NOVEMBER 14, 2024 – ANNUAL YEAR-END TAX UPDATE

Michael Gibb: Good morning, everyone. Welcome to the 2024 Year-End Tax Update presented by the man we all know and love, Marc Verdi. Marc is our Director of Tax & Financial Planning, as well as a Tax Advisor to many of our clients. A couple of housekeeping notes before we start. We do have the chat feature open for any questions that anybody might have during the presentation. The chat is confidential. Nobody can see your question or your name except for those of us that are hosting the call. We'll answer those questions to the extent we have time at the end. Marc has got a lot to cover here, so we may run out of time. If we do, we will follow up with answers after the call. With that said, I'm going to turn it over to Marc.

Marc Verdi: Thank you, everyone, for taking time out of your day to join us for our 2024 Year-End Tax Update. As Michael mentioned, we'll spend about 45 minutes together today. There is a lot to cover and in interest of time, I'll be hitting some of the highlights throughout the slides. Hopefully, you will find some of this information helpful. We will try to focus on topics that are the most impactful to the largest number of our clients. Obviously, everyone's situation is different, something you'll hear me say throughout the presentation. It is important to touch base with myself, your CPA (or tax preparer), or your Wealth Management Advisor, if you have questions specific to your situation and we can help you address those at that time.

As Michael mentioned, I am the Director of Tax and Financial Planning at Godsey & Gibb, and have been the head of this department since joining the firm in 2013. To provide a bit of info about our team, we have a dedicated team of CPAs and CERTIFIED FINANCIAL PLANNER® professionals on our team that provide tax return preparation, tax planning and consulting, and financial planning services to our wealth management clients who engage us to do so. Our team offers support whether it is a comprehensive financial plan, an annual income tax return preparation, or even just a one-off question on a tax-related topic or financial planning-related topic, we work with you and your Wealth Management Advisor to help provide guidance related to your individual situation.

Now, let's dive in starting with the agenda. We will touch primarily on individual income tax, the various tax acts that affect most of us as we prepare our tax returns, and then some tax planning strategies for 2024 and into 2025 or beyond (we typically take more of a multi-year approach as it relates to figuring out what is most tax efficient for our clients). If we have time at the end, we will touch on estate and trust income tax as well as some gift tax items and some strategies to help minimize taxes. We will also touch on the importance of making sure that your estate plan and estate planning documents are set up in the manner in which you intended with all of the tax law changes that occurred over the past few years. Finally, we will end with a brief summary. As Michael mentioned, if we have the opportunity to address some of your questions at the end, we will tack those on. If not, we'll certainly get to those questions after this call. For those of you that called in and are not seeing the slides live on the screen but downloaded the PDF and are using that, I will try to be mindful and let you know when I go to the next slide. I apologize in advance if I move too quickly or neglect to mention that as I'm going through.

Moving on to the next slide and into individual income taxes, we have the Tax Cuts and Jobs Act or TCJA. This is now probably pretty familiar, as it has been a part of our tax law since 2018 and is effective through 2025. Essentially, just to summarize, it lowered income tax rates across the various income tax brackets and maintained the preferential qualified dividends and long-term capital gains tax rates at 0%, 15%, and 20%. It also allowed a 20% qualified business income deduction for certain pass-through entities. In addition, there was the doubling of the standard deduction, so many individuals are taking a standard deduction now versus itemizing. This is something we will get into more as we go through the presentation.

Now that the election has passed and we have the results, we have had quite a few questions around whether the TCJA would be extended beyond tax year 2025 with the election of Donald Trump as the 47th president of the United States, and now with the Republican majority in both the Senate and House as well. I don't have a crystal ball, but my opinion is that it is highly likely that many of the provisions within the TCJA will be extended beyond 2025, along with possibly some other tax cuts that President-elect Trump mentioned on the campaign trail. We will certainly stay on top of this and bring you up to date on anything we learn as it relates to tax planning for 2026 and beyond. To this point, we have been focused on anticipating the expiration of the TCJA at the end of next year and planning accordingly in terms of income tax planning and whether you should take certain deductions or accelerate or defer income. Now, while many of these concerns have been assuaged a bit, we can still only go with the information we have at hand right now: that the TCJA is only effective through next year or 2025. I can't believe I'm saying next year is 2025.

