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2024 Tax Planning Guide

Your Roadmap To Reduced Taxes This Year And In the Future

Introduction

After the many changes to the financial landscape that came over the last few years, filing your taxes this year could be complicated. Maybe you stopped working, realized investment losses, created an estate plan, or went from itemizing to claiming the standard deduction or vice versa. There are many factors that can impact how your tax level may change and if you need to rethink your tax strategy.

We believe it's important that you look to employ "tax diversity" in your retirement plan. Different types of investments can impact your taxes differently.

Having accounts that receive varying tax treatments is a key strategy. You should work with a qualified professional to help determine exactly how much you should have in each tax "bucket" to help minimize your overall tax burden in retirement.

While the tax code can be incredibly complex, you still need to stick to the basics when it comes to filing and preparing your tax returns. So, here are our 5 tips to help you better prepare for tax filing this year.

5 Helpful Tax Planning Tips

- Get Organized and Prepare to File Last Year's Taxes
- Understand Year-to-Year Changes
- Know What Deductions You Could Claim
- Tips to Help Reduce Taxes and Avoid Penalties
- Learn Strategies to Help Lower Your Tax Bill

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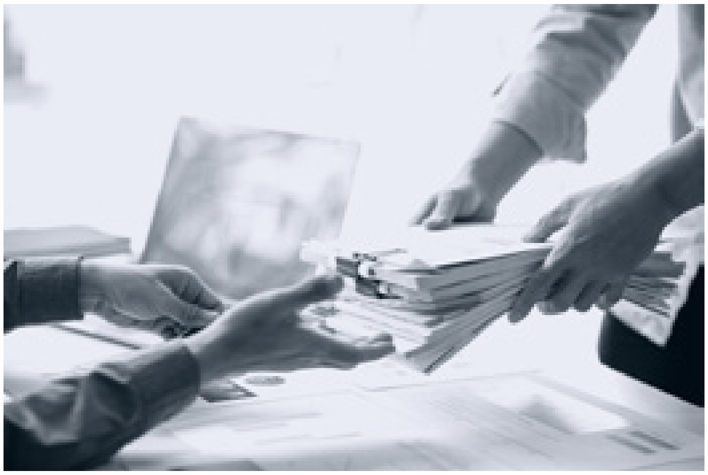
01

Get Organized and Prepare to File Your Taxes

This may seem like a no-brainer, but the sooner you get your W-2, receipts, and other information together, the easier the process will be. Make sure you take into account home improvements, charitable donations, business expenses, and many other expenses that could qualify you for a lower tax level. A Certified Public Accountant (CPA) will be able to help you with your individual tax situation.



Know Your Tax Terms

First, you'll want to make sure you understand what some of the basic tax terms really mean, such as tax credits, tax deductions, tax deferrals, and the term "tax-free."

A tax credit is a dollar-for-dollar benefit that you can subtract from your tax liability directly. If you generate more tax credits than your tax bill, you'll see a refund check.

A tax deduction is usually referred to as a deduction from the source your tax is calculated from. So, an expense tax deduction refers to the ability to exempt an expense from the sales tax, therefore reducing your tax burden.[1]

Tax deferrals are taxes that you push to a later year. You may see these with accounts like a 401(k), where you pay taxes on your contributions or withdrawals at a later date.[2]

Tax-free means you owe no tax on the referenced expense or financial action.[3]

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Be Safe and Secure

The last part of the organization process includes certain precautionary safety measures. Tax identity theft is a significant threat and has been at the forefront of our minds, given the recent security breaches and cyberattacks of major commercial organizations. Online tax filings allow for greater convenience but also leave us more vulnerable to Cybersecurity threats if we're not careful. You are likely being targeted for a scam or hack if you receive a notice or letter regarding a tax return, tax bill, or income that does not apply to you or if you get an unsolicited e-mail or call asking for your bank account number, Social Security number, or other personal information or documents. Be cautious if you receive a spam robocall insisting that you must call back and settle your tax bill. The IRS does not demand immediate payment over the phone, threaten to arrest you, or demand your personal information, including credit, debit, or bank account numbers.[4]

02

Understand the Changes to the Tax Brackets

There are no structural changes to the tax brackets this year. There are still seven tax brackets, and the seven marginal tax rates — 10%, 12%, 22%, 24%, 32%, 35%, and 37% — remain unchanged.

