2024 - 2025

TAX PLANNING GUIDE

YEAR-ROUND STRATEGIES TO MAKE THE TAX LAWS WORK FOR YOU

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The best strategies for minimizing your taxes in 2024 and beyond

To keep your taxes to a minimum, you first need to be aware of all of the tax breaks for which you're eligible. Then you have to implement strategies that allow you to take maximum advantage of those breaks and other tax savings opportunities while staying in compliance with tax law.

You also can't forget about the massive Tax Cuts and Jobs Act (TCJA) that generally went into effect six years ago but still significantly impacts tax planning. Many of its provisions are scheduled to expire after 2025, and it's uncertain whether they'll be extended. There may be actions you can take this year to help lock in tax savings. Finally, you need to keep an eye on Washington, because the outcome of the 2024 elections will have a big impact on taxes in the future.

This guide provides an overview of some of the key tax provisions you need to be aware of. It offers a variety of strategies for minimizing your taxes in the current tax environment. Use it to identify the best ones for your particular situation with your tax advisor, who also can keep you apprised of any new tax law developments that might affect you.

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Saving tax with deductions and exclusions

The amount of your income that's subject to federal tax (and perhaps state tax) can be reduced by various deductions. If income comes from certain tax-advantaged accounts or is eligible for some other type of exclusion, it can even be tax-free. You can minimize taxable income and maximize your tax savings with smart timing of deductible expenses and effective use of other available breaks.

Standard deduction vs. itemizing

Taxpayers can either itemize certain deductions or take the standard deduction for their filing status. Itemizing saves tax when the total will be larger than the standard deduction, but it makes filing more complicated.

The TCJA nearly doubled the standard deduction for each filing status. Those amounts are to be annually adjusted for inflation through 2025, after which they're scheduled to drop back to the amounts under pre-TCJA law. (See Chart 1 for 2024 amounts.)

The combination of a higher standard deduction and the reduction or elimination of many itemized deductions means that many taxpayers who once benefited from itemizing are now better off taking the standard deduction, at least through 2025.

State and local tax deduction

Under the TCJA, through 2025, your entire itemized deduction for state and local taxes — including property tax and the greater of income or sales tax — is limited to $10,000 ($5,000 if you're married filing separately). Increasing or eliminating the limit has been discussed. Check with your tax advisor for the latest information.

Deducting sales tax instead of income tax may be beneficial if you reside in a state with no, or low, income tax or you purchased a major item, such as a car or boat.

Home-related breaks

Consider both deductions and exclusions in your tax planning:

Property tax deduction. As noted earlier, unless there are tax law changes, through 2025 your property tax deduction is subject to the state and local tax deduction limit.

Mortgage interest deduction. You generally can claim an itemized deduction for interest on mortgage debt incurred to purchase, build or improve your principal residence and a second residence. Points paid related to your principal residence also may be deductible. Through 2025, the TCJA reduces the mortgage debt limit from $1 million to $750,000 for debt incurred after Dec. 15, 2017 (from $500,000 to $375,000 for separate filers), with some limited exceptions.

Home equity debt interest deduction. Through 2025, the TCJA effectively limits the home equity interest deduction to debt that would qualify for the home mortgage interest deduction. (Under pre-TCJA law, interest was deductible on up to $100,000 of home equity debt used for any purpose, such as to pay off credit card debt or to buy a car.)

Home office deduction. If you're an employee and work from home, under the TCJA, home office expenses aren't deductible through 2025. Why? For employees, this is a miscellaneous itemized deduction subject to the 2% of adjusted gross income (AGI) floor, and the TCJA suspended such deductions. (If you're self-employed, you may still be eligible; see page 11.)

Personal casualty and theft loss deduction. Through 2025, the TCJA suspends this itemized deduction except if the loss was due to an event declared a federal disaster by the President. But personal casualty losses not related to a disaster can be deducted to the extent of any personal casualty gains. Such gains occur if you receive more from insurance or other reimbursements than the cost or adjusted basis of the property.

Rental income exclusion. If you rent out all or a portion of your principal residence or second home for less than 15 days during the year, you don't have to report the income. But expenses directly associated with the rental, such as advertising and cleaning, won't be deductible.

Home sale gain exclusion. When you sell your principal residence, you can exclude up to $250,000 of gain ($500,000 for married couples filing jointly) if you meet certain tests. ***Warning:*** Gain allocable to a period of "nonqualified" use generally isn't excludable.

Loss deduction. If you sell your home at a loss and part of your home is rented out or used exclusively for your business, the loss attributable to that portion may be deductible.

Chart 1
2024 standard deduction

Filing status	Standard deduction[1]
Singles and separate filers	$14,600
Heads of households	$21,900
Joint filers	$29,200

[1] Taxpayers who are age 65 or older or blind can claim an additional standard deduction of $1,950 ($1,550 if married). For taxpayers both over 65 and blind, the additional deduction is doubled.

Moving expense deduction. Under the TCJA, through 2025, work-related moving expenses generally are deductible only by active-duty members of the Armed Forces who move because of a military order that calls for a permanent change of station. (If you're eligible, you don't have to itemize to claim this deduction.)

Charitable deductions

Generally, donations to qualified charities are fully deductible — but only if you itemize deductions. If itemizing usually isn't saving you tax anymore because of the increased standard deduction, you might benefit from "bunching" donations. (See Case Study 1.)

For large donations, discuss with your tax advisor which assets to give and the best ways to give them. For example, you may want to consider giving appreciated securities instead of cash. Why? You can deduct the current fair market value and avoid any capital gains tax you would have owed had you sold the property. This will be especially beneficial to taxpayers facing the 3.8% NIIT or the top 20% long-term capital gains rate this year. (See Chart 3 on page 6.)

Case Study 1

How bunching charitable donations can reduce tax

Marco and Sara, a married couple, used to donate about $10,000 to charity annually. But with the standard deduction essentially doubled, plus the reduction or elimination of other itemized deductions, they found they were better off claiming the standard deduction — and thus they weren't getting any tax benefit from their donations.

When they met with their tax advisor last fall, she suggested that they "bunch" their deductions: Instead of donating $10,000 to charity *each* year, they could donate $20,000 *every other* year and itemize just in those years.

So, Marco and Sara waited until January of 2024 to donate the $10,000 they normally would have donated in December 2023, and they'll make another $10,000 of donations in December of 2024. Their $20,000 of 2024 donations plus their other itemized deductions (projected to be around $15,000) will exceed their 2024 $29,200 standard deduction. This allows them to get some tax benefit from their donations.

Health care deductions and pre-tax savings

If medical expenses not paid via tax-advantaged accounts or reimbursable by insurance exceed 7.5% of your AGI, you can claim an itemized deduction for the amount exceeding that "floor." Eligible expenses may include health insurance premiums, long-term-care insurance premiums (limits apply), medical and dental services, and prescription drugs. Mileage driven for health care purposes also can be deducted (21 cents per mile for 2024).

Consider whether there are any medical services and purchases you could bunch into alternating years (without harming your health, of course). This could save tax if it would help you exceed the applicable floor and you'd have enough total itemized deductions to benefit from itemizing.

