5 Contribute to Your IRA

As long as you have sufficient earned income, you may contribute up to $7,000 to an IRA in 2024 ($8,000 if you are 50 or older). The contribution deadline for 2024 is April 15, 2025. And if your income is less than $146,000 (for single filers) or $230,000 (for married couples filing jointly), you may contribute to a Roth IRA.[4] In addition, self-employed persons may contribute the lesser of 25% of compensation or $69,000 to a SEP IRA.[5] Moreover, the SEP contribution deadline can be extended as late as October 15, 2025, if a tax filing extension was obtained. Be sure to check with your accountant about this.

6

Converting a traditional IRA to a Roth IRA can be a good financial move if you have the means to pay the tax on the conversion from a source outside of the IRA. As long as certain conditions have been met, withdrawals from the Roth IRA will be tax-free and there will be no RMDs. Generally, the economic rewards of converting will start to accrue 5 to 7 years from the year of conversion. A Roth conversion is also subject to a few special rules. Withdrawals from the Roth IRA within 5 years of the conversion will trigger a tax on the earnings plus a 10% early withdrawal penalty if you are under age 59½.[6] Roth conversions can be done in batches over time which may allow you to take advantage of lower tax brackets each year.

So-called "back-door" Roth conversions are ones where an individual (who is not otherwise eligible to contribute to a Roth IRA due to income limitations) makes a non-deductible contribution to a traditional IRA and then converts the funds over to a Roth IRA. The tax on the conversion is minimal because the owner has a high basis in the IRA--only the earnings would be taxed on the conversion. Again, we advise checking with your accountant about a Roth conversion.

7 Tax Loss Harvesting

Capital gains realized in 2024 can be offset by realized losses. Consider taking losses this year to reduce your net capital gains. The top capital gains rate applies to irrevocable trusts that pay taxes starting at just $15,450. The top federal capital gains tax rate is 20%. A 3.8% Net Investment Income Tax could also apply if your income exceeds $200,000, or $250,000 if you are married and filing jointly.

8 Consider Funding an Irrevocable Trust

The federal lifetime estate and gift tax exemption (currently $13.61 million) could be cut in half as of January 1, 2026, if the current tax rules expire as they are scheduled to do. Much depends, though, on the outcome of the 2024 elections. This, of course, is a big unknown as of now. Nevertheless, for persons with sufficient wealth who are concerned about a potential estate tax when they die, we recommend speaking with an estate planning attorney about your options. One technique that some people have used is to fund a Spousal Lifetime Access Trust (or SLAT). This type of trust allows an independent trustee to pay funds from the trust to your spouse if he or she may need access to the money it in the future. That way, you can make a competed gift now, and lock-in your exemption before it possibly gets reduced, but your spouse can still benefit from the trust.

[illegible] Update Your Estate Plan

It's always a good idea to review your estate plan every 5 to [illegible]

10 [illegible]

As 2024 winds down, you may be able to make certain elections in your employee benefit plans, such as modifying your health insurance coverage, or contributing to a Health Savings Account (HSA) or flexible spending account. In some instances, prior year elections may not automatically roll over. So, be sure to double check and make sure you have made all of your healthcare elections before the window of opportunity closes. Similarly, for those eligible for Medicare, Open Enrollment ends on December 7, 2024. Now is a good time to review your health care options.

2025 will be a busy year for tax maneuvers and estate planning. It's wise not to put off your planning moves any longer. At 1919 Investment Counsel, we welcome your questions about planning steps that you can make. We also encourage you to consult your attorney and accountant about these and other planning steps that may fit your situation. If you are interested in learning more about the financial steps you should consider before the year closes, we encourage you to consult your Portfolio Manager or Client Advisor at 1919 to discuss your year-end check list and take the next step towards setting yourself up for financial success.

FOOTNOTES

[1] This is known as “gift-splitting” and may be done if elected on a gift tax return.

[2] Additional gift tax exclusions apply to the payment of tuition or medical expenses.

[3] The 529 must have existed for at least 15 years. The annual rollover limit is the normal IRA contribution limit; the beneficiary must have sufficient earned income as well.

[4] The contribution limit phases out for single filers with income between $146,000 and $161,000 ($230,000 and $240,000 if married filing jointly).

[5] The contribution limit for a solo 401(k) is the lesser of $69,000 or 100% of compensation; and for people who are age 50 or older, the limit is $76,500.

[6] Note that a separate 5-year rule applies to contributions to a Roth IRA. Some exceptions may apply.

As of October 30, 2024 unless otherwise indicated.

About 1919 Investment Counsel

1919 Investment Counsel is a registered investment advisor. Its mission for more than 100 years has been to provide investment counsel and insight that helps families, individuals, and institutions achieve their financial goals. The firm is headquartered in Baltimore and has offices across the country in Birmingham, Cincinnati, New York, Philadelphia, San Francisco and Vero Beach. 1919 Investment Counsel seeks to consistently deliver an extraordinary client experience through its independent thinking, expertise and personalized service. To learn more, please visit our website at 1919ic.com.

Disclosure

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