



2024

Tax Planning Guide



HARBIN

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TABLE OF CONTENTS

Personal Tax Planning

What to Note for 2024	3
Income Tax Brackets and Rates	5
Other Taxes on Income	6
Tax-Advantaged Healthcare Arrangements	9
Deductions and Credits	10
Estate Taxes	12
Charitable Contributions	15
Education Planning	16
Plan for Retirement	18
Personal Tax Considerations	21

Business Tax Planning

Tax Rates and Business Structures	22
Opportunities for Small Businesses	23
More Tax-Managing Opportunities	27
Employee Benefits	28
Accounting Methods	30
Business Tax Considerations	31

2024

Tax Planning Guide

Individual taxpayers can breathe a sigh of relief that fewer major tax changes await them in 2024 than they saw in 2023. That's not to say there aren't any changes for 2024. While annual inflation adjustments aren't as dramatic as in 2023, individuals will welcome the higher thresholds for tax brackets and the alternative minimum tax and increases in social security benefits, retirement plan contribution limits, HSA contributions, and other deductions and credits. On the business side, taxpayers need to be aware of new eFiling and reporting requirements, among other tax tweaks.

Also, the IRS plans to allow taxpayers to digitally submit all documents and correspondence to the agency for the 2024 tax filing season. And there are a host of tax proposals in the air that could affect your situation. So, reviewing your investment, estate plan, retirement planning, and business strategies with your tax professional is as important as ever this year. They can help you look at the whole picture and assist you in taking steps to ensure a financially secure future.

NOTE: The information summarized here is current as of December 11, 2023, but things may change that could impact your tax situation. We urge you to consult your tax professional, who can advise you regarding your personal situation.

What to Note for 2024

At the top of the list are numerous upward inflation adjustments that affect everything from retirement and estate planning to personal and corporate income tax brackets. We highlight common adjustments here. You can find further details throughout this booklet.

Social Security

On the positive side, Social Security and Supplemental Security Income (SSI) benefits for more than 71 million Americans have increased 3.2 % for 2024. The average Social Security payment will increase more than \$50 per month. In addition, while not a tax, the standard monthly premium for Medicare Part B enrollees is \$174.70 for 2024, an increase of \$9.80 from \$164.90 in 2023. The annual deductible for all Medicare Part B beneficiaries will be \$240 in 2024, an increase of \$14 from the annual deductible of \$226 in 2023. Less positive news for higher-income taxpayers, the maximum earnings subject to the Social Security tax has increased to \$168,600 for 2024, up from \$160,200 in 2023.

Self-employed individuals can deduct the employer half of the 15.3% Social Security and Medicare tax in figuring their adjusted gross income. This deduction only affects your income tax. It doesn't affect your net earnings from self-employment or your self-employment tax.

Deductions, Credits, Brackets and Limits Rise

A few of the highlights for tax year 2024 includes a \$1,500 increase in the standard deduction to \$29,200, an increase in all marginal tax brackets (where rates remain the same), and a bump up in the foreign earned income exclusion to \$126,500, an increase of \$6,500 from 2023. Also, the federal estate tax exclusion amount increased to \$13.61 million (\$27.22 million if married), while the annual exclusion for gifts rises to \$18,000 for calendar year 2024, up from \$17,000 for calendar year 2023.

Retirement Plan Limits Increase

Most retirement plan limits increased for 2024. For example, the limit on IRA contributions jumped from \$6,500 in 2023 to \$7,000 in 2024, while limits for employee contributions made to 401(k) plans, 403(b) plans, and 457 plans increased to \$23,000 from \$22,500 in 2023, subject to plan documents and a variety of federal tax rules and restrictions. You can find a full table on page 19.

Required Minimum Distributions (RMDs) Start at Age 73

The age at which you must begin taking required minimum distributions is now 73, increasing to age 75 in 2033. All RMDs must be distributed by December 31 each year. Failure to do so results in a 50% penalty on the required amount not taken.

No RMDs for Roth 401(k) Distributions

Beginning in 2024, Roth 401(k) distributions don't have the same required minimum distribution requirements as other non-Roth accounts. This may be attractive to you if you've planned well for retirement and want to delay withdrawals past age 73 (or 75 in 2033 and later).

A 529-Plan-to-Roth IRA Transfer Option

Starting in 2024, excess 529 funds can be rolled over tax-free to a Roth IRA for the account's beneficiary. There's a \$35,000 cap. Rollover amounts can't exceed the annual contribution limit for Roth IRAs. And the 529 plan must have been open for at least 15 years before you can do a 529-to-Roth IRA transfer.

Teachers and Educators

Teachers can use the educator expense deduction to deduct up to \$300 (\$600 for a married couple) in qualified unreimbursed education expenses, including certain health protection items, from 2024 income. You don't need to itemize to deduct these expenses.

Student Loans

New for 2024, employers can offer 401(k) plan matches conditioned on student loan repayments made by employees. Check with your employer. Also, most student loan debt forgiven in 2021 through 2025 is nontaxable for federal tax purposes.

ABLE Accounts

Achieving a Better Life Experience (ABLE) accounts help people with disabilities save and pay for disability-related expenses. Now through 2025, eligible individuals can roll over money from a qualified 529 plan into their ABLE account. In 2024, the annual contribution limit is \$18,000.

Clean Vehicle Credit

Starting in 2024, dealers may apply the applicable credit directly to your purchase price of a qualifying vehicle, making a purchase easier.

Income Tax Brackets and Rates

All federal income tax brackets are based on taxable income. You can use the IRS tax withholding calculator at www.irs.gov/individuals/tax-withholding-estimator to see if you're withholding the right amount for 2024.

