Key Wealth

Key Wealth Institute

# Top 10 2024 Year-End Planning Ideas for Individuals

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This year has brought economic resilience, cooling inflation, a pause in the Federal Reserve's interest-rate hikes, and a shift toward lowering interest rates, including the Fed's decision in September to cut the rate by half a point. Yet geopolitical risks remain and investment market volatility continues. Moreover, we still have to contend with the Donald Trump-era tax cuts, which are set to expire at the end of 2025.

As of this writing, the future of the tax law changes depends on the outcome of the November congressional and presidential elections. As we approach year-end, don't let uncertainty paralyze you. Proactive planning is essential now.

First let's take a look at the current individual tax landscape:

- For the wealthiest taxpayers, personal income is subject to a top ordinary rate of 37% and potential additional Medicare tax of 0.9% on high-wage earners.
- Special maximum tax rates generally apply to long-term capital gains and qualified dividends (0%, 15%, or 20%).
- There is still a 3.8% Medicare surtax on net investment income.
- Fewer taxpayers are affected by the alternative minimum tax (AMT).
- Many more taxpayers are using the increased standard deduction. As a result, fewer are using itemized deductions, some of which also have been repealed or significantly reduced. State and local tax deductions are capped at $10,000. The qualified home interest deduction has lower limits. The Pease limitation on itemized deductions is no longer in place. Some prior miscellaneous itemized deductions are gone.
- The child tax credit has been doubled to $2,000 per child younger than 17 and phases out at higher income limits.
- There is a qualified business income deduction for pass-through income.

Given all that, here are 10 wealth planning ideas to consider for 2024:

### 1. Tax bracket management

Consider accelerating income and accelerating or deferring deductions. For now, tax rates may stay the same until the end of 2025. Therefore, if you expect to be in a higher tax bracket in the next few years, you could accelerate income so it is taxed at the lower rate. You can also defer deductible expenses until later years, when they can be claimed to offset higher-taxed income.

A few strategies to consider include:

- Roth conversions.
- Harvesting gains and deferring loss harvesting.
- Exercising stock options.
- Accelerating bonuses.
- Accelerating an installment sale gain or moving up the closing date of a sale.

Since more taxpayers are using the standard deduction, consider bunching expenses to maximize itemized deductions in certain years. This tactic can help circumvent deduction restrictions imposed by the Tax Cuts and Jobs Act (TCJA). This applies to deductions such as charitable, state, and local taxes (up to $10,000), mortgage interest, and miscellaneous itemized deductions. If your tax rate is expected to be higher in the future, consider deferring itemized deductions, as previously mentioned.

### 2. Gain/loss harvesting

Make the most of the reduced capital gain tax rates. Capital gain planning is still important. Long-term capital gains are taxed at a rate of 0%, 15%, or 20%. The 3.8% surtax on net investment income may also apply. If these preferential rates are eliminated after 2025, long-term capital gains could be subject to a higher rate. You may consider accelerating sales of capital assets before the preferential rates expire.

For those capital assets with gains, consider capital gain harvesting. Those assets can be sold now and repurchased with a higher basis so future sales will have less capital gain that could be taxed at higher rates. Always work with your tax advisor and portfolio strategist near year-end for strategies to match capital gains and capital losses. Remember that for individuals, capital losses can't be carried back, but can be carried forward indefinitely.

Taxpayers wanting to realize paper losses on stocks while still retaining the same investment position can sell shares and buy shares in the same company or another company. However, you need to avoid the wash-sale rules, which disallow the loss if substantially the same shares are acquired within the 61-day period beginning 30 days before and ending 30 days after the sale.

The future change in preferential rates also applies to qualified dividend income. This could affect your investment strategy of shifting investments out of holdings that generate income taxed at ordinary rates (e.g., bonds) and into dividend-paying stocks to achieve tax savings. Dividend-paying stock may not be as advantageous. You may consider tax-exempt bonds for additional tax savings. If this future change is more likely to occur as a result of the expiration of TCJA provisions, review your investment allocation and adjust accordingly.

### 3. Roth conversions

With the potential for future higher tax rates, many more individuals are considering a Roth conversion and paying the tax on the conversion now at the lower rates. Start the conversations now if you are trying to convert your traditional investment retirement account (IRA) to a Roth IRA to fill up a tax bracket.

Converting a traditional IRA to a Roth IRA can offer several advantages:

- **No more required minimum distributions (RMDs)**
  With a Roth IRA, you won't be required to take withdrawals during your lifetime, giving you more control over your retirement funds.
- **Tax-free growth and withdrawals**
  Your money in a Roth IRA grows tax-free, and you won't owe taxes on qualified withdrawals in retirement.
- **Potential tax-free inheritance for your children**
  Unlike with traditional IRAs, your heirs generally won't owe income tax on inherited Roth IRA assets.

It is important to note, however, that while there are no lifetime RMDs for the original Roth IRA owner, beneficiaries generally must withdraw the funds within 10 years of the owner's death. This 10-year rule provides flexibility in how the withdrawals are taken, and the funds can continue to grow tax free during that period.

