armanino

2024 TAX PLAN

2024 YEAR-END TAX PLANNING GUIDE

For Individuals & Families

Introduction

Inflation and interest rates are easing at last, but the intense political climate and November election are escalating uncertainty about what could be just over the tax horizon. Some big questions are:

- Will the Tax Cuts and Jobs Act (TCJA) sunset on schedule and raise your income tax rate?
- Could legislators extend the Qualified Business Income (QBI) tax deduction?
- How much tax will you pay on capital gains under the next administration?

While we don't yet know the answers, one thing is certain: If you have a high net worth, you should actively take advantage of today's tax-saving opportunities — especially the historically high estate and gift tax exemption. It's $13.61 million (that's $27.22 million for married couples) in 2024, and it's scheduled to return to a baseline of $5 million adjusted for inflation (roughly $6-$7 million per person) after 2025. If you act quickly, your family can reap major tax savings rewards at tax time.

Now is also a great time to execute a gifting strategy. Whether you're philanthropically inclined or looking for tax-efficient options to gift assets to family members, the current tax environment gives you and your family many different ways to accomplish your goals.

But every tax move is part of an interrelated matrix, where one action creates ripple effects across your entire financial landscape. That's why it's crucial to work with an expert advisor who can help you see any potential strategy in the context of your overall tax and financial plan.

Table of Contents

SECTION ONE

Time Revenue for Tax Impact — Deferral or Acceleration?

Timing can make a world of difference in tax planning. While the general advice has traditionally been to defer income and accelerate deductions, timing for maximum tax benefit depends largely on your personal circumstances. Schedule an in-depth review with your tax professional now to determine the best option for your specific situation. That conversation should guide the actions you take before the end of 2024.

- **If income deferral is right for you:** Consider any opportunities to move income to 2025. For example, you may be able to defer a year-end bonus. Or you might delay collecting business debts, rents, payments for services or even a sales transaction. This strategy could allow you to postpone paying tax on the income until next year. If there's a chance that you'll be in a lower income tax bracket next year, deferring income could mean paying less tax on it.
- **If accelerating deductions makes sense this year:** Consider all potential opportunities to accelerate deductions into 2024. For instance, if you itemize deductions, you might accelerate deductible expenses like medical expenses and qualifying interest. Or make next year's charitable contributions this year — essentially doubling your charitable deduction.
- **If the reverse is true:** Given your financial fact pattern, it may be most helpful to take the opposite approach — accelerating income into 2024 and postponing deductible expenses to 2025. For example, that might be the case if you can project that you'll be in a higher tax bracket in 2025.
- **Could an even distribution help most?** Spreading income over the next few years may offer the best overall tax outcome for your situation. Carefully review your projected income and deductions with your advisor to see if this approach minimizes your overall tax liability.

SECTION TWO

Factor in the Alternative Minimum Tax

02

Although the alternative minimum tax (AMT) doesn't affect as many taxpayers as it used to, it can still be an important consideration. But it's tricky, so you'll want to talk to a tax professional.

The AMT exists to ensure everyone pays a "minimum" level of tax. It's a complex calculation where income is recalculated based on AMT rules, and you'll owe the higher of regular tax or tentative minimum tax.

AMT planning can be counterintuitive. If you're subject to AMT for 2024 tax filings, traditional year-end actions like deferring income and accelerating deductions can hurt you. That's because the AMT — essentially a separate, parallel income tax with its own rates and rules — effectively disallows several itemized deductions and adds back certain non-taxable items. So, careful planning is a must if you're subject to this tax.

You can control some AMT triggers. Your tax advisor can help you calculate AMT exposure by making detailed projections that incorporate income adjustments.

- Many AMT add-backs are limited or no longer deducted for regular tax purposes (such as state taxes and miscellaneous itemized deductions).
- Other adjustments remain in play, like the exercise of incentive stock options (ISOs) and tax-exempt interest earned on certain private-activity municipal bonds.
- Adjustments could also come from Schedule K-1s you receive.

Exercising ISOs represents a significant AMT planning opportunity. When your regular tax is higher than the AMT, you may want to exercise enough ISOs to increase AMT to bring it close to the regular tax (the optimum point). This will allow you to exercise ISOs without paying any additional tax dollars.

Selling ISOs can offset some AMT liability. If you have already exercised ISOs that resulted in a significant AMT, you may want to consider selling some ISOs that are exercised within the year (disqualifying disposition). Besides generating cash to pay for the taxes, this move can increase your regular tax to the optimum point.

Previous ISO events may help your current tax situation. Under certain scenarios, you may be able to use prior year ISO exercises to help manage this year's tax strategy. Review your ISO history with your tax advisor to determine the best approach.

The AMT exemption is indexed for inflation. For the 2024 tax year, the AMT exemption amount increased to an adjusted gross income (AGI) of $133,300 for married taxpayers filing jointly and $85,700 for single individuals. The exemption phases out if your AGI exceeds $1,218,700 if you are married filing jointly or $609,350 if you are single.

SECTION THREE

Expect a 37% Marginal Income Tax Rate and 20% Capital Gains Rate

The TCJA remains in place for 2024, which means you'll pay lower tax rates on income and capital gains than high earners have traditionally faced.