MARRIED FILING JOINTLY, AND SURVIVING SPOUSES

RATE	2023 INCOME	2024 INCOME
10%	\$0–\$22,000	\$0–\$23,200
12%	\$22,001–\$89,450	\$23,201–\$94,300
22%	\$89,451–\$190,750	\$94,301–\$201,050
24%	\$190,751–\$364,200	\$201,051–\$383,900
32%	\$364,201–\$462,500	\$383,901–\$487,450
35%	\$462,501–\$693,750	\$487,451–\$731,200
37%	\$693,751+	\$731,200+

MARRIED FILING SEPARATELY, SINGLES, HEAD OF HOUSEHOLD

RATE	MARRIED FILING SEPARATELY		SINGLE		HEAD OF HOUSEHOLD	
	2023	2024	2023	2024	2023	2024
10%	\$0–\$11,000	\$0–\$11,600	\$0–\$11,000	\$0–\$11,600	\$0–\$15,700	\$0–\$16,550
12%	\$11,001–\$44,725	\$11,601–\$47,150	\$11,001–\$44,725	\$11,601–\$47,150	\$15,701–\$59,850	\$16,551–\$94,300
22%	\$44,726–\$95,375	\$47,151–\$100,525	\$44,726–\$95,375	\$47,151–\$100,525	\$59,851–\$95,350	\$94,301–\$201,050
24%	\$95,376–\$182,100	\$100,526–\$191,950	\$95,376–\$182,100	\$100,526–\$191,950	\$95,351–\$182,100	\$201,051–\$389,900
32%	\$182,101–\$231,250	\$191,951–\$243,725	\$182,101–\$231,250	\$191,951–\$243,725	\$182,101–\$231,250	\$389,901–\$487,450
35%	\$231,251–\$346,875	\$243,726–\$365,600	\$231,251–\$578,125	\$243,726–\$609,350	\$231,251–\$578,100	\$487,451–\$731,000
37%	\$346,876+	\$365,601+	\$578,126+	\$609,351+	\$578,101+	\$731,001+

Other Taxes on Income

Income tax isn't the only tax affecting your spendable income. Make a note of these taxes as well.

Alternative Minimum Tax

By limiting allowable deductions for some higher-income taxpayers, the alternative minimum tax (AMT) places a floor on the percentage of taxes an individual must pay, no matter how many deductions or credits they may claim. An exemption applies before the AMT is imposed. As the table below shows, this exemption has increased for 2024.

AMT EXEMPTION INCREASES

STATUS	2023	2024
Exemption for Singles	\$81,300	\$85,700
Exemption for Married Filing Separately	\$63,250	\$66,650
Exemption for Married Filing Jointly	\$126,500	\$133,300
Phase-Out for Singles	\$578,150	\$609,350
Phase-Out for Married Filing Jointly	\$1,156,300	\$1,218,700

An Increased Social Security Tax Wage Base

Beginning in 2024, the maximum earnings subject to Social Security tax will rise to \$168,600 from \$160,200 in 2023. Currently, the employer and employee each pay half of the 12.4% Social Security tax due. Workers also pay a Medicare tax of 1.45% each year, plus an extra 0.9% on wages earned over \$200,000. Self-employed workers must pay the full 12.4% Social Security tax.

TAX ON SOCIAL SECURITY BENEFITS

RATE	JOINT*	SINGLE OR HEAD-OF-HOUSEHOLD
0%	\$32,000 or less	\$25,000 or less
50%	\$32,000–\$44,000	\$25,001–\$34,000
85%	\$44,000 or more	\$34,000 or more

*The provisional income threshold is zero for married persons filing separately who do not live apart.

Capital Gains Tax

You pay capital gains taxes on long-term investments, those you hold for longer than one year, and ordinary income tax on realized short-term gains from investments held for less than a year.

Even though the U.S. stock market had a good year in 2023, you may still have a security or two on which you've realized a capital loss. A capital gain or loss is the difference between your basis, typically the cost of buying an asset or investment adjusted by certain previous deductions for depreciation and depletion, and what you get for selling it.

If your investments have a net capital loss, you can deduct up to \$3,000 of the loss against your income annually if filing jointly (\$1,500 married when filing separately). If your losses exceed the annual limit, you may carry losses forward to future years, deducting up to \$3,000 per year against your income until your capital losses are exhausted.

CAPITAL GAINS TAX BRACKET

RATE	FILING JOINTLY		FILING SINGLE	
	2023	2024	2023	2024
0%	\$89,250	\$94,050	\$44,625	\$47,025
15%	\$89,251–\$553,850	\$94,051–\$583,750	\$44,626–\$492,300	\$47,026–\$518,900
20%	\$553,851+	\$583,751+	\$492,301+	\$518,901+

But keep the wash sale rules in mind. These rules prevent you from taking a loss on a security if you buy a substantially identical security within 30 days before or after the sale. You can avoid triggering the wash sale rules while maintaining the same portfolio allocations by selling the security and waiting at least 31 days before repurchasing it or selling the security and buying shares in a mutual fund that holds similar securities.

Consider gifting appreciated stock or mutual funds to relatives in lower tax brackets. They'll pay less or no tax on the long-term gain when the shares are later sold, potentially reducing overall family taxes.

Qualified dividends are eligible for more favorable capital gains tax rates, while unqualified dividends are taxed as ordinary income. Generally, dividends from real estate investment trusts (REITs) are unqualified, as are those from credit unions and mutual savings banks.

Additional Income-Triggered Taxes

If your modified adjusted gross income (MAGI) includes investment gains and exceeds certain levels, you may owe a 3.8% net investment income tax above and beyond any capital gains tax paid. Taxpayers who are married and file jointly and widowed spouses pay the tax if their MAGI exceeds \$250,000. Single individuals and heads of household owe the tax after \$200,000 in MAGI, while the threshold for married taxpayers filing separately is \$125,000.

You will also owe an extra 0.9% for the Additional Medicare Tax if you earned more than \$200,000 in a calendar year, regardless of filing status. Employers are typically responsible for withholding the extra tax.

Tax-Advantaged Healthcare Arrangements

Health Savings Accounts

Limits for Health Savings Accounts (HSAs) and High-Deductible Health Plans (HDHPs) are increasing by about 7% for 2024. HSAs are triple tax-advantaged with tax-deferred contributions, tax-free potential earnings, and tax-free withdrawals for qualified medical expenses. You can roll over any balance you had left at year-end 2023 to 2024. Nonqualified withdrawals before age 65 incur a tax penalty. After reaching 65, you can take penalty-free withdrawals for any reason but must pay income tax on the nonqualified amount.

