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Dear Clients and Friends:

As this tumultuous year draws to a close and a new administration begins to take shape in our nation's capital, both individuals and small business owners may benefit from tax strategies designed to reduce tax liability for 2024. At the same time, you should be aware of potential tax pitfalls.

In addition, you must ensure that your tax moves are based on the latest legislation, IRS guidance and court rulings. Notably, a trio of recent laws—the Setting Every Community Up for Retirement Enhancement (SECURE) Act, the Inflation Reduction Act (IRA) and finally SECURE 2.0—have had a major impact on year-end tax planning.

For your convenience, we have prepared the following 2024 Year-End Tax Letter, running the gamut from A to Z. Of course, the concepts discussed in this letter are intended to provide only a general overview of year-end tax planning. It is recommended that you review your personal situation with a tax professional before taking any action.

Alternative Minimum Tax

Certain high-income taxpayers must pay the alternative minimum tax (AMT) in lieu of regular income tax. This complex calculation involves technical adjustments, adding "tax preference items" and subtracting an exemption amount (subject to a phaseout).

IDEA IN ACTION: Have your professional advisor "take your temperature" before year-end. If it makes sense, you may arrange to reduce your AMT income for 2024.

During the last few years, fewer taxpayers have owed the AMT due to increases in the exemption amounts. Consider the following recent increases for single and joint filers.

Filing status	2020	2021	2022	2023	2024
Single filers	$72,900	$73,600	$75,900	$81,300	$85,700
Joint filers	$113,400	$114,600	$118,100	$126,500	$133,300

Note: The AMT rate is 26% on up to $232,600 of AMT income and 28% above that threshold. But the top AMT rate is still lower than the top ordinary income tax rate of 37%. Therefore, you might accelerate income into 2024 to benefit from a lower AMT rate.

Business Repairs

As more remote employees return to the regular workplace, your business may need to fix up the place. While expenses spent on making repairs are currently deductible, the cost of improvements to business property must be capitalized.

IDEA IN ACTION: When appropriate, complete minor repairs before the end of the year. The deductions for these expenses can offset taxable income in 2024.

Generally, a repair keeps property in efficient operating condition, while an improvement prolongs the property's life, enhances its value or adapts it to a different use. For example, fixing a leaky faucet is a repair, but adding a new parking deck is an improvement.

Note: IRS regulations allow a qualified business to make a safe-harbor election to currently deduct costs relating to certain improvements.

Charitable Donations

The tax law allows itemizers to deduct charitable donations within generous limits if certain recordkeeping requirements are met.

IDEA IN ACTION: Step up charitable gift-giving before the end of the year if you expect to itemize in 2024. This may include donations of cash and/or property.

Generally, your current deduction for cash donations cannot exceed 60% of your adjusted gross income (AGI). If you donate appreciated property held longer than one year (i.e., it would qualify for a long-term capital gain if sold), you can generally deduct an amount equal to its fair market value (FMV) on the donation date, up to 30% of your AGI.

Note: If you donate to a cause online by credit card in December, the donation is deductible in 2024, even if you do not make the credit card payment until 2025.

Depreciation Deductions

Besides "expensing" under Section 179, a business can recover the cost of qualified business property through depreciation deductions. This may include "bonus depreciation" in the first year the property is placed in service and regular depreciation over multiple years.

IDEA IN ACTION: Try to place qualified property in service before the end of the year. This will provide a bigger first-year bonus depreciation deduction than it will next year.

That is because bonus depreciation is being phased out. For 2024, you can deduct 60% of the cost (down from 80% in 2023). It is scheduled to reach zero after 2026.

Note: The bonus depreciation deduction also applies to used, as well as new, business property that otherwise qualifies for the first-year write-off.

Estate and Gift Taxes

The gift tax exclusion allows you to give each recipient gifts valued up to an annual limit with no gift tax. The limit is indexed for inflation in $1,000 increments as shown below.

