Your Tax Planning Checklist for 2024

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At BakerAvenue, we understand the importance of considering all the options when it comes time to prepare for a new year and a new tax season. That's why we've consolidated some of our tax expertise into this handy checklist guide to assist with your planning. Find valuable insights about retirement accounts, charitable contributions, estate and gift planning, and more.

Retirement Accounts

Retirement accounts can represent a substantial portion of your savings—so it makes sense to understand actions you can take to help maximize your income when you are ready to retire.

Here are five approaches you might want to consider that may optimize retirement savings:

1. Mega Backdoor Roth Contributions Using Your Company 401(k)
Assuming that full tax-deductible contributions have been maximized, consider making post-tax contributions to your 401(k) account and immediately converting those post-tax contributions to a Roth IRA account where they will grow tax-free forever and won't be subject to Required Minimum Distributions (RMDs). Your 401(k) plan must allow post-tax contributions in order to carry out the Mega Backdoor Roth strategy. The maximum contribution (pre- and post-tax) to a 401(k) for 2024 is $69,000 and $76,500 (if over 50). These maximums take into consideration all pre-tax (deductible) employee contributions, employer match and employee post-tax (non-deductible) contributions to the plan. View Here's a Mega Strategy to Turbo-Charge Your Retirement Savings for more details.

2. Fund Roth IRA Accounts
Roth IRAs can grow tax-free indefinitely and can be accessed free of tax in retirement. Contributions can be made up to $7,000 for 2024 from earned income (with a $1,000 catch up contribution if over 50 years old). Roth contributions are subject to income limits ($161,000 if filing single for 2024 and $240,000 for MFJ). Due to the income restrictions, direct Roth contributions may only be relevant for younger, lower-earning taxpayers.

3. Convert Traditional IRA Accounts to Roth IRAs
Convert Traditional IRAs to Roth IRAs accounts where they can grow tax-free indefinitely, as no Required Minimum Distributions (RMDs) are required for Roth IRA accounts. Roth conversions work best in years with lower total income. Unlimited amounts can be converted to Roth under this strategy, however the conversion is considered a taxable event.

4. "Backdoor" Roth IRA Conversion
Consider a backdoor Roth Conversion where income exceeds the direct Roth contribution limits. Make contributions to a Traditional IRA on a post-tax (non-deductible) basis, then convert that Traditional IRA contribution to a Roth IRA. Because of the Pro-Rata Rule, this strategy may not be appropriate for those clients with significant existing pre-tax IRA accounts, such as rollovers.

5. Separate pre-tax and post-tax IRAs accounts
Roth conversion strategies may be less effective where there are both pre-tax and post-tax funds within the same IRA account or across different accounts. Contribute the pre-tax portion of IRA account(s) to an "active participant" employer plan, such as a 401(k), and then convert the clean post-tax remainder(s) to a Roth IRA. Both transactions can be achieved on a tax-free basis.

Here are a few additional considerations to help with your 2024 retirement account tax planning:

- [ ] **Traditional IRA contributions may be fully deductible**
Where the taxpayer or the taxpayer's spouse are covered by a qualified plan with an employer, the deductibility of the contribution may be limited or lost entirely. The deduction for the contribution starts to be limited at modest income levels ($77,000 for 2024 if single, $123,000 if MFJ). In such situations, consider the Backdoor Roth conversion strategy in number 4 above. Where neither of the spouses are covered by a plan at work, contributions can be made on a fully deductible basis, regardless of income.

- [ ] **Married taxpayers each can contribute to their own IRA**
For those filing joint returns, there is no earned income requirement for IRA contributions made by a nonworking spouse if the earned income of the couple exceeds the combined IRA contribution amount. Such contributions are also subject to the income limits when assessing their deductibility.

- [ ] **From 2020 onwards, the age limit on IRA contributions is removed**

Charitable Contributions

Charitable contributions are important to many of us as a way to support causes that we care about as well as create a living legacy. Tax benefits can provide an extra incentive for us to do so—you'll want to be sure to take advantage of these to realize the maximum benefit. Here are four approaches to consider:

1. Contribute highly appreciated assets (stocks)
Contribute to charity to avoid paying capital gains and receive tax deductions. Such contributions also remove assets from the taxable estate.

