

TAKE CHARGE OF YOUR TAXES

*KNOWLEDGE
YOU MIGHT
CONSIDER FOR
PROACTIVE
PLANNING*



WAYS TO AVOID SURPRISES AT TAX TIME – TAKE A LOOK
AT THE CHANGES THAT COULD AFFECT YOUR RETURN.





Every year, slight adjustments are made to tax laws, and taxpayers have to figure out whether, and how, those changes affect their own situation. This year is no different.

Following President Joe Biden's election, policymakers have grappled with proposals to increase taxes. While most of the proposed tax increases were not included in the 2022 Inflation Reduction Act, advocates of raising taxes on higher earners and businesses can be expected to continue to make their case.

Under the Tax Cuts and Jobs Act (TCJA), passed in December 2017, many changes pertaining to individual tax returns are scheduled to end Dec. 31, 2025. At that time, they would revert to the 2017 tax code, unless Congress decides otherwise.

HOW COULD THE EXPIRATION OF EXISTING TAX LAWS AFFECT YOU?

The impact of provisions scheduled to expire Dec. 31, 2025:¹

- The top tax bracket increases to 39.6% (from the current 37%). This affects individual taxpayers, estates and trust income.
- The 12%, 22% and 24% individual income tax rates will increase.
- The unified estate and gift tax deduction, valued at \$12.92 million per individual in 2023 (almost \$26 million for a married couple) will be cut approximately in half.
- The ability to use some lifetime gifting strategies will be reduced, due to a reduction in the lifetime gift tax exemption expected to begin on Jan. 1, 2026, or earlier.
- The ability to implement some estate planning and wealth transfer strategies upon death will be significantly reduced, due to a reduction in the estate tax exemption expected to begin on Jan. 1, 2026, or earlier.

INDIVIDUAL TAX BRACKETS

In 2024, there are still seven income tax brackets, although the limits have adjusted slightly within each bracket.

| 2024 TAX BRACKETS ² | | | |
|--------------------------------|--|--|---|
| TAX RATE | For Single Individuals, Taxable Income | For Married Individuals Filing Joint Returns, Taxable Income | For Heads of Households, Taxable Income |
| 10% | Up to \$11,600 | Up to \$23,220 | Up to \$16,550 |
| 12% | \$11,601 to \$47,150 | \$23,221 to \$94,300 | \$16,551 to \$63,100 |
| 22% | \$47,151 to \$100,525 | \$94,301 to \$201,050 | \$63,101 to \$100,500 |
| 24% | \$100,526 to \$191,950 | \$201,051 to \$383,900 | \$100,501 to \$191,950 |
| 32% | \$191,951 to \$243,725 | \$383,901 to \$487,450 | \$191,951 to \$243,700 |
| 35% | \$243,726 to \$609,350 | \$487,451 to \$731,200 | \$243,701 to \$609,350 |
| 37% | \$609,351 or more | \$731,201 or more | \$609,351 or more |

WHAT COULD THIS MEAN FOR YOU?

Our tax system is progressive, so the more you make, the higher the tax rate on each block of subsequently higher income. In other words, even if your total income falls in a higher tax bracket, you won't pay that rate on *all* of your income. For example, a single person earning \$250,000 in 2024 would pay the following rates (assuming there are no adjustments for deductions, credits, etc.):

| | | |
|--|----------|-----------------|
| 10% on the first \$11,600 | = | \$1,160 |
| 12% on the next \$35,550 (\$47,150 - \$11,600) | = | \$4,266 |
| 22% on the next \$53,375 (\$100,525 - \$47,150) | = | \$11,743 |
| 24% on the next \$91,425 (\$191,950 - \$100,525) | = | \$21,942 |
| 32% on the next \$51,775 (\$243,725 - \$191,950) | = | \$16,568 |
| 35% on the next \$6,275 (\$250,000 - \$243,725) | = | \$2,196 |
| TOTAL TAX (unadjusted) | = | \$57,875 |



INFLATION ADJUSTMENTS

The IRS adjusts the income tax brackets for inflation. Before 2018, the tax code used the consumer price index for all urban consumers (CPI-U) to make cost-of-living adjustments. Now, the new tax code uses the C-CPI-U.

The CPI-U measures price changes on commonly purchased items. The C-CPI-U refers to a “chained” index. The chained index assumes that when prices rise on commonly purchased items, many customers will swap out those items for lower-priced ones. For example, they may purchase turkey when chicken prices increase. This means the overall cost of inflation is less likely to impact those consumers, and that is the rate of inflation that the C-CPI-U tracks.³

WHAT COULD THIS MEAN FOR YOU?