The top marginal tax rate remains at 37% in 2024. This rate applies to taxable income that exceeds:

- $609,350 if single
- $731,200 if married filing jointly
- $365,600 if married filing separately
- $609,350 if head of household

The top capital gains rate is 20%. Your long-term capital gains and qualifying dividends could be taxed at this rate in 2024 if your taxable income exceeds:

- $518,900 if single
- $583,750 if married filing jointly or a surviving spouse
- $291,850 if married filing separately
- $551,350 if head of household

Don't forget the net investment income tax. As a top earner, you may owe an additional 3.8% net investment income tax (unearned income Medicare contribution tax). This tax could apply to some or all of your net investment income if your modified AGI exceeds:

- $200,000 if single and/or head of household
- $250,000 if married filing jointly or widowed with a dependent child
- $125,000 if married filing separately

There's also an additional Medicare tax. You'll be subject to an extra 0.9% Medicare (hospital insurance) payroll tax on wages exceeding:

- $200,000 if single, head of household or a surviving spouse
- $250,000 if married filing jointly
- $125,000 if married filing separately

SECTION FOUR

Contribute to Tax-Advantaged Retirement Accounts

04

Using tax-advantaged retirement savings vehicles as much as you can is a fundamental tenet of tax planning. Your high income may curtail your available options, but it's always worth checking the limits and contributing where you are eligible.

Anyone with taxable compensation can contribute to a traditional IRA.

The limit on traditional IRA contributions is $7,000 for 2024 or $8,000 if you've reached age 50. If you have access to a retirement plan through your job, you can't deduct those contributions if your income is over:

- $87,000 if single
- $143,000 if married filing jointly
- $10,000 if married filing separately

Deductibility on traditional IRA contributions begins to phase out at:

- $77,000 if single
- $123,000 if married filing jointly
- $0 if married filing separately

If your income exceeds those limits but is below the cap on deductibility, you may be able to claim a partial deduction for your contribution or make a traditional nondeductible contribution.

Your spouse's retirement plan matters, too.

If your spouse can participate in a job-based retirement plan, you'll face income limits on the deductibility of your contributions to your traditional IRA:

- The phase-out begins at $230,000 (married filing jointly) and $0 (married filing separately).
- Contributions are not deductible if your income exceeds $240,000 (married filing jointly) or $10,000 (married filing separately).

Contributions to a Roth IRA or a Roth 401(k) are never deductible.

That means there's no immediate tax benefit. The payoff comes later because qualified Roth distributions are completely free from federal income tax. You can make contributions to a Roth IRA if your modified AGI in 2024 is less than:

- $161,000 for single filers
- $240,000 for married taxpayers filing jointly
- $10,000 for married taxpayers filing separately

The maximum Roth IRA contribution for 2024 is $7,000 or $8,000 if you're 50 or older.

There's an income phase-out for these accounts, though, so you won't be able to contribute the full amount if your 2024 modified AGI is more than:

- $146,000 if you're single
- $230,000 if you're married filing jointly
- $0 if you're married filing separately

You can contribute up to $23,000 to your 401(k) plan in 2024.

If you're at least 50 years old, that maximum rises to $30,500. The limits for Roth 401(k)s are the same as the limits for traditional accounts. However, the maximum applies across both types. You can split up your contributions or put them all into one account, but the total of your contributions to all your 401(k) accounts can't exceed the age-appropriate limit.

Contributions to a Simplified Employee Pension (SEP) plan have wage-related limits.

If you have one of these retirement accounts, you can contribute up to $69,000 or 25% of your total compensation in 2024, whichever is less. For sole proprietors or other self-employed people, the 25% calculation is based on "net" self-employment income, which includes adjustments for factors like self-employment taxes. For employees, the calculation is based on wages.

SECTION FIVE

Take Your Required Minimum Distributions (RMDs)

05

RMDs are the minimum amount you must annually withdraw from your retirement accounts after you reach a certain age. Planning ahead to determine the tax consequences of these distributions is important, especially in your first year of RMDs. (If you also make charitable contributions, explore the contribution discussion for another planning opportunity.)

You must start taking RMDs when you reach age 73. If you don't take them on time, you'll owe a penalty that's worth 25% of the amount you failed to withdraw correctly. If you correct the RMD amount within two years, the penalty drops to 10%.

You can wait until April 1 of the following year to take your first distribution. You must take all other RMDs by December 31. If you turn 73 in 2024, you can take your first distribution during the first three months of 2025. Be careful if you decide to do this because you'll still have to take a distribution for 2025. That will increase the amount of taxable income you have from RMDs in 2025.

Roth accounts are not subject to RMDs. If you're the original owner of a Roth IRA, Roth 401(k) or Roth 403(b), you don't have RMD requirements at all. You can leave the money in the account for your entire life if you choose. It's just one of the many tax perks of these accounts.

The RMD rules are different for inherited retirement accounts. If you inherit a retirement account, you may have to take distributions earlier, depending on the type of account and your relationship to the original account owner. Your tax advisor can help you determine when you are subject to RMDs.