You may be able to save taxes without having to worry about the medical expense deduction floor by contributing to one of these accounts:

HSA. If you're covered by a qualified high-deductible health plan, you can contribute pretax income to an employer-sponsored Health Savings Account — or make deductible contributions to an HSA you set up yourself — up to $4,150 for self-only coverage and $8,300 for family coverage (plus $1,000 if you're age 55 or older) for 2024. HSAs can bear interest or be invested, growing tax-deferred similar to an IRA. Withdrawals for qualified medical expenses are tax-free, and you can carry over a balance from year to year, allowing the account to grow. After age 65, you can take distributions to use for nonmedical expenses, but they'll be taxable.

FSA. You can redirect pretax income to an employer-sponsored Flexible Spending Account up to an employer-determined limit — not to exceed $3,200 in 2024. The plan pays or reimburses you for qualified medical expenses. (If you have an HSA, your FSA is limited to funding certain permitted expenses.) What you don't use by the plan year's end, you generally lose — though your plan might give you a 2½-month grace period to incur expenses to use up the previous year's contribution. Or it might allow you to roll over up to $640 to 2025.

More considerations

There are other types of taxes that could affect you and should be factored into your planning, such as the AMT. (See Chart 7 on page 16.)

Your tax advisor can help you determine if you're among the small number of taxpayers who still need to plan for the AMT — or if there are other special considerations for your specific situation.

Tax breaks can help offset the expenses of parenthood and education

Raising children and helping them pursue their educational goals — or pursuing your own — can be highly rewarding. But it also can be expensive. So be sure that you and your family are making the most of the deductions, credits and tax-advantaged savings opportunities available to you.

Child, dependent and adoption credits

Under the TCJA, these two tax credits for families are available through 2025:

1. **CTC.** For each child under age 17 at the end of the tax year, you may be able to claim a $2,000 Child Tax Credit. The CTC phases out for higher-income taxpayers (see Chart 2), but the income ranges are much higher than before the TCJA.
2. **COD.** For each qualifying dependent other than a qualifying child (such as a dependent child over the age limit or a dependent elderly parent), you may be able to claim a $500 Credit for Other Dependents. But the COD is also subject to the income-based phaseout.

Enhancements to the CTC have been proposed. Check with your tax advisor for the latest information.

If you adopt in 2024, you may qualify for the adoption credit — or for an employer adoption assistance program income exclusion. Both are $16,810 for 2024, but the credit is also subject to an income-based phaseout. (See Chart 2.)

Care-related breaks

A couple of tax breaks can offset the costs of dependent care:

Child and dependent care tax credit. For middle-income-and-higher taxpayers with children under age 13 or other qualifying dependents, the credit generally equals 20% of the first $3,000 of qualified expenses for one child or dependent or 20% of up to $6,000 of such expenses for two or more.

Child and dependent care FSA. For 2024, you can contribute up to $5,000 pretax to an employer-sponsored child and dependent care Flexible Spending Account. The plan pays or reimburses you for these expenses. Your contributions will reduce your qualified expenses for purposes of the tax credit.

Chart 2

2024 child and education tax breaks: Are you subject to an income-based phaseout?

Tax break	Modified adjusted gross income phaseouts	
	Single / Head of Household[1]	Married filing jointly
CTC	$200,000 – $240,000	$400,000 – $440,000
Adoption credit	$252,150 – $292,150	$252,150 – $292,150
AOTC	$ 80,000 – $ 90,000	$160,000 – $180,000
LLC	$ 80,000 – $ 90,000	$160,000 – $180,000
Student loan interest deduction	$ 80,000 – $ 95,000	$165,000 – $195,000
ESA contribution	$ 95,000 – $110,000	$190,000 – $220,000

[1] These ranges also apply to married taxpayers filing separately, except that separate filers aren't eligible for the AOTC, LLC or student loan interest deduction.

Kiddie tax

The "kiddie tax" generally applies to unearned income beyond $2,600 (for 2024) of children under age 19 and of full-time students under age 24 (unless the students provide more than half of their own support from earned income). Such income is generally taxed at the parents' tax rate.

529 plans

If you're saving for education expenses, consider a Section 529 plan. You can choose a prepaid tuition plan to secure current tuition rates or a tax-advantaged savings plan to fund education expenses:

- Although contributions aren't deductible for federal purposes, any growth is tax-deferred. (Some states do offer tax breaks for contributing.)
- Distributions used to pay the following expenses of the beneficiary are income-tax-free for federal purposes and potentially also for state purposes, making the tax deferral a permanent savings:
  - Qualified postsecondary school expenses, such as tuition, mandatory fees, books, supplies, computer equipment, software, internet service and, generally, room and board,
  - Elementary and secondary school tuition of up to $10,000 per year per beneficiary, and
  - Up to $10,000 of student loan debt per beneficiary.
- The plans usually offer high contribution limits, and there are no income limits for contributing.
- You can front-load five years' worth of annual gift tax exclusions and make up to a $90,000 contribution (or $180,000 if you split the gift with your spouse) per beneficiary in 2024.
- There's generally no beneficiary age limit for contributions or distributions.

WHAT'S NEW!

529 plans now a bit more flexible

Some parents and grandparents have hesitated to contribute to 529 plans because of the potential tax consequences if the beneficiary doesn't go to college, earns scholarships and grants, or simply doesn't need the entire balance for college expenses.

The options had generally been limited to either making a tax-free rollover to a 529 plan for another qualifying family member or paying income tax and a 10% penalty on the portion of nonqualified withdrawals attributable to earnings.

But a new option is available starting in 2024: Up to $35,000 (lifetime limit) in unused 529 plan funds can be rolled into a Roth IRA for the beneficiary. Various rules apply, such as:

- The 529 plan must have been set up for at least 15 years.
- No contributions from the last five years (or earnings on them) can be rolled over.
- The rollovers are generally subject to the Roth IRA annual contribution limits — but not the income-based phaseout. (See page 12.)

IRS guidance on the new provision is expected. Check with your tax advisor for the latest information.

- You can control the account, even after the beneficiary is of legal age.
- You can make tax-free rollovers to a 529 plan for another qualifying family member.
- Starting in 2024, unused 529 plan funds can be rolled into a Roth IRA, subject to various rules and limits. (See "What's New!")

The biggest downside of 529 plans may be that your investment options — and when you can change them — are limited.

ESAs

Coverdell Education Savings Accounts are similar to 529 savings plans in that contributions aren't deductible for federal purposes, but plan assets can grow tax-deferred and distributions used to pay qualified education expenses are income-tax-free. ESAs are worth considering if you'd like to have direct control over how your contributions are invested or you want to fund elementary or secondary education expenses in excess of $10,000 per year or that aren't tuition.

But the $2,000 contribution limit is low, and the amount a taxpayer is allowed to contribute is phased out based on income. (See Chart 2.) Also, contributions can generally be made only for beneficiaries under age 18. When the beneficiary turns age 30, the ESA generally must be distributed within 30 days, and any earnings may be subject to tax and a 10% penalty.

Education credits

If you have children in college now or are currently in school yourself, you may be eligible for a credit:

AOTC. The American Opportunity Tax Credit covers 100% of the first $2,000 of tuition and related expenses and 25% of the next $2,000 of expenses. The maximum AOTC, *per student*, is $2,500 per year for the first four years of postsecondary education in pursuit of a degree or recognized credential.

LLC. If you're paying postsecondary education expenses beyond the first four years, you may benefit from the Lifetime Learning Credit (up to $2,000 *per tax return*).

