

2024 Year-End Tax Planning: Looking Ahead

As 2024 draws to a close, now is the ideal time to explore tax planning strategies that could reduce your tax burden not only for this year but also for 2025 and beyond. While many effective tax-saving approaches remain consistent year after year, there is still a window of opportunity to implement these strategies before December 31st.

Looking ahead, the recent Presidential and Congressional elections suggest we may see new tax legislation within the first few months of 2025. Our team is closely monitoring these potential policy changes and will keep you informed as new legislation develops. We have included our analysis of possible tax policy directions to help you prepare for what's ahead.

If you have any questions, please do not hesitate to reach out to the Canal Capital team. Happy reading!

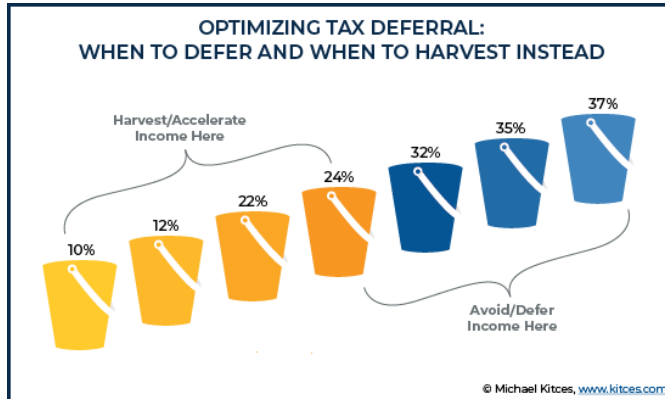
Important Dates

- ❑ **December 31, 2024**
 - Deadline to make charitable donations and gifts to individuals (including 529 plans) for 2024
 - Deadline to harvest tax losses in portfolios
- ❑ **January 15, 2025**
 - Due date for Q4 2024 Federal and State Estimated Tax Payments
- ❑ **March 15, 2025**
 - Business Tax Return Due Date (1065 and 1120-S)
- ❑ **April 15, 2025**
 - Individual, Trust, and Corporate Tax Return Due Date (1040, 1041, and 1120)
 - Deadline to fund Traditional IRAs, Roth IRAs, and HSAs
 - Due date for Q1 2025 Federal and State Estimated Tax Payments

Moves to Make Before Year-End

- ❑ Make sure you paid enough taxes for the year – now is the best time to see if you have withheld enough taxes and, if not, **make a final estimated payment due by January 15, 2025.**
- ❑ **Maximize increased contribution limits for retirement plans and other savings accounts**, including 401(k)s, traditional IRAs, Roth IRAs, HSAs, and other tax-efficient vehicles.
- ❑ Strategize claiming the standard deduction vs. itemizing deductions. **Review your charitable giving strategy** to determine if it is beneficial to make additional cash or stock donations in 2024, establish a Donor Advised Fund (DAF) to accelerate deductions, or wait until 2025.
- ❑ **Review your estate plan** – significant changes to the current estate tax exemption are scheduled to take effect in 2026 if lawmakers do not extend the current favorable estate tax law (see *“What’s Coming?”* below).
 - The 2024 annual “use it or lose it” gift exclusion is \$18,000 per person and will increase to \$19,000 per person in 2025.

- ▣ If you anticipate being in a higher tax bracket during retirement than you are now, **consider a Roth IRA conversion** to shift dollars from your Traditional IRA to your Roth IRA. The conversion is treated as taxable



income, so there is a current tax cost to convert, but once the funds are in the Roth IRA growth and withdrawals are tax-free, making it possible to avoid potentially higher future tax rates because you have already paid the tax.

Roth IRA conversions are most advantageous when (1) the funds can grow in the Roth IRA for more than five years, (2) a taxpayer is subject to a 24% or lower tax bracket (see

chart above – this involves "bracket management") or in a tax bracket that is significantly lower today than expected to be in the future.