Employers generally provide annual salary increases based on the CPI-U. Because the IRS now uses the C-CPI-U, the income brackets that determine tax rates will not rise as quickly as taxpayer salaries. Over time, this will land more taxpayers in higher rate brackets — a phenomenon known as “bracket creep.”

STANDARD DEDUCTION, PERSONAL EXEMPTIONS AND CHILD CREDIT

In 2018, the standard deduction nearly doubled for each tax filer status. However, personal exemptions were eliminated altogether, although there is still an additional standard deduction if you are age 65 or older or legally blind. One buffer for this is that the child credit increased from \$1,000 to \$2,000 per qualifying child, and there is a \$500 credit for other qualifying dependents, such as an elderly parent (The American Rescue Plan Act of 2021 expanded the Child Tax Credit for tax year 2021 only.) These credits will not adjust for inflation going forward, and they are not available for single taxpayers whose income exceeds \$200,000, or married households filing jointly with income that exceeds \$400,000.⁴

WHAT COULD THIS MEAN FOR YOU?

On the next page are examples of some of the deductions and exemptions that may apply to your situation.





HEAD OF HOUSEHOLD⁵ ONE QUALIFYING CHILD

| | 2024 |
|---------------------|----------|
| STANDARD DEDUCTION | \$21,900 |
| PERSONAL EXEMPTIONS | \$0 |
| CHILD CREDIT | \$2,000 |
| TOTAL ADJUSTMENT | \$23,900 |

SINGLE

| | 2024 |
|---------------------|----------|
| STANDARD DEDUCTION | \$14,600 |
| PERSONAL EXEMPTIONS | \$0 |
| CHILD CREDIT | \$0 |
| TOTAL ADJUSTMENT | \$14,600 |

MARRIED FILING SEPARATELY

| | 2024 |
|---------------------|----------|
| STANDARD DEDUCTION | \$14,600 |
| PERSONAL EXEMPTIONS | \$0 |
| CHILD CREDIT | \$0 |
| TOTAL ADJUSTMENT | \$14,600 |

MARRIED FILING JOINTLY TWO QUALIFYING CHILDREN

| | 2024 |
|---------------------|----------|
| STANDARD DEDUCTION | \$29,200 |
| PERSONAL EXEMPTIONS | \$0 |
| CHILD CREDIT | \$4,000 |
| TOTAL ADJUSTMENT | \$33,200 |



ITEMIZED DEDUCTIONS

In the past, filers could reduce their taxable income further with any number of itemized deductions. However, the criteria for itemized deductions changed substantially with the TCJA; some deductions have more limitations, while others were eliminated altogether.

MORTGAGE INTEREST

The cap on mortgage amounts on which homeowners can deduct their interest payments is \$750,000.⁶ This interest cap applies only to mortgages taken out after Dec. 14, 2017. For previous mortgages, the cap remains at \$1 million.

WHAT COULD THIS MEAN FOR YOU?

Residents who live in areas of the country where real estate is expensive may have significantly higher tax bills when they purchase a home. From a real estate market perspective, the interest cap could discourage potential homeowners from taking out mortgages for more than \$750,000. In turn, this could tighten the supply of mid-priced homes available for sale, resulting in increased home values and subsequently higher property taxes.

STATE AND LOCAL TAXES

Tax law limits the deduction for state and local taxes (SALT), which includes property taxes, state income taxes and local sales taxes (applicable only to taxpayers who live in states with no income tax). Under the TCJA, the maximum deduction for the total of state and local taxes is \$10,000.

OTHER ITEMIZED DEDUCTIONS

Some items that were deductible before 2018 have been eliminated, such as alimony income and investment fees and expenses. However, other tax deductions are available and may apply to your tax situation. For examples, please see the chart on the next page.

DEDUCTIBLE ITEMS⁷

Mortgage Interest

Mortgage interest on up to \$750,000 in principal is deductible. Mortgage must be for a “qualified personal residence.”

Charitable Contributions

Taxpayers can deduct charitable contributions on up to 60% of adjusted gross income (AGI).

Medical Expenses

Medical expenses exceeding 7.5% of a taxpayer’s adjusted gross income (AGI) are deductible.

State and Local Taxes (SALT)

Taxpayers can deduct either state and local income taxes or state and local sales taxes. Taxpayers may also be able to deduct property taxes on real estate, vehicles or other personal property. The SALT deduction is limited to a total of \$10,000 per year.

Other items that may decrease your adjusted gross income (AGI):

- Traditional IRA contributions
- HSA / FSA contributions
- Dependent care payments
- Student loan interest paid
- Classroom expenses for teachers
- Self-employment expenses
- Alimony paid on a divorce or separation agreement entered into before 2019
- Moving expenses (armed forces)

WHAT COULD THIS MEAN FOR YOU?