Warning: Income-based phaseouts apply to these credits. (See Chart 2.) If your income is too high for you to qualify, your child might be eligible.

Student loan breaks

If you're paying off student loans, you may be able to deduct up to $2,500 of interest (per tax return). An income-based phaseout applies. (See Chart 2.)

If your employer pays some of your student loan debt, you may be eligible to exclude up to $5,250 from income. (Student loan interest payments for which the exclusion is allowable can't be deducted.) This break is scheduled to expire after 2025.

Forgiven debt is typically treated as taxable income, but tax-free treatment is available for student loan debt forgiven after Dec. 31, 2020, and before Jan. 1, 2026. ***Warning:*** Some states may tax such forgiven debt.

ABLE accounts

Achieving a Better Life Experience accounts offer a tax-advantaged way to fund qualified disability expenses for a beneficiary who became blind or disabled before age 26. For federal purposes, tax treatment is similar to that of 529 savings plans.

Under the TCJA, through 2025, 529 plan funds can be rolled over to an ABLE account without penalty if the ABLE account is owned by the beneficiary of the 529 plan or a member of the beneficiary's family. Such rolled-over amounts count toward the ABLE account annual rollover and contribution limit ($18,000 for 2024).

Do you know the tax impact of your investments?

Because tax rates have continued to be relatively low, it's not surprising that, when it comes to investing, there's been more focus on stock market volatility than on tax consequences. Plus you shouldn't let tax concerns propel your investment decisions. Your investment goals, time horizon and risk tolerance also should come into play, as should any fees and charges that apply when you buy or sell. But you still need to understand the potential tax impact of buying, holding and selling a particular investment.

Capital gains tax and timing

Although time, not timing, is generally the key to long-term investment success, timing can have a dramatic impact on the tax consequences of investment activities. Your marginal long-term capital gains rate can be as much as 20 percentage points lower than your ordinary-income tax rate.

The long-term gains rate applies to investments held for more than 12 months. The applicable rate depends on your income level and the type of asset you've sold. (See Chart 3.)

Holding on to an investment until you've owned it more than one year may help substantially cut tax on any gain. Keeping it even longer can also make tax sense. But be sure to look at your specific situation, and keep an eye out for possible tax law changes.

Chart 3

What's the maximum 2024 capital gains tax rate?

Type of gain	Rate[1]
Short-term (assets held 12 months or less)	Taxpayer's ordinary-income tax rate
Long-term (assets held more than 12 months)	15%
Some key exceptions	
Long-term gain of certain higher-income taxpayers	20%[2]
Most long-term gain that would be taxed at 10% or 12% based on the taxpayer's ordinary-income rate	0%
Long-term gain on collectibles, such as artwork and antiques	28%
Long-term gain attributable to certain recapture of prior depreciation on real property	25%

[1] In addition, the 3.8% net investment income tax (NIIT) applies to net investment income to the extent that modified adjusted gross income (MAGI) exceeds $200,000 (singles and heads of households), $250,000 (married filing jointly) or $125,000 (married filing separately).

[2] The 20% rate applies only to those with taxable income exceeding $518,900 (singles), $551,350 (heads of households), $583,750 (joint filers), $291,850 (separate filers) or $15,450 (estates and trusts).

Being tax-smart with losses

Losses aren't truly losses until they're realized — that is, generally until you sell the investment for less than what you paid for it. So while it's distressing to see an account statement that shows a large loss, the loss won't affect your current tax situation as long as you still own the investment.

Realized capital losses are netted against realized capital gains to determine capital gains tax liability. If net losses exceed net gains, you can deduct only $3,000 ($1,500 for married taxpayers filing separately) of losses per year against ordinary income (such as wages, self-employment and business income, interest, dividends, and taxable retirement plan distributions). If year-to-date you have a net loss, it could provide an opportunity to divest yourself of appreciated investments in a tax-efficient way.

If you don't have enough gains to absorb losses, you could be left with losses in excess of the annual ordinary-income deduction limit. So think twice before selling an investment at a loss. After all, if you hold on to the investment, it may recover the lost value. In fact, a buy-and-hold strategy works well for many long-term investors because it can minimize the effects of market volatility.

Of course, an investment may continue to lose value. That's one reason why tax considerations shouldn't be the primary driver of investment decisions. If you're ready to divest yourself of a poorly performing stock because, for example, you don't think its performance will improve or because your investment objective or risk tolerance has changed, you shouldn't hesitate solely for tax reasons.

Plus, you can carry forward excess losses until death, and building up losses for future use could be beneficial. This may be especially true if you own a closely held business that might generate substantial future gains. Building up losses could also be beneficial if you have a large investment portfolio or real estate holdings — or if tax rates increase.

Mutual funds

Mutual funds with high turnover rates can create income that's taxed at ordinary-income rates. Choosing funds that provide primarily long-term gains can save you tax dollars because of the lower long-term rates.

Also pay attention to earnings reinvestments. Unless you or your investment advisor record increases in your cost basis accordingly, you may report more gain than required when you sell the fund. For mutual funds you acquired after 2011, brokerage firms are required to track (and report to the IRS) your cost basis.

Finally, beware of buying equity mutual fund shares late in the year. These funds often make capital gains distributions toward year end. If you purchase shares before such a distribution, you could end up with capital gains reportable on your tax return for the year of the distribution. It doesn't matter whether the actual value of the shares has increased or even decreased since you purchased them, or whether you reinvest the proceeds back into the same fund.

Why? The distribution itself is a taxable event. If capital gains distributions from the mutual fund are reinvested in the fund, the distribution itself doesn't change your value in the fund. It simply increases the number of shares you own, yet now at a lower per-share value.

Income investments

Certain investments produce income in the form of dividends or interest. Here are some tax consequences to consider:

Dividend-producing investments. Qualified dividends are taxed at the favorable long-term capital gains tax rate rather than at your higher ordinary-income tax rate.

Interest-producing investments. Interest income generally is taxed at ordinary-income rates. So stocks that pay qualified dividends may be more attractive taxwise than other income investments, such as CDs and taxable bonds. But also consider nontax issues, such as investment risk, rate of return and diversification.

Bonds. These also produce interest income, but the tax treatment varies:

- Interest on U.S. government bonds is taxable on federal returns but exempt on state and local returns.
- Interest on state and local government bonds is excludable on federal returns. If the bonds were issued in your home state, interest also may be excludable on your state return.
- Tax-exempt interest from certain private-activity municipal bonds can trigger or increase the alternative minimum tax (AMT), but the AMT now occurs much more rarely.
- Corporate bond interest is taxable for federal and state purposes.
- Bonds (except U.S. savings bonds) with original issue discount build up "interest" as they rise toward maturity. You're generally considered to earn a portion of that interest annually — even though the bonds don't pay this interest annually — and you must pay tax on it.

3.8% NIIT

Taxpayers with modified adjusted gross income (MAGI) over $200,000 ($250,000 if married filing jointly and $125,000 if married filing separately) may owe the net investment income tax. The NIIT equals 3.8% of the lesser of your net investment income or the amount by which your MAGI exceeds the applicable threshold. Net investment income can include capital gains, dividends, interest, passive business income and rental income (but not business or self-rental income from an active trade or business) and other investment-related income.