The tax deduction will be equal to Market Value of the stocks, even if there is very low, or no, tax basis. The tax deduction may be limited to 30% of adjusted gross income (AGI); however, any unused deduction in the year may be carried forward for five years.

2. Contribute cash to a public charity
For 2024, up to 60% of AGI can be deducted if paid in cash to a public charity.

3. Make use of Qualified Charitable Distributions (QCDs)
Due to the large Standard Deduction ($32,300 for MFJ 2024) if both spouses are over 65 years old, charitable donations claimed as itemized deductions are often not tax-effective.

In these circumstances, it is more beneficial to make a yearly QCD from your IRA to a public charity if you are over 70.5 years old. Such QCDs count towards meeting your RMDs for the year and transfer highly taxed ordinary income to the charity without creating taxable income for you. There is a limit of $100,000 per year for a QCD.

4. Consider using Charitable Trusts to sell highly appreciated assets
This allows you to achieve capital gains tax deferral when selling appreciated assets, create a long-term income flow for yourself and your heirs, favor selected charities, and take advantage of an up-front income tax deduction that you can use over six years.

Income Tax Planning - Capital Gains Tax

Capital gains tax can end up impacting your investment portfolio income in big ways. Here are some strategies to consider in order to minimize this impact, maximum your investment returns and share your wealth with heirs and your favorite charities:

- [ ] **Harvest unrealized capital losses**
Stock sitting at an unrealized loss can be sold, creating a tax loss, and be used to off-set realized taxable gains. Such strategies need to consider the Wash Sale rules.

- [ ] **Defer tax on capital gains by investing proceeds into a Qualified Opportunity Zone Fund**
Capital gains from any investment can be deferred until April 2027 if reinvested into a Qualified Opportunity Zone Fund. Furthermore, the Federal tax on the gains within the Fund can be 100% eliminated if held for 10 years. Capital gains must be reinvested within 180 days of the date realized.

- [ ] **Establish installment sale agreements**
Push tax liability further into the future by “stretching” the receipt of proceeds into the future. This is particularly appropriate for an existing business.

- [ ] **Rollover real estate**
Gains from rental real estate may be fully deferred by investing the proceeds into a new rental using a Section 1031 Rollover or a 1031 Fund.

- [ ] **Section 83(b) election with pre-IPO options grants**
If a Section 83(b) election is filed within 30 days of the option grant date, the option compensation element would be taxed at ordinary income tax rates. However, this can allow a higher percentage of the future stock appreciation to be taxed at favorable long-term capital gains tax rates.

Concentrated Stock Positions

Having one company’s stock represent a large portion of a portfolio can put investors in a riskier position over the long term. Here are some tactics to consider with a concentrated stock position.

- [ ] **Use Long-Term Capital Gains preferential rate**
The capital gains tax bracket rate is 15% up to $583,750 total income for MFJ in 2024. It is 20% where taxable income is above those thresholds.

- [ ] **Manage positions and stock exercises strategically**
With incentive stock options (ISOs), actively manage Alternative Minimum Tax (AMT) generation on stock exercises and plan to re-coup AMT credits as soon as possible.

☐ **Out-right gifts to charity of appreciated stock**
Receive an upfront tax deduction equal to Market Value of the stock. This is subject to a 30% AGI limitation, with a five-year carry-forward of any unused deduction.

☐ **Contribute appreciated stock to a Donor Advised Fund**
Receive an upfront tax deduction equal to Market Value of the stock. Subject to 30% AGI limitation, with 5-year carry-forward of any unused deduction.

☐ **Transfer appreciated stock to a Charitable Remainder Trust**
Realize gains within the Trust on a tax-free basis. The gross value of transferred assets can be sold and reinvested in a diversified portfolio without up-front capital gains. The diversified portfolio creates an annuity stream for up to 20 years, or for the life of the donor. Remainder interest goes to charity at end of Trust term and attracts a partial up-front income tax deduction. AGI limits apply to the tax deduction, any unused deduction can be carried forward 5 years.

