EagleStone
Tax & Wealth Advisors

2024 Year-End Tax Planning Guide

1101 Wootton Parkway | Suite 400 | Rockville, MD 20852
(301) 924-2160 | estwa.com

Table Of Contents

Year-End Tax Planning Overview

As the end of the year approaches, now is an ideal time to review your financial and tax planning strategies. This year likely brought challenges and disruptions that could have impacted your personal and financial situations. Year-end tax planning can help you identify key opportunities to maximize deductions, minimize liabilities, and set yourself up for a strong start to the new year.

In this overview, we will highlight potential tax-saving strategies, new tax law changes and updates, as well as some key recommendations. Taking proactive steps before December 31 can make a considerable difference. Please contact us at your earliest convenience to discuss your tax situation so we can develop a customized plan that aligns with your financial goals. In the meantime, this document takes a look at some issues to consider as we approach year-end.

It is important to consider the following when evaluating tax planning strategies:

- The objective should be to achieve your personal financial and/or business goals in the most tax-efficient manner possible.
- Minimizing taxes can potentially enhance overall investment and business returns.
- Although tax planning is most effective when done throughout the year, many tax-saving strategies can be identified and implemented as year-end approaches.
- New tax legislation routinely presents tax planning opportunities. Therefore, ongoing tax planning is necessary to take advantage of tax-saving strategies.
- Effective tax planning requires accurate estimates of taxable income for 2024 and 2025; developing reliable estimates is critical to making planned tax savings.
- Not every tax planning opportunity is appropriate for every person. However, identifying specific planning ideas that work for your profile can potentially reduce your tax liabilities.

Basic Tax Planning Strategies

Timing is Everything

The last few months of the year may be the time to consider deferring or accelerating income and deductions, taking into consideration the impact on both this year's and next year's taxes.

Delaying Income & Accelerating Deductions

You may be able to defer a year-end bonus, defer the sale of capital gain property (or take installment payments rather than a lump-sum payment), or delay the collection of business debts, rents, and payments for services.

Doing so may allow you to defer paying tax on the income until next year. If there's a chance that you'll be in a lower income tax bracket next year, deferring income could mean paying less tax on that income as well. Most benefit by accelerating write-offs from 2025 into 2024 while deferring taxable income. Others take the opposite approach.

Similarly, we can consider strategies to accelerate deductions into 2024. If you itemize deductions, you might accelerate some deductible expenses like medical expenses, qualifying interest, or state and local taxes (for those not exceeding the new $10,000 cap) by making payments before year-end. You may also consider making next year's charitable contribution this year instead.

Accelerating Income & Postponing Deductions

What if you'll be in a higher tax bracket in 2025? If you know that you'll be paying taxes at a higher rate in 2025 (say, for example, that an out-of-work spouse will be reentering the workforce in January), you might take the opposite track. Consider whether it makes sense to try to accelerate income into 2024, and to postpone deductible expenses until 2025.

Withholding from Wages

If it is projected that you will owe a substantial amount when you file this year's income tax return, ask your employer to increase your income tax withholding amounts before the year-end. Even though the additional withholding will come from your last few paychecks, it's generally treated as having been withheld evenly throughout the year. Paying at least 90% of your 2024 tax liability or 100% of what you owed for 2023 (110% if your 2023 AGI exceeded $150,000) may help you to avoid paying an estimated tax penalty due to under withholding. You can give your employer a new W-4 to have more federal tax taken from wages.

If your situation is the opposite, where you have significantly overpaid your taxes and estimate you'll be receiving a large refund, you can reduce your withholding accordingly, putting money back in your pocket this year, as opposed to waiting for your tax refund to come in the following year.

Capital gains and timing

The long-term capital gains rate applies to investments held for more than 12 months. These gains can be taxed at 0%, 15%, or 20%, according to income thresholds. Short-term capital gains are taxed as ordinary income; these rates can be as high as 37% depending on your tax bracket. Holding assets for more than a year before selling them may help substantially decrease the tax on the gain.

Investment trading and timing

If possible, you might want to consider delaying a trade, if a potential sale would trigger a short-term gain (taxable at ordinary income rates), until a position has been held for a year and the same sale is now a long-term gain (taxable at more advantageous rates) especially if there is no equivalent offset or loss to the short-term gain.

