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Time is running out on year-end strategies

Year-end 2024 is expected to be another busy one when it comes to retirement, financial, estate and income tax planning strategies. For some, it is a simple, easy, ongoing annual process. For others, it is more involved than ever, given the number of complex strategies that can be selected and how they impact changing financial situations from one year to the next.

Managing wealth in an effective and efficient manner usually requires strategies to be completed and finalized in advance of year end. There are many strategies to consider this year before time runs out. A few of these opportunities must be executed in 2024 or will be lost forever.

Here are some of the more noteworthy year-end strategies

1 Required minimum distributions (RMDs)

Many IRA owners have highly important RMDs due in 2024 that must be taken by December 31. If these distributions are not taken by this deadline, IRA owners may face an IRS tax penalty on the amount that is due, but not taken out.

Lifetime IRA RMDs

For IRA owners born before July 1, 1949, lifetime RMDs are based on age 70½. For IRA owners born after June 30, 1949 and before 1951, lifetime RMDs are based on age 72. For IRA owners born in 1951 through 1959, RMDs are based on age 73. The first RMD may be taken in the year they attain RMD age, or no later than April 1 following the year they attain RMD age. If the latter, then two RMDs must be taken in the year following RMD age (the first one by April 1 and the second by December 31). Subsequent RMDs would be due by December 31 each year thereafter.

Inherited IRA RMDs

For eligible designated beneficiaries who have a stretch IRA, annual distributions are required by December 31.

New life expectancy tables were effective in 2022 and will apply going forward. The new tables will result in smaller RMDs and greater amounts retained in the retirement plan. Decreasing RMDs will create an opportunity to reduce current income taxation. More amounts remaining in the retirement plans will result in larger account balances to capture investment opportunities, along with an increase in tax-deferred growth. Individuals subject to RMDs will have the continued flexibility to take more than the RMD if needed, subject to contract provisions.

2 Qualified charitable distribution (QCD)

IRA owners, including inherited IRA beneficiaries (not all IRA custodians will process QCDs from Inherited IRAs), who have attained 70½, can directly donate up to $105,000 this year and avoid income taxation on what would otherwise be a taxable distribution. The distribution needs to go directly to the charity to be eligible for a QCD, and the IRA owner must be age 70½ or older. Although an RMD may not be currently required due to the RMD age changes, a QCD from an IRA can be completed if the IRA owner has attained age 70½. The QCD deadline date is usually December 31. It is a good idea to allow extra time to process this year-end distribution.

3 Roth conversions

There are many attractive benefits to a Roth IRA, and a Roth IRA conversion may be a valuable income tax strategy to execute this year. A conversion to a Roth IRA tends to be most attractive in the year when the individual is in a lower tax rate. If a Roth IRA conversion is desired for 2024, the deadline for executing a conversion is December 31, 2024. A distribution (or actual contract conversion) from the IRA would have to be completed by December 31, 2024. If the conversion is done as a rollover, the 60-day rule applies. Also note, December 31, 2024, is the deadline date for a conversion for the 5-year countdown applicable to qualifying distributions to begin on January 1, 2024.

4 Charitable gifting

Contributions are due by December 31 for the 2024 tax year. Consider donating an appreciated asset, such as stock, that would otherwise be subject to capital gains tax had you sold it. By donating stock that has appreciated for more than a year, often a higher amount can be gifted than if the stock is sold and cash is gifted. Capital gains tax can be avoided when appreciated assets are gifted. The full fair market value of the asset donated can be tax-deductible, up to the amount allowed by the IRS.

5 Annual $18,000 gift exclusion

Eighteen thousand dollars can be given without filing a gift tax return. If married, the spouse can also give $18,000 to the same person. For example, a married couple with two children can give up to $72,000 in 2024. These amounts do not count against the lifetime gift tax exemption. In order for the annual exclusion gifts to count for 2024, the gift must be made by December 31, 2024. Unused exclusions cannot be carried over to 2025. It is a use it or lose it strategy.

6 Realize tax losses to offset capital gains

Capital gains may have been realized in 2024 by selling appreciated stock or other investments subject to capital gain treatment earlier in the year. Capital gains can also be realized when mutual funds pass through capital gains to shareholders. If there are no losses to offset the capital gains already realized in 2024, capital gains tax could be incurred. Selling losing investments by December 31, 2024, may be an effective strategy to reduce capital gains and the related capital gains tax.

7 Maximize 401(k) or other elective deferral contributions

Participants in 401(k) plans, including elective deferral plans such as 403(b) plans and Simple IRAs, have limited time remaining in the year to make the maximum contribution to minimize current income tax, if they have not already done so. An election to have the deferrals count for 2024 is plan-specific. Many participants contribute to 401(k) plans through payroll withholding, so it may take a pay period or two to process changes. Either way, time is running out to have deferral contributions deducted from paychecks to apply to these plans for the 2024 year. Participants who are self-employed may have longer to make 401(k) contributions based on their net earnings. The maximum 2024 401(k) deferral is $23,000, plus a $7,500 catch-up contribution for individuals 50 and over.

8 Deferring income and acceleration deductions

A traditional income tax strategy for businesses executed in the past has been to accelerate expenses to the current year and postpone income to the following year. Bunching expenses into 2024 to maximize deductions may be viable depending on future income tax rates. If rates increase, it may be preferable to accelerate income and be taxed at a lower rate, deferring expenses to be used in the future when income tax rates could potentially be higher, in order to reduce taxable income.

Completing timely year-end gifts, contributions and RMD distributions by December 31, 2024, is critically important if the strategy is to be properly counted for in the current year. Financial institutions may have certain procedures and time frames to process transactions for various strategies. Starting the strategy well in advance of the December 31, 2024, deadline will usually be necessary. If not executed and processed timely, the benefits of the strategy may fall into the following year, or even be lost forever, causing unnecessary taxation.

Current or future federal legislation may have an impact, or even eliminate, one or more of the above-mentioned strategies. It is also important to consult with an income tax advisor on these strategies.

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