PALLAS
CAPITAL ADVISORS

Planning Strategies and Key Data for 2024

As we embark on a new year, it's time again to delve into the Key Financial Data for 2024. Our Financial Planning newsletter this month features a link to our annual compilation, covering a spectrum of tax rates, thresholds, limitations, and exemptions for the year. Additionally, we'll explore essential planning considerations based on this valuable information.

This is an opportune moment to cast our gaze forward, as the countdown begins for the expiration of numerous income and estate tax breaks introduced by the Tax Cuts and Jobs Act of 2017 (TCJA). In fact, we have just under 24 months remaining before the provisions impacting individuals are set to conclude.

High-net-worth families face a looming deadline as the enhanced estate tax provision, elevating the lifetime exemption for a married couple to over $27 million, is set to expire by the close of 2025. Following this expiration, the limit would be halved, accounting for inflation unless there is intervening congressional action. Time is ticking for these families to navigate the changing landscape.

Click here for: Key Financial Data for 2024

Income Tax Brackets adjust. The 2017 TCJA established seven federal income tax rates, namely 10%, 12%, 22%, 24%, 32%, 35%, and 37%. For the year 2024, the IRS has adjusted the tax brackets for various filers, including those filing separately or as married couples, with an approximate increase of 5.4% for each category.

2024 Tax Rate Schedule				
Taxable income ($)	Base amount of tax ($)	Plus	Marginal tax rate	Of the amount over ($)
Single				
0 to 11,600		+	10.0	
11,601 to 47,150	1,160.00	+	12.0	11,600.00
47,151 to 100,525	5,426.00	+	22.0	47,150.00
100,526 to 191,950	17,168.50	+	24.0	100,525.00
191,951 to 243,725	39,110.50	+	32.0	191,950.00
243,726 to 609,350	55,678.50	+	35.0	243,725.00
Over 609,350	183,647.25	+	37.0	609,350.00
Married filing jointly and surviving spouses				
0 to 23,200		+	10.0	
23,201 to 94,300	2,320.00	+	12.0	23,200.00
94,301 to 201,050	10,852.00	+	22.0	94,300.00
201,051 to 383,900	34,337.00	+	24.0	201,050.00
383,901 to 487,450	78,221.00	+	32.0	383,900.00
487,451 to 731,200	111,357.00	+	35.0	487,450.00
Over 731,200	196,669.50	+	37.0	731,200.00

So, in 2024, more income will stay in lower brackets. That's the good news. However, keep in mind that these "favorable" tax brackets are due to end after 2025. The top marginal federal income tax bracket returns to 39.6% at the end of 2025.

Given the adjustments in tax brackets and contribution limits, individuals may find it beneficial to review and potentially update their tax strategy for the upcoming year. Notably, the maximum allowable salary deferral into a defined contribution plan has been raised from $22,500 to $23,000. Additionally, contributions to health savings accounts (HSAs) have seen an increase to $4,150 for individuals and $8,300 for families.
(Note, indivduals age 50 and above may make a $1,000 catch-up contribution to their 401k plans. Also, HSA catch-up contributions of $1,000 are available for those age 55 and older.)

Here's a look at some of the key tax figure changes for 2024:

	2023	2024
Standard Deduction	$13,850 Individual Filers $27,700 Joint Filers	$14,600 Individual Filers $29,200 Joint Filers
Maximum elective deferral to retirement plans	$22,500	$23,000
Limit on annual additions to defined contribution plans	$66,000	$69,000
Health Savings Account (HSA) Contribution limit	$3,850 Individuals $7,750 Family	$4,150 Individuals $8,300 Family
Annual Gift Exclusion Limit	$17,000	$18,000
Unified Gift/Estate Tax Exclusion	$12,920,000	$13,610,000
Maximum Compensation subject to Social Security Payroll Tax	$160,200	$168,000

Keep in Mind:

SALT and sales tax deduction is still capped! The tax legislation imposes a cap on the combined deduction for property taxes, state and local income taxes, and state and local sales taxes at $10,000 annually. This limit remains unadjusted for inflation and is applicable to both single and married individuals filing jointly. However, for married taxpayers filing separately, the limit is set at $5,000.

