2024–25 annual tax planning guide for individuals and families

Tax considerations for 2024 and beyond

RSM

RSM has developed this tax planning guide to help you think through opportunities and other considerations for you and your family during the remainder of 2024 and into 2025. We hope this guide will help you evaluate and optimize the tax impact of changing market conditions and new policy developments. To learn more, please review the additional resources in the links below and reach out to us to discuss your specific circumstances.

Tax opportunities to seize before the end of 2024

Below are some of the most common tax opportunities to consider before year-end:

- **Harvesting of losses:** If you have realized capital gains from investments this year, consider selling other investments that will generate losses to offset those gains.
- **Charitable contributions:** Consider whether you have made all your desired charitable gifts before the end of the year to maximize your charitable contribution deduction.

  The deduction depends on whether your itemized deductions exceed the standard deduction and may be affected by carryovers from a prior year. If you are over age 70½ and own an individual retirement account (IRA), you may be able to make a charitable gift directly from your IRA of up to $105,000 for 2024.
- **401(k) contributions:** If you have a 401(k) retirement plan, consider maximizing your contribution for the year (up to $23,000, or $30,500 if over age 50, for 2024).
- **Annual exclusion gifts:** You can make gifts up to $18,000 (for 2024) to anyone without any gift tax consequences. Married couples may double this amount. Ensure that the gift is completed before year-end and that it gives the donee a current interest in property.

Individual income tax planning: TCJA sunset on the horizon

Most of the income tax changes directly affecting individuals under the Tax Cuts and Jobs Act of 2017 (TCJA) will expire on Jan. 1, 2026, unless new legislation is enacted. While you may wish to wait until the fate of the TCJA is more certain, we strongly recommend evaluating your plans now. Tax planning is time-consuming and requires careful considerations that should not be rushed.

- **Qualified business income deduction (QBID):** Evaluate your choice of entity for tax purposes and potential restructuring. The 20% QBID that provided parity between C corporation and flow-through status will be eliminated. This could result in a 10% increase in tax for some taxpayers.

- **Income tax rate:** Take advantage of the 37% tax rate before the top income tax rate increases to 39.6% by accelerating income recognition. Opportunities include:
  - Exercising nonqualified stock options
  - Accelerating business sales
  - Making Roth conversions
  - Avoiding deferred compensation
- **Standard deduction:** The standard deduction amount will be reduced to pre-TCJA amounts, while itemized deduction opportunities will return. Evaluate your situation to determine whether the lower standard deduction will lead to an increased tax bill or if you can defer deductible payments of certain items to 2026 (charitable contributions, state and local taxes, etc.).
- **State and local taxes:** The deduction for state and local taxes will no longer be limited to $10,000. It may be advantageous to defer some of these payments to 2026, when this cap will be gone; however, pay attention to late payment penalties and the alternative minimum tax, which may eliminate any benefit.
- **Exemptions and itemized deductions:** Personal exemptions and certain itemized deductions will be available again. Returning itemized deductions include:
  - 2% floor deductions (e.g., investment management fees, tax planning fees, etc.)
  - Home office deductions for eligible employees
  - Increased mortgage interest deduction limits
  - A deduction for interest on home equity loans

  Notably, itemized deductions will face an overall 3% limitation known as the Pease limitation.
- **Alternative minimum tax (AMT):** Lowered AMT exemption levels will revert to what they were before the TCJA, along with phaseout thresholds. Consider exercising incentive stock options, making portfolio adjustments and electing pass-through entity tax to mitigate negative impacts.
- **Opportunity zones**: Opportunity zone capital gain deferrals will come due in 2026. Ensure you understand the value of your investment and how you will generate the cash flow needed to foot the bill.

LEARN MORE

- Understanding the implications of TCJA income tax provisions set to expire
- The journey to 2025 tax reform begins
- Calm before the storm: Expiring Tax Cuts and Jobs Act provisions

Maximize your lifetime gift and estate planning before 2026

The TCJA doubled the lifetime federal estate, gift and generation-skipping transfer (GST) tax exemptions. In 2024, the exemption amount is $13.61 million and is projected to increase to $13.99 million for 2025. If Congress does not extend the TCJA provisions, the exemption amount will be cut in half in 2026.

Taxpayers who wait until late 2025 to act may not maximize future leverage of their gifts. Evaluate your current estate and anticipated future income needs today to determine if gifting now is right for you.

- Evaluate your prior estate plans to confirm your historical lifetime gift and GST exemption used. Also, review your latest will and designated beneficiaries to make sure they align with your wishes.
- If you are financially able, without regret, utilize the entire exemption before it expires.
- Explore opportunities to:
  - Swap trust assets to reduce your taxable estate.
  - Enter into loan agreements for cash flow streams.
- Plan to take advantage of your annual gift tax exclusion each year.