Individuals

- The number of tax brackets remain the same; however, as they are every year, the 2024 tax brackets were adjusted to account for inflation.
- The standard deduction increased for individuals and couples to $14,600 and $29,200, respectively, for 2024.
- Personal exemptions will remain at $0.
- Itemized deductions:
  - State and property tax deductions are limited to $10,000 through 2025.
  - Miscellaneous itemized deductions have been suspended through 2025.
  - Personal casualty and theft loss deduction is suspended through 2025 except if the loss was due to an event officially declared a disaster by the President.
  - Medical expenses are deductible to the extent they exceed 7.5% of income for 2024. Mileage driven for health care purposes can be deducted at 21 cents per mile for 2024.
  - Mortgage interest expense incurred to purchase, build, or improve your principal residence and a second residence can be deducted up to $750,000 for debt incurred after Dec. 15, 2017 (joint filers) and up to $375,000 (separate filers).
  - Charitable contributions in 2024 and 2025 will be subject to a 60% AGI limitation.
- **Excess Business Loss (EBL)** – The EBL limitation took effect in the 2021 tax year-end, due to the Inflation Reduction Act (IRA), and it will remain in effect for a minimum of eight years. EBLs are calculated by determining the amount by which a taxpayer's aggregate trade or business deductions or losses exceed their gross trade or business income or gain. In 2024, the losses a taxpayer can take are limited to $305,000 for single filers and to $610,000 for joint filers. Any amount that exceeds the annual limit threshold can be carried forward as a net operating loss (NOL) that can be used to offset taxable income in the future. It is important to note that the EBL limitation is applied at the partner or shareholder level.
- **3.8% Net Investment Income Tax (NIIT)** – Taxpayers with Modified Adjusted Gross Income (MAGI) over $200,000 for single filers ($250,000 for joint filers, and $125,000 for married filing separately) may be subject to an additional 3.8% tax on top of whatever tax they owe on their investment income. This additional tax applies to individuals, estates, and trusts that have net investment income above the specified thresholds.
- **Child Tax Credit** – Taxpayers with kids under the age of 17 may be eligible to claim a tax credit up to $2,000 per qualifying dependent if your modified adjusted gross income is $400,000 or below (married filing jointly) or $200,000 or below (all other filers). For 2024 and 2025, $1,700 of the credit is potentially refundable.
- **Energy Efficiency Home Improvement Credit** – The amount of the credit is limited to a percentage of the total improvement expenses in the year of the installation. For 2023 through 2032, taxpayers can deduct 30% up to a maximum of $1,200 limit (heat pumps, biomass stoves and boilers have a separate credit limit of $2,000). Qualifying expenses that meet the requirements for the credit include exterior doors, windows, skylights and insulation materials, central air conditioners, water heaters, furnaces, boilers and heat pumps, biomass stoves and boilers.
- **Residential Energy Clean Property Credit** – For 2023 through 2032, the credit is limited to 30% of the total improvement expensed in the year of the installation, no annual maximum or lifetime limit. For the years

2033 and 2034, the credit is limited to 26% and 22% respectively. Qualifying expenses that meet the requirements for the credit include solar, wind and geothermal power generation, solar water heaters, fuel cells and battery storage.

- **Electric Vehicle Tax Credits** – If you place in service a new plug-in electric vehicle (EV) or fuel cell vehicle (FCV) in 2023 or after, you may qualify for this credit. The credit is available to individuals and businesses. To qualify for the credit, your modified adjusted gross income may not exceed $300,000 for married filing jointly, $225,000 for heads of households and $150,000 for all other filers. To qualify, a vehicle must have a battery capacity of at least 7 kilowatt hours, have a gross weight of less than 14,000 pounds, be made by a qualified manufacturer, undergo final assembly in North America, and meet critical mineral and battery component requirements.
  For vehicles placed in service between January 1 to April 17, 2023, the minimum credit will be $3,751, up to $7,500 total. For vehicles placed in service April 18, 2023 and after, the credit will be $3,750 if the vehicle meets the critical minerals requirement only, $3,750 if the vehicle meets the battery components requirement only, and $7,500 if the vehicle meets both.

- **Charitable Giving Options**:
  - **Contribution of appreciated property** – If you have owned the property, such as stocks, shares in mutual funds, or real estate for more than a year, you can deduct its full fair market value in most cases when you itemize. It can be up to 30% of your adjusted gross income.
  - **Charitable Qualified Distributions (CQD)** – Effective January 1, 2024, IRA owners who are 70 ½ and older are allowed to make cash contributions up to $105,000 directly from their IRA to approved public charities. CQD can count as RMDs, but they are not taxable, and they are not added to your AGI.
  - **Charitable Remainder Trusts (CRT)** – A type of trust where the grantor contributes assets to an irrevocable trust and that trust provides payments to an income beneficiary for a specific period of time. Any remaining assets would pass to one or more charitable beneficiaries, such as a family foundation or public or private charity. The grantor receives a deduction limited to the present value of the charitable organization's remainder interest.
  - **Donor-Advised Funds** – A separately identified fund that allows you to streamline your charitable giving. The individual donor makes the contribution and receives a tax deduction in the year of the contribution. If you own investments that have significantly increased in value, you pay no capital gains when the assets are liquidated, and you can recommend grants to the charities of your choice.

