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Annual Tax Strategy Guide 2024

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As we wrap up 2024, we're pleased to present our annual tax advice and strategy guide. It's important to take a closer look at your tax and financial plans and discuss steps that can be taken to reduce your tax liability and make more tax efficient financial decisions in the future. Tax law changes are on the horizon and many provisions of the Tax Cuts and Jobs Act (TCJA) are set to expire soon. We continue to closely monitor any potential changes in tax legislation and pledge to bring new updates and strategies to you throughout the year.

This comprehensive guide reflects our commitment to providing you with the most up-to-date tax and financial advice through our One Advisor Twice the Advice™ approach.This means, when we look at your financial plan and investments, we consider tax implications and planning opportunities. It also means that when we look at your tax plan and preparation, we consider investment and financial planning strategies. Your plans benefit greatly from having one advisor that sees both sides of your financial life. If right now you are thinking of a family member or friend that could benefit from the same advice you've come to count on, then please don't keep us a secret.

We're here to help you take a fresh look at your financial health. Connect with us to discuss your personal goals and strategy so we can develop a customized plan together. If you expect changes by year's end or next year, please call us to discuss as it's better for us to be proactive and plan ahead for the changes versus reacting after the change has occurred. Possible changes could be:

- Change in marital status
- Birth of a child or grandchild
- Death of a loved one
- Primary residence sale and move
- Sale or purchase of a rental property
- Sales of investments
- Started or sold a business

In the meantime, here's a look at some things to consider as we approach year-end.

CFA/TCo's Fab Five things you can do now to reduce your tax liability.

- Confirm you saved the maximum amount in your 401k/403b/TSP
- If you are 50 years old, maximize your catch-up contributions in your 401k/403b/TSP
- Confirm you saved the maximum in your Health Savings Account (HSA)
- Harvest tax losses
- Make charitable donations

Upcoming sunset of TCJA provisions – timing is the end of 2025

It is crucial to be aware of the upcoming changes due to the scheduled sunset of the provisions enacted in 2017 in the TCJA at the end of 2025. Unless Congress acts, several key benefits will expire on December 31, 2025, impacting your tax situation starting in 2026. A major change will impact individual income tax rates.

The lower brackets will return to pre-2018 levels, and the nearly doubled standard deduction will drop back to its former amount (adjusted for inflation). Therefore, assessing your income and itemized deductions in 2024 and 2025 could be crucial to capitalizing on existing tax benefits.

Annual Gifting

The annual gifting tax limit for 2024 is $18,000. This amount will increase to $19,000 in 2025. We recommend making annual gifts early in the year (January is advised) in case there is a law change or in case a taxpayer passes away later in the year and misses the opportunity to make the gift. Post-mortem gifts are not allowed. Make sure checks are cashed timely.

IT'S A ROTH *WORLD*

Roth IRA Micro-conversion Strategy

We can help you analyze the benefits of implementing a Roth IRA micro-conversion and tax bracket management strategy. This strategy allows you to fill up your current lower income tax bracket with income from a Roth Conversion. After age 73 you will be required to take money out of your traditional IRAs. If due to your RMD income, you are in 30-35% bracket, but now find yourself in the 20-25% bracket or below, converting smaller amounts of your traditional IRA to a Roth IRA, known as micro-conversions, allowing you to fill up your current year bracket with income without spilling over to the next highest tax bracket. This can save thousands of dollars of tax after age 73.

Roth 401k Five-Year Rule

If you are within five years of retirement and have a Roth 401k, you should move a small amount out of the Roth 401k into a Roth IRA to start your five-year clock on the five-year rule. The five-year rule for Roth IRA distributions stipulates that 5 years must have passed since the tax year of your first Roth IRA contribution before you can withdraw the earnings in the account tax-free. Money moved from a Roth 401k to a Roth IRA starts the five-year clock.