- ▣ **Harvest tax losses within your portfolio**, making sure to avoid wash sale rules by waiting 31 days before repurchasing any securities sold for a tax loss.

2025 Inflation Adjusted Numbers Announced

The IRS recently issued its' 2025 inflation adjusted numbers. These increases should be considered as you plan for the remainder of 2024 and 2025. Key provisions are below:

- ▣ **Individual Income Tax Rates** – Individual income tax thresholds will increase for each filing status in 2025, albeit at a lower rate than in years past due to lower inflation. See appendix for tax rates and brackets.
- ▣ **Standard Deduction**
 - **Single:** \$15,000 standard deduction in 2025 (increase from \$14,600 in 2024)
 - **Married Filing Jointly:** \$30,000 in 2025 (increase from \$29,200 in 2024)
- ▣ **Retirement Plan Contribution Limits**
 - **401(k) limit:** \$23,500 in 2025, up from \$23,000 in 2024
 - Workers over age 50 are eligible to make additional "catch-up" contributions of \$7,500
 - **New: Older workers, aged 60-63, have a higher "catch-up" contribution limit in 2025 of \$11,250**
 - **Traditional and Roth IRA limit:** remains the same at \$7,000, \$8,000 if over 50
- ▣ **Long Term Capital Gains Rates** – Capital Gains tax thresholds will increase for each filing status in 2025. See appendix for tax rates and brackets.
- ▣ **Gift and Estate Taxes**
 - **Annual Gift Tax Exclusion:** \$19,000 in 2025 (increase from \$18,000 in 2024)
 - **Lifetime Gift & Estate Tax Exemption:** \$13.99 million in 2025 (increase from \$13.61 million in 2024)

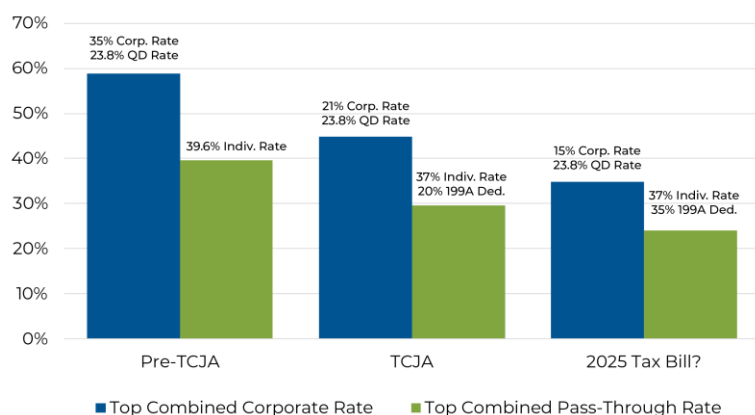
What's Coming?

Since the Tax Cuts and Jobs Act (TCJA) was passed in 2017, we have been carefully planning around the anticipated expiration of these tax cuts on December 31, 2025. With Republicans appearing to have secured a sweep of the White House and both chambers of Congress, the most immediate question for many is what impact the election results will have on the scheduled expiration of the TCJA. Based on our research, we believe that some provisions will remain the same and others will be extended or expanded, but the starting place will be what's already in the TCJA. We've outlined below a few key provisions that could be addressed by tax legislation in early 2025, well before the TCJA expires:

- ▣ **The current seven tax brackets and increased standard deduction** that have been in effect since 2018 are **expected to remain largely unchanged**. An expiration of the TCJA would have raised each of the current tax brackets by 1-4%.
- ▣ The **\$10,000 limit on State And Local Tax (SALT) deductions**, which has been highly contentious with both Democrats and Republicans, is much more likely to become a negotiating point. Lawmakers from both parties have pushed to raise or eliminate the SALT cap, and a provision to raise the limit to \$80,000 was even included in the 2021 Build Back Better Act (Democrat-sponsored), which passed the House but ultimately failed in the Senate. Notably, on the campaign trail, Donald Trump pledged to eliminate the SALT cap entirely (even though he signed the law that initially created it), however many other Republicans have shown resistance to fully repealing the limit.
- ▣ Another of Trump's promises on the campaign trail was to **make the interest on auto loans tax-deductible**, similar to the itemized deduction for mortgage interest on a primary residence. This change would certainly provide relief to some auto loan borrowers, with both car prices and interest rates having increased in recent years.