Going on to the next slide, we have the ordinary income tax rates and the standard deduction amounts for individuals, whether you're filing single, married filing jointly, or head of household (for those who may be a single parent or have a dependent, whether it's your child or another dependent relative in your household). On this slide, you can see where you would fall in terms of your ordinary income tax bracket. At this point, the IRS has announced most of the 2025 inflation adjustment amounts for these rates and deductions, so I've included those in these slides as well for future reference. The next slide shows the 2025 ordinary income tax rates.

Moving on to the next slide, we have the 2024 long-term capital gains tax rates at 0%, 15%, and 20%. The tax bracket into which you fall for long-term capital gains rates depends on your overall taxable income and you can see the taxable income ranges on the screen for 2024 and then for 2025 on the next slide. In 2025, you can see a slight increase in the taxable income numbers under each respective bracket.

The next slide shows the 2024 standard deduction amounts, doubled with the TCJA. As they were doubled, a lot of our clients are taking the standard deduction versus itemizing, but there are still opportunities to itemize where appropriate for your situation. The 2024 standard deduction amount is on this slide. On the next slide, we can see that the standard deduction amounts increased slightly for 2025. As you can see, going back to the 2024 amounts, if you look at the married filing jointly section, it is $29,200. If you're both over age 65, there is another $3,100 on top of that, so $32,300 would be your total standard deduction. That is a pretty good-sized deduction. Again, a lot of clients are using the standard deduction, and in some ways, it simplifies tax preparation. However, if you have state and local income taxes, mortgage interest, charitable contributions, etc., it may still be worth taking the time to compile your itemized deductions and see if there is going to be any added benefit for you.

On the next slide, we'll discuss allowable itemized deductions and the big changes here. Again, this is likely familiar at this point. I want to highlight that the state and local tax deduction, or the second bullet point, is limited to $10,000. This is a significant change for individuals who are in higher-tax states and is something that was touted on the campaign trail. President-elect Trump said that he may do away with this limitation after 2025. We will see what happens here. In addition, I want to highlight the “no miscellaneous itemized deductions” bullet at the bottom. Tax prep fees, investment management fees, and/or unreimbursed employee expenses are no longer deductible. This is something to keep in mind. Charitable contributions and medical expenses have Adjusted Gross Income (AGI) limitations, which we will mention a bit throughout the presentation. Your AGI is essentially all your income before your deductions, and the deductibility of certain items as well as what we'll talk about a little bit later are considered “tax triggers” or surtaxes and additional costs that you could unintentionally run into simply because of your income level. So, we want to touch on those and be sensitive to those triggers or additional costs as we're planning for 2024 and beyond.

Moving on to the Net Investment Income Tax (NIIT). As you can see on this next slide, it is essentially a 3.8% surtax on your net investment income, which includes the items on the left-hand side of the slide such as interest, dividends, capital gains, rents, etc. It is really a surtax on the lesser of the amount of your net investment income, or to the extent that your income exceeds the modified adjusted gross income (MAGI) amounts on the right-hand side of the slide. The next slide has an example of the NIIT calculation. This tax is something to keep in mind if you're running up against some of these income amounts, because you could have long-term capital gains and qualified dividends that you think are being taxed at 15%, but because of your overall income, are actually subject to a 15% + 3.8% tax. This is something to keep in mind as you're looking at the components of income, as well as the amount of income, to get to that AGI number that could subject you to those tax triggers.

On the next slide, we will get into The SECURE Act. This act was put into effect in 2019 and primarily affects taxpayers in 2020 and beyond. We have a few highlights on the slide. The first point, and as a reminder, there is no age limit on contributing to your Traditional IRAs. It used to be that once you were age 70 1/2, you could not contribute to your IRAs anymore. Now, if you are still working, you can still contribute to your IRAs regardless of your age, if your contribution does not exceed the lesser of your wages or the annual contribution limit. In addition, The SECURE Act changed the Required Minimum Distribution (RMD) age to 72. Now, with The SECURE Act 2.0, it is age 73 and it will be age 75 beginning in 2033 (which we will see on another slide in a moment). Lastly, I want to highlight "Stretch IRA" distributions, as distribution periods have been limited for certain beneficiaries. We will get into more detail on this for certain beneficiaries who have inherited IRAs.