- **College Savings Options:**
  - **529 Plans** – A tax-advantaged savings plan designed to help pay for education. Contributions aren't deductible at the federal level, but some states offer tax breaks for contributing. In 2024, you can contribute up to $18,000 to a 529 plan ($36,000 as a married couple filing jointly) without gift-tax consequences. Also, up to $10,000 from 529 accounts can be used to help pay off college debt of the account beneficiary without having to pay income tax on the withdrawals and avoids the 10% penalty. This is a lifetime limit, not an annual limit. Starting in 2024, Section 110 of the SECURE Act of 2022, permits employers to match contributions to a qualified retirement plan based on employee student loan payments. For 2024, 529 plans provide families with flexibility and benefits when planning for education and retirement. You can rollover unused funds to Roth IRAs without penalties, and there are more options for using 529 funds.
  - **Prepaid Tuition Plan –** Tuition is guaranteed regardless of its cost at the time the beneficiary attends the school. Most prepaid tuition plans do not cover other expenses, such as room and board. If your child chooses not to attend a college covered by the prepaid tuition plan, although you will not get the benefit of guaranteed tuition, you can use the plan money to pay tuition at other colleges.
  - **College Savings Plan** -– Allows you to pay a student's expenses at most post-secondary educational institutions and in addition to tuition, funds can be used to cover fees, books, supplies, computer equipment, room, and board.

- **Health Savings Accounts (HSA)** – This pre-tax benefit helps you manage your health deductibles and out-of-pocket expenses and allows you to save for future health-related expenses. Contributions to HSAs are tax deductible, up to certain limits, and earnings inside an HSA build up tax-free for the account owner. The HSA contribution limits for 2024 are $4,150 for self-coverage and $8,300 for family coverage. Those 55 and older can contribute an additional $1,000 as a catch-up contribution. HSA contribution limits for 2025 are $4,300 for self-coverage and $8,550 for family coverage, and there is an additional $1,000 catch-up contributions for those 55 and older. To contribute to an HSA, you must be enrolled in an HSA-eligible health plan and meet the minimum allowable deductible, you must not be enrolled in Medicare, and you must not be claimed as a dependent on someone else's tax return.

- **Flexible Spending Accounts (FSA)** – Another pre-tax benefit account that allows you to cover eligible health care expenses if you plan to contribute what's necessary to cover those expenses by year's end. The annual contribution limit is $3,300 for plan years beginning on or after January 1, 2025. The FSA rollover maximum limit increased to $660. A dependent care FSA account is used to pay for dependent care services such as day care, preschool, and summer camps for children under the age of 13. The dependent care FSA annual contribution limit for 2025 will remain at $2,500 for those married and filing separately and $5,000 for those single or married filing jointly. Keep in mind, that health care FSA funds are typically subject to the "use it or lose it" rule. You must use all contributions within the year or forfeit the balance left on the account, with some exceptions. HSAs, meanwhile, do not have this rule.

Businesses

- **Purchases of Property and Equipment** – 60% bonus depreciation is available for 2024; it applies to new or used property purchased and placed in service by Dec. 31, 2024. It falls to 40% in 2025, 20% in 2026 and ends after 2026. Bonus depreciation can create a business loss. Qualified Leasehold Improvement Property is eligible for 60% bonus depreciation. The Section 179 deduction increased to $1,220,000 of qualified property; the deduction phases out if a business places over $3,050,000 of property in service during 2024. Section 179 applies to new and used property. Unlike bonus depreciation, Section 179 cannot exceed the business taxable income.

- **Update on K-2 and K-3 Filing Requirements** – Beginning with the 2021 tax year, all US partnerships and S corporations were required to complete and file new Schedules K-2 and K-3 with their business returns if they had foreign income. The new schedules were designed to help partnerships and S corps standardize the format for reporting U.S. international tax information to their partners. Businesses that meet certain requirements are not required to file either Schedules K-2 or K-3 with the IRS.

- **Consider the De Minimis Safe Harbor Election** – Electing the de minimis safe harbor allows you to deduct small-dollar expenses for the acquisition or production of property that would otherwise be capitalizable under general rules.

- **Qualified Business Income (QBI)** – Taxpayers other than corporations may qualify for a deduction of up to 20% of their QBI. This deduction is limited for individuals with taxable incomes exceeding $383,901 for married filing joint and $191,951 for all other filing statuses.

- **Net Operating Losses** — If you have significant losses arising in tax years ending after 2020, you can only carry these losses forward.

- **Methods of Accounting** — More businesses can use the cash method of accounting. This can be helpful for cashflow purposes and is generally easier to apply than the accrual method of accounting. There are qualifications that must be met, but we can help you understand if your business would benefit.

- **Sales and Use Tax Considerations** — States are continuing to make changes to their Sales and Use Tax laws and filing requirements following the U.S. Supreme Court ruling in South Dakota v. Wayfair, Inc. Please ask us how this case impacts your business.
- **More Deductions** — Many businesses are eligible to deduct accrued compensation liabilities such as bonuses and severance payments by the end of the year and paid within 2.5 months of year-end.

State Pass-Through Entity Tax

In response to the federal cap of $10,000 on the state and local tax (SALT) deduction passed in 2020, most states have enacted an option to have the passthrough entity (S corporations and partnerships) be taxed at the entity level. The elective tax allows passthrough entities to deduct state taxes for federal tax purposes, while providing a credit or income exclusion to the entity owners for state income tax purposes.

Maryland (new in 2020) – The rate is 8% on MD sourced income. Applies to both residents and nonresidents.
Virginia (new in 2021) – The rate is 5.75% and the PTET credit can be claimed on a resident or non-resident VA tax return and is refundable. Applies to tax years 2021 through 2025.