06

SECTION SIX

Note the Biggest SECURE 2.0 Changes

The Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act builds on the original SECURE Act of 2019, making it easier to save for retirement and simplifying the rules around retirement planning. Most changes, such as raising the age when RMDs kick in, have already gone into effect. Some SECURE 2.0 rules become effective for the 2024 tax year or later. These changes include:

Penalty-free withdrawals.
Beginning with distributions you make in 2024, the 10% penalty does not apply to withdrawals for:

- Emergencies (up to $1,000)
- Domestic abuse victims (up to $10,000)
- Individuals with terminal illness (requires doctor certification; 84 months or less)
- Qualified disasters (up to $22,000)

An IRA catch-up limit indexed for inflation.
Beginning in 2024, the $1,000 catch-up contribution limit if you're aged 50 or older will be indexed for inflation in increments of $100.

A higher catch-up limit for some older people.
Starting January 1, 2025, if you're between the ages of 60 and 63, you'll be able to make catch-up contributions up to the greater of $10,000 ($5,000 for SIMPLE plans) or 50% more than the regular catch-up amount in 2024 (2025 for SIMPLE plans). The dollar amounts of these extra contributions are indexed for inflation beginning in 2026. Unfortunately, if you're 64 or over, you won't qualify to enjoy this higher catch-up limit.

07

SECTION SEVEN

Explore the Potential Benefits of a Roth Conversion

Is a Roth conversion right for you? Year-end is a great time to evaluate whether it makes sense to convert a tax-deferred account like a traditional IRA or a 401(k) to a Roth account to reduce future tax liability. Here's what to know about a potential conversion:

You'll pay more taxes this year. When you convert a traditional IRA to a Roth IRA or a traditional 401(k) account to a Roth 401(k) account, you'll pay federal income tax on the amount you convert in the year that you make the conversion. (This doesn't apply to any non-deductible after-tax contributions you have in the account.)

Taking the one-time tax hit can be a smart move. Once the funds are in a designated Roth account, you won't owe federal taxes on any qualified withdrawals you make in the future. And if you have net operating losses (NOLS) available in the year you make the conversion, they may be able to offset most or all of the tax liability of a Roth conversion.

Timing is important for Roth conversions. If you decide to pursue a Roth conversion, consider the timing carefully. It could make a big difference in how much extra tax you incur. For example, if you believe you'll be in a better tax situation this year than next (i.e., you'll be in a higher tax bracket next year), you might think about acting now rather than waiting.

It's a complicated decision. Whether a Roth conversion is right for you depends on many factors. The decision demands a thorough analysis of your current and projected future income, deductions, applicable tax rates and other factors. Always discuss the potential costs and benefits with your tax advisor before you commit to a Roth conversion.

SECTION EIGHT

Understand Roth-Specific SECURE 2.0 Rules

SECURE 2.0 is a sweeping piece of legislation that reshaped many aspects of planning and saving for retirement. Some of the act's changes apply specifically to Roth accounts. SECURE 2.0's new Roth-related rules include:

Roth treatment of catch-up contributions.
Starting in 2026, you'll have to make catch-up contributions in after-tax dollars by putting them into a Roth account. The rule applies to you if you make over $145,000 (indexed for inflation). The 2026 effective date was originally slated for 2024, but the IRS pushed it out by two years.

Roth treatment of matching or nonelective contributions.
If you're participating in a 401(k), 403(b) or 457(b) plan through your employer, SECURE 2.0 gives you the right to receive some or all of your matching contributions and nonelective contributions in the form of Roth contributions. It only applies to contributions where you're fully vested, but otherwise, the choice is yours.

Limited tax-free rollovers from Section 529 accounts to Roth IRAs.
Starting in 2024, you may be able to make direct rollovers to a Roth IRA without tax or penalty if you're the beneficiary of a Section 529 educational savings account.

- You can move an amount up to the annual IRA contribution limits, subject to the standard ROTH contribution rules such as having taxable compensation, etc.
- The lifetime limit for these rollovers is $35,000.
- The 529 account must have been in place for at least 15 years.
- Any funds you move must go directly from the 529 plan into a Roth IRA for the same individual who was the beneficiary of the 529 plan.
- You can't roll 529 contributions from the previous five years or any earnings attributed to those contributions into a Roth IRA.

SECTION NINE

Claim Credit for Eligible Business Travel and Meal Expenses

09

Under TCJA rules, you can only claim a tax deduction for business travel expenses and meals if you're self-employed. If that's you, then be sure to keep records and receipts to document expenses that directly relate to your business travel.

Required travel expenses are 100% deductible.
You can deduct all the costs you incur for airfare, cab fare, hotels and other travel necessities.

Only legitimate business expenses qualify for a deduction.
Outings that aren't tied to your business aren't eligible. Additionally, entertainment expenses are not deductible — even if they are business-related.

You can deduct 50% of the cost of meals on business travel.
That's true even if you're not conducting business during the meal. All meals and lodging must qualify as reasonable. The IRS won't allow you to deduct "lavish or extravagant" expenses.

If the trip is a mix of business and pleasure, you'll need to separate the costs.
You can't deduct hotels, meals or transportation costs you incur during the days you didn't need to be there for business purposes. The trip has to be primarily for business, or you can't deduct any of the costs.

Local business meals qualify for the same 50% deduction.
You don't have to give up your tax deduction just because you're having a business meeting in your hometown. Business meals unrelated to travel are also deductible at 50%, as long as the expense is reasonable (again, nothing lavish or extravagant) and you're doing business-related things like hosting clients or discussing a potential deal.