Many of the strategies that can help you save or defer income tax on your investments can also help you avoid or defer NIIT liability. And because the threshold for the NIIT is based on MAGI, strategies that reduce your MAGI could also help you avoid or reduce NIIT liability.

Case Study 2 — Shifting income to take advantage of the 0% tax rate

Faced with a long-term capital gains tax rate of 18.8% (15% plus the 3.8% NIIT, see right), Eric and Tracy decide to give some appreciated stock to their 22-year-old son, Logan. Just out of college and making only enough from his entry-level job to leave him with $30,000 in taxable income, Logan falls into the 12% ordinary-income tax bracket and the 0% long-term capital gains bracket.

However, the 0% rate applies only to the extent that capital gains "fill up" the gap between Logan's taxable income and the top end of the 0% bracket. For 2024, the 0% bracket for singles tops out at $47,025 (just $125 less than the top of the 12% ordinary-income bracket). So if Logan sells the stock his parents transferred to him and his gains are $17,025, the entire amount will qualify for the 0% rate.

The sale will be tax-free vs. the $3,201 Eric and Tracy would have owed had they sold the stock themselves. But beware that if Logan were still a student, the results could be much different. (See "Kiddie tax" on page 4.)

How to balance tax savings with your business strategy

Many businesses continue to face challenges, ranging from supply chains that haven't quite fully recovered and ongoing staffing shortages to inflation and interest rates that remain relatively high. At the same time, a lot of businesses are growing rapidly. No matter your business's situation, you need to balance any potential 2024 tax savings from maximizing tax breaks available to you with any possible negative impact on your cash flow, customers and overall business strategy. And don't forget about the TCJA; it still has significant implications for your business.

Business structure

Income taxation and owner liability are the main factors that differentiate business structures. Many owners choose entities that combine pass-through taxation with limited liability, namely limited liability companies (LLCs) and S corporations.

The TCJA significantly changed the tax consequences of business structure. The now-flat corporate rate (21%) is substantially lower than the top individual rate (37%), providing sizable tax benefits to C corporations and mitigating the impact of double taxation on owners. (The 15% corporate alternative minimum tax applies only to the very largest C corporations.) But the TCJA also introduced the powerful 199A deduction for some owners of pass-through entities. (See below.)

For tax or other reasons, a structure change may sound like a good idea. But keep in mind that the top individual rate will increase after 2025 if lawmakers don't take action, and changes to the corporate rate also have been proposed. Even if there are no tax increases, a structure change could have unwelcome tax consequences. Consult your tax advisor if you'd like to explore whether a structure change could benefit you.

199A deduction for pass-through businesses

Through 2025, the TCJA provides the Section 199A deduction for sole proprietorships and owners of pass-through entities, such as partnerships, S corporations and, generally, LLCs. The deduction generally equals 20% of qualified business income (QBI), not to exceed 20% of taxable income. QBI is generally defined as the net amount of qualified income, gain, deduction and loss from a qualified U.S. trade or business.

Additional limits begin to apply if 2024 taxable income exceeds the applicable threshold — $191,950 or, if married filing jointly, $383,900. The limits fully apply when 2024 taxable income exceeds $241,950 and $483,900, respectively.

One such limit is that the 199A deduction generally can't exceed the greater of the owner's share of:

- 50% of the amount of W-2 wages paid to employees by the qualified business during the tax year, or
- The sum of 25% of W-2 wages plus 2.5% of the cost (not reduced by depreciation taken) of qualified property, which is the depreciable tangible property (including real estate) owned by a qualified business as of year end and used by the business at any point during the tax year to produce QBI.

Another such limit is that the 199A deduction generally isn't available for income from "specified service businesses." Examples include businesses that provide investment-type services and most professional practices (other than engineering and architecture).

Chart 4

2024 income tax differences based on business structure

Pass-through entity or sole proprietorship	C corporation
One level of taxation: The business's income passes through to the owner(s).	Two levels of taxation: The business is taxed on income, and then shareholders are taxed on any dividends they receive.
Losses pass through to the owner(s).	Losses remain at the corporate level.
The top individual tax rate is 37%, but, for eligible taxpayers, up to 20% of qualified business income is deductible.	The flat corporate tax rate is 21%, and the top rate on qualified dividends is 20%.

Depreciation

For assets with a useful life of more than one year, you generally must depreciate the cost over a period of years. In most cases, the Modified Accelerated Cost Recovery System (MACRS) will be preferable to other methods because you'll get larger deductions in the early years of an asset's life.

But if you make more than 40% of the year's asset purchases in the last quarter, you could be subject to the typically less favorable midquarter convention. Careful planning can help you maximize depreciation deductions in the year of purchase.

Other depreciation-related breaks and strategies may be available:

Section 179 expensing. This election allows you to currently deduct the cost of purchasing eligible new or used assets. Examples include equipment, furniture, off-the-shelf computer software, QIP (see "QIP deduction" on page 9) and certain personal property used predominantly to furnish lodging. The following

improvements to nonresidential real property are also eligible: roofs, HVAC equipment, fire protection and alarm systems, and security systems.

For qualifying property placed in service in 2024, the expensing limit is $1.22 million. The break begins to phase out dollar-for-dollar when asset acquisitions for the year exceed $3.05 million. You can claim the election only to offset net income, not to reduce it below zero to create an NOL. (See page 10.)

Bonus depreciation. This additional first-year depreciation is available for qualified assets, which include new tangible property with a recovery period of 20 years or less (such as office furniture and equipment), off-the-shelf computer software, QIP (see "QIP deduction," below), and water utility property. Under the TCJA, through Dec. 31, 2026, the definition has been expanded to include used property and qualified film, television and theatrical productions.

Unfortunately, the 100% bonus depreciation that had been available in recent years generally expired Dec. 31, 2022. So bonus depreciation dropped to 80% for 2023 and will usually be only 60% for qualified assets placed in service in 2024. And it's scheduled to drop to 40% for 2025, 20% for 2026, and 0% for 2027 and future years. (For certain property with longer production periods, these reductions are delayed by one year.) But legislation could be signed into law that returns bonus depreciation to 100% or makes other changes to it.

To the extent to which the Sec. 179 expensing election isn't available and it otherwise makes strategic and financial sense for your business, consider accelerating qualified asset investments into 2024, before bonus depreciation potentially drops further.

Warning: Under the TCJA, in some cases a business may not be eligible for bonus depreciation. Two examples are 1) real estate businesses that have average annual gross receipts of more than $30 million for the three previous tax years and elect to deduct 100% of their business interest expense, and 2) dealerships with floor-plan financing that meet the same gross receipts threshold.

QIP deduction. Qualified retail-improvement, restaurant and leasehold-improvement property are classified as qualified improvement property. QIP has a 15-year MACRS recovery period and qualifies for Sec. 179 expensing and bonus depreciation.

Vehicle-related deductions

Purchases of new or used vehicles may be eligible for Sec. 179 expensing, and buying a large truck or SUV can maximize the deduction. The normal Sec. 179 expensing limit generally applies to vehicles with a gross vehicle weight rating of more than 14,000 pounds. A $30,500 limit applies to vehicles (typically SUVs) rated at more than 6,000 pounds, but no more than 14,000 pounds.