Tax year	Amount per recipient
2018–2021	$15,000
2022	$16,000
2023	$17,000
2024	$18,000

IDEA IN ACTION: Maximize use of the gift tax exclusion to reduce your taxable estate. For instance, you can give up to $18,000 to a family member in both December and January without any gift tax liability. The limit is doubled for gifts by joint filers.

Any excess gifts are sheltered from tax by the unified estate and gift tax exemption of $10 million (indexed to $13.61 million in 2024).

Note: The exemption is scheduled to revert to $5 million, plus indexing, in 2026. Consult with your tax advisor concerning your estate plan.

Flexible Spending Accounts

With a flexible spending account (FSA), you can make contributions on a pre-tax basis within certain limits to an account set up for healthcare or dependent care expenses. The distributions are exempt from tax if they are used to pay qualified expenses.

IDEA IN ACTION: Manage your account. Depending on your employer's plan, you may have to forfeit any unused funds at the end of the year under the "use-it-or-lose it" rule.

However, if the plan permits it, you may be able to benefit from a 2½ month grace period or carry over funds up to an annual limit ($640 for 2024 carried into 2025).

Note: The contribution limits in 2024 are $3,200 for healthcare expenses and $5,000 for dependent care expenses. If you have both FSAs, they are managed separately.

Gains and Losses

The end of the year is often the optimal time for investors to "harvest" capital gains or losses from securities sales.

IDEA IN ACTION: Review your portfolio. When appropriate, realize losses before 2025 to offset capital gains, plus up to $3,000 of high-taxed ordinary income. Any remainder is carried over to the next year. Conversely, gains can be absorbed by prior losses.

In particular, you may harvest losses to offset short-term gains of securities owned a year or less. Normally, such gains are taxed at ordinary income rates as high as 37%.

Note: The maximum tax rate on long-term capital gains is generally 15% (20% for certain high-income investors).

Home Energy Credits

Under the IRA, you may benefit from two types of "home energy" tax credits on your 2024 return.

IDEA IN ACTION: Make energy-saving installations before the end of the year to lock in credits for qualified improvements. The two credits are as follows.

- Energy efficient home improvement credit: This is a 30% credit for qualified expenses like insulation, central air conditioners, water heaters, furnaces, heat pumps, biomass stoves and boilers and home energy audits, up to a maximum of $3,200.

- Residential clean energy credit: This is a 30% credit for the cost of new qualified clean energy property like solar electric panels, solar water heaters, wind turbines, geothermal heat pumps, fuel cells and battery storage technology.

Note: Other special rules and limits may apply. Obtain confirmation of tax breaks before making any commitments.

Installment Sales

If you sell real estate property at a gain, you must pay tax on the full amount of the capital gain in the year of the sale.

IDEA IN ACTION: Arrange to sell real estate on the installment basis. If you receive installment payments over two or more tax years, the tax is limited to a proportionate share of the gain that is paid over the years in which payments are actually received.

Not only does this technique defer some of the tax due on a real estate deal, it also often reduces your overall tax liability, because you may end up paying tax on a greater portion of the gain at the 15% capital gain rate, as opposed to the 20% rate.

Note: When it makes sense (e.g., you have a low tax year or you are carrying over losses), you may "elect out" of installment sale treatment on your 2024 return. Otherwise, the tax treatment is automatic.

Job-hiring Credits

Is your company's busy season coming up? You may expand your staff during the holidays. Consider all the relevant factors, including tax incentives, in your hiring decisions.

IDEA IN ACTION: If they are good candidates, you may hire workers eligible for the Work Opportunity Tax Credit (WOTC). The credit is available to employers that hire workers from several designated "target" groups.

Generally, the WOTC equals 40% of the first-year wages of up to $6,000 per employee, for a maximum of $2,400. For certain qualified veterans, the credit may be claimed for up to $24,000 of wages, for a $9,600 maximum. There is no overall limit.

Note: The WOTC has expired—and then been reinstated—multiple times in the past, but it is currently available through 2025.

Kiddie Tax

The so-called "kiddie tax" is triggered when a dependent child who is age 18 or under, or a full-time student under age 24, receives unearned income above an annual level. The threshold for 2024 is $2,600. Any excess is taxable at the parents' top tax rate.