The standard business mileage rate is 67 cents per mile in 2024.
You can choose to deduct actual expenses instead (and might get a bigger deduction), but doing so requires keeping an even more meticulously detailed set of books and records. Most people find the standard rate easier to manage. To claim the standard rate, you'll need to keep a log of business travel that documents relevant details, including who you met with, where you went, the purpose of the trip and the number of miles traveled.

10

SECTION TEN

Review the Top 10 Tax Trivia Facts You Need to Know in 2024

Reading the entire tax code would take a lifetime or longer (and probably wouldn't be a lot of fun). Luckily, you can skip that enormous undertaking and keep yourself in the know with these highlights for 2024.

01

The **standard deduction** is:

- **$14,600** for single filers and those who are married filing separately
- **$29,200** for married filing jointly filers and qualifying surviving spouses
- **$21,900** for filers who are head of household

02

The annual **gift tax exclusion** is **$18,000** per recipient. You and your spouse can each give up to the limit to as many different people as you choose.

03

You can deduct qualified, unreimbursed **medical and dental expenses** for yourself, your spouse and your dependents, but only the amount that **exceeds 7.5% of your AGI**.

04

You can deduct up to **$10,000** ($5,000 if married filing separately) **for state and local income, sales and property taxes.**

05 You can **deduct mortgage interest** on up to $750,000 ($375,000 for married filing separately) of qualifying debt. If the mortgage originated before December 16, 2017, you can deduct interest on up to $1,000,000 ($500,000 for married filing separately).

06 The deduction for interest on home equity debt is gone. But if you used **home equity** to make **substantial improvements** to your home, the **interest is deductible.**

07 If you suffered a **federally declared disaster**, you can deduct losses due to **personal casualty and theft** — but not if insurance reimbursed you for those losses. Any insurance reimbursements reduce the amount of your deductible loss. Business losses are also deductible, with fewer restrictions.

08 You **can't deduct miscellaneous expenses** subject to the 2% floor, including investment expenses and unreimbursed employee business expenses, on your federal income tax return. But talk with your advisor because some states still let you deduct these expenses.

09 **Bonus depreciation** is 60% for business property you place in service during 2024.

10 You can **carry net operating losses (NOLs) forward**, but you can't carry them back.

11

SECTION ELEVEN

Jump on These Important Tax Planning Action Items

Many tax planning opportunities have a hard cutoff at the end of each year. Review this short list of to-do items so you don't miss the tax-savings boat.

- **Perform tax-loss harvesting.** Even the most successful investment portfolio usually has some losers in the mix. You may want to harvest capital losses to offset any gains you'll recognize in 2024.

- **Tell your tax advisor about life changes.** Many life events can make a huge difference in your tax picture. Your advisor needs to know what's going on so they can make the appropriate elections, adjustments and projections. Report things like:
  - Marriage or divorce
  - Births and deaths in the family
  - Job or employment changes
  - Starting a business
  - Significant expenditures (e.g., real estate purchases or college tuition)

- **Consider funding or contributing to an existing Section 529 plan.** These accounts can provide income tax benefits and offer a tax-advantaged method of funding education for family members. SECURE 2.0 added flexibilities that mean you may be able to roll eligible 529 funds into a Roth IRA later

- **Consider a Roth conversion.** If 2024 is a good time for you to roll over funds from a traditional IRA or 401(k) to a Roth IRA, remember to complete the conversion process before December 31.

SECTION TWELVE

Take a Deep Dive Into Tax-Smart Gifting Strategies

You give to support the individuals, causes and organizations that you care about. When you also give strategically to limit taxes, both you and your recipients can accomplish more. Here are some tips on how to make your giving have the most impact and save you money on taxes.

1. Think through your charitable giving.

You and your family have very personal reasons for making charitable gifts. That list probably includes helping others, making a difference in the community, creating a family legacy and reducing your income tax liability.

While planning your annual charitable gifts, consider how layering an intentional year-end gift into your overall giving strategy can reduce your 2024 tax bill. As an itemized deduction, your gifts to charity first offset the income taxed at the highest marginal rate that applies to you — that's probably 37% in 2024 or 28% if you're subject to the AMT.

2. Make gifts to public charities.

You can claim an itemized deduction for your contributions to qualified public charities. There's an almost limitless number of IRS-approved charities, from large organizations like the United Way and the American Red Cross to art museums, hospitals, educational institutions and religious groups. You can deduct cash gifts to public charities up to 60% of your AGI. If your gift is in the form of publicly traded securities, artwork or other appreciated property, you can deduct their value up to 30% of your AGI, but only if you've held the assets for at least a year and a day.

3. Consider giving through a donor-advised fund (DAF).

You can get the tax benefits of gifting while retaining a higher level of control if you donate through a DAF. These charitable vehicles allow you to gift cash or appreciated property and claim a tax deduction in the year you make the contribution. With a DAF, however, you have additional oversight powers that allow you to choose when your gift is distributed to the receiving organization or organizations, either immediately or in future years. DAF contributions are deductible like other donations to public charities (up to 60% of AGI for cash gifts and 30% for appreciated property).