HEALTH SAVINGS ACCOUNT CONTRIBUTION LIMITS

STATUS	2024		2023		CHANGE	
	FAMILY	SINGLE	FAMILY	SINGLE	FAMILY	SINGLE
HSA Contribution Limit	\$8,300	\$4,150	\$7,750	\$3,850	\$550	\$300
HSA Catch-up Contribution	\$1,000	\$1,000	\$1,000	\$1,000	No Change	No Change
HDHP Minimum Deductible	\$3,200	\$1,600	\$3,000	\$1,500	\$200	\$100
HDHP Max Out-of-Pocket	\$16,100	\$8,050	\$15,000	\$7,500	\$1,100	\$550

The ability of HDHPs to provide healthcare has been extended through 2024 but will go away for future years unless Congress acts to continue this benefit. Taxpayers also can receive COVID-19 testing and vaccinations without triggering a deductible, but only through 2024.

Health Reimbursement Arrangements

Health Reimbursement Arrangements (HRAs) are accounts funded by your employer to help pay qualified health expenses. In 2024, employers can fund each employee's HRA with a maximum of \$2,100 in benefits, up from \$1,950 in 2023.

Deductions and Credits

Tax credits are subtracted directly from taxes owed, while tax deductions lower your taxable income. The following includes some federal credits and deductions.

The Standard Deduction

For 2024, inflation bumped the standard deduction, which reduces your taxable income, to \$29,200, up from \$27,700 in 2023 for married taxpayers filing jointly; to \$21,900 from \$20,800 in 2023 for those who file as heads of household; and to \$14,600 from \$13,850 in 2023 for those who file as single or married filing separately.

Child Tax Credit

For tax year 2024, the Child Tax Credit remains \$2,000 for any dependent under age 17 at the end of the year. The credit begins to phase out for single filers with a modified adjusted gross income (MAGI) above \$200,000 and \$400,000 MAGI for joint filers.

Child and Dependent Care Tax Credit

For 2024, the child and dependent care credit is 35% up to \$3,000 of eligible expenses for one dependent and \$6,000 for more than one. The credit isn't refundable. In other words, you would get a \$1,050 credit for \$3,000 in expenses at 35% or \$2,100 for 35% of \$6,000 in expenses. The full credit phases out beginning at \$15,000 in annual income.

Clean Vehicle Credit

The credit for clean vehicle purchases includes up to:

- \$7,500 for the purchase of a new, qualified clean vehicle
- \$40,000 for vehicles over 14,000 pounds
- Up to 30% of a used electric vehicle's cost or \$4,000, whichever is greater

Limits apply to the vehicle's suggested retail price and buyers' adjusted gross income (AGI). For single or married taxpayers filing separately, the AGI limit is \$150,000. Heads of household have a \$225,000 limit, and married taxpayers filing jointly and surviving spouses have a \$300,000 AGI limit. Used vehicle buyers receive a tax credit based on smaller income limits.

You can learn if your purchase qualifies for the new credit by searching for manufacturing sites using the vehicle identification number (VIN) on the National Highway Traffic Safety Administration (NHTSA) at www.nhtsa.gov/vin-decoder.

Medical Expenses

If you itemize deductions on your tax return, you generally can deduct unreimbursed medical expenses exceeding 7.5% of your adjusted gross income. Travel expenses related to medical care, such as parking, mileage, and public transportation, can also be included. Tax professionals generally advise you to itemize medical expenses if they exceed the standard deduction.

Employee Business Expense Deduction

Most employees cannot claim unreimbursed business expenses as itemized deductions, but exceptions exist. Eligible employees include Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and employees with impairment-related work expenses. All expenses must be paid or billed during the tax year.

Home Loans

Married taxpayers filing jointly may deduct the interest on a mortgage of up to \$750,000 of principal. The deduction is limited to half of that for single taxpayers. Interest on home equity loans, home equity lines of credit (HELOCs), and second mortgages may be deducted only when used to buy, build, or substantially improve the taxpayer's primary or secondary qualified residence that secures the loan, subject to limits.

Real Estate Section 1031 Like-Kind Exchanges

The treatment of investment property for Section 1031 exchanges is limited to real property, including land and permanent structures on that land. If they're of the same nature or character, even if they differ in grade or quality, you may be able to defer taxable gains when you sell investment property. You have 45 days after the sale to identify other income-producing property that you'll purchase within 180 days of the sale or by the due date of your tax return, including extensions. Your tax professional can give you more information.

State and Local Taxes

Taxpayers are limited to \$10,000 of state and local tax (SALT) deductions. This provision is especially harsh on homeowners in high-tax states, where state income and property taxes can easily exceed this figure.

If you're a partner in a partnership or owner of an S-corporation, discuss the pass-through entity tax with your tax professional as a workaround for the \$10,000 SALT tax deduction limit.

Estate Taxes

If you haven't discussed estate planning opportunities with your legal, tax, and financial professionals yet, why not use this time to schedule a meeting? Even with more generous federal estate tax exemptions, you need to be aware of local estate and inheritance taxes. Although some states have repealed their estate tax statutes and others increased their exemptions recently, a few still have the tax. A handful of states also have an inheritance tax.

Transfer Taxes

In 2024, the estate tax and generation-skipping transfer tax basic exclusion amount rose to \$13.61 million, up from \$12.92 million, for estates of decedents who died in 2023. Married couples filing jointly qualify for a \$27.22 million exemption in 2024, up from \$25.84 million in 2023.

Spousal Exemption Portability

If part or all of one spouse's estate tax exemption is unused at that spouse's death, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining exemption. This exemption portability provides flexibility at the first spouse's death but has some limits. While a portability-only estate tax return can be filed up to two years from the deceased spouse's death, it can be costly. Be aware that portability is available only from the most recently deceased spouse. It doesn't apply to the GST tax exemption and isn't recognized by many states.

Gift Taxes

The annual gift tax exemption increased to \$18,000 per donor for each recipient in 2024, up from \$17,000 in 2023. Amounts over that subtract from your estate tax basic exclusion amount.