There are only four states with owner-level personal income tax on PTE income that have not yet enacted PTE taxes: DC, DE, ME and ND.

The Corporate Transparency Act and the Beneficial Ownership Reporting Requirement

IMPORTANT: January 1, 2025 Deadline Information Below

Beginning January 1, 2024, the Corporate Transparency Act requires many companies to report information to FinCEN (US Treasury Financial Crimes Enforcement Network) about the individuals who ultimately own or control them. FinCEN began accepting Beneficial Ownership Reports on January 1, 2024.

The information required is related to the company's beneficial owner/s – individuals who own or control the company. A beneficial owner is an individual who owns 25% or more of the company, or someone who exercises substantial control over the company, such as senior officers.

To learn more about this reporting requirement, including how to report, what must be reported, and penalties for failing to comply, go to https://www.fincen.gov/boi.

When Must This Information Be Reported?

- **If your company existed before January 1, 2024, it must file its initial beneficial ownership information report by January 1, 2025.**
- If your company was created or registered on or after January 1, 2024, and before January 1, 2025, then it must file its initial beneficial ownership information report within 90 calendar days after receiving actual or public notice that its creation or registration is effective.
- If your company is created or registered on or after January 1, 2025, you must file BOI within 30 calendar days after receiving actual or public notice that its creation or registration is effective.

Investing

Timing can have a dramatic impact on the tax consequences of your investment activities. As the end of the year approaches, you may want to take a closer look at your capital gains and losses and find out what you can do to potentially lower your taxes.

Tax-Loss Harvesting

Depending on multiple market factors, such as volatility, you may have unrealized losses. A popular strategy, particularly for long-term holdings, is to sell a portion of the losing position to realize some long-term losses. Realized losses offset capital gains thus decreasing your tax liability. Those realized losses do not expire and can be used against long-term capital gains when you retire or have an important event that requires you to realize some gains in your portfolio.

Tax-loss harvesting involves selling an asset when its market value is lower than its cost basis to generate a capital loss. Investing in active tax-loss harvesting strategy can automate this process for the investor by swapping like securities as index, markets, sectors, sub-sectors move up and down through normal daily trading. When tax-loss harvesting, it is important to consider the long-term versus short-term capital gain tax rates (20% maximum tax rate for long-term gain and 37% for short-term gain) and the potential additional 3.8% of net investment income tax. If your long-term capital losses are greater than your long-term capital gains, applying the excess loss to short-term capital gains will be beneficial since short-term gains are taxed at a higher federal income tax rate. Any harvested tax losses not offset by gains can offset up to $3,000 of other income and any excess net capital loss can be carried forward indefinitely.

Tax-Gain Harvesting

As an investor, in some circumstances, you can realize long-term capital gains with little or no impact to your taxes. The long-term capital gains rate applies to investments held for more than 12 months. The applicable rate depends on your income level and type of asset you've sold. If your annual pay fluctuates and you have taxable income of less than $47,025 ($94,050 for married filing jointly) in 2024, you fall into the 0% long-term capital gains tax bracket. In instances where your long-term capital gains tax bracket is higher, you can utilize tax-gain harvesting to offset losses as realized capital losses are netted against realized capital gains eliminating the capital gain taxes that might otherwise be due.

Another potential strategy is to sell an investment for a gain and use the proceeds to purchase the same stock and reset its cost basis (be aware of the wash-sale rule—see below). You will pay no tax on the current gain and the newly purchased stock will have a higher cost basis, potentially generating a lower gain when you sell it in the future. Unlike tax-loss harvesting, which can be done year-round, tax-gain harvesting is best implemented at year-end.

Wash-Sale Rule

The wash-sale rule prevents you from realizing a loss on a security if you buy a "substantially identical" security within 30 days before or after you sell the security that created the loss. When you sell an investment at a loss, avoid replacing it with a "substantially identical" investment 30 days before or after the sale date as this can lead to an unexpected result. You can avoid a wash sale if you sell the security and immediately buy securities offered by a different company in the same industry or shares in a mutual fund that holds securities like the ones you sold. The wash-sale rules apply to most investments including bonds, stocks, ETFs, mutual funds, and options. These rules do not apply to cryptocurrency in the US because the IRS views cryptocurrency as property. If you are unsure about the potential replacement investment, consult with your financial advisor.

Tax-Efficient Funds

Choosing investments with built in tax efficiencies, such as index mutual funds and index ETFs (exchange-traded funds) can help minimize returns lost to capital gains or forced distributions. ETFs may also offer an additional tax advantage, given the way their transactions settle, which allows them to avoid triggering certain capital gains.

Charitable Giving

If philanthropy is part of your investment goals, you can give in a way that can help lower your taxes. There are a few strategies that can maximize the efficiency of your giving, and one of them should be gifting investments—such as mutual funds, ETFs or individual stocks— instead of cash, if the organization allows. If these appreciate, you can minimize future capital gains taxes on the asset, and you can still receive a charitable deduction.