4. Establish a private foundation.

A private foundation allows your family's charitable legacies to continue through multiple generations. It offers you greater administrative control over assets and grant-making powers, with a board composed of family members and other trusted advisors. But a private foundation isn't right for everyone. Along with their many benefits, they come with additional administrative requirements. These organizations pay a minimum excise tax of 1.39% on their net investment income and have annual distribution requirements. Filing requirements include getting tax-exempt status and then filing annual federal and state tax returns. The foundation's cash gifts are deductible up to 30% of your AGI, while gifts of appreciated property are limited to 20% of AGI.

5. Take qualified charitable distributions from retirement accounts.

You can turn RMDs into a tax-smart giving opportunity by making a qualified charitable distribution (QCD). A QCD is a direct transfer of funds from your IRA custodian to one or more public charities. Amounts up to $105,000 per year that you transfer as a QCD won't count as taxable income like it normally would. That's per person, so you and your spouse can each give $105,000 out of your respective IRAs for a total donation of $210,000 in 2024. (Transfer more if you like, but it will be a taxable distribution.) You can begin making QCDs when you are 70 ½ years old, even though you don't have to start making RMDs until you're 73. DAFs and private foundations don't qualify as QCD recipients. You can only make QCDs from an IRA. If you're interested in making this kind of donation from another type of retirement account, talk to your advisor for help with a potential workaround.

6. Form a charitable split-interest trust.

Some types of trusts make ideal giving options that benefit you, your intended beneficiaries and the charitable organizations you select.

- A *charitable remainder trust* allows you to contribute assets like low-basis marketable securities. You'll receive an immediate tax deduction for the present value of the charitable beneficiaries' remainder interest and then collect an annuity stream back from the trust. At the conclusion of its term, the trust ends with a residual donation to one or more charities.

- A *charitable lead annuity trust* allows you to contribute to the trust and benefit from a substantial tax deduction in the year of contribution. The trust pays out an annuity stream to the charitable organizations you choose (which can include public charities, DAFs and private foundations) over the term of the trust. The remainder interest in the trust at the end of the term transfers to the residual beneficiaries that you've named (either individually or in trust), free of gift or estate taxes. This is a great option if you have organizations you want to donate to annually. It allows you to transfer assets to your heirs without utilizing any of your lifetime gift and estate exemption. If you have maxed out your lifetime exemption with recent estate and gift planning, a charitable lead trust could let you transfer additional amounts to family members without incurring gift or estate taxes. Plus, you can also get an income tax deduction and benefit your favorite charity.

These charitable trusts take time to establish, and it's important to select the correct assets to contribute. They also require filing annual split-interest trust tax returns with the IRS. Consult your tax and estate planning advisors if either of these split-interest trusts sounds like a solution for your personal, estate, gift and charitable goals.

7. Factor charitable giving considerations into your gifting plan.

The IRS has lots of rules that affect the potential deductibility and net tax impact of your gift. Always work with your advisor to address these important considerations before making a gift or claiming a related tax benefit:

- **Substantiating charitable gifts.**
  For all gifts above $250, you'll need to retain a receipt that describes the gift. This rule applies to all charities, including DAFs and your own private foundation. The receipt should:

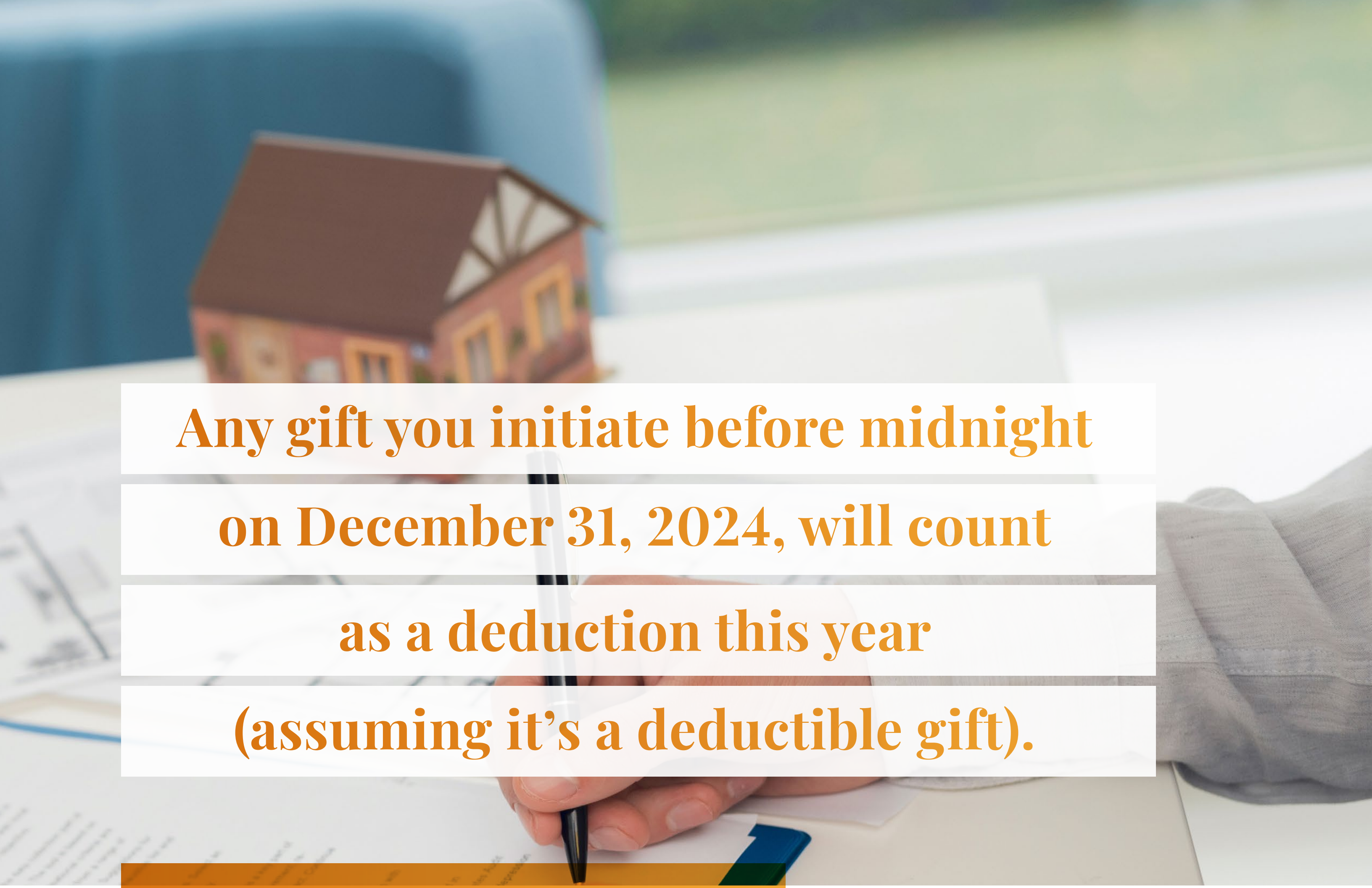
  - Be in writing (emails are okay)
  - State the amount or value of the cash or property you donated
  - Describe the nature of any non-cash donation (such as XX shares of ABC company stock)
  - Disclose any goods or services you're receiving in return for your gift