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- The essential guide to estate planning and income taxes
- Estate planning Q&A: Spousal lifetime access trusts explained
- Estate planning Q&A: Sales to intentionally defective grantor trusts explained
- Top 8 estate planning factors for real estate
- Your acts of generosity could unintentionally use your gift tax exemption

Generation-skipping transfer (GST) tax opportunities and traps

Are you aware that certain generation-skipping transfers could be subject to an additional 40% tax?

The GST tax should be a significant consideration in tax planning for transfers to beneficiaries at least two generations younger than the donor. The GST exemption may be used to protect assets from the GST tax. The GST exemption is equal to $13.61 million in 2024 and is projected to increase to $13.99 million for 2025.

The GST exemption can be allocated to transfers during life or at death to protect assets from GST tax. This allows you to safeguard your wealth and minimize tax exposure, ensuring a more efficient wealth transfer across generations.

To effectively navigate the GST tax, it is essential to:

- Begin by determining how much of your GST exemption has been used on prior transfers.
- Determine whether the GST exemption was allocated correctly.
- Determine whether remedial action is needed to ensure the allocation of your GST exemption was in line with your intentions.

If the GST exemption decreases in 2026 (as mentioned previously), the ability to fix GST exemption allocation problems may be more limited.

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- Beware and be aware of the generation-skipping transfer tax
- The clock is ticking: Don't let your GST exemption go to waste
- Estate planning Q&A: Plan for estate tax and GST tax liquidity

Tax planning in a volatile economic environment

Leveraging assets in a depressed market can be an effective tool in estate and some income tax planning. By taking advantage of high interest rates, you can transfer wealth to the next generation at a historically low tax cost.

- Consider gifting assets with depressed values but high growth potential.
  - Gifting assets with depressed values to an intentionally defective grantor trust (IDGT) removes those assets from your estate, along with any appreciation. You pay the income tax on the income the IDGT generates, accelerating asset growth.
  - Selling an asset to an IDGT for an installment note will freeze the asset's value in your estate, effectively converting an appreciating asset into a fixed income instrument. If structured properly, there would be no capital gains on the sale.
  - "Gifting" your home to a qualified personal residence trust during a high-interest-rate period results in a higher value for the retained interest in the residence, reducing the value of the taxable gift and thereby leaving you with more gift exemption to utilize.
  - Funding a grantor retained annuity trust (GRAT) with a depressed asset that has the potential for fast growth can effectively shift any future appreciation of the asset to your family. There is no taxable gift at the funding, and if you survive the term of the GRAT, the asset will pass to your children free of gift and estate taxes.
- Consider making loans to family members now to reduce your taxable estate in the long run. This strategy allows you to provide liquidity to family members who need it and transfer any appreciation to future generations.

LEARN MORE

- Wealth transfer planning
- Estate planning Q&A: Grantor retained annuity trusts explained
- Estate planning Q&A: Gifting to intentionally defective grantor trusts explained
- Estate planning Q&A: Qualified personal residence trusts explained

Capitalize on common estate planning opportunities when transferring business interests

If you are contemplating transferring a business interest as part of a business succession plan or ahead of a liquidity event, you should immediately consider potential estate planning opportunities.

- Valuations can increase the closer and more concrete a transaction becomes. Valuation discounts may decrease after a letter of intent is executed. These discounts can be helpful for estate planning purposes because:
  - More units/shares may be transferred by gift under your gift tax exemption.
  - Any future appreciation will accrue outside your taxable estate.

  Thus, you should work with qualified appraisers to determine the proper value of your business interest and coordinate this valuation with the timing of the transfer.

- If you make a gift of a business interest for estate planning purposes, the earnings from that interest will no longer go to you; they will go to the donee, such as an irrevocable trust.

  As part of this process, you must determine whether you are comfortable losing the cash flow from that business interest. The transaction structure and cash flow projections heavily influence this determination.

- Business succession agreements, such as stockholders agreements or buy-sell agreements, are a key part of this analysis, especially for interests that you may wish to hold on to for your remaining lifetime.

  In Connelly v. United States, the U.S. Supreme Court addressed whether a buy-sell redemption obligation funded by life insurance proceeds should reduce the company's value for purposes of the federal estate tax. The court concluded that the company's value was not reduced by the redemption obligation.

  Consequently, the value the decedent's heirs received was reduced by the additional estate tax on the value of the business interest. If your business has a redemption agreement funded by life insurance, review your agreement and consider making changes to avoid an unintended result.

Transferring a business interest can be time-consuming. There are often multiple strategies to analyze. Upon choosing a strategy, attorneys need to draft documents, appraisers need to prepare valuation reports, and tax professionals need to review the plan for tax reporting purposes. If you are thinking of transferring a business interest for estate planning purposes, start these discussions as soon as possible.