If you do it correctly, paying for a grandchild's or some other person's tuition or medical bill is an exception to the gift tax. Payments made directly to providers or schools aren't considered gifts.

Annual gifting can prove an effective estate transfer strategy. If, for example, you and your spouse each max out your annual gift exemption to two children and two grandchildren, you'll avoid gift tax and preserve your entire estate tax exemption. In this example, a couple could gift \$144,000 tax-free per year. Be sure, however, to use your annual exemption by December 31 because it doesn't carry over from year to year.

A caution: generally, spouses who are both U.S. citizens may transfer unlimited amounts to each other without incurring any gift tax, as any assets in excess of the couple's combined estate tax exemption will be taxed at the death of the surviving spouse, and transferring assets to the survivor defers the tax that the IRS will eventually collect.

Gifts to a non-US citizen spouse, however, are limited. Since a non-US citizen spouse may not be subject to the U.S. estate tax, one cannot transfer unlimited assets to a non-US citizen spouse since that transferred wealth could potentially avoid U.S. estate taxation upon the non-US citizen spouse's death. Thus, when the recipient spouse is not a U.S. citizen, and regardless of whether the non-US citizen spouse is a resident or nonresident of the United States, the amount of tax-free gifts is limited to an annual exclusion amount. For calendar year 2024, the first \$185,000 of gifts to a spouse who is a non-US citizen are not included in the total amount of taxable gifts.

FEDERAL ESTATE TAX

ESTATE TAX RATE	TAXABLE AMOUNT	WHAT ESTATE PAYS
18%	\$1–10,000	18% on taxable amount
20%	\$10,001–\$20,000	\$1,800 + 20% of amount over \$10,000
22%	\$20,001–\$40,000	\$3,800 + 22% of amount over \$20,000
24%	\$40,001–\$60,000	\$8,200 + 24% of amount over \$40,000
26%	\$60,001–\$80,000	\$13,000 + 26% of amount over \$60,000
28%	\$80,001–\$100,000	\$18,200 + 28% of amount over \$80,000
30%	\$100,001–\$150,000	\$23,800 + 30% of amount over \$100,000
32%	\$150,001–\$250,000	\$38,800 + 32% of amount over \$150,000
34%	\$250,001–\$500,000	\$70,800 + 34% of amount over \$250,000
37%	\$500,001–\$750,000	\$155,800 + 37% of amount over \$500,000
39%	\$750,001–\$1,000,000	\$248,300 + 39% of amount over \$750,000
40%	\$1,000,000+	\$345,800 + 40% of amount over \$1,000,000

Step Up in Basis

A new fair market value is established for assets received after a donor's death—a step up in basis—but there is no step-up in basis for gifts received during a donor's life. The step-up in basis sets a new starting value for inherited assets, which can make a big difference if the assets have appreciated significantly.

A caution, though: In 2023, the IRS released its Revenue Ruling 2023-2, which clarifies that transferring assets to an irrevocable trust, a popular strategy for transferring a family home, can take the trust assets out of the grantor's estate for all purposes. If the asset is no longer part of the grantor's taxable estate, it will not qualify for a step-up in basis. This means the assets in your irrevocable trust keep the same basis as when they are transferred to the next generation—or maybe to multiple generations. Be sure to review your trust arrangement with your estate professional.

Inherited IRA 10-Year Rule

Some non-spouse beneficiaries of IRAs must withdraw all funds from inherited accounts within ten years. The IRS is expected to issue final regulations in 2024 regarding whether annual RMDs are required or only one withdrawal of all funds in the tenth year. This rule does not apply to a surviving spouse, a disabled or chronically ill individual, an individual who isn't more than ten years younger than the IRA owner, or a child of the IRA owner who has not reached the age of majority.

The ten-year rule also applies to trusts that receive IRA assets on behalf of beneficiaries, except for certain trusts named as an IRA beneficiary. Beware that a conduit trust must forward all IRA income to income beneficiaries, potentially exposing the inherited IRA assets to heirs' creditors and any bankruptcy or divorce proceedings.

You should consult an attorney to determine if you'll need to redraft the conduit trust to allow the trust to retain the assets rather than distribute income to beneficiaries. However, distributing assets this way typically results in less favorable trust tax rates. You should review your estate plan documents with an attorney if you have significant assets in retirement accounts with non-spousal beneficiaries.

Charitable Contributions

Donations of goods to charity are valued at their market value at the time of donation. You can't claim the price you paid for the item.

Deduction Requirements

You must itemize deductions to claim your charitable contributions. All donations of goods with a market value greater than \$250 must have a receipt from the charity indicating the name of the organization and the description of the non-cash donation. If you don't itemize because your deductions are less than the standard deduction, you might consider accelerating or bunching several years' contributions together into one tax year.

For example, if you give \$10,000 per year to a charity, bunch three years of contributions—\$30,000—into one year instead, and then itemize the deduction on your tax return. Take the standard deduction in the other two years.

When donating to charity, ensure the charity is qualified by searching the IRS database, <https://www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations>. Only donations qualified by the IRS are eligible for tax deductions.

Qualified Charitable Distributions (QCD)

If you're age 70½ you can donate up to \$100,000 of taxable IRA distributions directly to qualified charities. This satisfies the minimum distribution requirement and is excluded from taxable income. Making a QCD can potentially lower your income tax, net investment income tax, and additional Medicare tax.

Education Planning

Section 529 Plans

Essentially, a 529 plan allows you to invest money with tax-deferred earnings for a child's higher education. When the time comes, you can make tax-free withdrawals to pay qualified college expenses, such as tuition, room and board, required fees, books, supplies, and computers, for the student.

Also, up to \$10,000 (lifetime limit per beneficiary) from these plans to pay qualified student loans of the beneficiary and any siblings. You can also use 529 plans to pay qualified apprenticeship program costs. The U.S. Department of Labor must register and certify the apprenticeship program. Additionally, qualified 529 plan distributions of up to \$10,000 annually may be used to pay some K-12 educational costs, such as tuition, books, fees, and computers, if your state allows.