On the next slide, for beneficiary distributions, the most common one we see is a surviving spouse inheriting an IRA. In this situation, they are able to treat the IRA as their own and take distributions from the inherited IRA over their own life expectancy. Non-spouse beneficiaries, as we will discuss over the next few slides, are now subject to the “10-year rule,” if they inherited an IRA in 2020 or after.

On the next slide, we cover the proposed versus final regulations. When this initially came out, it often raised the question of, “I know I need to take this money out over 10 years, but do I need to take distributions every year (in years 1 through 9), or can I just take it all in year 10?” For many, it still made sense to take it in year 1 through year 9 to spread out their income stream and the taxable income effect over those years versus waiting until year 10. Depending on the size of the IRA, a large distribution could cause a significant spike to your taxable income as well as your tax liability, so annual distributions made sense. It is important to always consult your tax advisor for advice on your personal situation.

After a few years of this varied interpretation, the IRS finally issued regulations confirming that yes, non-spouse beneficiaries must fully liquidate their inherited IRA within 10 years (the 10-year rule). As we discuss on the next slide, they also laid out whether you need to take distributions every year between years 1 and 10, or if you can wait until year 10 to take the money out if you have that flexibility. For non-spouse beneficiaries who inherited IRAs from someone who passed away before their required beginning date (the date of which they are required to start taking RMDs), then only the “10-year rule” applies. So, if you inherited an IRA from someone who was not of RMD age (didn't have to start taking RMDs), then you can wait until year 10 and you’re not required to take distributions before that. Again, you may want to distribute funds each year if it makes sense, but you would not be required to. Now, if you are a non-spouse beneficiary and inherited an IRA from someone who passed away after their required beginning date (they had started taking RMDs), the "10-year rule" applies and you have to take RMDs in years 1 through 9 and have it fully liquidated by end of the 10th year following the original account owner's passing. The amount of your annual RMDs can be based on the longer of the non-spouse beneficiary's life expectancy or the decedents remaining life expectancy (based on IRS life expectancy tables). So, you would have to take RMDs from an inherited IRA if the person who passed away was already taking their RMDs, but the amounts may depend on life expectancy tables, and you may get to year 10 and still have a significant amount to liquidate. This means that you may want to consider smoothing it out over the 10-year period versus having a larger spike in your income down the road.

On the next slide, we have eligible designated beneficiaries. We were just discussing non-spouse beneficiaries, who are considered "non-eligible designated beneficiaries." A "designated beneficiary" is someone designated on your IRA forms. In other words, when you fill out your IRA forms, you designate to whom you want your IRA to go, i.e., your spouse, children, grandchildren, a trust, charity, etc. Designated beneficiaries can be eligible or non-eligible. We have been discussing non-eligible designated beneficiaries, such as non-spouse beneficiaries. You're either a non-eligible designated beneficiary, and thus you are not part of the group on this current slide; or otherwise, you're an eligible designated beneficiary, the most common being the surviving spouse, and you're able to take the inherited IRA distributions over a longer period of time. In other words, you're able to stretch your distributions out beyond the "10-year rule," potentially even over your life expectancy. I will point out the second sub-bullet point here, children who have not reached the age of majority (age 21 in the case of this law), have to take distributions based on the life expectancy tables, which would likely be a very a small amount based on their age. However, when they reach the age of majority (21), they have to switch to the "10-year rule," essentially liquidating the inherited IRA by the time they turn 31 (10 years out from age 21). This is another one of those things that seems to get more complicated than it needs to be and is why you should always consult with your tax advisor if you inherit an IRA, to make sure you do not run afoul of any rules.

Lastly, I'll also mention that due to the confusion over the last few years surrounding when to start RMDs and how much needed to be taken, the IRS waived any penalties for not taking RMDs. Even through 2024, if you do not take your RMD for an inherited IRA that you inherited in 2020 or beyond, there will not be a penalty, but the penalties will not be waived starting in 2025. Also, at the bottom of the slide, individuals that inherited IRAs prior to 2020 may also be exempt as the rules surrounding inherited IRAs came into effect for IRAs inherited after December 31, 2019.