Limitations on deductions. Before the 2017 TJCA, the Pease and Personal Exemption Phaseout (PEP) provisions reduced the value of itemized deductions for wealthy taxpayers. The law ends the limitation on deductions, but only until the end of 2025.

Capital gains and dividends: The tax rates for long-term capital gains and qualified dividends remain at 0%, 15%, and 20%, albeit with adjustments to brackets. In 2024, the 15% rate is applicable to capital gains or dividends that push taxable income beyond $94,050 for joint returns and surviving spouses, $63,000 for heads of household, $47,025 for single and married-filing-separately taxpayers, and $3,150 for estates and trusts.

The higher 20% rate applies to long-term capital gains or qualified dividends that exceed taxable income thresholds of $583,750 for joint filers and surviving spouses, $551,350 for heads of household, $518,900 for single filers, $291,850 for married-filing-separately filers, and $15,450 for estates and trusts.

(It's important to note that exceptions exist for art, collectibles, and section 1250 gains related to depreciation.)

Tax on net investment income. High-income individuals may find themselves subject to the 3.8% Net Investment Income Tax (NIIT), imposed on the lesser of net investment income or modified adjusted gross income (MAGI) exceeding $200,000 for singles or $250,000 for those filing jointly. These thresholds are not adjusted for inflation and remain consistent with 2023. Net investment income encompasses taxable interest, ordinary dividends, capital gains, and various other income categories, with the possibility of deducting certain expenses.

Qualified Business Income (QBI) Phaseout is coming. As part of the TCJA, Congress created Sec. 199A, which provides for a 20% qualified business income (QBI) deduction to pass-through entity (Sole-Proprietors, S Corps, Partnerships, and most LLCs) owners. This provision was enacted in direct response to the corporate (C Corp) tax rate reduction from 35% to 21%. Simply stated, the QBI deduction serves to potentially reduce a conduit entity's effective tax rate from 37% to 29.6%. Unlike the corporate tax rate reduction (which is permanent), the QBI deduction is scheduled to sunset on Dec. 31, 2025.

Planning Strategies Include:

Review estate planning documents and strategies: While the rise in the lifetime exclusion amount for gifts and estates to $13.61 million per individual in 2024 might suggest reduced estate tax concerns, it's crucial to note that several states, including Massachusetts, maintain distinct estate and inheritance taxes featuring significantly lower exemption levels compared to the federal estate tax exemption. Additionally, don't overlook the importance of essential documents like a power of attorney or health care directive in your overall planning.

For those with considerable assets:

- Consider large gifts now based on the current lifetime gift/estate exclusion before the sunset provision takes effect at the end of 2025. Under current law, at that time the lifetime amount is slated to be cut in half.

- The annual level of gifts that one person may give to another without the need to file a gift tax return has increased to $18,000 in 2024. If you make tuition or medical payments directly to the provider, those amounts to not count toward this "annual exclusion" limit.

- Consider using the higher annual gifting limit to transfer wealth to other family members, including 529 plans that allow five years of gifts to be made up front.

- Develop a strategy for low cost-basis assets: Ensure stepped-up cost basis is maintained when property is transferred at death. For example, careful consideration should be made around lifetime gifts that may jeopardize a step-up in cost basis on property at death. In the case of a lifetime gift, the cost basis of the property generally carries over to the person receiving the gift.

Higher contribution limits for retirement accounts and health savings accounts allows savers to build their tax-advantaged savings.

New parent withdrawals. After the arrival of a new child through birth or adoption, a newly minted parent (or parents) has the option to withdraw up to $5,000 (each, as the case may be) from their account without facing

the customary 10% penalty associated with early withdrawals (although income taxation still applies). This withdrawal opportunity extends for up to one year following the child's birth, and there is a provision to replenish the funds into the retirement account at a later time.