Verifying the holding period and nature of gifted assets.
How long you've held an asset you later donate can make a big difference in the amount of your tax deduction. You can claim the fair market value of donated assets that:

- Meet long-term holding period requirements (that's at least a year and a day). For gifts with a short-term holding period, you're only allowed to deduct the cost basis of the appreciated property.
- Have readily available market quotes for the value of the stock.

Timing your gifts for tax purposes.
Any gift you initiate before midnight on December 31, 2024, will count as a deduction this year (assuming it's a deductible gift). "Initiate" in this case means you've requested an online transfer of funds, used your credit card or mailed a check that will be postmarked on or before December 31 — even if the recipient won't actually receive your gift until January 2025. But be careful here. Many last-minute gifts aren't considered complete in time to qualify for a current-year tax deduction. Allow plenty of time so you can be sure you'll get the credit you're counting on.

Making complex gifts.
While cash is generally easy to gift up until the last day of the year, you should begin discussions with the receiving organization as early as possible if your gift is more complex or more difficult to value. Many public charities and DAF-sponsoring organizations have specific dates after which they won't accept donations of complex assets. Complex assets can include partnership or LLC interests, stock in a private company or hard-to-value art or jewelry. If you intend



Any gift you initiate before midnight on December 31, 2024, will count as a deduction this year (assuming it's a deductible gift).

to donate marketable securities to a charitable organization, connect with the organization by mid-December to ensure they have the right accounts set up to receive your gift.

- **Seeking qualified appraisals.**
  If you gift an asset (other than cash or a marketable security) that's worth more than $5,000, the IRS requires you to substantiate the value of the gift with a qualified appraisal. This rule applies to gifts like artwork, land, partnership interests and stock in a private company, to name a few. Depending on the type and value of the gift, you may need to attach the qualified appraisal to your tax return. The qualified appraisal must be prepared no earlier than 60 days before the date of the gift and no later than the due date (including extensions) of the tax return on which you claim the deduction.

- **Bunching charitable gifts.**
  While the TCJA's larger standard deduction remains in place ($14,600 for single filers in 2024 and $29,200 if you're married filing jointly), you may want to look at a "bunching" strategy. Compressing your charitable donations for two years into a single year can help you get a bigger deduction in one year by itemizing in the year you donate. You'd then claim the larger standard deduction in alternating years. You can also use this pattern for regular donations to religious organizations (like tithing).

13

SECTION THIRTEEN

Plan for Tax-Efficient Wealth Transfer

It's impossible to overstate how important it is that you use the federal estate and gift tax exemption while it's so extraordinarily generous. This temporary provision in the tax code represents a window of opportunity that's not likely to be repeated. Making a taxable gift now could help you avoid paying gift and estate taxes later and reduce the size of your estate, which could shift future appreciation out of your estate.

The 2024 estate tax exemption of $13.61 million per person ($27.22 million per married couple) will rise with inflation in 2025 before sunsetting on December 31, 2025. At that point it is set to return to pre-TCJA levels, adjusted for inflation. Unless Congress extends the larger exemption, you'll probably be limited to passing somewhere between $6 million and $7 million per individual without paying gift and estate taxes.

Given the urgency of this opportunity, if you have significant assets, there's no higher financial priority than taking advantage of the estate exemption. Focus on these key points and work with your advisor to figure out your best approach, but don't delay.