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On the next slide, we move on to The SECURE Act 2.0. There were a lot of provisions within this act. One of the main ones that I'll touch on, is that they made changes to try to improve retirement saving opportunities, including automatic 401K plan enrollment and increasing the RMD age to 73. On the next slide, you can see the new RMD rules. The RMD age increased to age 73 beginning back in January 2023 and will increase to age 75 in January 2033. The RMD age is when you need to start taking your required minimum distributions. In this act, they also reduced the excise penalty for failure to take your RMD. They reduce it further if corrected in a "timely manner," which is a vague term, and I think it really is a case-by-case scenario. In other words, if you realize that you didn't take your RMD and took it as quickly as possible once you realized you didn't take it, the excise tax could potentially be reduced to 10%. This penalty is a percentage of the RMD amount that you were supposed to take out and did not.

On the next slide, we continue talking about SECURE 2.0 Act, and retirement catch-up contributions. For years, a catch-up contribution has been available for individuals over age 50 who contribute to IRAs and retirement plans. If you're age 50 and older, there is an additional amount that you're able to contribute to your traditional and Roth IRAs. For example, you can contribute an additional $1,000 to your Traditional IRA, and an additional $7,500 catch-up contribution to your retirement plans. They are adjusting that number for inflation going forward versus keeping it stagnant and making jumps after multiple years of it being the same amount. Coincidentally, it's still $1,000 right now, but that is going to be adjusted for inflation or revisited each year. If there is an inflation adjustment that warrants an increase in the catch-up contribution, then the IRS will make those changes.

One thing I'll point out, is that in 2025, there will also be an increased catch-up contribution amount. In addition to the age 50 and older contribution, if you are between the ages of 60 and 63, you will have an additional amount that will be added to your contribution limit. The total contribution limit, starting next year, for individuals that are aged 60 to 63 could be up to $34,750. Also included in this, was that those catch-up contributions would have to be Roth contributions. This is, again, adding a little undue complexity to the tax law in my opinion. However, they have granted a 2-year delay for the effective date of having to treat those as Roth catch-up contributions. There was some lobbying from plan sponsors and custodians regarding having to make changes to plan documents and update systems, preventing the implementation of this from being possible as quickly as it was enacted. This has been delayed until 2026 effectively at this point, but could change, and we will keep an eye on it. For now, starting in 2025, if you're between the ages of 60 to 63, that additional catch-up contribution can be pre-tax (if you're contributing pre-tax), or it can be Roth. In other words, it can be one or the other versus it being mandatory to be a Roth contribution. Again, we will keep an eye on that for any future changes.

The next piece of legislation, the Inflation Reduction Act, was passed in 2022. There were a lot of provisions within this act. The one we're going to focus on the most during this call today is the clean energy credits that are in effect (start in 2023) for several more years. I will get into this more over the next couple of slides.

On the next slide, we have the Energy Efficient Home Improvement Credit. This is a credit that is equal to 30% of the costs of certain qualifying energy efficient home improvements for an annual maximum of $1,200. This includes the labor, materials, and installation - it all qualifies for the credit. We have some qualified home improvements listed on the slide. There is also a $2,000 annual maximum for qualifying heat pumps and water heaters that we discuss on the next slide. Previously, before the Inflation Reduction Act, a lot of the tax credits that were for energy efficiency improvements were one-time credits or lifetime limits. If you used up the $1,200 in 2024, and then made additional improvements in 2025, you wouldn't have had access to any additional credits because you already took the credit. Now, these are now annual maximums, so if you had eligible credits this year and took the $1,200 credit against your taxes (a dollar-for-dollar credit against your tax liability), you would be able to do the same thing next year if you had more qualifying purchases. So, this is a significant change to these credits if you're thinking about making any of these types of changes or adding these types of improvements to your home. After 2024, no credit will be allowed unless the manufacturer creates a product ID number, and the taxpayer includes that number on their tax return. It will be interesting to see what is generated between the IRS and manufacturers to make sure that product ID numbers are available for all of us to be able to use on our tax return, and what the forms are going to look like in 2025, to ensure we include the right information and get the credits we deserve for making these types of purchases.