IDEA IN ACTION: Try to keep your child's income below or near the threshold. For example, you might have your child shift more investments into growth stock or tax-free municipals or municipal bond funds. Also, use a Section 529 plan for college savings.

Similarly, if the kiddie tax will no longer apply to your children after 2024, they might postpone capital gains to 2025.

Note: Parents can elect to pay the kiddie tax on their own federal income tax return if certain requirements are met.

Long-term Care Insurance

The health insurance premiums you personally pay generally qualify for the medical expense deduction if you itemize and your total unreimbursed expenses exceed 7.5% of your AGI.

IDEA IN ACTION: Consider long-term care insurance (LTCI) for financial protection. The LTCI premiums also count toward the medical deduction threshold.

However, be aware that only a portion of your LTCI cost is deductible, based on your age as shown below. The deductible amounts, which are indexed annually for inflation, actually declined from 2023.

Age at end of year	2023 deduction limit	2024 deduction limit
40 and under	$480	$470
41 to 50	$890	$880
51 to 60	$1,790	$1,760
61 to 70	$4,770	$4,710
Over 70	$5,960	$5,880

Note: Certain states also provide tax incentives for paying LTCI premiums. Take advantage of these tax breaks.

Medical Expenses

As explained above, you can deduct unreimbursed medical expenses above 7.5% of your AGI in 2024.

IDEA IN ACTION: If it is appropriate, move non-emergency expenses from 2025 into 2024. For example, you might arrange to have a year-end medical exam or a dental cleaning in December instead of January. This might also apply to purchasing medical supplies.

The extra expenses may push you over the 7.5%-of-AGI threshold for 2024 or boost an existing deduction. Conversely, if you absolutely will not qualify for a deduction, you might as well postpone these expenses to 2025 when they may do you some tax good.

Note: Remember that you can claim a medical deduction for 2024 only if you itemize deductions on your return.

Net Investment Income Tax

Certain high-income investors must cope with the 3.8% “net investment income tax” (NIIT) in addition to regular income tax.

IDEA IN ACTION: Reduce NIIT exposure for 2024. The tax applies to the lesser of net investment income—including capital gains, dividends and interest—or the modified adjusted gross income (MAGI) above $200,000 for single filers or $250,000 for joint filers.

Several potential ideas for minimizing the NIIT in 2024 are as follows:

- Invest in tax-free municipals or municipal bond funds.
- Harvest capital losses to offset gains.
- Sell real estate on the installment basis.

Note: Be aware that the NIIT thresholds are not indexed for inflation. Thus, this “hidden tax” may begin to affect you as your income rises.

Office-at-home Expenses

If you are a self-employed individual who works from home, you may have a unique opportunity to write off a portion of your everyday household expenses.

IDEA IN ACTION: Secure deductions for “home office” expenses. To qualify, you must use a portion of your home “regularly and exclusively” as your principal place of business or a place where you normally meet or deal with clients, customers or patients.

The deductible expenses include direct expenses plus a portion of indirect expenses based on business percentage use of the home. Typically, indirect expenses may include utilities, insurance, repairs, a home security system and a depreciation allowance.

Note: In lieu of deducting actual expenses, you may use a simplified method of $5 per square foot of space used for business up to an annual maximum of $1,500.

Passive Activity Losses

Under the “passive activity loss” (PAL) rules, the losses you can claim from passive activities in which you don’t materially participate—like real estate—are generally limited to the amount of income from your passive activities.

IDEA IN ACTION: Invest in passive income generators (PIGs) designed to produce current income. Those losses can then be used to absorb PALs.

Although real estate is automatically treated as a passive activity, “active participants” can use losses to offset up to $25,000 of non-passive income. This tax break is phased out for investors with MAGI between $100,000 and $150,000.

Note: To qualify as an active participant, you typically would manage the property, arrange rental agreements with tenants, schedule repairs, etc. Offering the property for rental is not, by itself, sufficient.

