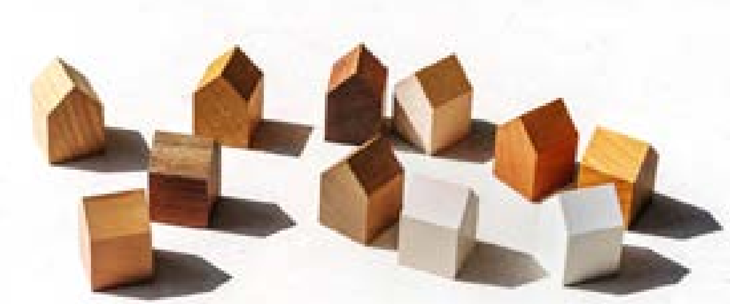
Tax strategies for your trust and estate



There are many legal reasons why you would want to create a trust, including to avoid the probate process and setting rules for how you want certain assets and funds to be distributed.

But when creating a trust, you also need to consider how the money and assets inside the trust will be taxed. Here are some suggestions for effectively dealing with the tax liability created by a trust:

- **Distribute trust income to beneficiaries.** To hit the top tax rate of 37% in 2024, a single taxpayer must have taxable income of $609,350 ($731,200 married). By comparison, income from certain types of trusts would begin getting taxed at 37% at only $15,200. That's a pretty big incentive to distribute income generated by certain trusts. So if a trust's beneficiary is in a lower tax bracket, a distribution to the beneficiary could result in a smaller tax liability.
- **Use your annual gift exclusion.** You can give any person or trust an amount of money up to that year's gift exclusion amount ($18,000 for 2024) with neither you nor the recipient paying any income taxes. But the annual exclusion is a "use it or lose it." If you don't use the exclusion for one tax year, it can't be carried forward to another tax year. There's also an unlimited gift exclusion for most medical and educational expenses paid directly to the provider.
- **Set up an intentionally defective grantor trust (IDGT).** A regular trust would hit the top 37% tax rate at $15,200. An IDGT, however, wouldn't hit the 37% rate until $609,350 if you're single, and $731,200 if you're married. The main trade-off when using an IDGT compared to other types of trusts is that an IDGT is irrevocable – once you place an asset inside an IDGT, you normally can't revoke the asset transfer in the future. So you'll potentially be able to significantly lower your tax liability with an IDGT, but in return you give up all control of the assets inside the IDGT. ❑

TAX TERMS

Trusts have both ***legal*** and ***tax*** definitions.

LEGAL DEFINITIONS

1. Living Trust
Created while the person establishing the trust is still alive.

2. Testamentary Trust
Created following a person's death.

3. Revocable Trust
Terms can be changed while the person establishing the trust is still alive.

4. Irrevocable Trust
Terms cannot be changed while the person establishing the trust is still alive.

TAX DEFINITIONS

1. Simple Trust
Cannot accumulate income or pay money for charitable purposes. All income must be distributed annually.

2. Complex Trust
Can accumulate income and make tax deductible payments for charitable purposes. Income is NOT required to be distributed annually.

3. Grantor Trust
A trust over which the creator of the trust has retained certain interests or control.

Tax Planning Insights, New Year 2024: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

TAX PLANNING INSIGHTS

New Year 2024

Dear Clients and Friends,

Now is a great time to review your financial and tax situation heading into 2024. One area to pay close attention to is guarding your confidential information from identity thieves during the upcoming tax season.

In this edition of the Tax Planning Insights newsletter, learn why identity thieves love tax season and what you can do if your data gets stolen by thieves. Also included are several tax planning ideas, a look at important tax information, and several tax tips for your trusts and estate.

These insights are sent as a reminder of our commitment to help you minimize your taxes. Please call if you have any questions about filing your 2023 tax return.

IDENTITY THIEVES *Love* tax season!

Consider these tips to protect your confidential information

The vast amount of information shared online during tax season makes it a haven for identity thieves, and they're doing everything they can to take advantage of the opportunity! Here are several ways that identity thieves are targeting you, how to protect yourself, common signs of ID theft, and steps to take if you become a victim.

How identity thieves target you

- **Impersonating the IRS.** Thieves call you and claim to be the IRS. They will try to intimidate you into making an immediate payment using a gift card or wire service. Remember, the IRS will physically mail you a letter as a means of first contact. And the IRS will never call you to demand an immediate payment.
- **Filing a fraudulent tax return.** Identity thieves try to file a tax return using your Social Security number before you do to steal any refunds that are owed to you. So consider filing your tax return as quickly as you can to beat identity thieves at their own game.
- **Phishing schemes.** Be on the lookout for unsolicited emails, text messages, and social media posts that prompt you to share personal and financial information. These messages could also contain viruses, spyware, or other malware that could infect your electronic devices.