On the next slide, we have the Residential Clean Energy Property Credit. This is primarily related to the installation, labor, and materials of solar panels, solar water heaters, etc. Currently, in 2024 through 2032, it is going to be 30% of the cost and there is no overall dollar limit. There's one exception though for some fuel cell property that we detailed on the bottom of the slide, but generally speaking there are no overall dollar limits for that credit amount. The amount of the credit as a percentage of the cost decreases to 26% in 2033 and 22% in 2034.

On the next slide, we have the Clean Vehicle Credit. This is for purchasing electric vehicles. They added pre-owned vehicle credits, as this used to be just for brand new vehicles. Now the credit includes previously-owned clean vehicles as well as qualified commercial vehicles. You can see the credit amounts on the slide. There are several limitations that apply based on the retail price and your adjusted gross income, so it is a good idea to check the fine print to make sure that the vehicle you're purchasing is eligible for these credits. I also believe that starting in January 2024 (this year), that dealers must submit information to the IRS through the IRS Energy Credits online. This will help buyers have the information they need, as the dealer is supposed to provide the buyer with a copy of the IRS' approval of the dealer submission, showing that the vehicle qualifies for the Clean Vehicle Credit. It sounds like this is making it a lot easier for taxpayers when they do buy a vehicle, to have the documentation they need to support the credit on their tax return.

Now, we will move into some tax planning strategies for 2024, even getting into 2025 to help reduce your tax liability. This next slide, Current Tax Law Strategy Considerations, goes into pre-tax deferrals and maximizing your retirement plan (401K and 403B) plans as well as maximizing your IRA contributions, whether pre-tax or Roth. This is a tax efficient strategy if you're still working, especially if you're in your peak earning years or near peak earning years. You want to consider maximizing the deferral of your retirement plan contributions so that you avoid being taxed on those monies at your current tax rate. Let's say you're in the 24%, 35%, or even 37% rate bracket because you're currently working and you're in your high earning years. When you retire, your wages are no longer part of your overall income, and you presumably will be at a lower income level and thus in a lower tax bracket at that point, and distributions from what would probably be in a rollover IRA (if you roll over your retirement plan to an IRA) will be taxed at a lower rate. Also, SEP IRA contributions, particularly if you're self-employed, would recommend also maximizing your pre-tax contributions. You can see the contribution limits on the slide.

On the next slide, we have Roth IRA conversions and/or Traditional IRA distributions, whether you take distributions from your IRA and incur taxes now (before you have to at age 73 for your RMDs) or as we talked about earlier with inherited IRAs, take money out between years 1 and 9 even if you don't have to. That might be a more tax efficient strategy for you under the current tax rates, again, before the TCJA sunsets or expires at the end of 2025. Again, we will keep an eye on that, to see if it gets extended. There are also things you want to consider in addition to your tax bracket such as your cash flow, the timing of other sources of income, your Social Security, having to take money out of your IRA for RMDs, other assets that you may hold, or other taxable income sources to make sure that you're not unknowingly adding or running into tax triggers, such as those from the NIIT that we discussed earlier. Medicare premiums are another, as I mentioned at the bottom of this slide. Your Medicare premiums are impacted by your AGI because the Social Security Administration reviews your tax return each year and based on what your AGI is, your Medicare premiums could be increased (an income-related Medicare adjustment amount). This is something to keep an eye on. It may be something that's unavoidable based on your income and should not be the only reason why you would decide to take distributions from your IRA. It is just something to just be mindful of instead of being blindsided by an increase in your premiums or being subject to the NIIT.

Moving on to the next slide. Realizing long-term capital gains at the 0% rate or the 15% rate may make sense in case it is something that is not extended beyond next year. Here at Godsey & Gibb, our tax and financial planning team works with you and your Wealth Management Advisor, as well as with the portfolio management group here, to determine whether harvesting losses makes sense. Annually as a firm, we look at whether there are synergies between tax loss harvesting from a tax standpoint, but more importantly from an investment management standpoint. We have the benefit of being essentially a CPA firm within a wealth management firm, so on one hand we want to look at minimizing your taxes, but we don't look at those in a vacuum. We look at those as they relate to your overall investment management objectives as well as the firm's investment strategy. If it makes sense to harvest losses, then certainly that would be appropriate, but we do not want the tax tail to wag the dog if you will. We wouldn't want that to be the sole decision as it relates to managing your assets and your investments, but we certainly consider taxes within the decision-making process.

