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2024 tax tips to consider

Key highlights:

Several tax benefits from the Tax Cuts and Jobs Act are scheduled to sunset at the end of 2025.

If your tax rate is likely to be higher in retirement, consider strategies to lock in today's lower rates.

If your tax rate is likely to be lower in retirement than it is today, consider deferral options.

Balancing savings among tax-deferred, taxable and tax-free accounts may provide greater flexibility and tax-efficient retirement income.

Congress is looking for ways to close tax loopholes, and if no action is taken, many of the tax provisions passed in 2017 (the Tax Cuts and Jobs Act) will expire at the end of 2025. Even in an environment of uncertainty, there are several strategies those saving for or living in retirement may want to consider.

1. Defer income

For most taxpayers, ordinary income tax rates aren't likely to change drastically next year, so you could look at ways to defer income until 2025. Compensation and bonuses earned this year will be taxable in the year they are earned, but you may wish to consider delaying asset sales or deferring receipt of other income until next year.

2. "Bundle" your deductions

Because the 2024 standard deductions are relatively high ($14,600 for single filers and $29,200 for married couples filing jointly), it isn't worthwhile for many taxpayers to itemize deductions. One strategy is to accumulate deductions that you would normally take over 2 years into a single year. For example, you could make most of your charitable contributions and medical expenditures in a year you plan to itemize.

Currently, the state and local tax deduction (SALT deduction) is limited to $10,000, which has caused many former itemizers to take the standard deduction. This cap is set to expire at the end of 2025, so unless there is new legislation, taxpayers with high state tax bills who currently take the standard deduction may itemize in 2026.

3. Analyze capital gains and net investment income

While a capital gains rate increase is unlikely for many filers in the near term, it still may be worthwhile to regularly examine your asset mix as part of your planning. If you own appreciated investments that you're planning to sell, determine whether you have other assets that carry losses and could also be sold this year to offset the gains. Also consider the capital gains rate brackets. A joint filer reaches the top capital gains rate at an adjusted gross income (AGI) of $583,751 in 2024, so consider limiting investment sales to stay below the top bracket.

Don't forget about the net investment income (NII) tax, which is an additional 3.8% tax that applies to certain investment income earned at an AGI of $250,000 or more for joint filers. Because interest rates increased recently, you may have more investment income than in prior years. You may be able to spread out investment sales from year to year to minimize the capital gains rate and NII tax.

4. Optimize retirement plan and HSA contributions

The maximum allowable 401(k) contribution for 2024 is $23,000 with a $7,500 additional contribution, if the plan allows, for taxpayers who are 50 and over. These contributions are made with pretax money, lowering an individual's overall tax bill for the year. Even if you can't contribute the maximum amount, you should make sure you are contributing enough to take full advantage of any employer match. If you're married, it's also a good idea to review your spouse's employer matching guidelines. If one spouse gets a higher match, be sure to take full advantage of those benefits before contributing any additional dollars to the spouse's plan that has a lower level of employer matching.

If you have compensation from employment, you may also be able to make a deductible contribution to an IRA of up to $7,000, with an additional $1,000 if you are over 50. However, if you or your spouse is covered by a plan at work, income limits apply.

If you are eligible for a health savings account (HSA), it's wise to contribute enough to cover your health insurance deductible, if not more. The maximum allowable amount you can contribute to your HSA is $4,150 (or $8,300 if your family is covered by your high-deductible health plan). An additional $1,000 catch-up contribution may be contributed by those age 55 or older.

After December 31, 2025, high-income taxpayers in most employer plans making an over-50 catch-up contribution may do so only to their plan's designated Roth account. Furthermore, beginning in 2025, the catch-up contribution for individuals ages 60 to 63 is increased to 150% of the allowable catch-up contribution limit for that year.

Joint filers with AGI of up to $240,000 in 2024 may contribute to a Roth IRA. The phaseout range for taxpayers who are married and filing jointly begins at $228,000, so limited contributions are available for such taxpayers making between $228,000 and $240,000.

5. Adjust withholding

If you anticipate receiving a large refund or owing a significant amount of taxes on last year's income, you could consider adjusting your withholding. You might also want to adjust your withholding after a major life event, such as a marriage, divorce or job change. You can change your withholding by completing a new Form W-4, Employee's Withholding Certificate.

If you expect to earn a substantial amount of nonwage income — such as self-employment income, investment income, taxable Social Security benefits or annuity income — you may need to make quarterly estimated tax payments.

6. Make sure you take required minimum distributions

If you turned 72 in 2023 or later, your first required minimum distribution (RMD) must be taken by April of the year following your 73rd birthday. If you are age 73 or over, still working and do not own 5% or more of the business, you might not be required to take RMDs from your employer-sponsored plan. However, you must still take RMDs from IRAs and plan accounts from previous employers, regardless of whether you are still working.
Beginning January 1, 2024, lifetime RMDs for designated Roth accounts in employer-sponsored retirement plans are no longer required, thanks to SECURE 2.0 legislation. However, for retirees who attained age 73 in 2023, Roth account RMDs must still be made by April 1, 2024.