Required Minimum Distributions (RMDs)

RMDs are the minimum amount you must annually withdraw from your retirement accounts (e.g., 401(k) or IRA) if you meet certain criteria. For 2024, you must take a distribution if you are age 73 by the end of the year, although you can elect to defer the first RMD and take it by April 1 of the following year). Planning ahead to determine the tax consequences of RMDs is important, especially for those who are in their first year of RMDs. The IRS issued new life expectancy tables effective for the 2022 tax year and forward, resulting in lower RMD amounts. We can help you calculate any RMDs to take this year and plan for any tax exposure.

Born in 1958 or later, your RMD doesn't start until Age 75. This is a great opportunity when your income decreases to take advantage of micro-Roth IRA conversion.

If a taxpayer passes away after starting to take RMDs, a non-spouse beneficiary must take RMDs and cannot wait ten years to take it. If a taxpayer passes away before having started taking RMDs, a non-spouse beneficiary is not required to take anything out until the tenth year following death.

Charitable Contribution Planning

If you are planning to donate to a charity, it's likely better to make your contribution before the end of the year to potentially save on taxes. There are many tax planning strategies we can discuss with you about charitable giving. For example, consider donating appreciated assets that have been held for more than one year, rather than cash. By donating stock that has appreciated for more than a year, you are giving 20 percent more than if you sold the stock and then made a cash donation. The reason is simple: avoiding capital gains taxes. The maximum federal capital gains tax rate is 20 percent on long-term holdings and there are discussions that it may be increasing in the years to come.

Opening and funding a donor advised fund (DAF) is appealing to many as it allows for a tax-deductible gift in the current year and the ability to dole out those funds to charities over multiple years. Qualified charitable distributions (QCDs) are another option for certain older taxpayers who don't typically itemize on their tax returns. These are distributions from retirement accounts such as IRA's that are given directly to a qualifying charity and thus are not included in your taxable income.

Note that it's important to have adequate documentation of all donations, including a letter from the charity for donations of $250 or more. Keep adequate documentation of any noncash donations as well, including what was donated and the approximate value of those goods.

Energy Tax Credits

"Going green" continues to offer significant tax incentives. The Inflation Reduction Act of 2022 included new and expanded tax credits for solar panels, electric vehicles (EVs) and energy-efficient home improvements. While the rules are complex, there is time to benefit from these credits in the current year. It's important to note that these credits have specific eligibility requirements and limitations.

The tax credits for energy efficient home improvements recently underwent significant changes. Annual limits have replaced lifetime limits for energy-efficient home improvement credits. This change allows homeowners to benefit from the credits year after year if they continue to make energy-efficient upgrades. The energy efficient home improvements credit covers a wide range of improvements, including installing windows, doors, insulation, and various types of heat pumps.

Retirement Account Strategies

- Explore the mega backdoor Roth strategy if your employer's plan allows it
- Consider implementing a Roth conversion strategy

Estate Planning Updates

- Consider substantial gifts in 2024 and 2025 to maximize the current lifetime gift tax exemption
- Explore Spousal Lifetime Access Trusts (SLATs) for estate planning flexibility

The Triple Tax-Free HSA – everyone should have one!

- Contributions are tax deductible regardless of income, growth is tax free and withdrawals are tax free when used for a whole host of qualified medical, dental and vision expenses.
- Consider investing HSA money in mutual funds for long-term growth.
- Maximize your HSA contributions early in the year so you get the benefit of tax free growth all year!

