2024 TAX PLANNING TIPS

Strategies to maximize your tax savings in 2024.

TCJA = Tax Cuts and Jobs Act (2017)
SECURE = Setting Every Community Up for Retirement Enhancement Act (2019)
CARES = Coronavirus, Aid, Relief, and Economic Security Act (2020)
TCDTRA = Taxpayer Certainty and Disaster Tax Relief Act (2020)
IRA = Inflation Reduction Act (2022)

RETIREMENT CONTRIBUTION PLANNING:

- **IRA:** IRA contributions for 2024 must be deposited by April 15, 2025. The maximum 2024 IRA contribution is $7,000 ($7,000 in 2025). If you are age 50 or older by December 31, 2024, the maximum amount is $8,000. There are no age limits for contributions to either traditional or Roth IRA's (for California, the age limit for deductible IRA contributions remains 70 ½). Roth IRA contributions are restricted to adjusted gross income phaseout amounts, with complete phaseout at $161,000 for single taxpayers and $240,000 for married taxpayers. IRA plans can be set up as late as April 15, 2025. If you are not eligible for a deductible IRA or Roth contribution due to income limitation, you can make a non-deductible IRA contribution and then (ideally) an immediate Roth conversion. Depending on any other IRA's you own, there may be reduced or no tax consequences. Contact us for specific details.

- **401K:** The maximum 2024 contribution to your 401K is $23,000 ($23,500 in 2025). If you are age 50 or older by December 31, 2024, and your plan has been amended to allow it, the maximum amount is $30,500 ($31,000 in 2025).

- **SEP:** The maximum 2024 SEP contribution is $69,000 ($70,000 in 2025). You have until the due date of your tax returns, including extensions, in which to make the 2024 contribution and to set up the plan. **SEP and SIMPLE IRAs can now accept Roth contributions**. This is a great option for those of you who have little or no regular income tax liability, but still owe self-employment tax from positive business income. You can now create a SEP/SIMPLE Roth and benefit from tax-free distributions in retirement.

- **All retirement plan contributions:** Due to the complexity on limitations for contributions, we recommend that you consider waiting to make contributions until we have determined the allowable amount(s) based on your actual tax return OR contact us to discuss the appropriate amount(s) before you make contributions. You (or your spouse) must have "earned income" for either of you to qualify for any type of IRA contribution.

- **Roth IRA rollover:** There is no adjusted gross income limitation that restricts the rollover of a regular IRA into a Roth IRA. Funds converted from a regular IRA to a Roth IRA will be taxed under the regular IRA distribution rules, but no penalties will apply. A Roth conversion can no longer be recharacterized (enacted with the TCJA). This means that any type of plan converted to a Roth IRA (including a traditional IRA, SEP, SIMPLE, 401(k) or 403(b)) cannot be undone or reversed after you have made a conversion.

- **IRA One-Rollover-Per-Year Rule:** You are allowed only one rollover from an IRA to another (or to the same) IRA in any 12-month period, regardless of the number of IRAs you own. This applies to all IRAs including SEP and SIMPLE IRAs and traditional or Roth IRAs. Transfers that are not limited include trustee-to-trustee transfers between IRAs and rollovers from traditional IRAs to Roth IRAs.

- **Required minimum distribution (RMD):** RMD's are required for 2024. The mandatory age to begin taking RMD's is increased from age 72 to:
  - Age 73 for those who turned age 72 in 2023 or later; and
  - Age 75 for those who will turn age 74 in 2033 or later.

- **Tax-free distributions for charity:** Taxpayers over age 70 ½ can exclude IRA distributions from their gross income if the distribution is donated to a qualified charity as a direct transfer from an IRA account. Beginning in 2024, the annual limit is now adjusted for inflation. The maximum qualified charitable distribution for 2024 is $105,000 ($108,000 in 2025). Even though the SECURE Act increased the RMD age, qualified charitable distributions are allowed starting at age 70 ½.

Standard deduction

See TCJA expirations on separate sheet!

The standard deduction remains high ($29,000 in 2024 and $30,000 in 2025). Additionally, the $10,000 SALT (state/local/property taxes) cap remains until at least 2025. The combination of these two factors has resulted in substantially more taxpayers claiming the higher standard deduction. Deductible expenses such as medical expenses or charitable contributions may not have an impact on your federal tax returns for 2024 or 2025. Many states, including California, did not conform to these changes which resulted in itemizing for state only. However, the record keeping involved may not be worth itemizing for your state alone.

