Allianz

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

ADVANCED MARKETS TAXATION

# Year-end 2024 Tax Topics Checklist

As we enter the seventh and final year of the Tax Cuts and Jobs Act (TCJA) of 2017, there have been many additional changes since then that modify tax laws. One of the latest is the Consolidated Appropriations Act passed into law December 2022. Division T of this important budget package is commonly referred to as SECURE Act 2.0. It builds on many of the principles introduced in the first version of the SECURE Act, which passed in similar fashion in 2019. There are more than 90 provisions in the Act that may have an impact on the financial planning decisions of many Americans. Recognizing the impact of these changes, some of which have expired, may better equip you to review, and potentially modify, your 2024 tax filing.

Ask your **tax advisor** about these tax topics.

The following checklist includes some common tax topics that could provide tax strategies for you to consider. This list is only a preliminary guide as no one knows with certainty what tax law changes may be coming. Consider it a starting place for the current tax law environment. It is not intended to be a comprehensive list of topics that may be applicable to you. You should consult your own tax advisor to discuss whether these and other opportunities are suitable for you in preparing your 2024 tax forms.

### Lower tax rates

Current law still includes seven individual tax rates, ranging from 10% to 37% depending on filing status and taxable income.

| 2024 | Taxable income (married, filing jointly) | Taxable income (single) |
|---|---|---|
| 10% | $0 - $23,200 | $0 - $11,600 |
| 12% | $23,200 - $94,300 | $11,600 - $47,150 |
| 22% | $94,300 - $201,050 | $47,150 - $100,525 |
| 24% | $201,050 - $383,900 | $100,525 - $191,950 |
| 32% | $383,900 - $487,450 | $191,950 - $243,725 |
| 35% | $487,450 - $731,200 | $243,725 - $609,350 |
| 37% | Over $731,200 | Over $609,350 |

Unless otherwise indicated, all values come from source Rev. Proc. 2023-34.

With a possible tax hike on the horizon after 2025, this could be a relatively short period of time with the lowest tax rates many have ever seen. **You may want to consider these strategies with the help of a tax professional:**

- ❑ **1. Roth IRA conversion[1] –** The conversion of qualified plan assets or traditional IRAs to a Roth IRA, to the extent of staying within your current tax bracket, can be a useful tool if you expect to be in a higher tax bracket during retirement. With this strategy, you pay taxes today in exchange for tax-free income down the road when qualified distributions are taken. Please keep in mind that producers must hold the proper securities registration and be currently affiliated with a broker/dealer or registered as an investment advisor to recommend the liquidation of funds held in securities products, including those within an IRA or other retirement plan, for the purchase of an annuity.
- ❑ **2. Roth 401(k) –** With current tax rates temporarily lower, you may see a benefit in contributing to a Roth 401(k) versus deferring taxes with a traditional 401(k) contribution.
- ❑ **3. Use of annuities and life insurance –** Lower taxes may equate to more income available for savings. Creating a safety net for future needs – without adding an additional tax burden – can be attractive for some individuals. Annuities and cash value life insurance may be great tools for helping to do that.[2]

## Higher standard deductions and changes to itemized deductions

The TCJA roughly doubled the 2024 deductions to $14,600 for an individual and $29,200 for married taxpayers, filing jointly. The TCJA also retains for 2024 the additional amount for individuals age 65 and older or blind, which is $1,550 for married taxpayers and $1,950 for unmarried and not a surviving spouse. In addition, the child tax credit increased to $2,000 until 2026. The American Rescue Plan increased the Child Tax Credit in 2021 only, and reverted back to $2,000 per child and age 16 for 2024. TCJA eliminated personal and dependency exemptions until 2026. Many changes were made to specific itemized deductions under the TCJA, but here are some of the major ones. Unless otherwise noted, these changes apply for 2018 through 2025:

Choosing **appropriate deductions** may improve your tax situation

- **State and local taxes:** Under TCJA, individuals would be allowed to deduct up to $10,000, or $5,000 for married taxpayers filing separately, in aggregate for the total of state and local income taxes and property taxes in 2024. It is a $10,000 limit on the combined total of property and income taxes, not $10,000 each. The $10,000 grand total also applies to married taxpayers, filing jointly.
- **Medical expenses:** The medical expense deduction stays at the 7.5% of adjusted gross income (AGI) threshold in 2024 as a result of the Consolidated Appropriations Act.