Business Owner Strategies

- **STOP** making contributions to a SEP-IRA and switch to an individual 401k/Solo 401k
- Maximize the Qualified Business Income (QBI) deduction before its potential expiration after 2025
- Review any Employee Retention Credit (ERC) claims for accuracy
- Strategic equipment purchases utilizing the Section 179 deduction before year end
- Maximize deductions like the home office, vehicle, travel, office supplies and professional development
- **Beneficial Ownership Interest (BOI) Reporting - "IF YOU HAVE AN LLC – YOU MUST DO THIS"**
    - The Corporate Transparency Act (CTA), effective January 1, 2024, mandates the disclosure of the beneficial ownership information of certain entities to the Financial Crimes Enforcement Network (FinCEN). Notably, this reporting requirement may also apply to single member LLCs, which are typically disregarded entities for income tax purposes.
    - It is crucial to understand that this is not a tax filing requirement, but rather an online report submitted directly to FinCEN if applicable. There are severe penalties for businesses who willingly do not comply with the requirements. For entities in existence before January 1, 2024, the report must be filed by January 1, 2025. There are other deadlines related to entities created during 2024 and those with changes to reported information.
    - The reporting is made directly through FinCEN's website at www.fincen.gov/boi. It is important to note that this is a one-time filing requirement unless there are changes to the reported information.

Real Estate Investment Strategies

- Explore Opportunity Zone investments before tax benefits begin phasing out after 2026

Capital Gains taxed at zero percent!

Recognize capital gains in retirement with these income limits as your guide.

- 2024 Married Filing Joint taxable income less than $94,050 gets 0% capital gains tax rate
- 2025 Married Filing Joint taxable income less than $96,700 gets 0% capital gains tax rate

Education Costs

The American opportunity tax credit (AOTC) and lifetime learning credit are just that: credits, which are much more favorable than deductions. These provisions reduce the taxes you pay dollar for dollar. The AOTC is even refundable for some individuals, meaning you could receive up to $1,000 in a refund by using this credit. This credit is now a permanent tax break.

What are the income limits for AOTC AND lifetime learning credit?

- To claim the full credit, your modified adjusted gross income (MAGI) must be $80,000 or less ($160,000 or less for married filing jointly).
- You receive a reduced amount of the credit if your MAGI is over $80,000 but less than $90,000 (over $160,000 but less than $180,000 for married filing jointly).
- You cannot claim the credit if your MAGI is over $90,000 ($180,000 for joint filers).

For Maryland residents, for those with Maryland income, Maryland allows a state tax deduction of up to $2,500 per taxpayer, per beneficiary for amounts contributed to a Maryland 529 Plan each year.

Sec. 529 plans also allow for up to $10,000 in annual tax-free distributions per beneficiary (regardless of the number of contributing plans) for tuition at elementary and secondary schools, including religious or other private schools.

529 Plan Rollover to Roth IRA. Starting in 2024, taxpayers may be able to directly roll over up to a total of $35,000 from 529 plan accounts to Roth IRAs for the same beneficiary, provided the 529 accounts have been held for at least 15 years. Annually, the rollover amounts would be subject to Roth IRA contribution limits and contributions within the last five years are ineligible for the rollover.

Student Loans

Student loan interest continues to be deductible in 2024 up to $2,500 within certain income limits.

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Key Numbers for 2024 and 2025

Are you 60, 61, 62, or 63 years old?
If so, you get a $11,250 catch-up contribution in your 401k/403b/TSP in 2025!

Tax and retirement reference numbers are as follows:

401k/403b Contribution Limits

2024	2025
$23,000 (Age 50+ Catch Up $7,500)	$23,500 (Age 50+ Catch Up $7,500, Age 60-63 Catch Up $11,250)

Traditional and Roth IRA Contribution Limits

2024	2025
$7,000 (Age 50+ Catch Up $1,000)	$7,000 (Age 50+ Catch Up $1,000)

Roth IRA Income Limits

	2024	2025
Single & Head of Household	$146,000	$150,000
Married	$230,000	$236,000

Health Savings Accounts

	2024	2025
Single/Family	$4,150/$8,300	$4,300/$8,550
Age 55+ Catch-Up	$1,000	$1,000

Key Numbers for 2024 and 2025

Standard Mileage Rate

2024	2025
$0.67	TBD

Annual Gift Tax Limit

2024	2025
$18,000	$19,000

Fraudulent Activity Remains a Significant Threat

Our firm takes data security very seriously and we think you should as well. Fraudsters continue to refine their techniques and tax identity theft remains a significant concern.