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- Connelly Supreme Court ruling: What it means for your business

IRS examinations of high net worth individuals

The IRS is prioritizing enforcement activity, with $24 billion of supplemental funding earmarked for it through fiscal year 2031. Examinations of large corporations, partnerships and high net worth individuals are a central theme. Taxpayers, regardless of their tax profile, can improve their audit readiness by maintaining detailed documentation and optimizing compliance processes.

Exams of high net worth individuals are conducted by the IRS Global High Wealth Industry Group, which is made up of experienced IRS auditors and forensic accountants. They commonly start with examining an individual and spread to that individual's related entities, including partnerships and S or C corporations. Exams conducted by the Global High Wealth Industry Group can last from 18 months to two years.

The following are common items that the IRS examines, as well as suggestions for how to document and support the activity reported on the tax return:

Sale of partnership interest

IRS scrutiny is high particularly when significant gains are involved. Agents typically request various executed documents, including:

- Partnership agreements
- Purchase/sale agreements
- Promissory notes
- Appraisals
- Tax basis calculations
- Documentation supporting characterization of the gain (e.g., distinguishing between ordinary income and capital gain)

Additionally, the IRS may inquire about the section 754 election, which allows for a step-up in basis. It is crucial to indefinitely retain copies of any elections filed with the IRS because they can be essential for compliance and future reference.

Large gains transactions

It's essential to have comprehensive documentation to support significant gains. Agents typically request various executed documents, including:

- Sale agreements
- Promissory/installment notes
- Detailed gain calculations
- Source documents that support the cost basis
- Support for the determination of character of the gain (e.g., ordinary income vs. capital gain)

Significant losses transactions

These are among the most common subjects of IRS reviews. The agency wants to confirm a loss is valid to offset other income. Of particular interest are sole proprietor business losses reported on Schedule C.

To help substantiate losses, taxpayers should retain:

- Invoices
- Receipts
- Bank statements
- Proof of payment
- Documentation that demonstrates the business purpose of each expense

The IRS may recharacterize ongoing sustained losses as a nondeductible "hobby loss" if there is insufficient proof of intent to generate a profit. Taxpayers need to take active steps to substantiate a profit motive and show the business is operating in a business-like manner.

The following actions can help legitimize a business and illustrate a commitment to profitability:

- Establish a formal business plan
- Maintain a separate business bank account
- Secure necessary licenses and permits
- Engage with industry professionals
- Limit any personal or recreational use of resources

Taxpayers need to maintain their basis schedules on a contemporaneous annual basis to make sure the losses can be deducted.

Charitable donations

The IRS scrutinizes cash and noncash donations. Taxpayers should ensure they receive contemporaneous written acknowledgment letters at the time of a donation, as this documentation is crucial for substantiating their deductions.

- For cash donations, retain proof of payment
- For noncash donations, taxpayers should familiarize themselves with the rules regarding when an appraisal is required to support the value of the contribution

Adhering to these guidelines will support compliance and strengthen the legitimacy of deductions claimed.

Utilization of a previously generated net operating loss

Even if the statute for a net operating loss (NOL) from a prior year is closed, it can still be scrutinized in the current year to verify its validity. Careful recordkeeping is essential to support compliance and defend against potential IRS inquiries. Diligently retain all relevant documentation related to the NOL, including:

- Schedules K-1
- Business records
- Records of asset dispositions
- Documentation of any disasters that may have contributed to the loss

Passive and nonpassive activities

The IRS focuses on differentiating between the two. By maintaining thorough documentation, taxpayers can better demonstrate their active involvement and provide a strong defense against potential IRS scrutiny.

Taxpayers should diligently maintain comprehensive time logs and calendars to document the hours spent on each activity, as this is essential for substantiating material participation. Time logs should be detailed, clearly outlining the hours worked along with descriptions of tasks and duties performed.

Personal use of corporate aircrafts

Aircraft taxation is complex, and the need for accurate recordkeeping is essential—especially now that this is a formal IRS campaign. Taxpayers that own or use noncommercial aircraft need to evaluate their preparedness for an IRS examination by reviewing their policies, procedures, documentation, flight logs, tax positions and other implications.

The agency typically assumes personal use unless the company can substantiate business use. Therefore, it is essential that a business has readily available records and documentation related to the following:

- Purchase, operation and, if applicable, sale of the aircraft
- Detailed flight records, including:
  - Number of passengers on each flight
  - Purpose of each passenger
- Expenses related to operating the aircraft
- Lease or charter agreements
- Aircraft management agreements

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- Master the IRS examination process with our essential IRS audit survival guide

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