The total of all itemized deductions must exceed the standard deduction for your filing status in order to be claimed. You may choose only the higher of the two.

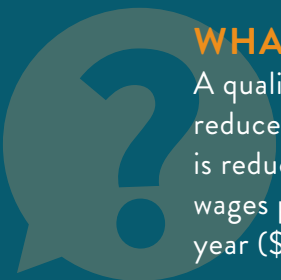


PASS-THROUGH INCOME DEDUCTION

Small-business owners who are not organized as C corporations usually report all of their business income on their individual tax return. As of 2018, such small-business owners may be eligible to deduct up to 20% of this “pass-through” revenue when calculating their adjusted gross income (AGI).

WHAT COULD THIS MEAN FOR YOU?

A qualifying small-business owner (e.g., partnership, S corporation, sole proprietor) can reduce his or her taxable income from business sources by up to one-fifth. The deduction is reduced or eliminated based upon the type of business or certain limitations based on wages paid and depreciable assets for single taxpayers who earn more than \$191,950 a year (\$383,900 for married couples filing jointly).⁸





ALTERNATIVE MINIMUM TAX (AMT)

Single taxpayers with income less than 85,700 (\$133,300 for married filing jointly) qualify for an exemption to the AMT. Phase-out begins at \$609,350 for single taxpayers and \$1,218,700 for married filing jointly.⁹

WHAT COULD THIS MEAN FOR YOU?
The AMT applies to a small group of taxpayers.

529 COLLEGE SAVINGS PLANS

Tax- and penalty-free distributions from a 529 plan may be used to pay for qualified elementary and high school expenses up to \$10,000 per student per year.¹⁰

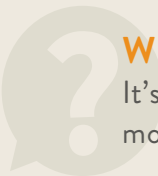
WHAT COULD THIS MEAN FOR YOU?
You can use these funds to pay for private school tuition.



RETIREMENT PLANS

The TCJA extended the time frame to roll over money defaulted upon a loan from a 401(k) or other qualified retirement plan. Once an employee has stopped working for the plan sponsor, he or she has to roll over a defaulted loan by the tax return deadline (including any extensions) for the tax year in which the employee left the job. Beyond that window, any remaining balance is considered a distribution and taxable.¹¹

Note, too, that the TCJA eliminated the ability to reverse the decision to convert a traditional IRA into a Roth IRA.



WHAT COULD THIS MEAN FOR YOU?

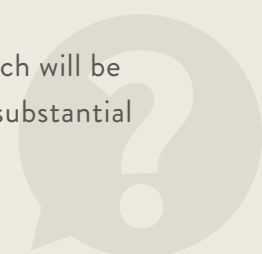
It's important to consult with your financial advisor before making any moves concerning money earmarked for retirement.

ESTATE TAXES

For 2024, the estate and generation-skipping tax exclusion increased to \$13.61 million. Up to \$18,000 per person may be gifted each year outside of the lifetime gift tax exemption.¹²

WHAT COULD THIS MEAN FOR YOU?

In 2026, the exemption amount returns to the base \$5 million amount, which will be adjusted for inflation. High net worth estates may want to consider gifting substantial assets while the estate tax threshold is considerably higher.



CORPORATE TAXES

The TCJA significantly reduced the maximum C corporation income tax rate from 35% to 21%. It also eliminated the corporate alternative minimum tax (AMT) and authorized the United States to shift to the globally accepted territorial tax system. This means that multinational corporations will no longer have to pay U.S. taxes on revenues earned in other countries.

WHAT COULD THIS MEAN FOR YOU?

The reduced corporate rate was implemented to help U.S. companies compete on a more level playing field with global competitors that have lower tax rates. It gives domestic corporations greater incentive to retain their operations within U.S. borders, promote economic expansion, create more jobs and increase wages.





TAKEAWAY: TAKE CHARGE OF YOUR TAX BILL WITH PROACTIVE PLANNING

While the Tax Cuts and Jobs Act made sweeping changes to tax legislation, most of the TCJA's provisions are scheduled to expire in 2025. At that time, tax code laws will revert to 2017 levels, unless Congress decides to establish new legislation.

WHAT COULD THIS MEAN FOR YOU?

Recognize that taxes — much like stock prices, the direction of interest rates and how long we can expect to live — are variables that are largely out of our control. The one thing we can focus on is our individual financial goals.



Your financial advisor can coordinate with other qualified professionals, such as a tax professional and estate planning attorney, to help address any tax concerns in your comprehensive strategy. If you're not sure how tax changes might affect your unique situation or your retirement income, contact your financial advisor.

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