Medical Expenses

With rising costs of health care, higher premiums and deductibles, it's important to understand ways to reduce the financial impact through these deductions and tax-beneficial accounts.

1. Deduct all possible medical costs and use a Health Savings Account
Most medical costs often fail to be deducted because of the 7.5% AGI hurdle that applies under Schedule A – Itemized Deductions. Consider a Health Savings Account (HSA), contributions to which are tax deductible, above the line, as an adjustment to income. HSAs can only be used in conjunction with a High Deductible Health Plan.

2. Medical expenses of a Dependent
Such expenses may be deducted on Schedule A, including Long-Term Care (LTC) expenses of a Dependent if they are not capable of self-care. A Dependent is someone that you can claim on your tax return because you pay for more than half of their living expenses.

3. Deduct Long-Term Care (LTC) Insurance
The LTC premium deduction is up to $5,880 in 2024 if over 70 years old. Amounts received under the contract (other than dividends) are excluded in most cases from taxable income when used to fund care (note: employer paid contracts are taxable). Payments received do not count towards income for Medicare premium purposes.

4. Use Achieving a Better Life Experience (ABLE or Disability) accounts
With a $18,000 annual contribution limit, these accounts grow tax-free. Up to $100,000 value in the account won't be considered for Supplement Security Income or Medicaid. Distributions are tax-free if used for a qualifying purpose, which is interpreted widely.

Education

Education costs typically represent a major expenditure. With the cost of education continually increasing, understanding ways to utilize available tax-benefited accounts and tax credits is important.

Use 529 accounts
With no income restrictions, these accounts allow tax-deferred growth with no tax on distributions when used for qualifying purposes, including tuition, fees, books, supplies and equipment as well as room and board. They can also be used to pay private school tuition for K1 through 12th grade, up to $10,000 per year for the beneficiary, and most student loan debt up to $10,000 lifetime. New York and Connecticut provide state tax deductions of up to $10,000 (MFJ) per year on 529 contributions. There is no deduction in California.

Use American Opportunity Credit (AOC) and Lifetime Learning Credit (LLC) tax credits
Qualified education expenses include tuition, books and enrollment fees. Credit of up to $2,500 per student for AOC and $2,000 per return for LLC is available. The income limit is $160,000 MFJ and $80,000 single. The AOC and LLC cannot be claimed by the same student in the same tax year.

Deduct student loan interest
Student loan interest is deductible up to a maximum of $2,500 per annum for 2024. Income limits apply – for 2024, no deduction may be taken where AGI exceeds $195,000 (MFJ) and $95,000 (Single).

Permanent Life Insurance

You can borrow against your life insurance without any tax consequences during your lifetime. This won't result in an increase in Medicare premiums as borrowing is not taxable. Returns within the policy grow tax-free. Life insurance proceeds are paid free of income tax and are estate tax-free if received by a person other than the decedent's estate.

Estate and Gift Tax Planning

The estate and gift tax exemption amounts are $13.61M per person in 2024. However, these amounts are due to be reduced to approximately $6M per person, effective 1/1/2026.

Strategies that can help to minimize the estate and gift tax include:

- [ ] **Fully utilize the historically high Lifetime Unified Gift/Estate Tax exemption**
- [ ] **Use the Annual Gift Tax Exclusion amount**
  $18,000 per individual recipient of a gift in 2024.
- [ ] **Charitable gifts of cash**
  For 2024, gifts of cash to public charities would be deductible up to 60% of AGI. The AGI limitation for cash gifts to a Donor Advised Fund remains 60%. All gifts to charity remove the asset permanently from the donor's estate without estate or gift tax consequences.
- [ ] **Charitable gifts of appreciated property**
  These are deductible at Market Value for stocks and real estate, subject to the 30% AGI limitation.

- [ ] **Direct gifts of tuition and medical expenses**
  These are not taxable gifts and no limit applies.

- [ ] **Inter-generational loans**
  These can be made free of gift tax. Interest can be funded using the annual gift tax exclusion of $18,000 in 2024.