Common signs of ID theft

Here are some of the common signs of identity theft according to the IRS:

- In early 2024, you receive a notice of a potential refund before filing your 2023 tax return.
- You receive a tax transcript you didn't request from the IRS.
- You receive notice that someone created an online IRS account without your consent.
- You find out that more than one tax return was filed using your Social Security number.
- You receive tax documents from an employer you do not know.

Other signs of identity theft include:

- Unexplained withdrawals on bank statements.
- Mysterious credit card charges.
- Your credit report shows accounts you didn't open.
- You are billed for services you didn't use or receive calls about phantom debts.

What you can do

If you discover that you're a victim of identity theft, consider taking the following action:

- **Let the IRS know** and consider enrolling in their identity protection program.
- **Notify creditors and banks.** Most credit card companies offer protections to cardholders affected by ID theft. You can generally avoid liability for unauthorized charges exceeding $50. But if your ATM or debit card is stolen, report the theft immediately to avoid dire consequences.
- **Place a fraud alert on your credit reports.** To avoid long-lasting impact, contact any one of the three major credit reporting agencies—Equifax, Experian or TransUnion—to request a fraud alert. This alert covers all three of your credit files.
- **Report the theft to the Federal Trade Commission (FTC).** Visit identitytheft.gov or call 877-438-4338. The FTC will provide a recovery plan and offer updates if you set up an account on their website.
- **Please call if you suspect any tax-related identity theft.** If any of the previously mentioned signs of tax-related identity theft have happened to you, please call to schedule an appointment to discuss next steps. ❑

tax tips for 2024

It's never too early to start thinking about tax planning strategies for 2024. Here are some ideas to help you get started.

✔ ***Forecast your taxable income.*** Calculate a taxable income forecast and update it once a quarter. Use this information for your 2024 estimated tax payment obligations. You can also use your forecast to budget how much you'll need to save each month so you won't have a huge tax balance to scramble to pay at the end of the year.

✔ ***Prioritize retirement and savings plans.*** Take time to review your 401(k), individual retirement account (IRA), health savings account (HSA) and other savings accounts to ensure you're maximizing your tax savings. Establish a regular contribution schedule early in the year, while taking into account new maximum contribution limits. And if you're working, take full advantage of your employer's retirement contribution matching program.

✔ ***Turn losses into tax savings.*** Selling assets like stocks, bonds, and business interests for less than you paid for them can result in a capital loss that can be applied to offset capital gains and then used to reduce ordinary income, up to an annual limit of $3,000 ($1,500 if you're married and file separately). Any remaining balance can generally be carried forward to future years.

✔ ***Conduct an investment strategy review.*** Reviewing your investment portfolio can help create a tax-efficient strategy that allocates assets to accounts where tax savings can be maximized. For example, you may want to re-balance your investments to align to your retirement plan risk goals.

✔ ***Keep great records.*** Remember that without correct documentation, the IRS may disallow an otherwise valid tax deduction. So set up good record keeping habits by creating both a digital and paper folder separated by income and expense type. ❑

What's *NEW* in 2024

Provision	2024	2023	Change
STANDARD DEDUCTION			
Single	14,600	13,850	+750
Joint returns and surviving spouses	29,200	27,700	+1,500
Married filing separately	14,600	13,850	+750
Head of household	21,900	20,800	+1,100
Additional for elderly or blind (married)	1,550	1,500	+50
Additional for elderly or blind (single)	1,950	1,850	+100
ALTERNATIVE MINIMUM TAX EXEMPTION			
Single, Head of household	85,700	81,300	+4,400
Joint returns and surviving spouses	133,300	126,500	+6,800
Married filing separately	66,650	63,250	+3,400
SOCIAL SECURITY EARNINGS LIMIT			
Maximum wages subject to Social Security tax	168,600	160,200	+8,400
Under full retirement age	22,320	21,240	+1,080
Full retirement age	No limit	No limit	–
UNIFIED TAX CREDIT			
Estate tax top rate	40%	40%	–
Estate tax exclusion	13,610,000	12,920,000	+690,000
Annual gift tax exclusion (per donee)	18,000	17,000	+1,000
CONTRIBUTION LIMITS			
Health Savings Accounts			
Single	4,150	3,850	+300
Families	8,300	7,750	+550
Additional for 55 or older	1,000	1,000	–
Individual Retirement Accounts			
Under age 50	7,000	6,500	+500
Age 50 and over	8,000	7,500	+500
Savings Incentive Match Plan for Employees (SIMPLE)			
Under age 50	16,000	15,500	+500
Age 50 and over	19,500	19,000	+500
401(k) Plan			
Under age 50	23,000	22,500	+500
Age 50 and over	30,500	30,000	+500
"Kiddie tax" threshold	2,600	2,500	+100
"Nanny tax" threshold	2,700	2,600	+100

As you plan for 2024, be aware that Congress may make changes to the tax code. Call prior to making major business and personal financial decisions.