- ▣ The **Section 199A deduction for Qualified Business Income (QBI)** for pass-through owners could be increased if Congress pursues Trump's proposal to cut corporate tax rates from 21% to 15%. **The 199A deduction would have to increase from 20% to 30-35%** in order to preserve the proportionate difference between pass-through and corporate tax rates – see chart at right.

Combined Corporate Vs Pass-Through Business Tax Rates



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- ▣ Trump has also called for **restoring bonus depreciation**, which, under the TCJA, initially allowed for a 100% first year deduction of qualified business property but currently is set to phase down gradually (60% in 2024, 40% in 2025).

- ❑ The **gift and estate tax exemption**, which appears likely to remain at its current elevated level (\$13.99 million in 2025), reduces the urgency for high net worth families to gift assets or implement trust strategies to reduce their taxable estates before 2026.

Other Important Reminders

- ❑ **Inherited IRAs:** If you inherited an IRA from someone other than your spouse after 2020, you must **withdraw the entire account within 10 years** after the original owner's death. For example, if Mary inherited an IRA in 2021 from her mother, who had already started taking Required Minimum Distributions (RMDs), the account has to be fully distributed to Mary (with all tax paid) by the end of 2031. Beneficiary RMDs from IRAs inherited after 2020 were waived through 2024, but final tax regulations take effect **beginning in 2025 that will require beneficiaries to take annual RMDs** from inherited IRAs next year. Taxpayers who inherited IRAs before 2020 still have the ability to stretch distributions over their life expectancy without the 10 year rule applying.
- ❑ **Corporate Transparency Act:** The CTA was passed in 2021 in an effort to enhance transparency over corporate entities and crack down on the abusive use of shell companies. Over 30 million businesses are now required to report to the Financial Crimes Enforcement Network (FinCEN) information on the individuals who own more than 25% or control these entities, otherwise known as the "beneficial owners".

Companies that were in business before January 1, 2024 have until January 1, 2025 to file their initial reports with FinCEN. Included below is a link to the website to prepare and file the report online. It is a simple filing, but you will need to have the following available to complete the report: legal company name, EIN, and name, DOB, address, and photo ID for each beneficial owner.

File Beneficial Ownership Information Report (BOIR) online: [BOIR](#)

Conclusion

Thank you for taking the time to read this letter. As always, please let us know if you have any questions related to your investments, taxes, or general planning or if there have been any changes to your overall situation. This is a great time to set up a review meeting and review your tax projection.

Sincerely,

Canal Capital Management

APPENDIX – 2025 Inflation Adjusted Tax Brackets

Ordinary Income Tax Brackets

| Tax Rate | Single | Married Filing Jointly |
|----------|-----------------------|------------------------|
| 10% | \$0 – \$11,925 | \$0 – \$23,850 |
| 12% | \$11,926 – \$48,475 | \$23,851 – \$96,950 |
| 22% | \$48,476 – \$103,350 | \$96,951 – \$206,700 |
| 24% | \$103,351 – \$197,300 | \$206,701 – \$394,600 |
| 32% | \$197,301 – \$250,525 | \$394,601 – \$501,050 |
| 35% | \$250,526 – \$626,350 | \$501,051 – \$751,600 |
| 37% | \$626,350 + | \$751,600 + |

Long Term Capital Gains & Qualified Dividends Tax Brackets

| Tax Rate | Single | Married Filing Jointly |
|----------|----------------------|------------------------|
| 0% | \$0 – \$48,350 | \$0 – \$96,700 |
| 15% | \$48,351 – \$533,400 | \$96,701 – \$600,050 |
| 20% | \$533,400 + | \$600,050 + |