Call us immediately if you:

- Receive a notice or letter from the IRS regarding a tax return, tax bill, or income that doesn't apply to you. Do not contact them and send the notice to us.
- Get an unsolicited email or another form of communication asking for your bank account number, other financial details, or personal information.
- Receive a robocall insisting you must call back and settle your tax bill.

Important Cyber Security Tips

It's strongly encouraged that you follow these cyber security best practices:

- Update all of your passwords at least once a year
- Use an encrypted password vault like LastPass, and you'll never need to remember a password again
- Use a minimum of 12 characters with a combination of special characters, capital letters, and numbers. We recommend using a phrase that you'll easily remember. For example, "I grew up on Bayberry Lane in Maryland". The password would use the first letter of each word and replace "I" with 1 and "O" with 0 (Zero). Then you can add a few numbers to the end along with a special character. Password: 1Gu0BLiM967!
- Turn on two-factor authentication (2FA) for all financial websites and preferably any website or application that offers it.
- Regularly check for updates on each of your devices and download them as soon as they're available. They often include security updates, which makes these updates vital to securing the device.
- Never click on unsolicited email links.
- Never – ever – include personal information like date of birth, social security numbers, or bank account information in an email.

You must take action to keep your personal financial information safe. We're happy to walk our clients through implementing these security best practices or review anything you suspect could be fraudulent.

We recommend that all taxpayers apply for an IRS issued PIN number for filing tax returns this year.

You may be issued an annual PIN by the IRS already if you have had fraudulent activity on your IRS account in the past or if you have requested a PIN in the past.
However, if you have not been issued a PIN, we recommend that you go on the IRS website and request one. The link to obtain a PIN is:

https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin

If you file jointly with a spouse, each taxpayer must obtain his or her own PIN.

Digital Assets and Virtual Currency

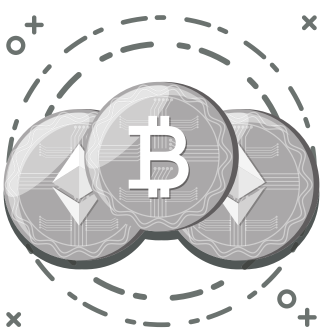
The last few years have seen explosive growth in US consumer interest in crypto-currency transactions, purchases and use. Congress and the IRS have both become aggressively involved in monitoring the activities and the failure to correctly report crypto.

Digital assets are defined under the U.S. income tax rules as any digital representation of value that may function as a medium of exchange, a unit of account and/or a store of value. Digital assets may include virtual currencies such as Bitcoin and Ether, Stablecoins such as Tether and USD Coin (USDC) and non-fungible tokens (NFTs).

One penalty for failure to report crypto activities can be 50% of the highest balance in the account each year.

Unfortunately, very few consumers understand the income tax and foreign reporting obligations that accompany crypto-currency activities, and the incorrect and misleading information floating around on the internet is a major concern.

Here are the seven activities that require individual transaction reporting in addition to just reporting the existence of the account. You read that correctly, each individual transaction must be individually reported. For example, if you use a cryptocurrency to buy a cup of coffee, we must report that transaction individually on your return.



1. Selling (Converting) crypto to US Dollars
2. Trading one crypto for another
3. Spending crypto directly for goods or services
4. Mining crypto from your computers
5. Staking or lending crypto and receiving payment in crypto or dollars
6. Receiving Airdrop crypto
7. Getting paid in crypto

Items 1, 2, and 3 require that we report each transaction separately on your return. Potentially hundreds or thousands of transactions must be reported if you are spending cryptocurrency, trading (even via a "Bot"), mining, etc.

We are going to remind you in our organizers, interviews, and engagement letters that these actions must be disclosed so that we may report them and have you avoid penalties.

Additional Tax and Retirement Planning Considerations

We recommend you review your retirement goals and plan at least annually. That includes making the most of tax-advantaged retirement saving options, such as traditional IRAs, Roth IRAs, and company retirement plans. It is also advisable to take advantage of health savings accounts (HSAs) that can help you reduce your taxes and save for your future.