Additionally, you can donate up to $105,000* annually from your IRA directly to a qualified charity through a qualified charitable distribution, or QCD. As long as certain rules are met — such as you're at least age 70½ when making the gift, and the check is payable directly to the qualified charity — then the distribution shouldn't be taxable income.

*For married couples, each spouse can make QCDs up to the $105,000 limit for a potential total of $210,000.

Tax Lot Optimization

A tax lot is a record of the details of an acquisition of a security. Every time a security is purchased, it creates a new tax lot for that security. Each tax lot has a unique cost basis and holding period. There are different methods an investor can use to sell their securities. Tax lot optimization allows the investor to pick the specific lot they would like to sell. The goal is to sell the lot that either produces a lower capital gain or results in a tax loss which will reduce capital gains for that year.

Other tax-saving strategies

Tax-Efficient Energy Investments

Investing in natural gas limited partnerships can serve several different objectives, and the deductions accompanying natural gas interests may help to lower your overall taxes. Natural gas investing offers the following potential benefits:

Significant up-front deductions: Often, investors can take significant first-year income tax deductions for the intangible drilling and development costs associated with drilling the wells. Because a high percentage of your initial investment can go to pay these intangible costs, such deductions may be substantial, often exceeding 80 percent of the initial investment **and is often the primary reason to invest.**

Royalties from investment: A secondary benefit to this type of investment is that you will receive distributions (based on the pricing of natural gas) proportionate to your investment amount in the program so long as the underlying wells continue to generate energy and the company determines to keep doing so.

Definition of depletion allowance: The depletion allowance is a type of deduction for limited partners receiving income from investments in natural resources, such as natural gas. You are entitled to take annual deductions for the depletion of energy reserves to compensate you for the part exhausted in production.

Tax shelter (to some extent): If you take deductions for percentage depletion and intangible drilling costs, your otherwise taxable income (whether in the form of cash distributions from the natural gas program, or from other sources) will be sheltered to the extent of those deductions. It is possible that deductions for depreciation, interest, taxes, and operating expenses may flow through as well.

1031 Exchange

A 1031 Exchange is named after a section of the IRS code that allows for an investor to sell a property that they own, and then invest those proceeds into another property while deferring the taxable gains that would normally be paid on the sale of the property. The 1031 Exchange is a unique solution that offers our clients many benefits. It is one example of the many types of opportunities that only come from dealing with the entirety of your financial picture, from tax and accounting issues to financial planning and investments. If you are selling an investment property now or in the future, you might consider discussing this tax-deferral strategy with us. EagleStone can quarterback this process for you from start to finish.

Opportunity Zone Investing

Consider investing in an opportunity zone fund to defer capital gains tax on direct 2024 gains. The Qualified Opportunity Zone Program ("QOZ Program") is a tax-incentive program designed to encourage long-term private sector investments in designated communities known as Qualified Opportunity Zones by delivering certain tax benefits to investors through investment vehicles called Qualified Opportunity Funds. Qualified Opportunity Funds are investment vehicles that invest at least 90% of their assets in qualified businesses or real property located within these Qualified Opportunity Zones.

Retirement

Cash Balance Plans

A Cash Balance plan is a "hybrid" plan, blending the features of both a defined contribution and defined benefit plan. Some employers offer both a Cash Balance plan and a 401(k) plan, and this combination can really boost retirement savings and provide larger tax deductions. Cash Balance plans can help business owners to accelerate their retirement savings and realize significant annual tax deductions. Keep in mind that cash balance contributions reduce the owner's taxable income dollar for dollar and grow tax deferred.

Retirement Savings Options

- **401(k)/403(b) Plans** – These employer-sponsored retirement plans allow plan participants to contribute funds on a Pre-tax or Roth basis. Your employer may match some or all your contributions. The window to defer 2024 contributions to an employer plan typically closes at the end of the year.
- **Profit-Sharing Plan** – A defined contribution plan that allows discretionary employer contributions and flexibility in plan design. You generally can make deductible 2024 contributions as late as the due date of your 2024 income tax return, including extensions.
- **Roth IRA** – Contributions you make to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) aren't deductible, so there is no benefit for 2024, but qualified Roth distributions are completely free from federal income tax, making these retirement savings vehicles very appealing. You can make contributions until April 15, 2025.
- **Simplified Employee Pension (SEP)** – A Simplified Employee Pension is a defined contribution plan that provides benefits like those of a profit-sharing plan; however, depending on your situation, your contribution limit may be lower.
- **Is there a due date to adopt a Plan?**

  Fortunately, Section 201 of the SECURE Act allows for Profit Sharing, SEP, and Cash Balance plans to be adopted retroactively through the due date of the company's tax return. This allows time well into 2025 to consider whether one of these plans is an option for you for 2024. For employers with W-2 employees, this law does not apply to 401(k) or 403(b) Plans, as they must be adopted well before the end of the 2024 calendar year.
- **Retirement Funds Early Withdrawals** – Generally, withdrawal from an IRA or retirement plan before age 59½ is subject to a 10% early withdrawal tax on top of any income tax that ordinarily will be due on a withdrawal unless an exception applies.
- **Required Minimum Distributions (RMDs)** – Effective January 1, 2024, retired individuals 73 and older must begin taking annual required minimum distributions from their IRAs (except Roth IRAs) and from any defined contribution plans. Also effective January 1, 2024, the excise tax for failure to distribute the RMD timely was reduced to 25% from 50%. If 2024 is your first RMD year, you have until April 1, 2025, to take the RMD.

