Highlights

- Quiet tax year in 2024
- Trump election and TCJA sunset in 2025
- Bunching itemized deductions
- Changes to retirement distributions

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Tax Briefing | 2024 Year-End Tax Planning

Planning strategies and techniques available through end of year

After years of pandemic recovery, followed by years of high inflation, 2024 saw the return of a quiet economic year. This was also true from a tax standpoint. While the IRS has continued to churn out guidance relating to the Inflation Reduction Act of 2022 and the SECURE 2.0 Act, most other areas of taxation are likely to be stable through the end of the year.

That isn't to say that 2024 was quiet across the board. After a highly contentious election, Americans voted to return Donald Trump to the White House on November 5. Much of Trump's tax agenda focused on the Tax Cuts and Jobs Act of 2017 (TCJA), the majority of which is set to sunset at the end of 2025. How the impending sunset is handled will be a critical issue throughout the next year.

But the sunset of TCJA is a 2025 problem, for the end of the 2024, the best plan is a continued application of tried-and-true year-end tax strategies from years' past. While there are always new strategies to consider, and indeed there are some changes from recent legislation that are in effect for 2024, the simple tactics of deferring income and increasing current deductions are the best bet for the next few weeks.

LEGISLATION

Through the end of 2024, there is a very low likelihood of tax legislation. However, the expectation is that tax legislation will ramp up in early 2025. With the GOP in control of the Senate and the House,

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"...continued application of tried-and-true year-end tax strategies ..."

Trump's agenda will have a much easier path to legislative approval.

Action on the soon-to-expire TCJA is likely to be high on the to-do list for the new Congress. Many leaders in the GOP have expressed interest in taking quick action to extend the provisions beyond their pending expiration at the end of 2025. However, given the fact that TCJA has one more year to go, the issue of extension is not highly relevant to year-end tax planning for 2024.

For more on the tax policies of the incoming administration, see the recent CCH Tax Briefing *2024 Post-Election Tax Policy Update.*

MINIMIZING INDIVIDUAL TAXES

Income taxes

The key to any year-end planning strategy is to minimize taxes. This is generally done by either reducing the amount of income received or increasing the amount of deductions. In recent years, the possibility of increased rates on higher incomes due to proposed legislation, or changes in qualification for various stimulus proposals made the decision of deferral or acceleration highly dependent upon individual circumstances. As the end of 2024 approaches, these factors are not really in play anymore. However, it is possible that an extension of TCJA could include some changes that reduce taxes in 2025, depending upon the applicable effective date of the legislation. But, given the proposals from the Trump campaign, the lower taxes would likely apply to things that cannot be easily deferred (tip, Social Security, and overtime income). So, as in prior years, individual considerations are the most significant factor in play.

The impact of inflation usually makes deferral of income a likely winner for almost all individuals. However, during the last year inflation has returned to a more familiar level from the historically high levels of inflation a couple years ago. In October, the IRS released the tax brackets for 2025. As an example of the increase in the brackets, the rates for married taxpayers filing jointly in 2024 compared to 2025 are below:

2024

	If Taxable Income Is: Over	But Not More Than	The Tax Is	Of the Amount Over
Married Filing Jointly	$0	$23,200	$0 + 10%	$0
	23,200	94,300	2,320 + 12%	23,200
	94,300	201,050	10,852 + 22%	94,300
	201,050	383,900	34,337 + 24%	201,050
	383,900	487,450	78,221 + 32%	383,900
	487,450	731,200	111,357 + 35%	487,450
	731,200		196,669.50 + 37%	731,200

2025

	If Taxable Income Is: Over	But Not More Than	The Tax Is	Of the Amount Over
Married Filing Jointly	$0	$23,850	$0 + 10%	$0
	23,850	96,950	2,385.00 + 12%	23,850
	96,950	206,700	11,157.00 + 22%	96,950
	206,700	394,600	35,302.00 + 24%	206,700
	394,600	501,050	80,398.00 + 32%	394,600
	501,050	751,600	114,462.00 + 35%	501,050
	751,600		202,154.50 + 37%	751,600

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Individuals may not necessarily see increases in earnings that keep up with even that lower level of inflation, so if deferral of income from 2024 into 2025 is possible, it would mean that more income would fall into a lower tax bracket. In the long run, that would mean a lower aggregate tax burden.