If your beneficiaries are in a lower tax brackets than you are, then conversion may not be the right strategy. Higher-earning taxpayers who cannot contribute directly to a Roth IRA may be able to contribute to a

non-deductible IRA that might later be converted to a Roth IRA. Those unable to contribute to a Roth IRA have other alternatives. If your company retirement plan allows after-tax contributions and in-service distributions, you can convert the after-tax amount to a Roth IRA or do an in-plan Roth conversion to a Roth 401(k) account. Just be mindful that the TCJA eliminated the option to recharacterize Roth conversions.

**4. Charitable planning**

The limit for cash donations to public charities has reverted to 60% of adjusted gross income (AGI). It will be capped at 50% of AGI if TCJA sunsets after 2025. As of the writing of this article, there is no non-itemizer charitable deduction available. For those considering large charitable contributions, consider a gift to a donor-advised fund as a vehicle to manage the timing of charitable contributions. Consider gifting appreciated assets to charity to avoid realizing capital gains, especially with the potential for increased capital gains tax rates.

There is still some benefit to considering the charitable IRA rollover, which allows individuals 70½ or older to make a qualified charitable distribution (QCD) from their IRA directly to a charity. The minimum age for QCDs is still 70½ even though the beginning RMD age is now 73. This strategy allows you to exclude the distribution from gross income (up to $105,000 per year).

A relatively recent provision also allows individuals a one-time election of a QCD up to $53,000 to certain split-interest entities, including charitable gift annuities. QCDs may be good strategies for those who file their taxes using the standard deduction. Those who itemize may want to weigh other options for their 2024 charitable gifting using cash or appreciated stock.

**5. Review your estate plan**

Conversations surrounding end-of-life planning may be more relevant following the COVID-19 pandemic. It's always important to make sure estate-planning documents such as trusts, wills, powers of attorney, and others are current and match your intentions. For those under the current federal estate tax exemption amount ($13,610,000 per person or $27,220,000 per couple), estate planning may focus more on making sure assets pass to intended beneficiaries. Naming those in key roles, such as executor, trustee, and healthcare power of attorney deserve due consideration.

The estate and generation-skipping transfer tax exemption is scheduled to sunset after Dec. 31, 2025, to around $6.8 million to $7 million per individual and $13.6 million to $14 million per couple. Time is running out to develop strategies and implement them with advisors. With the uncertainty, the key to developing an estate plan today is to make sure it is flexible.

Those with either currently taxable estates or projected future taxable estates should take action now to reduce future estate tax liabilities. Assuming you can afford to shift assets out of your estate from a sufficiency standpoint, you should take advantage of the increased exemptions with the use of lifetime gifts. It is a use-it-or-lose-it opportunity. Consider trusts for children and grandchildren to use the exclusion while preserving the control and management of property.

Also, for transfers that could potentially be subject to the generation-skipping tax, take advantage of the increased generation-skipping transfer (GST) tax exemption as well. You can do that by making current gifts to skip persons, making late allocations of GST exemption to trusts that previously were not exempt, or creating and funding a multi-generational dynasty trust.

Remember, the GST exemption is not portable between spouses. When reviewing your estate plan, consider that a reference to the exemption amount in an estate-planning document that was drafted before the enactment of the TCJA could create an undesirable result.

A number of trusts allow you to shift wealth while still maintaining access to funds if needed. Such trusts include:

- **Spousal lifetime access trusts (SLATs),** which permit each spouse to be a beneficiary of the trust created by the reciprocal spouse.
- **Self-settled domestic asset protection trusts (DAPTs),** which permit access by naming the grantor as a beneficiary.
- **Non-self-settled trusts (hybrid DAPTs),** which permit access by giving someone a non-fiduciary power to add beneficiaries from a class that includes the grantor.
- **Special power of appointment trusts (SPATs),** which permit access but avoid self-settled trust status.

You can also make annual gifts without using any lifetime gift-tax exemption. This is another use-it-or-lose-it opportunity. The annual exclusion for 2024 is $18,000 per recipient. There have been proposals to reduce the exclusion to $10,000 per person and limit the total amount of annual exclusion gifts to $20,000 per year per donor. This has yet to be enacted and may not come to fruition.

### 6. Interest rate environment

With cooling inflation and rising unemployment, the Fed finally cut interest rates in September. It is projecting several additional rate cuts over the next few years, although the pace remains to be seen. This shift could usher in an era of lower interest rates not seen since before the COVID-19 pandemic.

As interest rates fall, so do the applicable federal rate (AFR) and the Section 7520 rate used in some estate-planning strategies. The AFR rate peaked at 5.79% in December 2023 and is 4.45% for October 2024. The Section 7520 rate peaked at 5.80% in December 2023 and is 4.4% for October 2024. Usually, the rate that will apply to a specific strategy is the rate in effect on the date the strategy is entered into. Strategies that work better in higher interest-rate environments such as a qualified personal residence trust (QPRT) and a charitable remainder trust (CRT) may be less advantageous. Charitable lead annuity trusts (CLATs), intra-family loans, installment sales, and grantor retained annuity trusts (GRATs) are more beneficial in a lower-rate environment.