DEDUCTION AND CREDIT PLANNING:

- **Medical expenses:** The 7.5% medical expense threshold has been made permanent for all taxpayers by the TCDTRA. Expenses must be paid or charged on a credit card by December 31, 2024 to be eligible.

- **Charitable contributions:** Charitable contributions are only deductible for taxpayers that itemize in 2024. Be sure to ask for receipts to substantiate all amounts for both non-cash donations and cash donations. Cash donations can also be substantiated by canceled checks or bank statements that verify the charity's name, date and amount. Donations charged on a credit card by December 31, 2024 are eligible as a deduction for 2024, even if you don't pay the credit card balance until 2024. Charitable contributions have varied limitations based on your adjusted gross income. Any amounts not eligible due to these limitations can be carried forward for five years. Any donation deduction amount for cars, boats and airplanes of more than $500 **requires** your tax return to include a statement from the charity identifying the vehicle and stating the amount for which it was sold. Be sure to obtain these statements from the charity and include them with your organizer package.

- **Health savings accounts:** Health Savings Account (HSA) contribution limits for 2024 are $4,150 if single ($4,300 in 2025) or $8,300 for a family ($8,550 in 2025). For taxpayers aged 55 or older, the limits are $5,150 if single and an additional $1,000 for each qualifying spouse for a family plan. Reminder – taxpayers enrolled in Medicare are not eligible for HSA contributions.

- **Taxes:** State taxes are deductible on your federal tax return. State estimated income tax payments and property taxes that are due in 2025 can be paid in 2024. *CAUTION*: If you are subject to AMT (alternative minimum tax), there is no tax benefit by prepaying these taxes in 2024. Additionally, TCJA limits the total deduction of state and local income taxes, property taxes and personal property taxes to a combined total of $10,000. For many taxpayers, there is no longer an advantage to pre-paying your state income or county property taxes. NOTE - For rental property owners, there is NO limit to the amount of property taxes that can be deducted as a rental expense (however, overall rental losses could still be limited based on passive loss rules).

Deduction "bunching"

By applying a "bunching strategy", taxpayers can accelerate or defer their discretionary medical expenses and/or charitable contributions into the tax year where it might actually create a tax benefit. For example, if you know that you will be able to itemize in 2024 but not in 2025, it would be more beneficial to make two years' worth of charitable contributions in 2024, instead of spreading out the donations between 2024 and 2025.

- **Mortgage interest:** Mortgage interest is deductible to the extent the proceeds were used to acquire, construct, or improve your personal residence(s) to a maximum principal amount of $750,000 ($1,000,000 for California and for debts acquired prior to December 15, 2017). Interest paid on home equity loans for which the proceeds were **not** used to acquire, construct, or improve your personal residence is no longer deductible after the passage of the TCJA, even if the loan was acquired prior to December 15, 2017. Previously, you were allowed to deduct interest on a home equity loan up to $100,000 regardless of what the proceeds were used for (this is still allowed for California). Refinancing a mortgage and taking cash proceeds may impact the amount of interest that is deductible. Mortgage insurance premiums are not deductible.

- **Miscellaneous itemized deductions:** Continuing through at least 2025, there is no deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2% of your adjusted gross income. This category included tax preparation costs, investment/broker fees, union dues, unreimbursed employee expenses and safety deposit boxes. For taxpayers that incur high broker fees, consider discussing alternative options with your broker. For taxpayers with unreimbursed employee business expenses, consider discussing reimbursement options with your employer.

- **Residential Clean Energy Credit (solar)**: This credit is available through 2035. The full 30% credit is available for eligible property placed in service through 2032. Please refer to the separate sheet on Clean Energy Incentives for more details.

- **Energy Efficient Home Improvement Credit**: This credit has also been extended. Please see the separate sheet.

- **Clean Vehicle Credit:** The Inflation Reduction Act of 2022 made significant changes to the purchase of a clean vehicle, including:
  - enacting income limitations on claiming the credit,
  - enacting limits on the cost (MSRP) of the eligible vehicle,
  - repealing the 200,000 manufacturer limit, and
  - including previously owned vehicles for potential eligibility.