Qualified Retirement Plans

If you participate in a qualified retirement plan at work, such as a 401(k) plan, you build up tax-favored savings. With a 401(k), you can defer part of your salary on a pre-tax basis, including both income and payroll taxes, within generous limits. Plus, employees age 50 or older can add “catch -up contributions” to 401(k)s in 2024, as shown below.

Age of participant	Deferral limit	Catch-up contribution limit	Maximum total
Under age 50	$23,000	N/A	$23,000
Age 50 or older	$23,000	$7,500	$30,500

IDEA IN ACTION: Allocate payroll tax savings to your 401(k) after you clear the Social Security tax "wage base" of $168,600 for 2024. Doing so lets you increase contributions without any effective reduction of your take-home pay for the rest of 2024.

In addition, your company may provide participants with the option of a Roth 401(k) account. As with Roth IRAs, future distributions are generally exempt from tax.

Note: Under SECURE 2.0, any catch-up contributions by employees earning over $145,000 a year must be made to Roth 401(k)s. But this rule has been postponed from 2024 to 2026.

Required Minimum Distributions

Usually, participants in qualified retirement plans and traditional IRAs must take "required minimum distributions" (RMDs) from qualified retirement plans and IRAs after reaching a specified age. Currently, the age is 73 after SECURE Act and SECURE 2.0 changes (scheduled to increase to age 75 in 2033). The amount of each annual distribution is based on IRS life expectancy tables and your account balance at the end of last year.

IDEA IN ACTION: Arrange to receive RMDs before 2025. Otherwise, you will have to pay a tax penalty on top of the tax liability. For 2024, the penalty is 25% of the shortfall (10% if corrected promptly), due to a reduction from 50% by SECURE 2.0.

Other complex rules apply to beneficiaries of qualified plans and IRAs. Generally, non-spouse beneficiaries must empty out accounts within ten years. See your professional tax advisor for more details.

Note: Previously, participants in Roth 401(k)s had to take RMDs, as required with regular 401(k)s.
Beginning in 2024, this is no longer required for Roth 401(k) participants.

Start-up Costs

Normally, the costs incurred with starting up a new business venture must be amortized over 180 months. However, the tax law allows an entrepreneur to claim a current deduction of up to $5,000 for qualified start-up costs, subject to a phaseout above $50,000.

IDEA IN ACTION: Officially "open for business" before January 1, 2025. Typically, this means your business must begin offering goods or services. Otherwise, you are not entitled to claim the current $5,000 deduction.

Generally, start-up costs are those that would be deductible as business expenses, such as studies of potential markets, products, labor supply, transportation facilities, etc.; advertisements for the opening of the business; salaries and wages for employees who are being trained and their instructors; travel costs to secure prospective distributors, suppliers, customers or clients; and salaries and fees for executives and consultants or similar services.

Note: Your business may be entitled to an additional current deduction of up to $5,000 for qualified organizational expenses (e.g., expenses of a CPA).

Tuition Expenses

Although you can no longer deduct tuition expenses, the tax law still provides two tax credits for tuition and other qualified higher education expenses. However, both credits are phased out based on MAGI.

IDEA IN ACTION: If you qualify, pay for next year's first semester in December. The tuition can count toward a 2024 credit even though the semester starts in 2025.

The two available credits are the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC).

- The maximum annual AOTC is $2,500 per student for up to four years of study.
- The maximum annual LLC is $2,000 per family for all years of study.

Note: Generally, you can claim either one of the two credits, according to your preference, but not both in the same tax year.

Underpayment of Tax

If you do not pay enough "estimated tax" during the year, through any combination of quarterly installments and wage withholding, the IRS may assess an underpayment penalty, unless a safe-harbor rule applies.

IDEA IN ACTION: Make adjustments to qualify under one of the safe-harbor rules. For instance, you may increase withholding at the end of the year or add to an installment.

Notably, no penalty will be imposed if you pay during the year—

- At least 90% of the current year's tax liability; or
- At least 100% of the prior year's tax liability (110% if your AGI exceeded $150,000). This second safe harbor rule is easier to plan for than the first.

