

2024 Year-End Planning: Keep Calm and Plan On

With the impact of the election and potential change on the horizon, hold steady and be prepared to act



Key points

- A comprehensive annual review of your wealth plan can help you identify opportunities that may not have existed even at the beginning of the year
- With a shifting economy, election year, and potential tax legislation changes down the road, it's even more important to be sure your plan is well-positioned for what's ahead
- We share our top seven year-end tax and estate planning action items to address before the end of 2024

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As we approach the end of 2024, it is time to review your wealth plan considering changing circumstances surrounding the economy, tax legislation, and your own personal situation. A comprehensive review of your wealth plan can help you identify opportunities that may not have existed even at the beginning of the year. It should also help to generate considerations about adjustments to your planning to set yourself up for an optimal year ahead.

To that point, we have laid out our top seven year-end tax and estate planning action items to address before the end of 2024. Some of these areas are evergreen, as they are items that should be addressed at least annually, and some are specific to the economic environment and anticipated legislative changes. The goal, however, is the same for each of them—continue to optimize and evolve your wealth plan for the ever-changing conditions that may impact it.

These action items range from maximizing annual contributions to evaluating your plan in light of changing legislation, reviewing your income tax situation and investment portfolio, preparing for anticipated interest rate cuts, reviewing your beneficiary designations, and assessing your estate plan.

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1. Maximize annual contributions and annual exclusion gifts

Some fundamental planning opportunities that should be reviewed annually are your contributions to retirement plans and health savings accounts (HSAs). Contributions to these types of plans can help your income tax situation for the year and enhance the state of your overall financial plan. If eligible, you can contribute to your employer retirement plan (i.e., 401(k), 403(b), etc.) or an individual retirement account (IRA). These contributions not only help you save toward retirement but may also reduce your taxable income for the year. The Internal Revenue Service (IRS) sets a maximum limit on how much you can contribute to these plans. In 2024 for example, the maximum amount you can contribute to a 401(k) is \$23,000 (and an additional \$7,500 if over age 50) and \$7,000 to an IRA (and an additional \$1,000 if over age 50). Beginning in 2025, the catch-up contribution for an IRA is indexed for inflation, so that may start to increase year over year.

The HSA is another way to save for future expenses while reducing your current taxable income. To be eligible to contribute to this type of account, you must be enrolled in a high deductible health plan. An HSA allows for tax-free growth on contributions as well as tax-free withdrawals if used for qualified medical expenses. Because this type of account is not “use-it-or-lose-it” on an annual basis, it can be a beneficial tax-free savings tool to pay for health care costs in your later retirement years. Like retirement plans, the IRS imposes a limit on annual contributions to HSA accounts, and it is set in 2024 at \$8,350 for family coverage (or \$4,150 for individual coverage), with an additional \$1,000 allowed if over age 55.

Beyond retirement and health care expense planning, there are 529 education savings plans used to save for education expenses on a more tax-efficient basis. These plans allow for tax-free growth of contributions, and tax-free withdrawals if used for qualified education expenses for the beneficiary of the plan. Additionally, assets in a 529 plan are not includable in your gross estate, which can be an estate tax benefit for wealthier individuals. Many states also offer an income tax deduction for contributions made during the year. Check with your tax advisor to see if your contributions qualify.

Finally, making annual exclusion gifts before the end of each year remains a straightforward way to help reduce potential estate and gift tax exposure. Annual exclusion gifting allows every individual to make gifts on a tax-free basis up to \$18,000 (\$36,000 for a married couple) to as many other individuals as desired without counting against your lifetime federal estate and gift tax exemption. This can be a substantial amount passing free from gift tax if both grandparents, for example, give \$18,000 to each child and grandchild in their family. For those not ready to implement a full estate and gift tax mitigation strategy, but who still may have estate tax exposure after the anticipated decrease in the lifetime federal estate and gift tax exemption in 2026, annual exclusion gifting can be a proactive strategy to begin reducing such exposure in a more modest way.

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2. Evaluate your plan considering changing legislation

You should review your financial and estate plans frequently due, in part, to changes in the laws. An impactful change to the law is coming at the end of 2025 when many important provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) are due to sunset (or expire). The impact will be felt in both income and estate tax planning. Income tax rates on taxable income will increase by a couple of percentage points for most taxpayers. Also set to expire is the tax deduction for qualified business income (QBI), which allows up to a 20% deduction on QBI for certain businesses. Given these less favorable income tax rates on the horizon, you may want to accelerate some income into 2024 to lock in a potential tax savings on that income.