Implementing the Backdoor Roth Conversion

Contributions directly to a Roth IRA are subject to income limits. According to IRS rules, those with income exceeding $161,000 (single) and $240,000 (married filing jointly) cannot contribute directly to a Roth IRA. A backdoor Roth IRA is a Roth IRA that is created when those who cannot open Roth IRAs due to income limits convert their traditional IRAs into a Roth IRA.

If you have a traditional IRA, a partial or full conversion to a Roth IRA can allow you to contribute after-tax dollars to the account. Since the funds are already taxed, the funds and the interest they earn are not taxed further while they grow in the account or when they are withdrawn in retirement. 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.

Retirement plan contribution limits for 2024		
	Maximum Contribution	Catch-up Contribution
401(k)s, 403(b)s, 457s, and SARSEPs	$23,000	$7,500
Traditional and Roth IRAs	$7,000	$1,000
SIMPLE IRA	$16,000	$3,500
SEP	$69,000	Not permitted
Profit-sharing plan	$69,000	$7,500

Retirement plan contribution limits for 2025			
	Maximum Contribution	Over 50 Y.O. Catch-up Contribution	60-63 Y.O. Catch-up Contribution
401(k)s, 403(b)s, 457s, and SARSEPs	$23,500	$7,500	$11,250
Traditional and Roth IRAs	$7,000	$1,000	Not permitted
SIMPLE IRA	$16,500	$3,500	$5,000
SEP	$70,000	Not permitted	Not permitted
Profit-sharing plan	$70,000	$7,500	Not permitted

There are no income limits on making a Roth conversion, and contributions through the back door have the same annual maximum limits in 2024 as other IRAs ($6,500 for people under 50 and $7,500 for those 50 or older). Since contributions to the traditional IRA are pre-tax, meaning that they are not taxed at the time of contribution, you must pay taxes on the funds converted from your traditional IRA to a Roth IRA.

There are pros and cons of the Backdoor IRAs: **Pros** – tax-free growth and withdrawal, no required minimum distributions**. Cons** – no withdrawal for five years, the conversion of a traditional IRA to a Roth IRA will increase your taxable income, as the pre-tax portion of the converted funds is now part of your taxable income.

Whether a conversion makes sense for you depends on factors such as your age; whether the conversion would push you into a higher income tax bracket or trigger the 3.8% NIIT; whether you can afford to pay the tax on the conversion; your tax bracket now and the expected tax bracket in retirement; and whether you'll need the IRA funds in retirement.

Changes SECURE Act 2.0 – IRS Guidance for Retirement Plans

- **401(k) Plan Long-Term Part-Time Employees** – Under the original SECURE Act, 401(k) plans are required to allow long-term part-time (LTPT) employees to participate if they have three consecutive years and a minimum of 500 hours. This rule is effective January 1, 2024, and will typically apply to plans that have an hours component to eligibility that part-time employees will never meet. The employer must review calendar years 2022, 2023, and 2024. If the employee worked at least 500 hours in each of the three calendar years, they must be provided the opportunity to participate. If they are entering the plan as a LTPT employee, they are not eligible for company-provided contributions.

- **Start-Up Tax Credit for New Plans** – Effective January 1, 2023, to ease the burden for small businesses adopting defined dontribution plans, a substantial new startup tax credit was created for plans based on contributions the employer makes on behalf of participants and expanded the existing startup tax credit on employer plan costs. There are limitations dependent upon the number of employees and compensation earned.
- **Student Loan Payment Matching** – Effective January 1, 2024, employers are permitted to make matching contributions to an employee's 401(k) per their plan provisions when an employee makes a student loan repayment, thus enabling the employee to pay off their student loan and save for retirement at the same time. This is not a mandatory provision.
- **Automatic Enrollment Requirement New Plans** – Effective January 1, 2025, employers that adopt new retirement plans may be required to automatically enroll eligible employees into their retirement plan at a rate of at least 3% but no more than 10%. Employees who prefer not to participate can opt out. New companies in business for less than three years and businesses with 10 or fewer employees are excluded from this requirement.

Estate Planning

Ensure your loved ones are provided for after you're gone and that your assets are passed on according to your wishes. The Tax Cuts and Jobs Act (TCJA) implemented high exemptions for estate, gift and generation skipping transfer (GST) taxes, but these exemptions are temporary. On January 1, 2026, the exemption is scheduled to automatically reset (or sunset) to $5,000,000, indexed to inflation (this could be approximately $7,000,000 for individuals; $14,000,000 for couples), unless Congress acts prior to year-end 2025. Whether or not you are subject to estate taxes under current exemptions, it may be good to consider opportunities to potentially save some taxes today.