Consider converting a portion of an IRA to a Roth IRA and paying taxes on the conversion in the current year, allowing for future tax-free growth and tax-free distribution. Manage the conversion by projecting how much additional taxable income can be realized in the year without skipping forward to the next tax bracket.

Consider using a back door Roth strategy to get around income limits on contributing to a Roth IRA. Ask us about this opportunity and the special rules that may apply to you.

Here are a few more tax and financial planning items to discuss with us:

- Let us know about any major changes in your life such as marriages or divorces, births or deaths in the family, job or employment changes, starting a business and significant expenditures (real estate purchases, college tuition payments, etc.).
- We'll consider tax benefits related to using capital losses to offset realized gains and move any gains to the lowest tax brackets, if possible.
- Work together to plan appropriately for estate and gift tax purposes. There is an annual exclusion for gifts ($18,000 per donee, $36,000 for married couples for 2024) to help save on potential future estate taxes.
- Review any updates needed to insurance policies or beneficiary designations.
- Keep in mind that for 2024, if you file a joint return with taxable income of less than $94,050, capital gains are taxed at 0%. For 2025, if joint return taxable income is less than $96,700, capital gains are taxed at 0%.
- Let's review withholding and estimated tax payments and assess any liquidity needs. With underpayment interest rates at 5% for federal, it is a good idea to review before year end.
- Don't rush to pay your last quarterly state estimated income taxes before January because they may be deductible again in 2025.
- Consider US Treasury Series I Savings Bond investments for competitive inflation-adjusted and tax efficient interest rates. Interest is exempt from state income tax so if you are in a high tax state, your return is enhanced.

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Year-End Planning Equals Fewer Surprises

There are many other planning opportunities to discuss as year-end approaches. And, many times, there may be strategies such as deferral or acceleration of income, prepayment, or deferral of expenses, etc., that can help you save taxes and strengthen your financial position.

Whether it's working toward retirement or getting answers to your tax and financial planning questions, we're here for you. As always, planning can help you minimize your tax bill and position you for greater success.

The deadline to turn in your tax documents is Monday, March 10, 2025

Please note, if we do not receive your documents by March 10, 2025, your returns may need to be put on extension. Extensions require the preparation of a tax form.

We offer multiple ways to send us your tax documents:

1. **ONLINE with our Tax 1040 Toolkit** – We will email you a link to complete your tax organizer online. You are also able to attach documents securely in this online tool.
2. **SCAN and UPLOAD securely to ShareFile** - The IRS recommends that you do not send us any information or documents that contain personally identifiable information like social security numbers, dates of birth, or account numbers via email. Our ShareFile client portal allows you to upload documents securely as well as send us a secure, encrypted email right from a link in our email signatures.
3. **MAIL your tax documents** - We understand that not everyone is comfortable with using technology so you may continue to mail your tax documents to our office. We will send you a pre-paid (by us) Priority Mail Envelope with tracking and confirmation of delivery for any client that requests it. We will scan your documents into our system and upload a copy to your folder on ShareFile before returning the documents to you. This will help you have an electronic copy should any documents be lost, damaged, or destroyed in the future.
4. **DROP OFF in the Towson Office** - We will continue with our successful drop-off procedure that went into effect in 2017. We will accept your tax documents via drop-off at our office between the hours of 9 am – 3 pm, Monday through Friday, and provide you with a receipt of acceptance. Please note our address is: 401 Jefferson Avenue, Towson, MD 21286.
5. **Due to excellent feedback from many clients, we have decided to discontinue the use of Tax Caddy for this filing season.**

IMPORTANT!

If you do not have access to your ShareFile folder, please call our office at (410) 823-5442 or email invest@peakeadvisors.com and we will assist you with getting a link to your folder.

Please let us know how we can be of service, and we are looking forward to speaking with you during tax season!

Thank you, again, for your continued trust in our advice and services. Please don't keep us a secret!

Sincerely,

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