But even if you prefer to buy a smaller vehicle, you can still potentially enjoy a valuable first-year deduction. Vehicles rated at 6,000 pounds or less are subject to the passenger vehicle limits, and for 2024 the first-year depreciation limit is $20,400 ($12,400 plus $8,000 bonus depreciation).

If you use a vehicle for business and personal purposes, the associated expenses, including depreciation, must be allocated between deductible business use and nondeductible personal use. ***Warning:*** If business use is 50% or less, you won't be able to use Sec. 179 expensing or the regular MACRS; you'll have to use the straight-line method.

Meals, entertainment and transportation

Businesses used to commonly claim deductions for a wide variety of meal, entertainment, vehicle and travel expenses, as well as employee reimbursements of such expenses. But the TCJA changed some of the rules related to these expenses, and there also were some more recent but temporary changes to the rules regarding meals specifically. So, many business owners aren't 100% clear on the current rules. Here's an overview of what is and isn't deductible for 2024:

Meals. Under the TCJA, business-related meal expenses, including those incurred while traveling on business, remain 50% deductible. But the TCJA expanded the 50% disallowance rule to meals provided via an on-premises cafeteria or otherwise on the employer's premises for the convenience of the employer. (Such meals used to be 100% deductible.)

Entertainment. Under the TCJA, these expenses are no longer deductible.

Transportation. Employer deductions for providing commuting transportation

Case Study 3: Using "timing" to a business's tax advantage

Lindsey launched her business (structured as a pass-through entity) a few years ago and wants to make sure she's being tax-smart with the timing of her income and deductible expenses. She currently uses cash basis accounting but is anticipating having to move to accrual basis accounting sometime in the next few years. So she meets with her tax advisor.

He tells Lindsey that projecting her business's income for this year and next can allow her to time income and deductions to her advantage. It's generally — but not always — better to defer tax, so he recommends she consider:

Deferring income to next year. As a cash-basis business, Lindsey can defer billing for products or services at year end. If she switches to the accrual method in the future, she then can defer income by delaying shipping products or delivering services.

Accelerating deductible expenses into the current year. As a cash-basis taxpayer, Lindsey may pay business expenses by Dec. 31, so she can deduct them this year rather than next. Both cash- and accrual-basis taxpayers can charge expenses on a credit card and deduct them in the year charged, regardless of when the credit card bill is paid.

But Lindsey's advisor warns her not to let tax considerations get in the way of sound business decisions. For example, the negative impact on her cash flow or customers may not be worth the tax benefit.

Finally, the advisor suggests that, if Lindsey thinks it's likely she'll be in a higher tax bracket next year, she consider taking the opposite approach. Accelerating income and deferring deductible expenses may save her tax over the two-year period.

(such as hiring a car service) aren't allowed under the TCJA, unless the transportation is necessary for the employee's safety. The TCJA also eliminated employer deductions for qualified employee transportation fringe benefits (for example, parking allowances, mass transit passes and van pooling). But those benefits are still tax-free to recipient employees. Transportation expenses for business travel are still 100% deductible, provided they meet the applicable rules.

Employee benefits

Offering a variety of benefits not only can help you attract and retain the best employees, but also may save tax because you generally can deduct your contributions:

Qualified deferred compensation plans. These include pension, profit-sharing, SEP and 401(k) plans, as well as SIMPLEs. (For information on the benefits to employees, see page 12.) Eligible small employers may also claim a tax credit when setting up a retirement plan.

Fringe benefits. Certain fringe benefits aren't included in employee income, yet the employer can still deduct the portion, if any, that it pays and typically also avoid payroll taxes. Examples are employee discounts, group term life insurance (up to $50,000 per person) and health insurance.

Warning: You might be penalized for not offering health insurance. The Affordable Care Act can in some cases impose a penalty on "large" employers if they don't offer full-time employees "minimum essential coverage" or if the coverage offered is "unaffordable" or doesn't provide "minimum value."

Interest expense deduction

Generally, under the TCJA, interest paid or accrued by a business is deductible only up to 30% of adjusted taxable income (ATI). For 2024, taxpayers with average annual gross receipts of $30 million or less for the three previous tax years generally are exempt from the limitation.

Some other taxpayers are also exempt. For example, larger real property businesses can *elect* to fully deduct their interest. But then they're required to use the alternative depreciation system for real property used in the business and can't claim bonus depreciation.

Loss deductions

A loss occurs when a business's expenses and other deductions for the year exceed its revenue:

NOLs. The TCJA generally reduces the amount of taxable income that can be offset with net operating loss deductions from 100% to 80%. It also generally prohibits NOLs from being carried back to an earlier tax year — but allows them to be carried forward indefinitely (as opposed to the previous 20-year limit). So if your business is headed for a loss this year due to temporary business conditions, consider accelerating income if possible to reduce the amount of the loss.

Pass-through entity "excess" business losses. The TCJA applies a limit to deductions for current-year business losses incurred by noncorporate taxpayers: For 2024, such losses generally can't offset more than $305,000 ($610,000 for married couples filing jointly) of income from other sources, such as salary, self-employment income, interest, dividends and capital gains. Excess losses are carried forward to later tax years and can then be deducted under the NOL rules. In 2022, the Inflation Reduction Act extended the limit through 2028.

Tax credits

Tax credits reduce tax liability dollar-for-dollar, making them particularly beneficial. Here are some potentially valuable tax credits:

Research credit. This credit gives businesses an incentive to increase their investments in research. Certain start-ups (in general, those with less than $5 million in gross receipts) can, alternatively, use the credit against their payroll tax. While the credit is complicated to compute, the tax savings can prove significant.

Work Opportunity credit. This credit is designed to encourage hiring from various disadvantaged groups, such as certain veterans, ex-felons, the long-term unemployed and Supplemental Nutrition Assistance Program benefits recipients. The maximum credit is generally $2,400 per hire but can be higher in some cases — up to $9,600 for certain veterans, for example. This credit is scheduled to expire Dec. 31, 2025.

Case Study 4 — HSA, FSA or HRA?

Kyle is contemplating offering his employees an account that will help fund their health care expenses. But he's confused by the alphabet soup of options, so he discusses them with his tax advisor. She explains that all options offer a tax deduction for contributions his business makes to employee accounts, and she provides the following rundown:

HSA. If Kyle provides employees with a qualified high-deductible health plan (HDHP), he can also offer them Health Savings Accounts, which allow both employee and employer contributions. (See page 3.)

FSA. Regardless of the type of health insurance Kyle provides, he can offer Flexible Spending Accounts for health care. Both employee and employer contributions are allowed, but the annual contribution limits are lower than for HSAs and, generally, funds must be used by year end. (See page 3. Kyle can also offer FSAs for child and dependent care; see page 4.)

HRA. A Health Reimbursement Account reimburses an employee for medical expenses up to a maximum dollar amount. Unlike an HSA, no HDHP is required. Unlike an FSA (other than when an exception applies), any unused portion can be carried forward to the next year. But only the employer can contribute to an HRA.

Finally, Kyle's advisor points out that additional rules and requirements apply to these plans, so it's important he consult a benefits expert about properly setting up and administering any of these plans.

New Markets credit. This gives investors who make "qualified equity investments" in certain low-income communities a 39% credit over a seven-year period. This credit is scheduled to expire Dec. 31, 2025.

