PROACTIVE TAX-SAVING STRATEGIES

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It seems that tax laws and regulations are constantly changing. That's why it's always good to meet with your CPA or financial advisor on an annual basis to talk about potential tax savings strategies as they exist under current tax rules and guidelines. While it's generally best to have that meeting in November or December to beat all the IRS's year-end deadlines, a meeting in January or February can also be extremely beneficial and potentially save you thousands of dollars.

The tax savings strategies discussed in this report are primarily geared toward filers in the 12% to 24% income tax brackets and are strategies related to retirement contributions, investments, savings, healthcare expenses, charitable donations, and other key areas. But first, let's go over some basic tax guidelines as they stand for the tax year 2024.[1]

Deductions & Exemptions: The standard deductions for the tax year 2024 are:

- Singles get $14,600, plus an additional $1,850 if age 65 or over
- Married couples get $29,200, plus $1,500 per spouse if both are 65 or over
- Heads of household get $21,900, plus $1,950 if age 65 or over

Personal exemptions were eliminated with The Tax Cuts and Jobs Act and remain at 0.
Most people know how basic tax preparation works: your adjusted gross income minus deductions and exemptions equals your taxable income. Beyond your standard deductions and personal exemptions, you and your advisor may want to explore and possibly implement some of the following additional strategies:

401(k)s and Other Qualified Plans

It is generally a good idea to maximize tax-deferred 401(k) contributions whenever possible. If you feel you can't afford to put in the maximum amount of money allowed, try to contribute at least the amount that will be matched by employers' contributions. The contribution limit for 401(k), 403(b), and 457 plans is $23,000 for employees under age 50. Employees over age 50 can contribute a maximum of $30,500, which includes an additional catch-up contribution of $7,500.[2] You might even consider taking an entire paycheck in December and putting it into your 401(k), if that's feasible, or taking the equivalent amount from a savings account and putting that into the 401(k) to maximize the contribution.

IRA Contributions

Maximizing IRA contributions also always makes sense when allowed. You have until Tax Day 2025 to make IRA contributions for 2024, but the sooner you do it, the sooner it can start its potential tax-deferred growth. In addition, making deductible contributions can reduce your taxable income for the year. For both traditional and Roth IRAs, you can contribute a maximum of $7,000 for 2024 if you are under age 50, with a limit of $8,000 if you are over age 50. There are income limits for being able to deduct traditional IRA contributions and these income limits have increased for 2024 as follows:

- Singles and heads of household with a workplace retirement plan can claim a fully deductible contribution if their Modified Adjusted Gross Income (AGI) is $77,000 or less. Modified Adjusted Gross Incomes between $77,000-$87,000 can claim a partial deduction. There is no deduction over $87,000.
- For married couples filing jointly, a spouse who contributes to a workplace retirement plan can claim a full deduction if their modified AGI is $123,000 or less. Modified Adjusted Gross Incomes between $123,000-$143,000 can claim a partial deduction. There is no deduction over $143,000.

Income limits for Roth IRA contributions have also increased as follows:

- Single filers earning less than $146,000 can make a full Roth IRA contribution, a reduced contribution between $146,000-$161,000, and no allowable contribution for filers who earn more than $161,000 or more.
- Married couples filing jointly can make a full contribution if their combined income is less than $230,000, a reduced contribution between $230-000-$240,000, and no allowable contribution for filers who earn more than $240,000 or more.[2]

Itemized Deduction Bunching

If your tax deductions normally don't meet the threshold for itemizing, or even if you can only itemize marginally, you might benefit from a "bunching" strategy. It's a legitimate, perfectly legal tactic in which you time the payments of tax-deductible items to maximize your itemized deductions in one year, to take the standard deduction the next year.

