



Plan Now for Future Changes

A number of tax rules will be sunset at the end of 2025 unless Congress takes action. This means you have this year and next to take advantage of the current rules. Here are some of the more significant law changes to consider:

- ❑ Tax rates will go up with income brackets that look very different.
- ❑ Many more taxpayers will itemize deductions, which will be subject to phase outs.
- ❑ The number of taxpayers affected by the alternative minimum tax will increase.
- ❑ The child tax credit and associated phaseout will be drastically reduced.
- ❑ Exemptions will be re-introduced.
- ❑ Small businesses will lose their 20% QBI deduction.

If you think you may be impacted by these changes, now is the time to create your strategy.

Tax Tips to Retire Early

Wouldn't it be nice to check out of the workforce early and not worry about having enough money for retirement? Good planning can help you get there, and leveraging the tax code as part of your plan is a must. Here are some tax tips that can help reach that goal.

Maximize tax-advantaged retirement accounts. Retirement accounts like traditional IRAs and 401(k)s allow you to save pre-tax money, invest the funds, and not pay taxes until the funds are withdrawn during retirement years.

Leverage the catch-up provisions within retirement accounts. Most retirement accounts allow older taxpayers to invest even more money in these retirement savings accounts. The catch-up contribution amounts are now even indexed for inflation, so the amount will rise more quickly over time. The key retirement fund limits for 2024 are:

- **401(k), 403(b), & 457:** \$23,000 (\$30,500 if 50 or over)
- **Traditional & Roth IRAs:** \$7,000 (\$8,000 if 50 or over)
- **SIMPLE IRA:** \$16,000 (\$19,500 if 50 or over)

Consider Tax-Free Retirement Choices. With Roth IRA and Roth 401(k) accounts, you invest money in your plan with after-tax dollars, but any earnings are tax-free as long as you follow the withdrawal rules. While this potentially lowers your initial investment, you create a source of funds that can earn money without being taxed in the future. Even better, required minimum distribution rules now no longer apply to Roth accounts.

Utilize Roth Rollovers. Another early retirement idea: Convert money into

Roth retirement accounts tax efficiently. This means using a lower tax bracket to its fullest by efficiently adding income with a retirement plan rollover. When you do this, you must pay the tax on the funds rolled over, but the rollover makes any future earnings within this account tax-free as long as you follow the distribution rules.

Consider Health Savings Accounts and their catch-up provisions. Health Savings Accounts allow you to set aside money to pay for qualified health expenses in pre-tax dollars. To be eligible to set up this type of savings account, you must be enrolled in a qualified high deductible medical insurance plan. Unused funds can be invested and carried forward to future years.

Consider state taxes. Part of your retirement plan is understanding where you wish to live. Many states have no state income taxes, while others like Hawaii and California are in excess of 10%. Some states tax Social Security payments, while others do not. So pay attention to how your chosen state chooses to tax your retirement income.

Consider additional deductions and benefits. These include:

- Additional standard deduction when you reach age 65
- Choosing when to start Social Security benefits
- Impact of Medicare and Medicaid plans
- Taxability of Social Security benefits

Even if you do not retire early, conducting a tax planning exercise as if you are can yield some tremendous ideas.

Important Tax Information

Keep Track of Home Improvements

One of the more popular provisions in the tax code is the \$250,000 capital gain exclusion (\$500,000 for married couples) of any profit made when selling your home. However, what if:

- The tax law changes?
- You rent out your home?
- You have a home office?
- You cannot prove the cost of your home?

Your best defense to a potentially expensive tax surprise is proper record retention to support the original cost of your home.

The problem

The gain exclusion is so high that many homeowners are no longer keeping track of the true cost of their home. Remember, this gain exclusion still requires documentation to support the tax benefit.