[1] Please remember that converting your traditional IRA or qualified plan assets to a Roth IRA is a taxable event and could result in additional impacts to your personal tax situation, including (but not limited to) a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA. It is generally preferable that you have funds to pay the taxes due upon conversion from funds outside of your IRA or qualified plan. If you elect to take a distribution from your IRA or qualified plan to pay the conversion taxes, please keep in mind the potential consequences, such as an assessment of product surrender charges or additional IRS penalties for premature distributions. The taxable amount of the conversion of an individual retirement annuity to a Roth IRA annuity is generally the contract value plus the present value of certain living and death benefits.

[2] Purchasing an annuity within a retirement plan that provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefit. An annuity should be used to fund a qualified plan based upon the annuity's features other than tax deferral. All annuity features, risks, limitations, and costs should be considered prior to purchasing an annuity within a tax-qualified retirement plan.

Withdrawals will reduce the contract value and the value of any protection benefits. Withdrawals taken within the contract withdrawal charge schedule will be subject to a withdrawal charge. All withdrawals are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal additional tax.

Policy loans and withdrawals will reduce available cash value and death benefit, and may cause the policy to lapse or affect any guarantees against lapse. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax.

Policy loans are not usually subject to income tax unless the policy is classified as a modified endowment contract (MEC) under IRC Section 7702A. However, withdrawals or partial surrenders from a non-MEC policy are subject to income tax to the extent that the amount distributed exceeds the owner's cost basis in the policy. Loans, withdrawals, or partial surrenders from a MEC policy are subject to income tax to the extent of any gains in the policy, and if the payment occurs prior to age 59½, a 10% federal additional tax may apply.

- **Mortgage interest:** The home mortgage interest deduction is modified to reduce the limit on acquisition indebtedness for individuals from the previous $1 million limit ($500,000 for married taxpayers, filing separately) to $750,000 for individuals (or $375,000 for married taxpayers, filing separately) for acquisition debt incurred after December 15, 2017. Acquisition debt incurred on or before December 15, 2017 is still subject to the old $1 million interest deduction limits.
- **Home equity loan interest:** Elimination of deduction for interest on home equity loans without any grandfathering for existing home equity indebtedness continues in 2024, unless used to buy, build, or substantially improve the home that secures the loan. The $750,000 limit applies to the combined amount of loans used to buy, build, or substantially improve a taxpayer's main home and second home.
- **Charitable contributions:** TCJA increased the income-based percentage limit for charitable contributions of cash to public charities to 60% of AGI. However, the CARES Act replaced the 60% AGI limit to 100% of AGI and was extended through 2021 only, if you itemize your deductions on Schedule A.
- **Casualty deductions:** Taxpayers can only take a deduction for casualty losses if the loss is attributable to a presidentially declared disaster.
- **Moving expenses:** The moving expense deduction is repealed, except for members of the armed forces on active duty who move pursuant to a military order and incident to a permanent change of station.
- **Moving expense reimbursements:** TCJA repeals the exclusion from gross income and wages for qualified moving expense reimbursements, except in the case of a member of the armed forces on active duty who moves pursuant to a military order and incident to a permanent change of station.
- **Alimony:** For any divorce or separation agreement executed after December 31, 2018, or in some cases executed before January 1, 2019 but modified after December 31, 2018, alimony and separate maintenance payments are not deductible by the payor spouse. TCJA also repeals the provisions that provide such payments may be included in income by the payee. This change is permanent.
- **Miscellaneous itemized deductions:** All miscellaneous itemized deductions subject to the 2% floor under previous law are repealed. These include tax prep fees, unreimbursed employee business expenses, investment fees, investment advisory fees, union dues, safety deposit box fees, etc.
- The phaseout or overall limitation on itemized deductions is eliminated until 2026.

## CONSIDER THE FOLLOWING STRATEGIES TO REDUCE TAXABLE INCOME AS YOU REVIEW YOUR ENTIRE INCOME TAX SITUATION WITH YOUR TAX ADVISOR.