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

2024 TAX BRACKETS

Tax Rate	Single Filers	Married Filing Jointly
10%	$0 - $11,600	$0 - $23,200
12%	$11,601 - $47,150	$23,201 - $94,300
22%	$47,151 - $100,525	$94,301 - $201,050
24%	$100,526 - $191,950	$201,051 - $383,900
32%	$191,951 - $243,725	$383,901 - $487,450
35%	$243,726 - $609,350	$487,451 - $731,200
37%	Anything Over $609,350	Anything Over $731,200

Tax Rate	Married Filing Separately	Head of Household
10%	$0 - $11,600	$0 - $16,550
12%	$11,601 - $47,150	$16,551 - $63,100
22%	$47,151 - $100,525	$63,101 - $100,500
24%	$100,526 - $191,950	$100,500 - $191,950
32%	$191,951 - $243,725	$191,951 - $243,700
35%	$243,726 - $365,600	$243,700 - $609,350
37%	Anything Over $365,600	Anything Over $609,350

https://www.nerdwallet.com/article/taxes/federal-income-tax-brackets

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2023 TAX BRACKETS

Tax Rate	Single Filers	Married Filing Jointly
10%	$0 to $11,000	$0 to $22,000
12%	$11,001 to $44,725	$22,001 to $89,450
22%	$44,726 to $95,375	$89,451 to $190,750
24%	$95,376 to $182,100	$190,751 to $364,200
32%	$182,101 to $231,250	$364,201 to $462,500
35%	$231,251 to $578,125	$462,501 to $693,750
37%	Anything Over $578,125	Anything Over $693,750

Tax Rate	Married Filing Separately	Head of Household
10%	$0 to $11,000	$0 to $15,700
12%	$11,001 to $44,725	$15,701 to $59,850
22%	$44,726 to $95,375	$59,851 to $95,350
24%	$95,376 to $182,100	$95,351 to $182,100
32%	$182,101 to $231,250	$182,101 to $231,250
35%	$231,251 to $346,875	$231,251 to $578,100
37%	Anything Over $346,875	Anything Over $578,100

Finally, a few types of income, particularly qualified dividends and long-term capital gains, are taxed according to different capital gains rates: 0%, 15%, and 20%. Similar to the income tax, the capital gains tax is applied progressively, but it includes a few distinct factors such as your income level, your profit from the sale, how long you held the investment, and it may not even apply to certain types of investments. As such, there are various tax strategies and timelines to consider when it comes to what you do with your investments, when and how to sell them, and how you manage your capital gains taxes.[5]

Talk to your financial professional for more information on how your assets can be strategized to reduce your capital gains taxes.

https://www.nerdwallet.com/article/taxes/federal-income-tax-brackets#2023-tax-brackets-(taxes-filed-in-2024)

03

Know What Deductions You Could Claim

Standard deductions are a segment of income that is tax-exempt and can be utilized to decrease your tax liability. If you opt not to itemize your taxes, you can claim the standard deduction by using a Schedule A of Form 1040.

However, the standard deduction amounts vary based on your tax filing status, your age, your disability status, or if you're claimed as a dependent on another individual's tax return. Here are the standard deduction amounts for 2024:

Single Filers	Married Filing Jointly	Married Filing Separately	Head of Household
$14,600	$29,200	$14,600	$21,900

https://www.nerdwallet.com/article/taxes/standard-deduction

The additional standard deduction amount for those who are blind or over 65 in 2024 is $1,550 ($1,950 if unmarried and not a surviving spouse).[6]

Note on Itemized Deductions

A taxpayer must choose either the itemized deduction or the standard deduction - they cannot elect to take both. Itemized deductions can help some people lower their tax bill, but in order for it to be lower than that standard deduction, they have to have careful knowledge of the current year's itemized deductions and properly file them. A tax and financial professional may have the necessary knowledge to help you choose whether to itemize or go for the standard deduction. Itemized deductions include several categories, like medical expenses, mortgage interest, and charitable donations. Other common itemized deductions include state income taxes, local income taxes, personal property taxes, and disaster losses. Itemizing most often makes sense for higher-income earners who also have many large expenses to deduct.[7]

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Note on Deductions for the Self-Employed

The enactment of the Tax Cuts and Jobs Act (TCJA) in 2018 brought about several changes to the tax deductions for the self-employed. If you're self-employed, it's crucial to examine the annual eligible deductions to make sure you only pay the taxes you should and not more. For example, you can calculate deductions for a home office and a vehicle used for business operations. Client meals and business-oriented travel are deductible, but meals tied to entertainment may not qualify. Premiums paid for insurance coverage—be it for safeguarding your business or for health insurance—are valid deductions in addition to startup, advertising, and retirement plan expenses as potential deductions.[8]

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Tips to Help Reduce Taxes and Avoid Penalties

The tax code has several rules that can make it complicated to decipher how your retirement savings will be taxed. To help avoid these common mistakes, it is important you discuss your options with a qualified tax professional.