Moving on to itemized deductions versus the standard deduction. We talked about this a little bit earlier. To reiterate, the standard deduction is more prevalent, but it may be worthwhile to “bunch” your itemized deductions for the additional tax benefit. A couple of areas in which we recommend this, are with charitable contributions and medical expenses. We've actually talked about this in some of our newsletters. We have a Q&A section within our Wealth Management Dispatch that has covered this topic. The Q&As are available online on our website at www.godseyandgibb.com through the education tab on the home page. This will take you to some of our prior Q&As. I highly recommend perusing those at your convenience if you haven't seen those before. Anyway, being able to “bunch” your charitable contribution in alternate years can be beneficial to you, if it gets you over that standard deduction hurdle. Going back to the married filing jointly numbers I mentioned earlier. Your standard deduction would be $32,300 If you're married filing jointly and you're both over age 65. Let’s say for example that you give $25,000 per year to your alma mater or your other preferred charity. If that is your only itemized deduction, then taking the standard deduction would seem to make more sense as instead of $25,000, you're taking $32,300. However, if you decide to bunch the charitable contributions in 2024, and again as an example, instead of giving $25,000 this year and $25,000 next year, you give $50,000 in 2024 to get the added benefit of a $50,000 deduction in 2024 (versus $32,000.) Next year, you would take the standard deduction of $32,300 (or whatever the amount is, as it is adjusted for inflation next year). Then in 2026, you do another bunching strategy for your charitable contribution. That is one example of how bunching could be beneficial.

Also, your charitable contributions don’t necessarily have to be cash. If you donate appreciated stock, either directly or by using a donor advised fund, you get the tax benefit of the fair market value of the stock that you gift on the date that you gifted it and you avoid the capital gains tax. If you had sold the stock first and had a very low basis and a large capital gain, you would pay taxes on that gain and then gift the net after-tax funds to charity. By gifting the appreciated stock straight to charity, you receive the fair market value tax deduction and avoid the capital gains tax. A donor advised fund is another way to accomplish that, but there is a bit of added flexibility as you're able to make that large donation in one year and then you have control over how those funds are paid out to various charities over multiple years. You're able to get the full deduction of the fair market value of the donated stock in the current year, while having the opportunity to make charitable distributions from your donor advised fund in future years. If you have questions, speak with us or your Wealth Management Advisor if it is something that you think would be beneficial for you, your tax situation, and your philanthropic goals.

On the next slide, we talk about "bunching" medical expenses. As I mentioned, there is the 7.5% of your AGI hurdle that needs to be cleared before you can start deducting medical expenses, so it is not a very prevalent deduction that we see with our clients. However, if you know that in addition to your copays, prescription drugs, long-term care premiums, and medical premiums, that you're going to have a significant elective surgery or enter an assisted or independent living facility with a significant entrance fee (a portion of which could be considered medical expenses as the facility typically gets an annual letter from their auditors saying that a certain portion or percentage of the entrance fee could be considered a deductible medical expense), then these types of significant costs could be consolidated or bunched into one year. By bunching the costs, it may get you over that 7.5% hurdle and be beneficial from a tax perspective. If you know there are expenses that that you're going to incur at some point, if there is an ability to time those expenditures, it can be beneficial from a tax perspective.

Finally, at the bottom of the slide, we have "evaluate the timing and of transactions eligible for the tax credits." As we saw with the Inflation Reduction Act, there are a lot of tax credits that are available. When considering making energy efficient improvements to your home, adding solar panels, or purchasing clean vehicles, it can be helpful to determine which year may be the most beneficial to make those purchases from a tax perspective (not just from a personal perspective). For example, let's say that you know that 2025 is going to be a high-income year for you. That you are going to have significant income coming in next year, and you want to consider having a credit to offset some of that tax liability. In this case, you may want to defer such purchases to 2025.