If you have significant assets, there's no higher financial priority than taking advantage of the estate exemption.

1. Use it or lose it!

Consider making large gifts, either outright or in trust, to fully utilize your remaining lifetime exemptions before the current rules sunset. Consult your advisor to evaluate your overall estate makeup, cash flow considerations and goals for yourself and your family. Based on that conversation, you might:

- Gift cash or marketable securities
- Gift a partnership interest at a discount
- Gift shares of an S- or C-corporation (including qualified small business stock) at possible discounts
- Gift real estate (but be mindful of property tax reassessments if you're in California)
- Forgive an existing intra-family loan
- Sell an asset at or below market rate for a transaction that's part gift and part sale
- Gift tangible personal property like art, cars, wine, coins or other collectibles
- Gift a partial interest in an asset at a discount

2. Explore the benefits of a grantor trust.

IRS rules let you set up a trust that's both a grantor trust for income tax purposes and a completed gift for estate and gift tax purposes.

- The assets won't be included in your estate when you die. Until then, the income tax rules treat the trust as a disregarded entity, and you'll be taxed on all the income from the trust. This allows the trust to grow, free from income tax, while you pay the taxes that the trust would pay in a non-grantor trust.
- The taxes you're paying on behalf of the trust benefit your trust beneficiaries, but this money doesn't count as a taxable gift. It's the equivalent of making additional gifts to the trust each year but without incurring any gift tax implications.
- You can also sell assets to the trust. And since the trust is ignored for income tax purposes, the sale doesn't trigger a gain at the time of the sale.

- If you sell assets to the trust as an installment sale with a promissory note over a period of years, you don't have to report the interest payments on the installment sale as taxable income. That's because, for income tax purposes, it is as though you are selling an asset to yourself.
- There can be other benefits, too, depending on the provisions of your trust agreement. You can draft it to include powers of substitution, allowing you to swap assets of equivalent value for income tax and cash flow planning. You can also release the grantor trust powers in order to "toggle off" grantor status when you want to shift the income tax burden back to the trust.
- A grantor trust can give you lots of flexibility, which is something you want to maximize as you draft the agreement. That way, you can adjust in response to future legislation that could potentially eliminate some of the advantages of the structure — or if your circumstances change.

3. Use up one spouse's exemption and keep the other.

If you're married and don't plan to gift an amount up to the current exemption limit during your lifetime, here's an option to consider: One spouse uses up your lifetime exemption while the other doesn't use any. Here's why it's a smart approach:

- Suppose you and your spouse decide to gift $13.61 million to a trust for your children in 2024.
- If you split the gift, you'll each use up roughly $6.8 million of your respective lifetime exemptions. When the exemption drops to an estimated $6-$7 million per person in 2026, both of you will have already maxed out your exemption or very close to it. All future assets in the estate will be subject to tax.
- If only you (or your spouse) make the full $13.61 million gift, in 2026, you (or your spouse) will have zero exemption remaining. But your spouse (or you) will still have the full $6-$7 million exemption remaining. As a couple, you can shield another $6-$7 million of assets from the estate tax, even after the law changes.

4. Update your estate plan.

You know how important it is to draft estate documents and keep them updated, but if you're like most people, it's theoretical knowledge. In practice, these tasks often get pushed to the back burner and never quite happen. The consequences can be incredibly costly for your beneficiaries and prevent you from leaving the legacy you'd wanted. Avoid that outcome by taking concrete steps:

- Contact your estate planning attorney and draw up wills, trusts and advanced healthcare directives that align with your goals.
- If you already have estate documents, take time to review them closely and make any necessary changes and updates. This is especially important if you've had family or financial changes (birth, death, marriage, divorce, job change, inheritance, adult children becoming financially independent, etc.)
- Confirm that all assets are titled appropriately. Assets in a trust need to be titled in the trust's name, or the trust becomes useless. Setting up a trust won't avoid probate unless you actually transfer the assets to the trust.

If you already have estate documents, take time to review them closely and make any necessary changes and updates.

5. Review irrevocable non-grantor trust distribution powers.

If the trust allows the trustee discretion to make distributions, you or your advisor should decide whether to make any beneficiary distributions before the end of the year.

- Review the current 1041 income tax rates versus the rates that apply to individual beneficiaries. This can help you evaluate the potential income tax benefit of making distributions.
- For complex trusts, you can make distributions for the prior income tax year within 65 days of the trust's year-end.
- Consider a pause or delay in making distributions if:
    - The trust agreement limits the trustee's ability to make distributions, and doing so could violate the agreement.
    - Assets in the trust are protected from the beneficiaries' creditors, and a distribution could make the distributed assets vulnerable.
    - You feel that a beneficiary does not have the judgment to manage a distribution responsibly. In this case, paying taxes at the trust level may be a better idea.
    - The terms of an irrevocable trust no longer meet your objectives. In this case, you should talk with your advisor because there may be ways to restructure the trust under your state's trust laws.