  Please see separate sheet for more details. California offers a rebate that you must apply for online at https://cleanvehiclerebate.org.

BUSINESS EXPENSE PLANNING:

- **Health insurance premiums:** As a self-employed person, you are allowed to deduct 100% of health insurance premiums paid for yourself, your spouse, and your dependents to the extent of your earned income. This also includes dental and vision insurance, plus limited amounts for long-term care insurance. It does not include disability or life insurance. **Health insurance paid for shareholders of an S-corporation must be reported on the shareholder's W-2 to be deductible.**

- **Depreciation:**
  - *"Section 179 deduction":* Equipment purchases are eligible for a "Section 179 deduction" of up to $1,220,000 for 2024. The equipment must be "placed in service" by December 31, 2024. Note that purchasing too much equipment (over $3,050,000) will restrict your total "Section 179 deduction".
  - *Bonus depreciation*: Bonus depreciation is 60% for eligible property placed in service by December 31, 2024. The rate drops to 40% for 2025 and an additional 20% for each year thereafter. Qualified improvement property is eligible for bonus depreciation, excluding building enlargement, structural framework, and other miscellaneous improvements.

INVESTMENT PLANNING:

- **Capital gains and losses:** Income that results from sales of stock, investment property, and rental property (above depreciation recapture) is considered capital. Long-term gains result from sales that have been held over one year. The federal income tax rate on long-term capital gains is limited to 20% in 2024 (see chart next page for brackets). The Medicare surtax of 3.8% on investment income for taxpayers with income exceeding certain thresholds is also still in effect. **Losses are deductible to the extent of gains plus $3,000.** Any excess loss is carried over to subsequent years for an unlimited amount of time. *CAUTION*: If you are subject to AMT (alternative minimum tax), the capital gains tax rate benefit may be partially offset by an increased AMT liability amount.

2024 Long-Term Capital Gains Tax Brackets

TAX BRACKET/RATE	SINGLE	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD
0%	$0 - $47,025	$0 - $94,050	$0 - $63,000
15%	$47,026 - $518,900	$94,051 - $583,750	$63,001 - $551,350
20%	$518,901+	$583,751+	$551,351+

- **Sale of home:** When selling your principal residence, you may exclude up to $500,000 of capital gain if married or $250,000 of capital gain if single. A sale of a home in 2024 or 2025 could trigger an increased capital gain rate and the 3.8% Medicare surtax if there is a taxable gain. Since there is no exclusion for the sale of a second home, vacation home, or rental property, the entire capital gain could be subject to these higher rates for sales in 2024 and beyond.

- **Gifts**: Amounts transferred up to $18,000 per person per year in 2024 are considered exempt from gift reporting and taxation. Amounts given above this amount require the "giver" to file a gift tax return and either elect to use part of their "life-time exclusion" or to pay a gift tax. This gift tax return is due April 15, 2025 or October 15, 2025 if an extension is filed. There are no requirements for the recipient of the gift. The 2025 limit is $18,000.

- **Social security:** Up to 85% of social security benefits may be taxable depending on your modified adjusted gross income. For one-time events you should take into consideration the year of receipt. Please call us for an individualized analysis.

- **Net operating loss (NOL):** A net operating loss occurs if certain non-personal income and expenses create a negative amount. The TCJA repealed the net operating loss carryback (with limited exceptions), but it is still allowed to be carried forward indefinitely (the 20-year expiration only applies to California). NOL's can only offset 80% of the taxpayer's taxable income (100% for California).

ALTERNATIVE MINIMUM TAX:

- Some of the standard year-end planning ideas will not reduce tax liability if you are subject to the alternative minimum tax (AMT) because different rules apply. Because of the complexity of the AMT, we recommend a personalized analysis (tax projection) of your AMT exposure.

HEALTHCARE MANDATE:

- California and many other states continue to impose a health care mandate. The maximum penalty for California residents who do not have minimum essential health coverage for 2024 is $900 per adult 18 years or older and $450 per dependent child, up to an annual maximum of $2,700. The penalties will be calculated and reported on your 2024 California tax return. There is no such mandate or penalties on your federal return.

2024 Standard Mileage Rates
- Business: 67 cents per mile
- Charitable: 14 cents per mile
- Medical: 21 cents per mile