The next slide, qualified charitable distributions (QCDs), covers another way to meet your charitable goals while excluding the distributions from your taxable income. You must be over age 70 1/2 on the date the QCDs are made, and the funds must go directly to the charity from your IRA. You can have a check made out that is payable to the charity if it's something that you wanted to deliver personally;

otherwise you can instruct your IRA custodian to send the funds directly to charity. Note that those amounts are not included in your taxable income. This can be done for amounts up to $100,000 per year and it is counted towards your RMD [UPDATE: the 2024 QCD limit is $105,000, and the 2025 QCD limit will be $108,000]. If you're someone who has RMDs and you gift to charity anyway, it may make more sense to have the funds paid as a QCD out of your IRA versus making a distribution to you, which is taxable to you.

I want to remind you that the onus is on you as the taxpayer, to make sure your tax preparer knows that you made these QCDs. This is because when you get the Form 1099-R at the end of the year (let's say you get one from Schwab that shows the gross distributions that you took out of your IRA), there is also a box for taxable distributions. Typically, the taxable distribution number reported is the same as the gross distributions (there is a box that is checked that says the taxable amount was not calculated), because it is on you to communicate the taxable distribution amount to your tax preparer. As an example, let's say that your distributions needed to be and were $100,000 (you had an RMD of $100,000) and you decided to give $50,000 of that to charity as a QCD. The 1099-R is going to show $100,000 in both the gross box and the taxable distribution box. You would need to let your tax preparer know that you gave $50,000 directly to charity as a QCD. If we're preparing your taxes, we would reduce the taxable portion of your gross distributions by those QCD. Using the same example, you would be taxed on the $50,000 that you took out of your RMD for your own use and not the $50,000 that was given to charity. Again, and I know this is repetitive, but your AGI would also be reduced, which can be beneficial in terms of your Medicare premiums and not being subject to the 3.8% NIIT, as you've kept some or all of the gross taxable distribution out of your taxable income and out of your gross income by giving it directly to charity.

Finally, there are management fees. As I mentioned earlier, itemized deductions are not available for tax prep fees, investment management fees, or reimbursed employee expenses. We used to recommend having all management fees taken out of your taxable account, because then you could deduct it on your tax return. Since that is no longer the case, and hasn't been for a few years, we recommend having your IRA management fees deducted and paid from your IRA. Essentially, in doing this you are getting a tax-free distribution from your IRA to cover those management fees. Now, only the fees related to that specific IRA can be paid out of the IRA. You cannot pay another account’s management fees out of the IRA.

We are getting close to the end of the individual tax, and I know we're running up on time, so I'll try to move a little bit quicker.

At this time of year, it is important to consider what your tax liability is looking like for the year, because the IRS wants its money throughout the year, whether it's withholding from your paycheck (if you're still working), IRA withholdings from your RMDs, or your quarterly estimated tax payments. At this time of year, it's a good idea to look and kind of square up where you are. If you had a more significant amount of income this year than you had previously estimated, you may want to bump up your withholding for your remaining distributions from your IRA or your paycheck for example. Alternatively, if you front loaded your withholdings and tax payments earlier in the year because you expected your income to be higher (but it's actually lower than you expected), you may be able to forgo the next payment. Again, this is something you want to go over with your Wealth Management Advisor or your tax preparer/tax advisor to address your specific situation. There is also an IRS withholding estimator for folks who are still working. I put the link at the bottom of the slide, but you can also Google IRS withholding estimator and the results should take you to the IRS website and to the link. This lets you put in information about your pay, whether you're married and/or have children, etc. and it can help you determine what your withholding should be. You can give that to your payroll department to adjust your withholdings amounts.