Reduce your taxable estate by front-loading five years' worth of gifts into a 529 plan in one year for a loved one's college education. You can give up to the maximum annual tax-free gift limit of \$18,000 each year for five years per donor per recipient. Once your gift is completed, you can't make another gift to the same 529 plan for the five-year period.

Coverdell ESA

The Coverdell Education Savings Account (ESA) remains unchanged, with a \$2,000 annual contribution limit per student. You qualify to make a full nondeductible contribution if you file jointly, but the limit is phased out at a modified AGI of \$190,000–\$220,000. Limits for singles are half of that. Earnings are tax-deferred, and qualified withdrawals are tax-free. You have until the April 2025 tax filing deadline to make a Coverdell ESA contribution for 2024.

IRA Contributions for Graduate and Doctoral Students

Stipend payments for graduate and doctoral students are earned income for the purposes of determining allowable IRA contributions. If you or your spouse receives such a stipend, you may be able to contribute more toward a traditional or Roth IRA. Remember that you can't contribute more to an IRA than you have in earned income and other rules apply.

Education Tax Credits

The American Opportunity Credit is for undergraduate expenses (up to \$2,500 per student per year), while the Lifetime Learning Credit (up to \$2,000 per student per year) is more flexible. You cannot claim both credits in the same tax year for the same student.

COMPARE THE CREDITS

2024 TAX INFORMATION	AMERICAN OPPORTUNITY TAX CREDIT	LIFETIME LEARNING CREDIT
Income Limit Filing Single	\$80,000	\$80,000
Income Limit Filing Jointly	\$160,000	\$160,000
Eligible Programs	Student must be pursuing recognized educational credential	Student needn't be pursuing recognized educational credential
Enrollment Requirement	At least half-time	One or more courses
Years Available	Four per student	Unlimited

Custodial Accounts

The Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) are custodial accounts set up for the benefit of minors. They don't have restrictions or contribution limits as 529 plans and Coverdell Accounts do, but they aren't tax advantaged.

The utility of using these accounts to fund college costs is questionable because assets are transferred to beneficiaries at the age of majority in their states when they can spend them in whatever way they want. Custodial account assets can also negatively impact potential financial aid for college because students are expected to contribute a greater percentage of assets than parents.

Student Loans

As we went to press, a federal student loan forgiveness program President Biden had announced was up in the air with various court challenges. Borrowers, however, have other ways to see their student loans forgiven, canceled, or discharged, including working in public service and other sectors. Talk to your tax professional to learn if any apply to your situation.

Student loan holders who qualify by income may also deduct up to \$2,500 from their AGI in qualified education loan interest. This deduction phases out between a MAGI of \$85,000—\$95,000 for individuals and \$165,000—\$195,000 for married taxpayers filing jointly. Parents who help a child pay loans generally can't take the write-off. But if the child meets the MAGI qualifications and isn't eligible to be claimed as a dependent, they may claim the interest deduction.

Also, if your employer offers a qualified educational assistance program, you may be able to use it to pay down up to \$5,250 this year with the benefits excluded from your wages for income-tax purposes.

Plan for Retirement

The steps you take today to prepare for retirement will shape your financial picture during your later years.

You have a variety of retirement savings vehicles to which you can contribute, depending on what your employer offers. These vehicles include traditional and Roth IRAs, Simplified Employee Pensions (SEPs), SIMPLE plans, and 401(k), 403(b), and 457 plans.

Contributing to most of these retirement vehicles may reduce your taxable income today while your money potentially grows tax-deferred over time. Time is key. The longer you contribute, the more likely you'll be prepared for the retirement you want. At a bare minimum, you should try to contribute enough pay to take advantage of the maximum match your employer may make to your retirement savings account.

Review your retirement plan beneficiaries if you haven't done so recently. You'll help avoid unintended consequences by updating beneficiary designations for your retirement savings plan, annuities, pensions, and IRAs to account for life changes, such as marriage or divorce of a beneficiary.

Part-Time Employees May Participate In 401(k) Plans

Part-time employees age 21 or older who have worked 500 hours for three consecutive 12-month periods after January 1, 2021 are eligible to participate in retirement savings. As an employer, you aren't required to match contributions. Some employees, including seasonal and union workers, aren't eligible to contribute.

Roth IRAs

Roth IRAs offer several advantages you can't find in other retirement accounts. While contributions are made after tax, qualified distributions are tax-free, and there are no required minimum distributions during your lifetime.

When changing jobs, roll over any retirement funds directly into an IRA to avoid tax and potential early withdrawal penalties and keep your retirement savings working for you.

Contributing to a Roth IRA makes sense if you don't need the tax deduction now or want tax-free distributions later. Tax-free income from a Roth IRA may permit you to leave other retirement accounts alone until you must take RMDs from them.

RETIREMENT & HEALTH SAVINGS PLAN CONTRIBUTION LIMITS

STATUS	PLAN	2023	2024
401(k) 403(b) 457	Employee Contribution Limit	\$22,500	\$23,000
	Catch Up Contributions (50+)	\$7,500	\$7,500
	Combined Employer/Employee Contribution	\$66,000	\$69,000
Traditional IRA/Roth IRA	Contribution Limit	\$6,500	\$7,000
	Catch-up Contribution Limit (50+)	\$1,000	\$1,000
Traditional IRA Income Limits for Deductible Contributions (Based on AGI*)	Single or Head of Household Income Limit	\$73,000–83,000	\$77,000–87,000
	Married Filing Jointly Income Limit	\$116,000–136,000	\$123,000–143,000
Roth IRA Income Limit (Based on AGI*)	Single or Head of Household	\$138,000–153,000	\$146,000–161,000
	Married Filing Jointly	\$218,000–228,000	\$230,000–240,000
SIMPLE IRA	Elective Contribution Limit	\$15,500	\$16,000
	Catch Up Contribution (50+)	\$3,500	\$3,500
	Employer Non-Elective Contribution Limit	2% of Employee Comp. up to \$330,000	2% of Employee Comp. up to \$345,000
SEP-IRA/Profit Sharing/Money Purchase	Contribution Limit	\$66,000	\$69,000
Defined Benefit	Maximum Annual Benefit	\$265,000	\$275,000
SSI Employee Deduction	Annual Income When Deduction Stops	\$160,200	\$168,000
HSA Maximum Contribution	Single	\$3,850	\$4,150
	Family	\$7,750	\$8,300
	Catch Up (55+)	\$1,000	\$1,000
HDHP	Single Coverage Deductible	\$1,500	\$1,600
	Family Coverage Deductible	\$3,000	\$3,200
HDHP Maximum Out-of-Pocket Limit	Single Coverage	\$7,500	\$8,050
	Family Coverage	\$15,000	\$16,100

*Adjusted Gross Income (AGI), not taxable income

You may also want to consider rolling over a traditional IRA to a Roth IRA to avoid paying higher tax rates in the future. This makes sense for people who may have a relatively down income year but have the liquidity to pay the tax bill for that year without tapping a retirement account. A rollover may not make sense if you're in a higher tax bracket now and planning to retire soon. You could end up paying more tax now than you might after you retire.