Family and medical leave credit. The TCJA created a tax credit for qualifying employers that begin providing paid family and medical leave to their employees. The credit is equal to a minimum of 12.5% of the employee's wages paid during that leave (up to 12 weeks per year) and can be as much as 25% of wages paid. This credit is scheduled to expire Dec. 31, 2025.

Additional rules and limits apply to these credits. Other credits may also be available to you. Check with your tax advisor for more information.

Business sale or acquisition

Whether you're selling your business as part of your exit strategy or acquiring another company to help grow it, the tax consequences can have a major impact on the transaction's success or failure. Here are a couple of key tax considerations:

Asset vs. stock sale. With a corporation, sellers typically prefer a stock sale for the capital gains treatment and to avoid double taxation. Buyers generally want an asset sale to maximize future depreciation write-offs.

Taxable sale vs. tax-deferred transfer. A transfer of ownership of a corporation can be tax-deferred if made solely in exchange for stock or securities of the recipient corporation in a qualifying reorganization. But the transaction must comply with strict rules. Although it's generally better to postpone tax, there are some advantages to a taxable sale:

- The seller doesn't have to worry about the quality of buyer stock or other business risks that might come with a tax-deferred transfer.
- The buyer benefits by receiving a stepped-up basis in its acquisition's assets.
- The parties don't have to meet the technical requirements of a tax-deferred transfer.

Even with a taxable sale, some tax can be deferred if it's structured as an installment sale. (See Case Study 5.)

Case Study 5 — Deferring taxes with an installment sale

Maureen is getting ready to sell her business but is worried about the tax consequences. She discusses it with her tax advisor. He tells her about the option to structure the transaction as an installment sale — which might also expand the pool of possible buyers because it can appeal to a buyer that lacks sufficient cash or that would like to pay a contingent amount based on the business's performance.

The tax benefit to Maureen as the seller is that the gain would be spread over a number of years — which could be especially beneficial if it would allow her to stay under the thresholds for triggering the 3.8% NIIT or the 20% long-term capital gains rate. (See Chart 3 on page 6.)

But Maureen's advisor also warns that an installment sale can backfire on the seller. For example, depreciation recapture must be reported as gain in the year of sale, no matter how much cash the seller receives. And, if tax rates increase, the overall tax could wind up being more. Finally, the advisor points out that tax consequences are only one of many important considerations when planning a sale (or acquisition).

Deductions for the self-employed

Self-employed taxpayers generally must make estimated tax payments during the year because tax isn't being withheld from their self-employment income. Fortunately, along with the extra tax-paying responsibilities come some additional tax deductions.

First, while you have to pay both the employee and employer portions of employment taxes on your self-employment income, the employer portion (6.2% for Social Security tax and 1.45% for Medicare tax) is deductible "above the line." This means you don't have to itemize to claim the deduction.

In addition, you can deduct 100% of health insurance costs for yourself. If you're married or have children, you can deduct these costs for them, too. This above-the-line deduction is limited to net self-employment income. You also can take an above-the-line deduction for contributions to a retirement plan (see page 12) and, if you're eligible, an HSA (see page 3) for yourself.

You also may be able to deduct home office expenses from your self-employment income. Generally, you'll be eligible if your home office is your principal place of business (or used substantially and regularly to conduct business) and that's the only use of the space.

Finally, depending on your income level, you may qualify for the 199A deduction. (See page 8.)

Build and preserve your nest egg with tax-smart planning

Whether you're just starting to think about retirement planning, are retired already or are somewhere in between, tax-advantaged retirement plans can help you build and preserve your nest egg. But you must be tax-smart in your planning. This means contributing as much as possible, carefully considering your traditional vs. Roth options, and being strategic when making withdrawals to avoid unnecessary penalties — and loss of future potential growth.

401(k)s and other employer plans

Contributing to a traditional employer-sponsored defined contribution plan is usually a good first step:

- Contributions are typically pretax, reducing your taxable income.
- Plan assets can grow tax-deferred — meaning you pay no income tax until you take distributions, hopefully when your tax rate is lower.
- Your employer may match some or all of your contributions.

Chart 5 shows the 2024 employee contribution limits. Because of tax-deferred compounding, increasing your contributions sooner rather than later can have a significant impact on the size of your nest egg at retirement. If your employer offers a match, contribute at least the amount necessary to get the maximum match so you don't miss out on that "free" money.

Employees age 50 or older can also make "catch-up" contributions. But be aware that some rules for catch-up contributions will soon be changing. (See "What's New!")

More tax-deferred options

In certain situations, other tax-deferred saving options may be available:

You're a business owner or self-employed. You may be able to set up a plan — such as a profit-sharing, Simplified Employee Pension (SEP) or defined-benefit plan — that allows you to make much larger contributions than you could make to an employer-sponsored plan as an employee. You might not have to make 2024 contributions, or even set up the plan, before year end. But many requirements may apply.

Your employer doesn't offer a retirement plan. Consider a traditional IRA. You can likely deduct your contributions, though your deduction may be limited if your spouse participates in an employer-sponsored plan. You can make 2024 contributions until the 2024 income-tax-return-filing deadline for individuals, *not* including extensions. (See Chart 5 for the annual contribution limits.)

Roth alternatives

A potential downside of tax-deferred saving is that you'll have to pay taxes when you make withdrawals at retirement. Roth plans, however, allow tax-free distributions; the tradeoff is that your contributions don't reduce your current-year taxable income:

Roth IRAs. Estate planning advantages are an added benefit: Unlike other retirement plans, Roth IRAs don't require you to take distributions during your lifetime, so you can let the entire balance grow tax-free for the benefit of your heirs. But an income-based phaseout may reduce or eliminate your ability to contribute.

Roth conversions. If you have a traditional IRA, a partial or full conversion to a Roth IRA can allow you to turn tax-*deferred* future growth into tax-*free* growth and take advantage of a Roth IRA's estate planning benefits. The converted amount is taxable in the year of the conversion. Discuss with your tax advisor whether a conversion makes sense for you.

"Back door" Roth IRA contributions. If your income is too high to make Roth IRA contributions and you don't have funds in a traditional IRA, consider setting up a traditional account and making a nondeductible contribution to it. You can then immediately convert the contributed amount to a Roth account with minimal or no tax impact.

Roth 401(k), Roth 403(b) and Roth 457 plans. Employers may offer one of these in addition to the traditional, tax-deferred version. No income-based phaseout applies.

Chart 5

Retirement plan contribution limits for 2024

	Regular contribution	Catch-up contribution[1]
Traditional and Roth IRAs	$ 7,000	$1,000
401(k)s, 403(b)s, 457s and SARSEPs[2]	$23,000	$7,500
SIMPLEs[3]	$16,000	$3,500

[1] For taxpayers age 50 or older by the end of the tax year.

[2] Includes Roth versions where applicable.

[3] The limit for Savings Incentive Match Plans for Employees can be 10% higher in certain circumstances. Check with your employer.

Note: Other factors may further limit your maximum contribution.

Early withdrawals

Early withdrawals from retirement plans should be a last resort. With a few exceptions, distributions before age 59½ are subject to a 10% penalty on top of any income tax that ordinarily would be due on a withdrawal. Additionally, you'll lose the potential tax-deferred future growth on the withdrawn amount.

If you must make an early withdrawal and you have a Roth account, consider withdrawing from that. You can withdraw up to your contribution amount without incurring taxes or penalties.