The next slide is the last part we're covering focused on individuals, and it's not a 2024 tax planning strategy per se, but I would be remiss if we did not address and speak to our clients who were heavily impacted by hurricanes Debbie, Helene and Milton, particularly in North Carolina, South Carolina, Georgia and Florida. The IRS has provided some tax relief to the folks in those areas. You can see the various deadlines and periods of time that are covered on the slide, but essentially, the IRS and state tax authorities have given those who qualify until May 1, 2025 to make certain tax payments and file certain tax returns that are due during those time periods. As this could be either statewide relief or for specific counties, you need to check and see if any of these apply to you (there is some fine print related to this). Even though these are available, I would guard against it and wouldn't necessarily recommend it, for primarily two reasons. The first being that keeping up with regularly scheduled tax payments and regularly scheduled tax return filings by normal deadlines is already complicated enough. Trying to determine if you'll qualify for this extended relief or postponements just makes it a little more complicated. Secondly, you must note on the payments and on the tax returns that you file that you qualify for this relief. So, there are additional notations to make on your payments and returns, and I personally would not want to rely on the IRS to properly treat the payments that you make and the tax return filings that you filed, if you paid them and filed them later than they were regularly scheduled, but by May 1st deadline. This is just from experience, especially during COVID. I envision a barrage of IRS notices saying that you have penalties and interest assessed for making late payments or filing returns late, only to have to go back to the IRS and explain to them that you qualified for this relief, and therefore did make your payments on time (as they were before May 1st). I'm not saying you can't take advantage of this relief as this was put in place to help those who were displaced or affected and are not able to meet the deadlines for tax payments or certain tax filings.

Our thoughts and hearts are with those that have endured these devastating storms and are still recovering from them. Just from a practical perspective, for those of you who can meet the regularly scheduled deadlines, we highly recommend sticking to the original deadlines.

I know we're pretty much out of time, but I want to mention a couple of things on the estate and trust side and also on the gift side. The income tax rates for estates and trusts that are on the next slide are much more compressed than the individual. If you go to the next slide, the “Estate & Trust Tax Law Overview” slide, you reach the 37% tax bracket at $15,200. One tax planning tip, is that if you have beneficiaries that you know are in lower tax brackets, and the trust document allows for distributions to those beneficiaries, it may make sense to distribute some of that income out to the beneficiaries so that the taxes on the income are taxed at the beneficiaries individual level rather than the trust level.

Finally, the estate and gift tax lifetime exemption amounts are adjusted each year. I wanted to include those in the slides. This year it is $13.61 million per individual, or $27.22 if you're considering a married couple and their combined estates. Next year, it is almost $14 million per individual and almost $28 million for couples. The annual gift tax exclusion amount is $18,000 per recipient, that is doubled to $36,000 if you're married and you split the gift. This will be $19,000 and 2025.

As you see on the next slide, with 529 education savings plans, you can gift up to five years in one year. If you have grandchildren or children that are going to college, you can gift up to $90,000 (or $95,000 next year) and treat it as a gift that has been elected on a gift tax return as having been made over five years. This is so you don't use up any of your lifetime exclusion amount but are able to make a sizable gift and have a possible state income tax deduction in the year that you make the gift.

Finally, we have the deceased spouse’s unused exemption amount. This is something that is very important and can save clients who have taxable estates potentially millions of dollars. If a spouse passes away and they don't use up their lifetime exemption amount, whatever remaining exemption amount that is available (up to the $13.61 million in 2024 and almost $14 million next year) is portable. You have to file an estate tax return, a Form 706 return, electing to port or transfer this unused exemption amount over to the surviving spouse. Doing this could essentially double the surviving spouse’s lifetime exemption amount and allow them to avoid estate taxes as well.

As a reminder, you should revisit your estate planning documents, your wills, your trusts, your powers of attorney, medical directives, etc. Get with your estate attorney and ensure that your estate plans accurately reflect the tax law, especially with all the changes that have been happening over the years. This is particularly true if you move states, as you want to make sure that your estate plan is updated for the state of domicile and that they reflect your intentions under the current law.

I will leave it there. Everything else you see on the slides are summary points to reiterate what we had talked about. These will be available online for future reference. Again, if you have questions, we can address them after the call and we will have the transcript and the replay of this online in the next couple of weeks. So, you will be able to watch this if you did not get a chance to watch it today. Thank you for taking the time to be with us today. I know it is a lot of information covered in a short amount of time, but hopefully some of it was beneficial and again reach out to your Wealth Management Advisor, CPA, or tax preparer if you have questions and/or would like to discuss your situation.

Michael Gibb: Thank you, Marc. Again, there was a lot of information and Marc actually took care of the information that I was going to share at the end. Thank you again for giving us your time. Hopefully, you got some value out of this, and we are looking forward to hearing from each of you in the future.

Marc Verdi: Thank you so much.