The calculation

To calculate your home sale gain, take the sales price received for your home and subtract your basis. Basis is an IRS tax term that equals the original cost of your home including closing costs,



adjusted by the cost of any improvements made to your home. You might also have a reduction in home value due to prior damage or casualty losses. As long as the home sold is owned by you as your principal residence in at least two of the last five years, you can usually take advantage of the rule.

Keeping the tax surprise away

Keep the following documents to support the cost of your home:

- Closing documents from the home's original purchase
- All legal documents
- Canceled checks, receipts, and invoices for any home improvements

- Closing documents supporting the value when the home is sold

The following situations are when you should pay special attention to tracking your home's value:

- **You have a home office.** This is especially true if you depreciated part of your home for business use.
- **You live in your home for a long time.** The longer you stay in your home, the more likely the value of your home will rise over time.
- **You live in a major metropolitan area.** Certain areas of the country are known to have rapidly increasing property values.
- **You rent your home.** Depreciation can impact the calculation of available gain exclusion. Home rental also can impact the residency requirement calculation.
- **You recently sold another home.** The home sale gain exclusion can only be used once every two years.

The best way to protect this tax code benefit is to keep all home-related documents that support calculating the cost of your property.

Great Tax Reduction Ideas

The tax code is about 75,000 pages long, so it's not surprising there are many overlooked money-saving deductions hidden within it. And with the much higher standard deduction amounts, those who do not itemize think there are no longer ways to reduce your taxes. Since mid-year is a good time to review great tax reduction ideas, here are some to consider:

- 1 Pay medical bills with pre-tax income.** Health Savings Accounts (HSA) and Flexible Savings Accounts (FSA) are two ways to save money. Each program has specific rules to qualify, but if you do it right you not only reduce your taxable income, but you pay out-of-pocket qualified medical, dental and vision care with pre-tax dollars! Both plans are typically offered through employers.
- 2 Student loan interest.** You can deduct up to \$2,500 in interest paid on student loans from your tax return. This is true even if someone else helps you pay your loans. Parents who have co-signed student loans (creating legal obligation for the debt) are also eligible.
- 3 Leveraging your itemized deductions.** While many taxpayers do not have enough deductions to itemize, often you can bundle two or three years of deductions into one tax year so you can exceed the standard deduction for that year. The following year use the full standard deduction when you have lower or no deductions.

- 4 Donate appreciated stocks and other investments.** If you itemize deductions, consider donating appreciated assets you have owned for more than one year instead of donating cash. Your charity gets the same financial value, but you get both a great charitable donation as well as avoiding paying capital gains tax on the investment.
- 5 Understand taxability of state refunds.** If you use the standard deduction, your state refund does not add to your taxable income and should not be added to income. Even if you do itemize, your state refund may only apply if it provides a tax break.
- 6 Take full advantage of state tax deductions.** You can claim up to \$10,000 in total taxes as an itemized deduction. But even if you don't have much in the way of state income or property taxes, you can still deduct state sales tax. Even better, if you have a small business, many states now allow you to pay their tax at the entity level and avoid the \$10,000 limit all together!
- 7 Leveraging retirement accounts.** There are several retirement tax plans that are great tools to help reduce your taxable income, including the 401(k), 403(b), SIMPLE IRA plans, and several versions of IRAs. Each has an annual contribution limit that you lose forever if you don't use it during that year.

2024 Tax Changes Require Planning!

If one thing is certain, it is the certainty that tax laws will continue to change, and that tax planning is more important than ever. This also includes changes with your personal situation. Here is a checklist to see what should be discussed during your next tax planning appointment:

- Future college or educational expenses
- Refinancing
- Major charitable donations
- Major medical expense
- Receiving funds (gifts, insurance, legal, inheritance)
- Significant change in income (up OR down)
- New birth or death
- Buying or selling a home
- Buying or selling investments
- Aging children
- Gift giving plans
- Tax efficient retirement
- Review of quarterly estimated payments
- Recent or planned retirement
- Divorce or marriage
- Have business income
- Adding or removing a dependent
- Estate planning
- Social Security planning
- Moving to a new state