Itemized deductions generally include medical expenses, property taxes, state and local income taxes, home mortgage and investment interest, charitable deductions, unreimbursed expenses, and casualty losses. The bunching strategy is most commonly used for medical expenses, tax payments, and charitable deductions, although it is sometimes applicable to other types of deductions. For example, you might choose to pay next year's property tax bill this year, or — if you tithe at your church — explain to your pastor that you'll be making next year's contributions a year in advance for tax purposes. By bunching effectively, you can meet the itemized deduction threshold and take advantage of the savings.

Note: Be aware of the Alternative Minimum Tax (AMT). It's important to know that accelerating tax deductions can end up costing you if you are in the AMT, a provision of the tax code that increasingly impacts the middle class. The AMT is calculated separately from your regular taxes and with different rules. For example, property taxes are not deductible under the AMT, so you wouldn't want to make an advance payment on them if you expect to be subject to the AMT in this tax year. The AMT exemption amounts have increased in 2024 to $81,300 for single filers; $133,300 for married-joint filers and surviving spouses; and $66,650 for married filing separately.[3]

Loss Harvesting

This common year-end strategy involves selling investments such as stocks and mutual funds to realize losses, then using those losses to offset any taxable gains you made during the year. The losses offset gains dollar for dollar, and if your losses exceed your gains, you can use the excess — up to $3,000 — to nullify other income. If your excess losses total more than $3,000, you can carry over the additional amount to the next year and continue doing so year after year.[4]

Healthcare

Health savings accounts can offer nice tax perks and long-term opportunities. In 2024, any healthcare plan with a deductible over $1,600 for individuals and $3,200 for families is classified as a high-deductible plan. For single coverage, a contribution of $4,150 can be made to a health savings account. For family coverage, a contribution of up to $8,300 can be made. Investors aged 55 and over can make a catch-up contribution of $1,000.[5]

You should also be aware that medical expense deductions and long-term-care deductions have changed for 2024. Listed below is how much taxpayers can write off based on their age:[6]

40 or less $470
More than 40 but not more than 50 $880
More than 50 but not more than 60 $1,760
More than 60 but not more than 70 $4,710
More than 70 $5,880

Education Savings

Education savings can provide great tax-saving opportunities for parents and grandparents. For starters, 529 college savings plans now have distribution limits which are limited to the number of qualified expenses. It's worth noting that there is a lot of flexibility with education savings accounts. For instance, the owner can transfer the funds to different family members, and if the account is not used, it can be transferred down to the next generation, which is great for estate planning purposes.

Charitable Donations

If you itemize, donating to charities is a great and popular way to reduce your tax bill, provided you are proactive and make your deductible donations before the IRS's December 31 deadline. Rather than cash, some people donate appreciated securities, which may also allow you to avoid capital gains tax. You should also be aware that the Qualified Charitable Distributions law was made permanent in 2016, which also makes donating to a qualified charity a great option for satisfying Required Minimum Distributions (RMDs) in a cost-effective way. A QCD allows you to transfer a gift of up to $100,000 directly to a qualified charity from an Individual Retirement Account (IRA) without counting it toward your adjusted gross income (AGI) or incurring a tax. In addition to the tax savings, the QCD can count toward, or can be used to fully satisfy, RMDs for the year in which the donation is made.

That's a great advantage if you are a charity-minded IRA owner who doesn't need any part of your RMD for personal income, or if you don't already have it earmarked for some other purpose.

Don't Try This at Home

One of the most common financial mistakes retirees and near-retirees make is not taking full advantage of all the tax-saving strategies for which they qualify. Doing so begins with taking a proactive approach to tax planning. That means scheduling an annual meeting (preferably in November or December) with a qualified financial advisor (ideally one who specializes in working with retirees and near-retirees) to identify those strategies and maximize their savings potential.

Again, tax laws and guidelines are tricky, confusing, and always changing. Therefore, working with a qualified professional is by far the best way to ensure that your tax strategies are aligned with your income-based retirement plan and are contributing to your long-term financial goals!

Sources:

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