Estate Tax – The estate and gift tax exemption will increase from $13.61 million (2024) to $13.99 million (2025). This means that in 2025 a married couple can shield a total of $27.98 million without having to pay any federal estate or gift tax.

Gift Tax – Any gift tax exemption used during your lifetime reduces the estate tax exemption available at death. Under the annual exclusion, you can exclude gifts of up to $18,000 per recipient in 2024. This limit will increase to $19,000 in 2025. For a married couple, this means that they can give $38,000 per year per recipient beginning in 2025 without having to file a gift tax return. You must file a gift tax return if you gifted $18,000 or more to someone (other than to your spouse). You must also file a gift tax return if you paid premiums of a life insurance trust.

Grantor Retained Annuity Trust (GRAT) – A GRAT allows you to transfer your assets to your children today, removing them from your taxable estate at a reduced gift tax cost; you receive payments back from the trust for a specified term. At the end of the term, the principal may pass to the beneficiaries or remain in the trust.

Spousal Lifetime Access Trust (SLAT) – A planning strategy in which an irrevocable trust is created by one spouse for the benefit of the other during their lifetime. The one spouse makes a gift into the trust while removing the assets from their combined estates. Married couples may be interested in making large, permanent gifts to reduce the size of their estate. The donor may also elect to include other family members (typically children and grandchildren) as beneficiaries. The donor's transfer of assets into the SLAT is considered a taxable gift, but tax may not be owed if the donor utilizes their gift and estate tax exclusion. Transferring assets to a SLAT may be a good strategy for individuals who reside in states with a state estate tax.

Special Power of Appointment Trust (SPAT) – An irrevocable trust in which you grant a special power of appointment to a spouse or trusted friend. This person has the power to direct the trustee to make distributions to you. The trust assets are removed from your estate, and so long as you are neither a trustee nor a beneficiary, the assets will be protected against creditors' claims.

Qualified Terminable Interest Property (QTIP) – A planning option if you are remarried and have older children from your first marriage. This trust allows the grantor to set aside assets for a surviving spouse while still having control over what happens to those assets once they pass away. In a QTIP trust, your spouse is a lifetime beneficiary, as they're able to draw on trust income during their lifetime. The people who receive the assets held in the trust once the surviving spouse passes away are called remainder beneficiaries. These beneficiaries may be children from a previous relationship or anyone else you would like to inherit your assets.

Election 2024

President-Elect Donald Trump has put forward a wide range of different tax proposals during his Presidential campaign. Below are a few key takeaways:

Trump Tax Plan:

- Extending the temporary provisions in Trump's 2017 tax law (Tax Cuts and Jobs Act) that will otherwise expire at the end of 2025, except for the $10,000 cap on State and Local Tax (SALT) deductions.
- Exempting certain types of income from taxes (overtime pay, tips and Social Security benefits).
- Reducing the corporate tax rate from 21 percent to 20 percent and then further reducing it to 15 percent for "companies that make their product in America."
- Repealing tax credits enacted as part of President Biden's Inflation Reduction Act that provide incentives for the production and use of green energy.
- Imposing a new 20 percent tariff on imported goods, with a higher rate of 60 percent for goods from China.
- Eliminating taxes on firefighters, police officers and members of the military.
- Providing a tax credit for family caregivers taking care of parents or loved ones.
- Allowing those who buy a car that was made in the U.S. to write off the interest on their car loans.

2024 – 2025 Tax Rates

Standard Deduction	2024	2025
Filing Status		
Single or Married Filing Separately	$14,600	$15,000
Head of Household	$21,900	$22,500
Married Filing Jointly	$29,200	$30,000

2024 Estates and Trusts		2025 Estates and Trusts	
Rate %	Tax Brackets	Rate %	Tax Brackets
10%	$0 - $3,100	10%	$0 - $3,150
24%	$3,101 - $11,150	24%	$3,151 - $11,450
35%	$11,151 - $15,200	35%	$11,451 - $15,650
37%	over $15,200	37%	over $15,650

2024 Individual Income Tax Rate Schedule				
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

2025 Individual Income Tax Rate Schedule				
Rate %	Single	Head of Household	Married filing jointly or surviving spouse	Married filing separately
10%	$0 - $11,925	$0 - $17,000	$0 - $23,850	$0 - $11,925
12%	$11,926 - $48,475	$17,001 - $64,850	$23,851 - $95,950	$11,926 - $48,475
22%	$48,476 - $103,350	$64,851 - $103,350	$95,951 - $206,700	$48,476 - $103,350
24%	$103,351 - $197,300	$103,351 - $197,300	$206,701 - $394,600	$103,351 - $197,300
32%	$197,301 - $250,525	$197,301 - $250,500	$394,601 - $501,050	$197,301 - $250,525
35%	$250,526 - $626,350	$250,501 - $626,350	$501,051 - $751,600	$250,526 - $375,800
37%	Over $626,351	Over $626,350	Over $751,601	Over $375,800