Penalty-Free Withdrawals for New Parents

New parents may qualify for an exception to the 10% tax that usually applies to early distributions (prior to age 59½) from IRA or 401(k) accounts. You can withdraw up to \$5,000 per parent per eligible retirement account within a year of a qualified birth or adoption. You have the option to repay at a later date, but repayment isn't required.

Personal Tax Considerations

Do you need to meet with your team of legal, tax, and financial professionals? There are any number of situations in which you might. Not the least of which is having put it off for some time.

- Reviewing any wills, trusts, and other legal documents ensures they remain properly drafted to meet your needs.
- It is also a good practice to check with your human resources department to ensure you withhold just enough from your income to pay next year's taxes.
- You might want to reexamine saving for college through a 529 plan. Depending on your state, these plans expanded access to people who want to save for and withdraw up to \$10,000 annually to pay for private and parochial school from kindergarten through high school.
- You can also bunch your full annual gift tax exemption for five years as a contribution to a 529 plan, but you can't make another gift to the same person during this time.
- If you made money in a side gig, remember that you must report all the income even if you don't receive a 1099 statement for the amount. This form isn't required for annual earnings under \$600, but taxes are still due.

Check with your tax and other professionals for a complete list of what you'll need for your next planning meeting.

Tax Rates and Business Structures

Due to 2022's Inflation Reduction Act, large businesses—those with more than \$1 billion in reported income—have to pay taxes at a minimum corporate rate of 15%. For other C corporations, the tax rate remains a flat 21%. Pass-through companies, including S corporations and limited liability companies (LLCs) also receive more favorable treatment. Whatever structure your company has, now may be a good time to discuss your corporate structure with your tax and legal professionals.

Inflation Adjustments

As with personal taxes, numerous business deductions and credits have limitations that are adjusted annually for inflation. Some also may have new or continuing phaseouts you should be aware of. Your employer-sponsored retirement plan, ESOPs, and other employee benefits may also be affected.

Pass-Through Entities

Corporate business owners who use pass-through entities, such as S corporations and limited liability companies (LLCs), to avoid being double taxed—paying corporate taxes and personal taxes—should be aware that the IRS is scrutinizing these entities more closely, starting in 2024. No federal corporate income tax is levied on business income for pass-through entities. Instead, profits flow through to owners' individual tax returns, so they pay income tax only once at the individual tax rate. Review any passthrough entities you use with your tax provider.

Sole proprietorships and partnerships also avoid double taxation and receive flow-through treatment. However, these business structures don't provide the limited liability of S corporations and LLCs. Sole proprietors and partners may be personally liable for claims against their businesses.

New Federal Reporting Requirements

Do you own 25% or more of a limited liability company, partnership, or other small entity that owns real estate or runs a small business? Are you a company's president, CEO, general counsel, COO, or perform a similar role without holding the title? Do you have "substantial control" over any company? If you answered yes to any of those questions, then starting in 2024, you'll need to register, or be registered, in a new federal database. The new reporting rule was issued in regulations released by the Financial Crimes Enforcement Network, part of the U.S. Treasury Department, in 2023. It's in response to the Corporate Transparency Act. This information will generally be collected online.

Opportunities for Small Businesses

Small businesses have unique characteristics and needs. Hence, the IRS has some tax provisions that are designed for or may be particularly beneficial to smaller companies.

Small-Business Research Credit

This special tax credit allows companies that engage in research and development activities to offset their business's tax liability. It's meant to encourage smaller companies to innovate, create, and perform research useful to society. Small businesses may use it to further reduce payroll taxes and several other business expenses by up to \$500,000 annually.

ACA Tax Credit

Take advantage of the premium tax credit that supports Affordable Care Act (ACA) healthcare plans. The ACA Marketplace is a vital coverage source for many small business owners and self-employed adults. This credit is scheduled to end in 2026.

Small Business Tax Credits

The Inflation Reduction Act included provisions to help small businesses reduce energy costs. Small businesses can receive a tax credit that covers 30% of the cost of switching to solar power, 30% of purchase costs for clean commercial vehicles, including electric and fuel cell models, and up to \$5 per square foot tax credit for energy efficiency improvements.

Pass-Through Income

Owners of some pass-through businesses can now take a deduction of up to 20% of qualified business income—plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. This tax break phases out for single taxpayers at \$191,950 of taxable income and for married taxpayers at \$364,200—not including the qualified business income deduction. Above these thresholds, the deduction is based on whether you're a specified service trade business (SSTB). There is a caveat: The pass-through provision will expire in 2026 unless Congress votes to make it permanent.

Net Operating Losses

No business wants to lose money. But if your corporation did in 2023, those net operating losses that couldn't be claimed last tax year or remain unclaimed from earlier years can be carried forward indefinitely.

Section 179

Section 179 lets you take an immediate expense deduction for purchases of depreciable business equipment instead of capitalizing and depreciating the asset over a period of time. For 2024, the limit for Section 179 expensing on eligible property is \$1,220,000 and phases out at \$3,050,000. In 2023, the limit was \$1,160,000 and phased out at \$2,890,000.

Bonus Depreciation

Bonus depreciation must be claimed unless a taxpayer actively opts out. For qualified property placed in service during 2024, the amount of bonus depreciation you can claim has dropped to 60% (from 80% in 2023). This percentage will continue to phase out through 2026. Your tax professional can fill you in on all the specifics.