Note: Another safe harbor rule is available to certain seasonal businesses. Contact your professional tax advisor for more details.

Vacation Home Rentals

If you own a vacation home in a resort area, you may rent out the home to tenants while you and your family are not using it personally.

IDEA IN ACTION: Steer clear of a tax trap. If your personal use exceeds the greater of 14 days or 10% of the time the home is rented out, you cannot claim a tax loss.

This may require some astute planning to avoid the 14 day/10% limit. For instance, you might postpone a December ski trip to January if it would trigger excess personal use.

Note: A day spent making minor repairs or sprucing up the home for rental does not count as a "personal use" day—even if the rest of the family tags along just for fun.

Wash Sale Rule

As indicated earlier, you may harvest capital losses from securities sales at the end of the year to offset high-taxed capital gains.

IDEA IN ACTION: Watch out for the "wash sale" rule. Under this tricky rule, you cannot deduct a loss from a sale of securities if you reacquire "substantially identical" securities within 30 days of the sale.

However, you can easily avoid the wash sale rule by waiting at least 31 days before you reacquire substantially identical securities. Alternatively, to preserve a current position, you can buy more shares of the securities and wait at least 31 days to sell the original shares.

Note: If a loss is disallowed due to the wash sale rule, the amount is added to your basis in the securities, so it may reduce a taxable gain on a future sale.

X-pensing Deduction

Under Section 179 of the tax code, a business can "x-pense" (taking liberty here) in one year the entire cost of qualified property placed in service, up to a generous annual limit.

IDEA IN ACTION: Start using qualified property before 2025. The property cannot be considered as "placed in service" until it is ready to be used.

The limit for 2024 is the lesser of $1.22 million or taxable income from business activities. This tax break begins to phase out for property costing more than $3.05 million.

Note: A business may combine Section 179 expensing with bonus depreciation to write off most, if not all, of the cost of qualified property placed in service in 2024.

Year-end Bonuses

Normally, wages paid to employees by cash-basis companies—including commissions and year-end bonuses—are deductible in the year in which they are paid and received. But there is a special tax break for accrual-basis companies.

IDEA IN ACTION: Delay bonuses to 2025 but deduct them in 2024. An accrual-basis company operating on a calendar year can do this if the bonuses are paid within 2½ months after the close of the tax year, or March 17, 2025.

To sweeten the deal, the employees are not taxed on the bonuses until the year they are received—in this case, 2025.

Note: The early deduction is not available for bonuses paid to C corporation shareholders or owners of S corporations or personal service corporations.

Zero-percent Capital Gains Taxes

As explained earlier, recipients of long-term capital gains may often benefit from favorable tax treatment with a rate as low as 15%.

IDEA IN ACTION: A family member, like a child, may do even better when they sell securities qualifying for long-term capital gains. The rate is a rock-bottom zero percent!

The 2024 tax brackets, which are based on total taxable income, are shown below.

Filing status	0% rate	15% rate	20% rate
Single	$47,025 and under	$47,026–$518,900	$518,901 and above
Joint	$94,050 and under	$94,051–$583,750	$583,751 and above

Note: If this is a low tax year for you—say, your S corporation incurred an overall loss—a portion of your long-term capital gains may qualify for the zero percent rate.

CONCLUSION

This year-end tax-planning letter is based on the prevailing federal tax laws, rules, and regulations. Of course, it is subject to change, especially if additional tax legislation is enacted by Congress before the end of the year.

Finally, remember that this letter is intended to serve only as a general guideline. Your personal circumstances will likely require careful examination. We would be glad to schedule a meeting with you to assist with all your tax planning needs.

This year-end tax-planning letter is published for our clients, friends, and professional associates. It is designed to provide accurate and authoritative information with respect to the subject matter covered. The information contained in this letter is not intended or written to be used for the purpose of avoiding any penalties that may be imposed under federal tax law and cannot be used by you or any other taxpayer for the purpose of avoiding such penalties. Before any action is taken based on this information, it is essential that competent, individual, professional advice be obtained.