Consider Roth IRA conversions: A thoughtful strategy utilizing Roth conversions that takes into account the increased income tax bracket limits can be an effective way to hedge against higher taxes in the future. As already mentioned, tax rates are scheduled to increase after 2025 when most of the current tax law provisions expire. Lower tax rates now translate to a lower cost for converting.

Explore the "back-door" Roth IRA contribution: Taxpayers at higher income levels are prohibited from contributing directly to Roth IRAs. One option is to consider funding a non-deductible (i.e., after-tax) IRA and then subsequently converting to a Roth IRA. For those that have existing IRAs funded with pre-tax dollars, it's important to understand that after-tax and pretax IRA funds must be converted to a Roth IRA on a pro rata basis.

Consider the Qualified Charitable Distribution (QCD) if you are a retiree: Individuals who own IRAs and are aged 70½ or older can gain advantages by making tax-free charitable contributions directly from their IRA. Notably, these QCDs are now indexed for inflation for the first time. In 2024, individuals in this age group can make tax-free distributions of up to $105,000 from their IRA directly to a charity, an increase from the $100,000 limit in 2023. This distribution has the potential to reduce taxable income and, with limited exceptions, is recommended for all individuals over the age of 70½ who intend to make charitable contributions. The avoidance of taxable income via the QCD is always better than an income tax deduction that may be gained by gifting other assets to charity.

SECURE 2.0: Roth to 529 Conversions begin. Beginning in 2024, section 126 of the SECURE Act allows unused funds from a 529 college savings account to be transferred to a Roth IRA free of tax or penalties. For many parents this provides an answer to the question of what to do with a 529 plan if not all the funds were used.

Here are the rules around this provision:

- The 529 plan must have been open for at least 15 years.
- The lifetime limit for the rollover is $35,000 per beneficiary.
- The Roth IRA must be in the name of the beneficiary of the 529 plan.
- Any contributions to 529s made within the past five years (and earnings on those contributions) are ineligible to be moved into the Roth IRA.
- The annual limit on the rollover is the IRA contribution limit for the year, less any other IRA contributions.
- The rollover must be a plan-to-plan or trustee-to-trustee rollover. This means you cannot take a check from the 529 plan to deposit into the IRA.

- The beneficiary is not subject to income limitations to contribute to a Roth IRA.

- However, the beneficiary must have earned income, and the amount that can be rolled over is the lesser of earned income or the IRA contribution limit. Therefore, if the beneficiary is not working, no rollover is available because there is no earned income.

Wondering if you should help your child or grandchild with either education savings or retirements savings? Now, you may be able to do both at the same time. For example, if a 529 account is established during the first year of a child's life, the parent could begin transferring funds from the 529 to a Roth IRA when the child is roughly 16 years old, assuming the child has earned income from working.

The language in the legislation ties the $35,000 lifetime limit to the beneficiary level, so a parent could transfer that amount for each child. This may allow time for contributions to appreciate tax free within the 529 and eventually be transferred to the Roth where it could be withdrawn tax free if requirements are met. Don't forget that several states also provide an income tax advantage when contributions are made to the state-sponsored 529 account.

Seek Professional Advice

The advent of a new year ushers in fresh opportunities, particularly in the realm of personal financial planning. Given the diverse nature of personal circumstances, it is crucial for individuals to engage with a seasoned tax or legal professional alongside a financial advisor. This collaborative approach ensures a tailored discussion on how these strategies can be effectively employed to achieve specific objectives related to wealth accumulation, preservation, and transfer.

Important Disclosures
Pallas Capital Advisors, LLC and its representatives do not provide legal or tax Preparation Advice. **You should consult a legal or tax advisor regarding any legal or tax information as it relates to your personal circumstances.**

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice. CRN24_181