RMDs or Required Minimum Distributions[9]

Tax-deferred retirement saving is one of the best tools at investors' disposal, but you can't simply let your money grow forever—at some point, you have to start withdrawing it. This is known as required minimum distributions (RMDs), which is an IRS rule that says you need to start taking distributions from certain retirement accounts beginning at age 70 ½, 72, or 73, depending on how old you were when the SECURE Act of 2019 or the SECURE Act 2.0 of 2022 were instituted.

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An RMD is a certain amount of money that the government requires you to withdraw from a 403(b), SEP IRA, 457(b), or traditional IRA every year. Even if you don't want or need the money, you are required to take it, or else the IRS can take 25% of what you were supposed to withdraw. The pre-tax money you put away over your career must be withdrawn and is thus subject to tax. The government has a specific method of calculating how much you must withdraw every year.

Age	Distribution Period in Years
72	27.4
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22.0
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7
84	16.8
85	16.0
86	15.2
87	14.4
88	13.7
89	12.9
90	12.2
91	11.5
92	10.8
93	10.1
94	9.5
95	8.9
96	8.4

Age	Distribution Period in Years
97	7.8
98	7.3
99	6.8
100	6.4
101	6.0
102	5.6
103	5.2
104	4.9
105	4.6
106	4.3
107	4.1
108	3.9
109	3.7
110	3.5
111	3.4
112	3.3
113	3.1
114	3.0
115	2.9
116	2.8
117	2.7
118	2.5
119	2.3
120 and over	2.0

https://smartasset.com/retirement/rmd-table

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RMDs can be calculated by taking the previous year-end value and dividing it by the distribution period associated with your age. Your first RMD is due by April 1st of the year after you turn 73 (or 72 if you turned 72 before December 31st of 2022). So, if you turn 73 in 2024, you won't need to take your first RMD until April 1st, 2024. Keep in mind that by pushing back the first RMD, you could end up having to take two RMDs in one year, since all RMDs after the first are due by December 31st. This could mean you'll have to withdraw more than you want, potentially resulting in a higher tax burden.

Qualified Charitable Distributions (QCDs)

Making QCDs may help you lower your tax burden if your RMDs force you to take more taxable income than you wanted. A QCD is a direct, tax-free donation made from your retirement account to a qualified charity. This option is available to individuals who are of the age 70 ½ or older. QCDs work by transferring funds directly from your retirement account custodian to a qualified charity, and these can be counted towards satisfying your RMDs. The amount donated is not subject to federal income taxes and is excluded from your taxable income. This can help reduce your taxable income and potentially lower your overall federal tax bill.

However, it's important to note that there is a maximum annual limit of $100,000 for QCDs, and they cannot be claimed as itemized charitable deductions. The key is that the money must go directly from the retirement account to the charity; it can't be withdrawn and then donated.[10]

Social Security Benefits

People tend to think of Social Security as a simple, easy retirement income solution that can solve their income needs without question because it's a benefit you receive every month from the government. They also think that because it comes from the government it's non-taxable. But did you know that your Social Security benefit is taxable? Up to 85% of it can be subject to your regular income tax!

The Social Security tax laws can be confusing, and they depend on your age, income, and other factors. You can avoid a lot of these taxes by just adjusting your income and your cash flow from other income sources so that you can cover your costs, but don't end up counting more than you need as taxable income. So, by adjusting what you receive from your sources of taxable income, you can minimize the amount of taxes that you would owe on your Social Security benefits.[11]

Converting a Traditional IRA to Roth IRA[12]

Roth IRAs can be a unique and powerful way to save for retirement. You pay taxes upfront on a Roth IRA. After that, all growth and withdrawals are tax-free. As such, you can save on your future tax burden by converting to a Roth IRA from a traditional IRA and paying the taxes owed at the time of conversion. However, there are limitations to Roth accounts that introduce risks worthy of considering before undergoing the conversion.

THE COMPLEXITY OF A ROTH CONVERSION

People who earn over a certain amount aren't allowed to make regular contributions to Roth IRAs. If you think tax-free income in retirement would be important to you, but you make too much to open a Roth, you might want to consider what's called a backdoor Roth conversion. With this strategy, you will be able to contribute to a traditional IRA and convert the funds over to a Roth after. While you'll still have to pay taxes when withdrawing from a traditional IRA. You will be paying them now, rather than at your tax rates of the future, allowing you to benefit from tax-free growth.

This strategy can be complex, so the guidance of a financial or tax professional can help you execute this strategy properly.

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Learn Strategies to Help Lower Your Tax Bill

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Taxes are one of the biggest expenses facing retirees today. There are investment options that may help minimize your tax burden without minimizing your gains, withdrawals, or distributions.