Delaying and reducing gains

Like taxes on ordinary income, taxes on capital gains also apply at different rates depending upon the amount of taxable income. For 2024, the rates are as follows:

	0%	15%	20%
MFJ/SS	$0 - $94,050	$94,051 - $583,750	over $583,750
MFS	$0 - $47,025	$47,026 - $291,850	over $291,850
HoH	$0 - $63,000	$63,001 - $551,350	over $551,350
Single	$0 - $47,025	$47,026 - $518,900	over $518,900
E&T	$0 - $3,150	$3,151 - $15,450	over $15,450

For taxpayers whose income tends to fluctuate from year to year, it would be wise to examine the impact of sales of investment items. For taxpayers who think they may have lower income in 2025, it would be smart to hold off on a sale of a capital item if their income is at or near a threshold for a higher capital gains bracket.

This type of consideration should not be limited to capital gain taxes, but also the net investment income (NII) tax. The 3.8% NII tax kicks in at $200,000 of modified adjusted gross income for single and head-of-household filers, $250,000 for joint filers, and $125,000 for married taxpayers filing separately.

COMMENT. *Since the NII thresholds fall right in the middle of the 15% capital gains bracket, a taxpayer to whom the NII applies because of a sale of a capital item would likely not be able to reduce the tax to 0%. But a taxpayer who is barely in the 20% bracket could defer a sale and get into the 15% bracket, meaning a sale of a capital item would only be taxed at 18.8% instead of 23.8%.*

A potential tax strategy involves selling investments at a loss to offset or reduce capital gains generated in the same tax year. However, the benefits only apply to high-income taxpayers. In addition, taxpayers must be mindful of the wash-sale rules that might disallow the loss if they reinvest in a 'substantially similar' asset within 30 days.

Maximizing deductions

For 2024, the inflation-adjusted standard deduction amounts are $29,200 for joint filers, $21,900 for heads of households, and $14,600 for all other filers. With standard deduction amounts so high, coupled with the $10,000 limitation on the deduction of state and local taxes, it is difficult for many taxpayers to claim enough deductions to make itemizing deductions beneficial. Thus, maximizing deductions may not be beneficial for all taxpayers.

One of the best ways to maximize the amount of deductions is to develop a bunching strategy. This involves accumulating charitable contributions, or even medical expenses (see below), from two or more years into one year. For example, a taxpayer may have not made any of their normal charitable contributions in 2023, and then made double the normal amount in 2024 in order to help surpass the standard deduction amount.

The same bunching strategy can be employed for deductible medical expenses where the timing is somewhat flexible, such as for elective procedures (remember that purely cosmetic procedures are not deductible).

COMMENT. *Bunching can be a very effective strategy, but it has to be effectively used, and potentially planned out two or three years in advance to maximize the benefit, while also taking into account shifts in tax policies as a result of political change.*

Green energy

2023 was the first year that the Energy Efficiency Home Improvement Credit was available. The credit is generally equal to

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30% of the taxpayer's qualified expenses, which can include doors, windows, other qualifying energy property, and even a home energy audit. Also available is the Residential Clean Energy Credit, which is also equal to 30% of qualified expenses. This credit is applicable to the installation of certain energy property like solar cells, small wind turbines, or battery storage. Restrictions and limitations do apply to both credits, and there are generally

The much more broadly applicable credit for the purchase of electric vehicles was eliminated upon the passage of the Inflation Reduction Act of 2022. In its place are two new credits, one $7,500 credit for the purchase of a new clean vehicle (with much more stringent requirements as compared to the old credit) and a $4,000 credit for the purchase of a used clean vehicle.

> **COMMENT.** *At the end of 2023, there wasn't much urgency in claiming these credits, but that may not necessarily be the case at the end of 2024. While the Trump campaign did not single out any specific credits, there was a general antipathy of many green energy initiatives. It is entirely possible that some or all of these green energy incentives could be on the chopping block to help pay for tax cuts elsewhere. If any action on this legislation in 2025 is retroactively applicable to the whole year, 2024 could be the last chance to claim the credits.*

Retirement savings

Starting in 2023, the age at which required minimum distributions (RMDs) must begin is increased to 73 for individuals who turn 72 after 2022 and age 73 before 2033.

Remember that taxpayers who are in their first RMD year have until April 15 of the following year to make that first RMD. So, while action isn't absolutely necessary before the end of the year, affected taxpayers should start to plan for those RMDs. Keep in mind that the RMD for 2025 is required by December 31, 2025. If a taxpayer were to take both RMDs in 2025, it could push them into a higher tax bracket because both distributions would be taxable in one tax year.

Qualified charitable distributions, or QCDs, offer eligible taxpayers aged 70 ½ or older a great way to easily give to charity before the end of the year. For those who are at least 72 years old, QCDs count toward the IRA owner's RMD for the year. QCDs are tax free if they are paid directly from the IRA to an eligible charitable organization. The annual limit for QCDs increases for the first time in 2024. The annual QCD limit is $105,000 (up from $100,000 in 2023).