When bonus depreciation was increased to 100% in 2017, it made 179 expensing an afterthought in many cases. Now that it's decreasing, you should consider your options. Section 179 expensing can be used to pick and choose which depreciable assets can be deducted entirely in the year placed in service but is subject to limitations.

Hire Family Members

Consider adding your spouse or children to your payroll to help maximize business tax deductions. A spouse who is an employee may be entitled to make IRA contributions or participate in your company's retirement plan. The family business can also provide all employees, including spouses, with other benefits, such as health insurance, the premiums for which would become a business deduction. If you're self-employed, wages paid to children under age 18 aren't subject to Social Security or Medicare taxes. Of course, your kids must work to earn the wages.

Home Office Deduction

Self-employed business owners who use their home as their principal place of business and use a portion of their residence as a dedicated office (or warehouse/storage) space can claim the home office deduction. There are two ways to take a deduction:

- Deduct a portion of your mortgage interest, property taxes and insurance, and utilities equal to the percentage of your home's square footage dedicated to business use
- Use the simplified method, which allows a maximum \$1,500 deduction depending on the square footage used

Work Opportunity Tax Credit

The Work Opportunity Tax Credit has been extended through 2025. This credit provides an incentive for you to hire long-term unemployed individuals. Generally, the credit is equal to 40% of up to \$6,000 wages paid or incurred with a maximum credit of \$2,400 for an employee who is in their first year of employment, is certified as being a member of an eligible group, and works at least 400 hours of services for that employer.

This is a one-time credit for each new hire, and an employer cannot claim the credit for rehired employees. A 25% rate applies to wages for individuals with 120 to 399 hours of service. Up to \$24,000 in wages may be considered in determining the WOTC for certain qualified veteran targeted groups.

Exit Planning

The sale of a small business can significantly impact the transaction's profit due to potential taxes. One way to reduce the tax impact is to conduct an installment sale, especially if the buyer lacks sufficient cash or will pay a contingent amount based on the company's performance.

Of course, tax consequences are only one of many important considerations when planning to sell your business.

Installment sales spread the gain over the length of the contract, which may help avoid triggering the Net Investment Income Tax or short-term capital gains. However, there can be drawbacks, including the recapture of depreciation in the year of the sale or increasing tax rates in future years.

If you're gifting your business to family members during your lifetime you'll need to file a gift-tax return. You'll have the option of paying an immediate gift tax, or you can use your lifetime gifts and estate-tax exemption (currently \$13.61 million). Unless the value of your business exceeds the exemption, you shouldn't owe any tax on the gift.

You have another option if you plan to eventually give your business to a family successor but the business's value exceeds the exemption. You can use the annual gift-tax exclusion (\$18,000 in 2024) to gradually give an ownership interest each year without incurring taxes.

Rental Real Estate Tax Benefits

Certain interests in rental real estate qualify for the 20% pass-through income deduction. These enterprises are generally defined as owning real estate to generate rental income. To claim the deduction, you'll need to meet these requirements:

- Keep separate books showing income and expenses for each rental real estate enterprise.
- Complete 250 hours or more of rental services each year if your rental real estate enterprise is less than four years old. For properties you've owned longer, 250 or more hours of rental services must have been performed in at least three of the past five years. Rental services include advertising the property for rent, collecting rent, and completing routine repairs or maintenance on the property.
- Maintain meticulous records, including time logs for hours of all services performed, description of all services performed, dates on which such services were performed, and who provided the services. Attach this report to your tax return.

The formula to figure out your tax liability with the pass-through income provision is complex, so work with your tax professional. They can help you calculate your pass-through income and its tax.

SALT Tax Workaround

The IRS now allows a pass-through entity tax (PTE tax) that would enable partnerships and S-corporations to pay state income taxes, without limitations, at the entity level rather than on the personal returns of the partners or owners. These taxes become deductible for the business, lowering taxable income. While the PTE tax may be deductible for federal income tax purposes, states may have different rules. Be sure to chat with your tax professional to see if this workaround makes sense for you and your business.

More Tax-Managing Opportunities

Businesses large and small have numerous other tax-managing opportunities available to them. See which ones fit your business.

Research and Development Tax Credits

The regular Research and Development (R&D) tax credit has existed since the early 1980s and benefits U.S. businesses in various sectors, including manufacturing and distribution, software and technology, healthcare, construction, and consumer products. The amount of the credit is based on a company's qualified research expenses and consists of wages, supplies used in the R&D process, and 65% of third-party contract research. Research must be completed in the U.S. and meet the IRS four-part test. Your state may have its own R&D credit, so speak with your tax professional to determine eligibility for your business.

Empowerment Zone Tax Incentives

The Empowerment Zone Tax Incentive program, designed to incentivize business investment and job growth in certain economically disadvantaged areas, is available only through December 31, 2025. The program may entitle you to expanded Section 179 deduction allowances, potential deferral of capital gains, and the ability to finance projects using certain tax-exempt bonds.

Vehicle Depreciation

Depreciation limits, as of publication, for passenger vehicles placed in service in 2023 or later increased slightly from 2022. If your business doesn't claim bonus depreciation, limits range from \$20,200 in the first year to \$6,960 for years four and beyond. The deduction is phasing out through 2026.

Interest Expensing

Through 2025, amended IRC Section 163(j) limits corporations' business interest expensing to any business interest income plus 30% of the business's adjusted taxable income. The limit does not affect small businesses that averaged less than \$27 million in annual gross receipts for the three previous tax years in tax year 2022 and \$29 million for 2023.

Business Meals

After a bump up in 2021 and 2022, the costs of business meals—taking a client to lunch, treating your employees to a meal, or taking a prospective client to dinner, for example—reverted to 50% deductible in 2023 and remain at 50% for 2024.

Employee Benefits

Review your employee benefit offerings to ensure they continue to maximize potential tax breaks, while providing benefits that attract and retain qualified employees.