2024 Long-Term Capital Gains Tax Rate Schedule					
Rate %	Single	Head of Household	Married filing jointly or surviving spouse	Married filing separately	Estates and Trusts
0%	$0 - $47,025	$0 - $63,000	$0 - $94,050	$0 - $47,025	$0 - $3,150
15%	$47,026 - $518,900	$63,001 - $551,350	$94,051 - $583,750	$47,026 - $291,875	$3,151 - $15,450
20%	Over $518,900	Over $551,350	Over $583,750	Over $291,875	Over $15,450

2025 Long-Term Capital Gains Tax Rate Schedule					
Rate %	Single	Head of Household	Married filing jointly or surviving spouse	Married filing separately	Estates and Trusts
0%	$0 - $48,350	$0 - $64,750	$0 - $96,700	$0 - $48,350	$0 - $3,250
15%	$48,351 - $533,400	$64,751 - $566,700	$96,701 - $600,050	$48,351 - $300,000	$3,250 - $15,900
20%	Over $533,400	Over $566,700	Over $600,050	Over $300,000	Over $15,900

We are here to help you

The above highlights some of the key year-end tax planning areas for consideration along with changes from the various legislative Acts. Since all these provisions together can be complex, we suggest that you speak with your tax advisor about which strategies may work for your specific case. It is also helpful that an analysis be performed using tax software to calculate your approximate 2024 tax liabilities between now and the end of the year.

Please visit our website at www.estwa.com for more information and contact our office if you have any specific questions or need further guidance. Call us at (301) 924-2160 or reach out to any member of the EagleStone tax team directly. We appreciate the opportunity to be of service to you.

DISCLOSURES

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication (including any attachments) was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any matter addressed herein.

Securities offered through Emerson Equity LLC, member FINRA and SIPC. Financial Planning, Wealth Management and Tax Services offered through EagleStone Tax & Wealth Advisors, Inc. Financial Planning, Investment and Wealth Management services provided through EagleStone Wealth Advisors, Inc. Tax and Accounting services provided through EagleStone Tax & Accounting Services. Emerson Equity and EagleStone are not affiliated entities

Not an offer to buy, nor a solicitation to sell securities. All investing involves risk of loss of some or all principal invested. Past performance is not indicative of future results. Speak to your finance and/or tax professional prior to investing. Any information provided is for informational purposes only.

For more information on Emerson Equity, please visit FINRA's BrokerCheck website. You can also download a copy of Emerson Equity's Customer Relationship Summary to learn more about their role and services. Only available in states where Emerson Equity LLC is registered. Emerson Equity LLC is not affiliated with any other entities identified in this communication.

1031 Risk Disclosure

Delaware Statutory Trust (DST) investments are subject to the various requirements and restrictions of Section 1031 of the United States Internal Revenue Code. IRC Section 1031, IRC Section 1033, and IRC Section 721 are complex tax codes; therefore, you should consult your tax and legal professional for details regarding your situation. Past performance is not a guarantee of future results. Diversification does not guarantee profits or protect against losses. Investments are only available to "accredited investors" as defined by the Securities and Exchange Commission. There is no guarantee that any strategy will be successful or achieve investment objectives. **Potential for property value loss:** All real estate investments have the potential to lose value during the life of the investments. **Change of tax status:** The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities. **Potential for foreclosure:** All financed real estate investments have potential for foreclosure. **Illiquidity**: Because 1031 exchanges are commonly offered through private placement offerings and are illiquid securities, there is no secondary market for these investments. **Reduction or Elimination of Monthly Cash Flow Distributions:** Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions. **Impact of fees/expenses:** Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits.

<u>Opportunity Zone Disclosures</u>

Investing in opportunity zones is speculative: Opportunity zones are newly formed entities with no operating history. There is no assurance of investment return, property appreciation, or profits. The ability to resell the fund's underlying investment properties or businesses is not guaranteed. Investing in opportunity zone funds may involve a higher level of risk than investing in other established real estate offerings. **Long-term investment:** Opportunity zone funds have illiquid underlying investments that may not be easy to sell and the return of capital and realization of gains, if any, from an investment will generally occur only upon the partial or complete disposition or refinancing of such investments. **Limited secondary market for redemption:** Although secondary markets may provide a liquidity option in limited circumstances, the amount you will receive typically is discounted to current valuations. **Difficult valuation assessment:** The portfolio holdings in opportunity zone funds may be difficult to value because financial markets or exchanges do not usually quote or trade the holdings. As such, market prices for most of a fund's holdings will not be readily available. **Capital call default consequences:** Meeting capital calls to provide managers with the pledged capital is a contractual obligation of each investor. Failure to meet this requirement in a timely manner could elicit significant adverse consequences, including, without limitation, the forfeiture of your interest in the fund. **Leverage:** Opportunity zone funds may use leverage in connection with certain investments or participate in investments with highly leveraged capital structures. Leverage involves a high degree of financial risk and may increase the exposure of such investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the assets underlying such investments. **Unregistered investment:** As with other unregistered investments, the regulatory protections of the Investment Company Act of 1940 are not available with unregistered securities. **Regulation:** It is possible, due to tax, regulatory, or investment decisions, that a fund, or its investors, are unable realize any tax benefits. You should evaluate the merits of the underlying investment and not solely invest in an opportunity zone fund for any potential tax advantage.