If you are 73 or older and would like to donate more to charity, remember that up to $105,000 can be distributed from your IRA to a charity, and it can be used to fully or partially satisfy your RMD. This qualified charitable distribution (QCD) must be made directly from your IRA to the charity to avoid inclusion in income, and it must be made to a qualified public charity. QCDs to private foundations and donor-advised funds are not permitted.

As of 2024, you can also make a one-time QCD to a charitable remainder trust of up to $53,000 (adjusted for inflation).

7. Consider options at open enrollment for added tax savings

Your employer may offer additional opportunities to save on taxes during your annual health coverage open enrollment process.

If you have health expenses, a health savings account (HSA) or flexible spending account (FSA) allows you to save a portion of your pretax income for tax-free use on qualified medical expenses.

If you have a child in day care, a dependent care FSA allows you to save a portion of your income in a tax-free account to pay for qualified child care expenses.

Check with your employer's HR contact as you approach open enrollment to plan for tax savings in 2025.

8. Consider a Roth conversion

If you are eligible, a Roth conversion could make sense. It could be beneficial to convert some or all of your traditional IRA to a Roth IRA if you expect to be in a lower income tax bracket for 2024 than in retirement. Keep in mind that this transaction will result in taxable income this year, but future income from the Roth IRA will be tax free, assuming certain distribution rules are followed. Below are some of the tax factors that may be relevant. Be sure to consult your tax advisor regarding your specific situation.

Traditional or Roth: Weighing the options

You may prefer a traditional IRA if:

- You are in a high tax bracket and could use the tax deferral on current income
- You anticipate being in a lower tax bracket in retirement
- You (or your spouse) do not contribute to an employer-sponsored retirement plan

You may prefer a Roth IRA if:

- You seek greater tax efficiency in retirement
- You anticipate being in a higher tax bracket in retirement
- You wish to avoid paying higher Medicare premiums or added taxes on Social Security retirement benefits, both corresponding to high-income beneficiaries
- You are still many years away from retirement

9. Diversify retirement savings to enhance future tax-saving opportunities

Adjusting how you save today can give you more flexibility in the future. Work with your financial professional to review the diversity of your savings now to achieve greater tax efficiency later. Remember that from an income tax perspective, there are 3 types of investments: taxable, tax-deferred and tax-free.

Taxable

Taxable accounts are taxed on distributed dividends or interest, or when a capital gain is realized, such as when you sell a stock at a profit. The income, interest or gain is taxable in the year it is realized.

- Investments (stocks, most bonds, CDs)
- Cash accounts (savings and money market funds)
- Taxable portion of Social Security benefits
- Profit from selling a primary home

Tax-deferred

Tax-deferred accounts are funded with pretax deductions and accumulate over time. They are generally intended to provide income in retirement. Taxation is deferred to when you withdraw.

- Pension
- Retirement savings
  - 401(k)
  - 403(b)
  - 457(b)
- Traditional IRAs
- Some annuities

Tax-free

Tax-free accounts are often funded with income that has already been taxed, so it will not be taxed when you withdraw it. (An exception is an HSA, which is funded with pretax dollars and is also not taxed when used.)

- Retirement savings
  - Roth 401(k)
  - Roth 457(b)
  - Roth IRA
- Cash value life insurance
- Certain municipal bonds
- Health reimbursement arrangement (HRA)
- Health savings account (HSA)

10. Consider how you withdraw retirement income and accounts that can minimize taxes

Your tax and/or financial professional can help provide guidance on minimizing your taxes owed by building a tax-efficient retirement income strategy. You'll discuss pulling from a mix of tax-deferred, taxable and tax-free income sources to maximize your standard deduction and take advantage of the lower income tax brackets available through 2025. You'll consider impacts to your Social Security retirement benefits (that can be taxable if you have high levels of income in retirement) or your Medicare premiums (that are also increased when your adjusted gross income is above certain thresholds).

Retirees should seek help to build a tax-efficient withdrawal strategy. Doing so can keep taxes as low as possible, prolong the life of savings and even leave more to beneficiaries.

Remember the sunset and plan now

Several provisions of the Tax Cuts and Jobs Act (TCJA) are scheduled to revert to prior law at the end of 2025. A few have already been mentioned. Some of the significant provisions of the TCJA expiring in 2025 include:

- Reduction in individual income tax rates
- The TCJA's increased child tax credit (the expanded child tax credit under the American Rescue Plan expired at the end of 2021)
- Higher alternative minimum tax exemption
- Suspension of miscellaneous itemized deductions and limitation on itemized deductions
- Suspension of personal exemptions
- Limitation on deduction for qualified residence interest and suspension of deduction for home equity loan interest
- Cap on deduction for state and local taxes
- Increased estate and gift tax exemption
- Increased standard deduction

For more tax tips and strategies, check out "6 estate planning tips for 2024."

This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

Federal income tax laws are complex and subject to change. The information in this memorandum is based on current interpretations of the law and is not guaranteed. Nationwide and its representatives do not give legal or tax advice. An attorney or tax advisor should be consulted for answers to specific questions.

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