Tax Credits for Small Business Retirement Plans

Small business retirement plan tax credits can be as much as \$5,000 for three years. This credit gives small business owners an incentive to provide access to a retirement plan for their employees. For businesses that enroll new hires, another \$500 in tax credits is automatically available each year for up to three years.

The maximum auto-enrollment contribution for the first year of employment is 10% of compensation. Employees must have the choice to opt out of auto-enrollment. After the worker's first year, the safe harbor plans can automatically increase employee contributions up to a maximum of 15% of compensation. Again, employees must have the option of opting out. Additionally, you now have until the due date for your company's tax return filing to establish a plan and claim the credit for the previous year. This gives you more time to provide your employees with a profit-sharing contribution.

Qualified Retirement Plan Offset

If a loan is not repaid, the plan may provide that the account balance is reduced or offset by the unpaid portion of the loan. The plan loan offset amount is the outstanding balance. A plan loan offset amount is treated as an actual distribution for rollover purposes. If the plan loan offset is due to termination of the plan or severance from employment, an employee has until their federal income-tax due date, including extensions, for the taxable year in which the offset occurs to come up with and roll over the offset amount.

Qualified Plan Limits

The annual compensation limit for retirement accounts under Sections 401(a) (17), 404(l), 408(k)(3)(C) and 408(k)(6)(D)(ii) was \$330,000 in 2022. In 2023, the limit jumps to \$345,000.

ESOPs

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a five-year distribution period is \$1,380,000 in 2024. The dollar amount used to determine the lengthening of the five-year distribution period is \$275,000 in 2024.

Multiple Employer Plans

Employers of all sizes can collaborate and open “pooled plans” or Multiple Employer Plans (MEPs). You need not show a common interest to do so.

Be Aware of Plan Compliance Penalties

Fines and penalties for non-compliance with ERISA requirements have increased annually, ranging from a few hundred dollars to a six-figure fine. Work with a compliance professional to ensure you don’t trigger penalties or fines.

Student Loan Payments

To help attract new employees, consider implementing a qualified education assistance program to pay a portion of their student loans as part of your benefits package. Now, through 2025, you can make payments of up to \$5,250 a year in student loan payments for each employee and receive a tax deduction for the payment. This amount is excluded from employees’ income, so it’s tax-free to the employee.

Under a new law in 2024, you can offer matching 401(k) contributions to employees based on their repayment of student loans. Participation is voluntary, and employees must opt in.

W-2 Employer FMLA Tax Credit Extended

Through 2025, employers who provide some paid family or medical leave can claim a credit ranging from 12.5% to 25% of eligible wages paid, depending on the employee’s wages. For 2024, that income limit is \$93,000.

Taxable Fringe Benefits

Generally, you must report the value of benefits you provide to your staff as employees’ taxable income—unless explicitly excluded by the IRS. This includes certain employee discounts on goods or services, parking subsidies of up to \$280, and company services at cost. They also include modest holiday gifts, minimal personal use of office equipment, and even occasional company parties. The value of more substantial benefits, such as personal use of a company car or country club membership, also must be included in taxable income.

Flexible Spending Accounts

You can allow employees to carry over any unused flexible spending or dependent care account monies as of December 31, 2023 to be used in 2024. Typically, these accounts are “use it or lose it” with no rollover provisions. In 2024, you may allow employees to contribute up to \$3,200 to a health FSA.

Accounting Methods

If your average annual gross receipts were \$30 million or less in the three previous tax years, you can choose either a cash or accrual method of accounting in 2024. In 2023, the limit was an average of \$29 million or less.

You must use the accrual method if your gross receipts exceed that threshold. For more information about the advantages and disadvantages of each method, speak with your tax professional or see IRS Publication 538 – Accounting Periods and Methods.

Business Tax Considerations

Whether dealing with a pandemic or fighting the erosive effects of inflation, business owners need to plan. Here's a checklist of practical considerations. Talk to your tax professional for a complete list of documents you'll need to bring to your next tax-planning meeting.

- Revisit how much you saved for estimated taxes.
- Know how changing tax laws may affect you, as many tax provisions have a phase-out schedule.
- Understand that state and local tax jurisdictions may not recognize all federal tax law changes.
- Owners of most business structures, including freelancers, need to understand the term “qualified business income (QBI).” You may qualify for a pass-through tax benefit on a portion of income, which may lower your personal federal income tax rate.
- Be aware of depreciation formulas that may be phasing out.
- You may switch from an accrual accounting method to a cash method of accounting if your average annual gross receipts were \$29 million or less in the three previous tax years. This is an increase.
- You may deduct up to 80% of net operating losses and carry forward these losses indefinitely, so keep your documentation until you use up this tax benefit.
- Revisit your payroll and bookkeeping records to see if you need to hire employees or contractors to handle them.
- If you hire contractors, work with professionals who understand your business environment to ensure strict employer/contractor laws in some states don't trip you up.

We Can Help

Tax regulations are ever-changing and always complex. Working with your tax and financial professionals to learn how to minimize taxes and leverage your savings to invest in your future has never been more important. We urge you to call us to schedule an appointment. Getting a head start on tax planning can save you money, time, and stress.

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"The hardest thing in the world is to understand the income tax"
Albert Einstein

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ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

November 20, 2023

Reference: **FR2023-1023-0336/E**

Org Id: 23568

1. 2024 Tax Planning Guide
Rule: FIN 2210

The material submitted generally appears consistent with applicable standards. However, we note the following comments.

Our review is based on your representation that the final version of this communication will prominently disclose the name of the member, pursuant to FINRA Rule 2210(d)(3)(A).

Please be advised that we provide no opinion on the tax discussion included in this material. We remind you of your firm's responsibility to ensure that all statements and claims are accurate, current, and can be substantiated.

Reviewed by,

James M. Allen
Principal Analyst

jma

Please send any communications related to filing reviews to this Department through the Advertising Regulation Electronic Filing (AREF) system or by facsimile or hard copy mail service. We request that you do not send documents or other communications via email.

NOTE: *We assume that your filed communication doesn't omit or misstate any fact, nor does it offer an opinion without reasonable basis. While you may say that the communication was "reviewed by FINRA" or "FINRA reviewed," you may not say that we approved it.*