SALT deduction

The Tax Cuts and Jobs Act (TCJA) capped the amount of the deduction for state and local taxes (SALT) at $10,000. Many legislators from higher-tax states have been clamoring for years to repeal or increase that limitation. While none of these efforts have proven successful so far, there is a strategy for taxpayers to claim this deduction that seems to have met with approval by the courts. Many states have enacted legislation that enables higher SALT deductions if paid by a passthrough entity. Requirements vary from state to state, so taxpayers looking to take advantage of this new strategy should speak with their tax professionals.

> **COMMENT.** *Among the proposals Trump made during the campaign was a potential increase in the limitation on the state and local deduction. If this were to happen effective for the 2025 tax year, this workaround may become less prevalent.*

Other year-end strategies for individuals

A number of other traditional year-end strategies may apply. These include:

- Maximizing Education Credits – Individuals can claim a credit for tuition paid in 2024 even if the academic period begins in 2025, as long as the period begins by the end of March.

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- Increasing 401(k) Contributions – Adjusted gross income (AGI) can be reduced if individuals increase the amount of their 401(k) contributions.
- IRA Contributions – Individuals eligible for deductions for IRA contributions can claim deductions, and thus reduce AGI, for amounts contributed generally through April 15, 2025.
- Teacher deductions – Educators can claim a deduction for up to $300 of classroom expenses (like books, supplies, and computer equipment, as well as personal protective equipment, disinfectant, and other supplies used to prevent the spread of COVID-19), and should maximize those expenses by year-end.

YEAR-END BUSINESS STRATEGIES

Corporate Transparency Act

Companies should review and determine their reporting and filing obligations for the beneficial ownership information (BOI) report. BOI reports are due no later than January 1, 2025.

> **COMMENT.** *Wolters Kluwer offers resources to help companies meet their BOI filing requirements at https://www.wolterskluwer.com/en/know/beneficial-ownership-information-reporting.*

Retirement Plans

The SECURE 2.0 Act of 2022 expands provisions for retirement plans to benefit both employers and plan participants. Although some benefits were available in 2023, several of the provisions become effective in 2024 and beyond.

An employer that does not sponsor a retirement plan can offer a starter 401(k) plan (or safe harbor 403(b) plan). A starter 401(k) plan (or safe harbor 403(b) plan) would generally require that all employees be enrolled in the plan at 3% to 15% of compensation deferral rate by default. The limit on annual deferrals would be the same as the IRA contribution limit. This provision is effective for plan years beginning after December 31, 2023.

The SECURE Act 2.0 permits an employer to adopt a new retirement plan by the due date of the employer's tax return for the fiscal year in which the plan is effective. Current law, however, provides that plan amendments to an existing plan must generally be adopted by the last day of the plan year in which the amendment is effective. This precludes an employer from adding plan provisions that may be beneficial to participants. The SECURE Act 2.0 amends these provisions to allow discretionary amendments that increase participants' benefits to be adopted by the due date of the employer's tax return. This provision is effective for plan years beginning after December 31, 2023.

Depreciation and expensing

The TCJA provided very generous depreciation and expensing limitations. Businesses may want to take advantage of 100-percent first-year depreciation on machinery and equipment purchased during the year. Additionally, Code Sec. 179 expensing has an investment limitation of $3,050,000 for 2024, with a dollar limitation of $1,220,000.

Taxpayers may also claim an additional first-year depreciation allowance of 60% for property placed in service in 2024. It may be the best policy to take advantage of this benefit in the current year. The allowance generally decreases by 20% per year and expires Jan. 1, 2027.

> **COMMENT.** *Despite the pending drop in the first-year depreciation percentage in 2025, this is one provision that is very likely to see legislative action in 2025, with a possible return of 100% first-year depreciation, so holding off on the acquisition of assets eligible for first-year depreciation may be the better strategy.*

Clean commercial vehicles

The Inflation Reduction Act of 2022 provides a new $7,500 credit for the

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purchase of clean commercial vehicles after 2022. The requirements for this credit are very similar to that available to individuals, so the same considerations made by individuals should be made by businesses thinking about purchasing environmentally friendly vehicles.

> **COMMENT.** *The same concerns about green energy credits for individuals being repealed by tax legislation in 2025 could also apply here.*

Other year-end strategies for businesses

A number of other traditional year-end strategies may apply. These include:

- Timing the deduction of employee bonuses and executive compensation
- Prepay rent and suppliers under the cash system; commit to contracts under the accrual method
- Consider inventory write-offs
- Avoid the impact of corporate AMT

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