Max Out Your Retirement Accounts

Maxing out your retirement account can not only help to grow your investments but can also help to reduce your tax burden. This is because your traditional retirement accounts are funded with pre-tax dollars that, in turn, decrease your taxable income for the year you make contributions. For Roth accounts, you pay taxes now, so you don’t pay them later. Either way, contributing as much as you can budget for, given your other financial and retirement goals, can help you lower your tax burdens at some point.

But be careful not to withdraw early from your accounts as the amount you withdraw will become part of your taxable income, and there could be additional taxes and penalties to pay if you withdraw early. Withdrawing before you reach the age of 59 ½ is considered an early withdrawal and would trigger a penalty of 10% of the amount you withdraw. If you’re in your pre-retirement years, due to this early withdrawal penalty, it may not make sense for you to contribute to a retirement account for financial goals that require you to withdraw funds early.[13]

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Charitable Giving Strategies

DONATING STOCK

If there's a charitable cause you feel strongly about, then you can do more than gift cash; you can gift assets such as stocks, and this will provide you with a tax benefit as well. For the short term—where you hold the asset in question for less than a year—you can receive a full tax deduction for the amount you paid on the asset, but not your additional investment gains. However, if you hold your asset for a full year, you can deduct the fair market value, including gains, as of the date the gift was made. Note you must choose to itemize deductions to use these giving strategies.[14]

MAKING QCDS

As mentioned earlier in this material, QCDs can help you avoid large tax bills due to your RMDs. However, even without RMDs, QCDs can help you donate to causes you care about while effectively lowering your tax burden through charitable giving deductions. However, you must also choose to itemize your deductions to be able to claim charitable gifts as tax deductible.[10]

TAX-LOSS HARVESTING

Tax-loss harvesting is a strategy aimed at timing the sale (and often repurchase) of assets so that you can claim investment losses as a tax deferral even if you choose the standard deduction. This strategy allows you to receive tax deferral on realized investment losses, delay payment on the gains, and pay a similar total tax bill, but at a later date. The result is you can earn a return on the money you would have paid in tax as you keep it for longer. In essence, you delay paying your tax bill by making sure you realize your investment losses quickly to receive tax deferral but cash out your gains more slowly. Note that you may only deduct up to $3,000 of losses from your taxable income per year. However, you can carry over any excess loss to later years.[15]

In addition, you can also abide by the wash-sale rule, which allows you to realize investment loss by waiting 30 days from the sale and then repurchasing the same or similar asset to benefit from an asset price rebound in the future. Essentially, this allows you to claim investment loss for that year but at the same time reinvest the money from the sale into the same or a similar asset to benefit from growth in the future.[16]

ESTATE TAX PLANNING

For this year, the estate tax exemption level increased to $13.61 million, or $27.22 million for a married couple. After that amount, estate values are subject to taxation based on the total value of the estate that was gifted either during your lifetime or at death. These limits are set to expire in 2026 along with the Tax Cuts and Jobs Act and could expire sooner if that legislation is repealed. Keep in mind that many states don't levy an estate or inheritance tax, so check with your financial or tax professional before finalizing your estate tax strategy.

If you want to transfer assets incrementally during your lifetime, you can gift assets or properties that exempt you or the beneficiary from the estate or inheritance tax. However, the annual gift tax exclusion is much lower, coming in at $18,000 for 2024.[17]

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Conclusion

Consider managing your tax and overall financial situation as if you are the CEO of the "YOU Corporation". This doesn't mean that you will be acting as a financial advisor or CPA, but you should be active in the decision-making process. Solidifying your involvement in your own finances is the first step in taking control of your financial future.

No matter what lies ahead of you in retirement, discussing specific tax strategies with your financial professional can help provide clarity on your financial situation and present new opportunities. What's more, there may be adverse implications for your financial health if your tax situation is not understood or planned for properly.

At VestGen Wealth Partners, we know that taxes can be confusing. That's why we're available to help you uncover long-term strategies for tax minimization regarding your Social Security benefits, retirement, investments, and overall financial strategy.

CLICK HERE

To Request Your Complimentary, No Obligation Review!

We'll work with you to help you better understand the new tax laws and how they may impact your individual situation. Visit us at **vestgen.com** or call us today at **(833) 964-7526**.

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Additional IRS Website Links, Charts, Calculators, etc.

IRS Withholding Calculator
https://www.irs.gov/individuals/irs-withholding-calculator

Retirement Topics - Required Minimum Distributions (RMDs)
https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds

Estate and Gift Tax FAQs
https://www.irs.gov/newsroom/estate-and-gift-tax-faqs

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