Trust and Partnerships

- [ ] **Qualified Personal Residence Trust**
  This compresses the Gift Tax transfer valuation due to the carve-out of the right to reside in the property. The donor must survive the trust term to be effective. This is gift tax-efficient.

- [ ] **Grantor Retained Annuity Trust (GRAT)**
  This is an option for those who want asset growth to pass to the next generation free of gift / estate tax The donor transfers assets that are likely to appreciate to a GRAT, but retains an annuity from the assets. The appreciation of the assets while in the Trust goes to the donor's heirs after the Trust term, free of Gift / Estate Tax. This is gift tax-efficient.

- [ ] **Charitable Remainder Trust (Split Interest)**
  Charitable Remainder Trusts (CRTs) are effective vehicles for recognizing gains on appreciated assets tax-efficiently. CRTs defer capital gains tax over the Trust term, create an annuity for the donor from Trust assets and allow an up-front tax deduction for the remainder interest going to charity.

- [ ] **Charitable Lead Trust (Split Interest)**
  This allows a charity to receive an annuity from the Trust during the Trust term. The growth in the Trust assets during the life of the Trust can pass to heirs / beneficiaries free of gift tax.

- [ ] **Family Limited Partnership (FLP)**
  For those who wish to transfer business assets to the next generation, FLPs allow a discounted transfer value for Gift tax purposes, while still retaining substantial operating control for the donor.

- [ ] **Irrevocable Life Insurance Trust**
  Life insurance proceeds add to the insured's estate (and estate tax) if owned directly by the decedent. Life insurance contracts should instead be held by a Life Insurance Trust with the insured's family as beneficiary.

Business Planning

Businesses large and small have unique considerations when it comes to retirement planning and tax planning.

Retirement Contributions

Solo 401(k) Plan
Solo 401(k) plans allow for a tax-deductible pension contribution for business owners of up to $76,500 for those over 50 and $69,000 for those under 50. This applies to 1099s, S-Corps, LLCs, Schedule C businesses. Employees are not eligible.

SEP (Simplified Employee Pension Plan) IRA
Up to $69,000 may be contributed to an SEP IRA. Only the employer contributes up to the lesser of 25% of each eligible employee compensation and $69,000. Must include all eligible employees.

Defined Benefit / Cash Balance Plan
100% of taxable income may be contributed up to $275,000 per year to this plan in 2024. This must cover all eligible employees working > 1 year. The owner usually captures approximately 80% of contribution benefits. Profit-share requirements can be modest. Defined Benefit plans are complex trust based vehicles, with annual costs (~$10K), and require actuarial valuations.

- [ ] **Depreciation - Plant and equipment expenditures**
  The 2017 TCJA significantly expanded tax write-offs for qualifying expenditures on plant and equipment through first year Special Depreciation (Section 179) and Bonus Depreciation (Section 168).

- [ ] **Net Operating Losses (NOLs)**
  The CARES Act of 2020 introduced a five-year carry-back for Net Operating Losses (NOLs) generated in years 2018 through 2020. This NOL carry-back ability, combined with the removal of the Excess Business Loss provisions for tax years beginning before 2021, presents planning opportunities for those with NOLs or who may be able to generate losses due to depreciation write-offs.

Qualified Business Income (QBI) Deduction
Pension contributions and charitable donations are not only tax-deductible in themselves, but can bring in a secondary benefit by lowering taxable income for business owners who are above the Qualified Business Income (QBI) deduction thresholds. When business income is lowered through pension and charitable contributions, the QBI 20% deduction may get turned on – effectively one tax deduction can lead to a secondary deduction. This additional benefit is particularly relevant where the business is a Specified Service, such as in healthcare and legal practices.

The new year brings new opportunities for implementing tax strategies. This checklist can give you a starting point for what to consider. We at BakerAvenue can help you navigate through the complexities of tax planning and are committed to helping you through life's transitions. Contact us to start the conversation.

Helping You Embrace Life's Transitions.

Since 2004, BakerAvenue has guided clients through personal and professional transitions. Our firm provides comprehensive wealth management and investment expertise for high-net-worth individuals, families, trusts, foundations and endowments. We're headquartered in San Francisco with offices nationwide.

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