Another option: If your employer-sponsored plan allows it, take a plan loan. You'll have to pay it back with interest and make regular principal payments, but you won't be subject to current taxes or penalties.

Leaving a job

When you change jobs or retire, avoid taking a lump-sum distribution from your employer's retirement plan because it generally will be taxable, plus potentially subject to the 10% early-withdrawal penalty. To avoid current income tax and penalties, consider staying put (if your plan allows), rolling over to your new employer's plan, or rolling over to an IRA.

If you choose a rollover, request a direct rollover from your old plan to your new plan or IRA. Otherwise, you'll need to make an indirect rollover within 60 days to avoid tax and potential penalties. ***Warning:*** If you don't do a direct rollover, the check you receive from your old plan may be net of 20% federal income tax withholding. Your subsequent indirect rollover must be of the gross amount (making up for the withheld amount with other funds) or you'll be subject to income tax — and potentially the 10% penalty — on the difference.

RMDs

Generally, you must begin taking required minimum distributions annually from your traditional IRAs and defined contribution plans once you reach a certain age. If you don't comply with RMD rules, you can owe a penalty on the amount you should have withdrawn but didn't. Fortunately, SECURE 2.0 has:

Eliminated RMDs for Roth 401(k)s, Roth 403(b) and Roth 457 plans. Beginning in 2024, these plans aren't subject to RMDs until the death of the owner.

Increased the age at which RMDs must begin. Historically, taxpayers had to begin taking their annual RMDs after reaching age 70½. The 2019 Setting Every Community Up for Retirement Enhancement Act raised the age to 72 for taxpayers who didn't turn age 70½ before Jan. 1, 2020. SECURE 2.0 raised the age again, to 73, for taxpayers who didn't turn age 72 before Jan. 1, 2023 (that is, were born after Dec. 31, 1950). It then will boost the age to 75 on Jan. 1, 2033.

Relaxed the penalty. SECURE 2.0 reduced the penalty for failing to take full RMDs from 50% to 25% beginning in 2023. If the failure is corrected in a "timely" manner, the penalty drops to 10%.

Waiting as long as possible to take nonrequired distributions generally is advantageous because of tax-deferred compounding. But a distribution (or larger-than-required distribution) in a year your tax bracket is low may save tax in the long run. Be sure, however, to consider the lost future tax-deferred growth and, if applicable, whether the distribution could: 1) cause Social Security payments to become taxable, 2) increase income-based Medicare premiums and prescription drug charges, or 3) affect other tax breaks with income-based limits.

If you've inherited a retirement plan, consult your tax advisor about the distribution rules that apply to you. ***Warning:*** The time period for distributions is only 10 years for beneficiaries — other than surviving spouses and certain others — inheriting plans after Dec. 31, 2019.

QCDs

Taxpayers age 70½ or older are allowed to make direct qualified charitable distributions from their IRA to qualified charitable organizations up to $105,000 in 2024 — now annually indexed for inflation under SECURE 2.0. SECURE 2.0 also allows eligible taxpayers to make a one-time QCD of up to $53,000 (for 2024) through a charitable gift annuity or charitable remainder trust.

A charitable deduction can't be claimed for QCDs, but these amounts aren't included in taxable income and can be used to satisfy an IRA owner's RMD. A QCD might be especially tax-smart if you won't benefit from the charitable deduction. (See "Charitable deductions" on page 3.)

WHAT'S NEW!

Beware of upcoming changes to catch-up contributions

The SECURE 2.0 Act, signed into law Dec. 29, 2022, builds on the 2019 Setting Every Community Up for Retirement Enhancement Act. SECURE 2.0 makes major changes in a variety of areas that affect retirement planning, many of which have already gone into effect. But there are a couple of big changes looming for some taxpayers:

1. The act will require the catch-up contributions of higher-income taxpayers to be treated as post-tax Roth contributions. The requirement will apply to taxpayers who earned more than $145,000 (annually indexed for inflation) during the prior year. This change was supposed to go into effect in 2024, but the IRS is providing an "administrative transition period" that gives employers and plan providers more time to make the changes needed to comply.

Essentially, for 2024 and 2025, the Roth requirement won't apply. If you'll be affected by this limit and are age 50 or older, you may want to max out your catch-up contributions this year and next to take full advantage of your last chance to enjoy the upfront tax savings of pretax catch-up contributions.

2. The act will allow certain taxpayers to make larger catch-up contributions. Beginning in 2025, taxpayers ages 60 to 63 will be able to make catch-up contributions to most employer-sponsored plans up to the greater of $10,000 ($5,000 for SIMPLEs) or 150% of the amount allowed for those age 50 and over.

Consider acting soon to save substantial taxes later

Because the TCJA has put estate, gift and generation-skipping transfer (GST) tax exemptions at record-high levels, far fewer taxpayers are worrying about these taxes. But without further tax legislation, the high exemptions will be available only through next year. So consider whether there's anything you should be doing now to take advantage of tax savings opportunities that may not be available in the near future.

Estate tax

While the TCJA keeps the estate tax rate at 40%, it has doubled the exemption base amount from $5 million to $10 million. The inflation-adjusted amount for 2024 is $13.61 million. (See Chart 6.)

Without further legislation, the estate tax exemption will return to an inflation-adjusted $5 million in 2026, currently projected to be somewhere around $7 million. So taxpayers with estates in the roughly $7 million to $14 million range (twice that for married couples), whose estates would escape estate taxes if they were to die while the doubled exemption is in effect but not if they were to die after, need to keep potential post-2025 estate tax liability in mind.

Gift tax

The gift tax continues to follow the estate tax, so the gift tax exemption also has temporarily increased under the TCJA. (See Chart 6.) Any gift tax exemption used during your lifetime reduces the estate tax exemption available at death. Using up some of your exemption during your lifetime can be tax-smart, especially if your estate might exceed roughly $7 million (twice that if you're married).

Under the annual exclusion, you also can exclude certain gifts of up to $18,000 per recipient in 2024 (up from $17,000 in 2023) — twice that if your spouse elects to split the gift with you or you're giving joint or community property — without depleting any of your gift and estate tax exemption. This can save significant taxes. (See Case Study 6.)

Warning: Each year you need to use your annual exclusion by Dec. 31. The exclusion doesn't carry over from year to year. For example, if you didn't make an annual exclusion gift to your child last year, you can't add $17,000 to your 2024 exclusion of $18,000 to make a $35,000 tax-free gift to that child this year.

GST tax

The GST tax generally applies to transfers (both during your lifetime and at death) made to people more than one generation below you, such as your grandchildren. This is in addition to any gift or estate tax due. The GST tax exemption also has temporarily increased under the TCJA. (See Chart 6.)

The GST tax exemption can be a valuable tax-saving tool for taxpayers with large estates whose children also have — or may eventually have — large estates. With proper planning, they can use the exemption to make transfers to grandchildren and avoid tax at their children's generation.

For example, by allocating your GST tax exemption to contributions to a dynasty trust, you can ensure that any future distributions or other transfers of trust assets to your grandchildren or subsequent generations will avoid GST taxes. This is true even if the value of the assets grows well beyond the exemption amount or the exemption is reduced in the future.

State taxes

Even before the TCJA, some states imposed estate tax at a lower threshold than the federal government did. Now the differences in some states are even more dramatic. To avoid unexpected tax liability or other unintended consequences, consult a tax advisor familiar with the law of your particular state.

