older, you can contribute an extra \$1,000 to make it \$8,000. These limits do not apply to Roth conversions via the backdoor method given that funds are rolled over into a new account as opposed to directly contributed.³⁶

Since there are no RMDs for Roth IRAs throughout the account owner's lifetime, you can leave your heirs as much money as you'd like in the account, and they can withdraw based on the inherited Roth IRA withdrawal rules.³⁷



CONCLUSION

Consider managing your finances, including your tax plan, as if you're the CEO of the "You" company. This isn't to say that you'll be acting as a financial advisor or CPA, but you should be active in the decision-making process. Solidifying your involvement in your wealth is the first step in taking control of your finances.

One of the biggest expenses that a retiree faces is taxes. No matter what lies ahead, make sure you discuss tax strategies with a financial professional to make sure your investments are tax optimal.

At _____, we understand that taxes are difficult. That's why we're here to help you shine the line on your financial priorities. We'll help you integrate tax-minimization strategies into your Social Security, retirement savings, investments, and overall financial plan.

Together, we'll help better understand the new tax laws and take your next steps toward minimizing your tax burden.

Call us today at _____.

OTHER HELPFUL TOOLS

- "IRS Withholding Calculator"

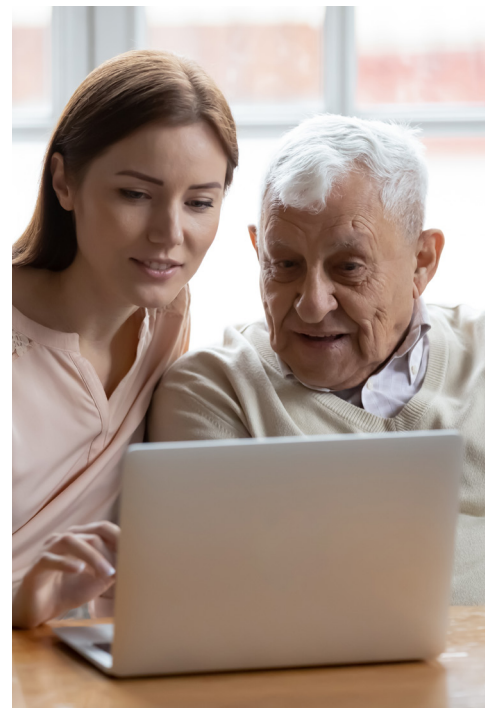
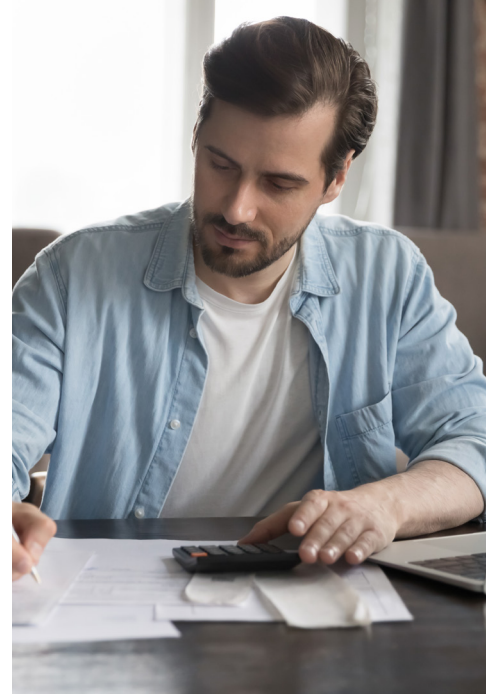
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