6. Assess additional strategies to manage exceptional wealth.

If you're dealing with a level of assets or income that pushes you into the ultra-high-net-worth category, there are more tactics you can use to manage your tax burden. Consult an experienced tax advisor to talk through estate planning techniques that could be helpful in your situation, including:

- Grantor retained annuity trust
- Sale to an intentionally defective grantor trust
- Charitable lead trust
- Refinancing old family loans
- Sale of remainder interests
- Annual exclusion gifting
- Paying tuition and medical expenses directly to the institution for loved ones
- Funding Section 529 plans for children or grandchildren, including looking at funding with five years of annual exclusion gifts
- Late allocation of unused generation-skipping transfer tax exemption to prior appreciated gifts

SECTION FOURTEEN

Use Irrevocable Life Insurance Trusts Effectively

14

Irrevocable life insurance trusts (ILITs) can be a useful tool for individuals and families with high net worth, serving as both an asset class and as part of your overall estate plan. These financial vehicles may become even more valuable if today's substantial estate tax exemption returns to levels more in line with its historical values.

Don't overlook the potential utility of an ILIT to help you achieve your financial and legacy goals. Keep these important facts in mind if you're considering establishing an ILIT (or you already have one):

ILITs offer a way to mitigate estate tax exposure. If you own an insurance policy in your own name, it's typically part of your taxable estate. The rules change if the ILIT owns the policy and pays the premiums. In this case, the death benefit isn't included in the estate, which reduces estate tax liability.

An ILIT can loan life insurance proceeds to the estate to provide liquidity. When you pass, the insurance payout to the ILIT can offer additional liquidity at a crucial time. It can save the estate executor from having to sell illiquid assets under a time constraint to pay estate tax, which is due nine months from the date of the estate holder's death.

You can use ILITs to achieve year-end gifting goals. The IRS treats premiums you pay into an ILIT as gifts to the trust beneficiaries. You can use the annual gift tax exclusion ($18,000 per beneficiary in 2024) to prefund multiple years of premium payments without triggering gift tax. This allows you to transfer more assets out of your estate and reduce future estate tax exposure. Prefunding also helps you avoid having to make annual contributions that could potentially exceed the gift tax exclusion in future years due to premium increases or other financial changes.

ILITs are not "set it and forget it" structures. You and your advisor should review the trust annually or more often to address questions like:

- Are the ownership and beneficiary designations up to date?
- Is the policy functioning as you'd planned? For example, has the trust experienced shortfalls in funding? Is there another product that's better suited to your goals?
- Are the insurance and the ILIT still useful and functional aspects of your overall estate plan?
- Should you file an annual gift tax return for the premium payments? Doing so can help you track potential discrepancies between gift and generation-skipping trust exemptions.

SECTION FIFTEEN

Understand Your Goals and Motivations

While a tax advisor can help you save money and make plans, there are some questions that they can't answer.

- Why do you do what you do?
- What's important to you?
- What's your "why" for preserving wealth?

Naturally, the answers are different for everyone. Thinking through these questions helps you create a tax-planning strategy that truly works for you and your family — but only if you have the right team behind you.

Tax planning should go far beyond making year-end adjustments to minimize the year's income tax. Instead, it should be a year-round, collaborative process involving regular meetings with your advisors: CPA, estate planning attorney and financial advisor.

This approach lets you do much more than stay compliant and capture a few tax benefits. By getting to know you and your family, your financial team can help you design strategies that fit your personal philosophies and preferences, as well as your family dynamics.

By keeping open lines of communication, your team can work together seamlessly to put your overarching financial plan into action. This collaboration means less stress for you and helps you reduce your lifetime tax burden, preserve your wealth and achieve your legacy goals.

Ask Yourself These Questions

Why do you do what you do?

What's important to you?

What's your "why" for preserving wealth?

Achieve Your Goals With Smarter Year-End Tax Planning

We know year-end tax planning can seem overwhelming, especially if you have significant income and assets. If you're feeling a little daunted by all the aspects to consider and options to pursue, Armanino can lighten that burden. Find out how our private tax planning advisors can help you apply the latest year-end tax strategies, minimize your tax liability and preserve wealth.

Possible (Re)Defined™

Armanino delivers impactful, bold solutions that increase clarity and spark success for today and tomorrow. Our integrated audit, tax, consulting and technology services serve a wide range of organizations in the U.S. and globally.

Addressing today's challenges is just as important as planning for the future. Our teams bring deep industry experience to help organizations reach peak performance, providing data-based guidance to optimize operations and finances.

When you work with us, expect to go beyond. Count on us to bring an entrepreneurial, creative approach that takes you further, faster. From tax questions to sustainability to large-scale transformation, we're not afraid to take on your biggest challenges.

If you need guidance on a global scale, our association with Moore North America Inc., a regional member of Moore Global Network Limited, one of the world's major accounting and consulting associations, allows us to seamlessly extend our full range of services and resources to over 100 countries.

No matter what's next, Armanino has the insight and foresight to help you redefine what's possible for your organization.

armanino

CONTACT US

For Further Information:

Email us at:
experts@armanino.com

Visit us online at:
armanino.com

Schedule a call with:

KELLY GILLETTE
Partner, Armanino Advisory LLC
Kelly.Gillette@armanino.com
972 590 5356

DANA WHITE
Partner, Armanino Advisory LLC
Dana.White@armanino.com
516 750 6566

JOHN KARLS
Partner, Armanino Advisory LLC
John.Karls@armanino.com
972 590 5223