❑ **1. Qualified charitable distributions from IRAs are now permanent –** Qualified charitable distributions (QCDs) allow an individual age 70½ or older to make a tax-free donation of up to $105,000 a year directly from his or her traditional or Roth IRA, payable to a qualified charitable organization. Eligible traditional or Roth IRA owners could take advantage of this provision regardless of whether they itemized their deductions. To qualify, the funds have to be transferred directly by the IRA provider to the eligible charity. These donated amounts are not taxable, nor do they qualify for the charitable tax deduction. However, QCDs from a traditional IRA do count toward satisfying the traditional IRA owner's required minimum distribution (RMD). Note that a traditional or Roth IRA beneficiary who is age 70½ or older could make a QCD, and the QCD would count toward the beneficiary's RMD.

Although the SECURE Act raised the RMD age to 73 starting in 2023, the QCD is still allowed for those individuals who are age 70½ or older.

Under Secure Act 2.0, individuals can now make a one-time election of up to $53,000 in 2024 (indexed for inflation) for a qualified distribution to certain split-interest entities, such as a charitable remainder trust.

❑ **2. The combination of the higher standard deduction and changes to itemized deductions lends itself to a few techniques, including bunching medical itemized deductions or other itemized deductions –** This means that you could take itemized deductions every other year, giving you the maximum itemized deductions for that year. Then, take the standard deduction in the alternate years when you have fewer itemized deductions. During the year you plan to itemize, take advantage of all opportunities to make your itemized deductions exceed the standard deduction threshold.

## Gift and estate tax

Certain tax benefits can help your **family legacy** as well.

The TCJA also significantly increased the gift and estate tax exemption. In 2024, the $13.61 million exemption applies to gifts and estate taxes combined – whatever exemption you use for gifting will reduce the amount you can use for the estate tax. The Internal Revenue Service (IRS) refers to this as a "unified credit." Each donor (the individual making the gift) has a separate lifetime exemption that can be used before any out-of-pocket gift tax is due. A married couple can combine their exemptions to get a total exemption of over $27.22 million. In addition, in 2024, you can give any number of people up to $18,000 each in a single year without incurring a taxable gift ($36,000 for spouses "splitting" gifts). However, if your gift exceeds $18,000 to any person during the year, you have to report it on a gift tax return (IRS Form 709). Spouses splitting gifts must always file Form 709, even when no taxable gift is incurred. Once you give more than the annual gift tax exclusion, you begin to cut into your lifetime gift and estate tax exemption.

❑ **1. Make an annual exclusion gift –** Annual exclusion gifts of a present interest of $18,000 for 2024 (indexed in future years) can be given to anyone without incurring a federal gift tax. Gifts in excess of this amount or those that do not qualify as a present interest are applied against the applicable gift tax exclusion, currently $13,610,000 (for 2024). Any gift in excess of $13,610,000 (for 2024) will be taxed at a 40% maximum federal gift tax rate. Note that the gift tax exclusion affects the estate tax exclusion.

❑ **2. Consider generation-skipping transfers –** For 2024, the generation-skipping transfer (GST) tax rate is 40%, and every taxpayer has $13,610,000 of GST exemption applicable both to lifetime and testamentary transfers. If you have a substantial estate and wish to benefit future generations, making gifts to grandchildren might provide estate and gift tax benefits. An estate-planning attorney can help with the complexities involved in planning to benefit future generations.

❑ **3. Timely file IRS Form 706 –** Portability of the federal estate tax exemption between married couples means that if the first spouse dies and the value of the estate does not require the use of all of the deceased spouse's federal exemption from estate taxes, then the amount of the exemption that was not used for the deceased spouse's estate may be transferred to the surviving spouse's exemption. To reduce the number of letter ruling requests, the IRS updated in Rev. Proc. 2022-32, the simplified method in Rev. Proc. 2017-34 by extending the period within which the estate of a decedent may make the portability election under the simplified method to on or before the fifth anniversary of the decedent's date of death.

## TALK TO YOUR TAX AND FINANCIAL PROFESSIONAL TEAM

**Work with your team of tax and financial professionals –** You should always consult with your personal tax advisor before you adopt a specific tax strategy. Your financial professional can also assist you as you consider any new financial products that make sense for your situation.

**SEE YOUR TAX ADVISOR before the end of the year to discuss how the recent tax law changes might affect your 2024 tax filing situation.** And talk to your financial professional about whether these tax changes affect your overall financial strategies.