### 7. Review your portfolio

Make sure your asset allocation aligns with your targets, risk tolerance, and return requirements. Having a financial plan helps determine what the required return is to meet your goals. Taking on more risk may seem unnecessary if your goals are sufficiently met. Election years are volatile years for markets. Staying disciplined during times of volatility is key for the remainder of 2024. Again, staying disciplined with a long-term investment horizon is key. For some investors, new tools such as alternatives and real assets should be incorporated where appropriate.

### 8. Maximize tax-advantaged savings vehicles

Maximizing tax-advantaged vehicles may be more important with the potential for a future tax-rate increase. Reduce taxable income by increasing pre-tax salary deferrals to employer-sponsored retirement plans (401(k), 403(b), 457, and SEP-IRA plans).

As mentioned previously, if your plan allows after-tax Roth contributions, these should be considered because of the lack of an income-level phaseout for contributions and the potential for tax-free growth. Don't forget to consider contributions to IRAs for non-working spouses as well.

Also, you can maximize savings using tax-favored health plans such as health savings accounts (HSAs). Remember that if you become eligible in December to make an HSA contribution, you can make a full year of deductible HSA contributions for 2024.

And parents and grandparents, don't forget to fund those 529 accounts. The tax-free growth and ability to take distributions without tax consequences for education purposes are advantageous. If accounts are overfunded, they can be used for other family members or future generations' education expenses. New rules even allow some excess 529 accounts to be rolled over to Roth IRAs. And don't forget that 529 accounts can be used for K-12 qualified education expenses.

**9. Review RMDs**

With IRA planning, the SECURE Act of 2019 basically eliminated the stretch IRA, which previously allowed IRA or defined contribution plan beneficiaries to draw down the remaining plan benefits over the beneficiary's life expectancy. Inherited IRAs and inherited defined contribution plans must now be distributed within 10 years of the original owner's death.

The final SECURE Act regulations were issued in July, five years after proposed regulations were introduced. As a result, beginning in 2025, if an IRA owner dies on or after their required beginning date, the account is also subject to annual RMDs for years one to nine of the 10-year period. Beneficiaries who inherited retirement account assets should review how the post-death minimum distribution rules apply to their particular situation.

There are ways to simulate a stretch IRA using lifetime income strategies such as naming a CRT or a charitable gift annuity as beneficiary of the account or using the RMD to purchase life insurance that will provide a tax-free benefit to heirs. Discuss any possible risk with these strategies with your advisors.

**10. Review insurance and risk management**

Don't overlook this aspect of your personal financial situation. As life changes, you should review your life insurance coverage for adequacy to meet current and future needs. If your health or lifestyle changes, a new or modified policy may be needed. Life insurance in which the insured has a taxable estate should consider ownership by an irrevocable life insurance trust. If practical, fund the trust upfront with several years of premium payments when created to avoid the risk of future laws reducing the gifting exclusion.

The long-term care insurance field has changed dramatically in the past decade. There are new tools available such as hybrid long-term care policies that eliminate the use-it-or-lose-it nature of insurance products by combining long-term care and death benefits to ensure a benefit is provided.

As your personal asset mix changes, you should also make sure you revisit your property and casualty coverage. Make sure everything in your policy is still accurate and that you have the best coverage for the best price. Otherwise, make a note to revisit this when the policy is up for renewal.

And along with risk management comes protecting your digital assets. The end of the year is a good time to reassess your cybersecurity hygiene. Consider a digital password management system. Protect your home network with a network firewall and antivirus software. Freeze your credit. Back up your information regularly.

If any of your personal information was compromised by any of the recent data breaches, even if you don't believe that the breach may affect you, now is a good time to follow those recommended procedures given in any post-breach communication from the affected companies to further protect your personal information. Some causes of leaked data are the result of poor security practices on the part of the consumer. Now is a good time to change passwords and/or review credit reports or sign up for any free identity-theft monitoring.

For more information, please contact your advisor.

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## About the Author

In her role, Tina Myers is responsible for managing the Central Planning Team and overseeing the Key Wealth Institute and any financial planning content distributed. She works with our Regional Planning Strategists to help facilitate our best thinking and advice delivery to clients.

Before joining Key, Tina worked in the public accounting industry, where she focused on taxes, specifically individual, trust, estate, and gift tax planning. She also held roles at a small public accounting firm, a regional firm, and the private client group of a large multi-national firm.

Tina earned an M.Tax from Virginia Commonwealth University and holds several industry-standard licensures. She received the Circle of Excellence Award for Key Private Bank in 2016 and 2018. She was selected to attend the 2024 Key Wealth Education Symposium, which recognizes top performance and extraordinary commitment to serving our clients and growing our business.

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