Exemption portability

If part (or all) of one spouse's estate tax exemption is unused at that spouse's death, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining exemption. This exemption "portability" provides flexibility at the first spouse's death, but it has some limits. Portability is available only from the most recently deceased spouse, doesn't apply to the GST tax exemption and isn't recognized by many states.

And portability doesn't protect future growth on assets from estate tax like applying the exemption to a credit shelter (or bypass) trust does. Such a trust also offers creditor and remarriage protection, GST tax planning, and possible state estate tax benefits.

So married couples should still consider these trusts — and transferring assets to each other as necessary to fully fund them at the first death. Such transfers aren't subject to gift or estate tax as long as the recipient spouse is a U.S. citizen.

Chart 6
2024 transfer tax exemptions and rates

	Estate tax	Gift tax	GST tax
Exemption	$13.61 million[1]	$13.61 million	$13.61 million
Rate	40%	40%	40%

[1] Less any gift tax exemption already used during life.

Tax-smart giving

Giving away assets now will help reduce the size of your taxable estate. Here are some strategies for tax-smart giving:

Choose gifts wisely. Consider both estate and income tax consequences and the economic aspects of any gifts you'd like to make:

- To minimize *estate tax*, gift property with the greatest future appreciation potential.
- To minimize *your beneficiary's income tax*, gift property that hasn't appreciated significantly while you've owned it.
- To minimize *your own income tax*, don't gift property that's declined in value. Instead, consider selling the property so you can take the tax loss and then gifting the sale proceeds.

Plan gifts to grandchildren carefully. Annual exclusion gifts are generally exempt from the GST tax, so they also help you preserve your GST tax exemption for other transfers. For gifts to a grandchild that don't qualify for the exclusion to be tax-free, you generally must apply both your GST tax exemption and your gift tax exemption.

Gift interests in your business or an FLP. If you own a business, you can leverage your gift tax exclusions and exemption by gifting ownership interests, which may be eligible for valuation discounts for lack of control and marketability. For example, assuming a combined discount of 25%, you could gift an ownership interest worth up to $24,000 (on a controlling basis) gift-tax-free. That's because the discounted value of the gift wouldn't exceed the $18,000 annual exclusion.

Another way to benefit from valuation discounts is to set up a family limited partnership. You fund the FLP with assets such as public or private stock and real estate, and then gift limited partnership interests.

Case Study 6 — Why annual exclusion gifts can be a powerful tax saver

Mike and Linda have large estates that could become subject to estate and generation-skipping transfer (GST) tax if the exemptions drop as scheduled after 2025. In 2024, they combine their $18,000 annual exclusions so that their three children and their children's spouses, along with their six grandchildren, each receive $36,000. The result is that $432,000 is removed from the couple's estates free of taxes.

If the same amounts were transferred to the recipients upon Mike's or Linda's death instead — and the transfers were fully subject to estate and GST taxes — the tax hit, at the current 40% rate, would be $172,800 in federal estate taxes and $86,400 in GST taxes. So the annual exclusion gifts could potentially save the family $259,200 in taxes. If they maximize their annual exclusion gifts each year, just think about how much tax they could save!

Warning: The IRS may challenge valuation discounts; a professional, independent valuation is recommended. The IRS also scrutinizes FLPs, so be sure to set up and operate yours properly.

Pay tuition and medical expenses. You may pay these expenses without the payment being treated as a taxable gift to the student or patient, as long as the payment is made directly to the provider.

Make gifts to charity. Donations to qualified charities aren't subject to gift tax. They may also be eligible for an income tax deduction. (See page 3.)

Consider "taxable" gifts. Making some gifts beyond annual exclusion gifts and using some or all of your lifetime exemption can make sense if you have a large estate. These "taxable" gifts can protect transfers from gift and estate tax, even if the exemption drops in the future. They also remove the future appreciation from your estate.

You do, however, need to keep in mind your beneficiaries' income tax. Gifted assets don't receive the "step-up" in basis that bequeathed assets do. This means that, if beneficiaries sell assets gifted to them, their taxable capital gains will be determined based on your basis in the assets. So their capital gains tax could be higher than if they inherited the same assets.

Trusts

Trusts can provide a way to transfer assets and potentially enjoy tax savings while preserving some control over what happens to the transferred assets. For those with large estates, funding trusts now, while the gift tax exemption is high, may be particularly tax-smart. Here are some types of trusts to consider:

QPRT. A qualified personal residence trust allows you to give your home to your children today — removing it from your taxable estate at a reduced gift tax cost (provided you survive the trust's term) — while you retain the right to live in it for a specified period.

GRAT. A grantor-retained annuity trust works on the same principle as a QPRT but allows you to transfer other assets; you receive payments back from the trust for a specified period.

Crummey trust. This allows you to enjoy both the control of a trust that will transfer assets to loved ones at a later date and the tax savings of an outright current gift of up to the annual exclusion.

Chart 7

2024 individual income tax rates

Regular tax brackets				
Tax rate	**Single**	**Head of household**	**Married filing jointly or surviving spouse**	**Married filing separately**
10%	$ 0 – $ 11,600	$ 0 – $ 16,550	$ 0 – $ 23,200	$ 0 – $ 11,600
12%	$ 11,601 – $ 47,150	$ 16,551 – $ 63,100	$ 23,201 – $ 94,300	$ 11,601 – $ 47,150
22%	$ 47,151 – $100,525	$ 63,101 – $100,500	$ 94,301 – $201,050	$ 47,151 – $100,525
24%	$100,526 – $191,950	$100,501 – $191,950	$201,051 – $383,900	$100,526 – $191,950
32%	$191,951 – $243,725	$191,951 – $243,700	$383,901 – $487,450	$191,951 – $243,725
35%	$243,726 – $609,350	$243,701 – $609,350	$487,451 – $731,200	$243,726 – $365,600
37%	Over $609,350	Over $609,350	Over $731,200	Over $365,600
Alternative minimum tax (AMT) brackets				
Tax rate	**Single**	**Head of household**	**Married filing jointly or surviving spouse**	**Married filing separately**
26%	$ 0 – $232,600	$ 0 – $232,600	$ 0 – $232,600	$ 0 – $116,300
28%	Over $232,600	Over $232,600	Over $232,600	Over $116,300
AMT exemptions				
	Single	**Head of household**	**Married filing jointly or surviving spouse**	**Married filing separately**
Amount	$ 85,700	$ 85,700	$ 133,300	$ 66,650
Phaseout[1]	$609,350 – $952,150	$609,350 – $952,150	$1,218,700 – $1,751,900	$609,350 – $875,950

[1] These are the AMT income ranges over which the exemption phases out and only a partial exemption is available. The exemption is completely phased out if AMT income exceeds the top of the applicable range.

Note: Consult your tax advisor for AMT rates and exemptions for children subject to the "kiddie tax."

Chart 8

2024 corporate income tax rates

Tax rate	Type of corporation
21%	C corporation
21%	Personal service corporation

Chart 9

2024 estate and trust income tax rates

Tax rate	Tax brackets
10%	$ 0 – $ 3,100
24%	$ 3,101 – $11,150
35%	$11,151 – $15,200
37%	Over $15,200

Note: Consult your tax advisor for AMT rates and exemptions.

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