The federal unified estate and gift tax exemption for 2024 has been at an all-time high of \$13.61 million per individual (\$27.22 million per married couple), up \$690,000 from 2023, due to an inflation adjustment. The projected inflation adjustment to the exemption amount for 2025 has not been determined yet, but the federal unified estate and gift tax exemption will likely approach \$14 million per person (\$28 million per married couple) for 2025.

Based upon current law, many of the changes imposed under the TCJA—including these all-time high increased exemption amounts—will sunset after December 31, 2025, with these laws currently scheduled to revert to those that existed prior to the TCJA. Thus, absent any new legislation, these high exemption thresholds are temporary and are currently set to expire and be significantly reduced at the end of 2025 to a pre-2017 level of \$5 million, adjusted for inflation (approximately \$7 million per person). Any difference in these higher exemption amounts and the post-2025 reduced amounts will be lost if not used, so the time to act is now.

Depending on your assets, current estate and gift tax exposure, and estate planning goals, there are several gifting strategies, including outright gifts and gifts to trusts, to consider implementing prior to 2026 to take advantage of this window of opportunity. Because various states have their own estate and inheritance tax rules, state transfer taxes should be considered and coordinated with your overall plan to help ensure that state transfer tax savings are also optimized.

The timing of gifts is important, whether annual exclusion gifts or tax-deductible gifts to charity. As we approach the end of 2024, there are timing requirements to be aware of with respect to year-end gifts. To obtain any tax benefit, a gift must be “complete” by year end. This means that the gift has been delivered to and accepted by the recipient. Gifts to charitable organizations are generally treated as completed gifts (and, therefore, deductible by the donor) in the year such gifts are mailed by the donor to the charity. However, gifts to individuals must be fully completed before the end of the calendar year (December 31) for the gift to be complete for gift tax purposes. If making a gift of cash by check close to the end of the calendar year, such gifts should be both delivered by the donor to the beneficiary and deposited into the beneficiary’s own account no later than December 31. As to gifts of noncash assets such as securities, the transfer of those securities should likewise be fully completed and registered in the beneficiary’s name no later than December 31. Waiting until the final week of the year can encounter a significant number of unpleasant surprises.

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One other legislative change that will have immediate impact is the IRS' ruling on required distributions from recently inherited retirement accounts under the Setting Every Community Up for Retirement Enhancement (SECURE) Act. For retirement accounts that were inherited by some beneficiaries after 2019, there had been some confusion and misinterpretation of the SECURE Act's intention on required distributions from those inherited accounts. This year, however, the IRS issued its final regulations regarding required distributions from inherited retirement accounts. For those "designated beneficiaries" who inherited a retirement account from an account owner who died in 2020 or later, and if that deceased account owner had already begun their required distributions, those beneficiaries must continue taking annual required distributions while fully depleting the account by the end of the tenth year after the account owner's death. This means that many beneficiaries of recently inherited retirement accounts may now have to start taking distributions from their inherited account, which will be taxable income to them (unless the account is a designated Roth account). Those beneficiaries should consider their own income tax circumstances, pending income tax rate increases, and the ten-year timeframe to empty the account to determine if they should be distributing even more than they are required to this year, and in the next few years.

3. Review your income tax picture

Higher than expected income for the year

The final months of every year provide you with the ability to fine tune your income tax situation for that year. For instance, if you find that you have had a year of higher-than-expected income, there could be the opportunity to reduce some of that taxable income before the year is out. Taking advantage of investment losses is one way to assist with this. Your portfolio may have some underperforming assets that you can purposely sell at a loss to offset some, or all, of the capital gains you have realized during the year. This strategy is often referred to as tax-loss harvesting and should be one of the planning options that you routinely consider at the end of each year. In addition to offsetting capital gain income, another benefit of generating capital losses is that any unused capital losses this year could be used against ordinary income up to \$3,000 with the excess carried forward to use in future tax years. However, take note of the IRS' wash sale rule when taking advantage of capital losses. This rule states that a loss may be disallowed for tax purposes if the security you are selling was purchased 30 days before or repurchased 30 days after the sale. To avoid this restriction, you are allowed to purchase a similar but not a "substantially identical" security to the one sold.

Another easy way to reduce income in a high tax year is to give to charity. One strategy involves what is typically referred to as bunching charitable contributions. Bunching is a strategy to provide several years of charitable contributions in one tax year. The idea is that a larger charitable donation in one year may allow you to itemize your deductions, instead of using the standard deduction, and thus gain an income tax benefit for your charitable contributions during the year.

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Now, with stricter distribution rules for beneficiaries, the potential tax-free nature of a Roth IRA can be an even more valuable asset to you or your heirs.

A second way to provide for charity, while gaining an income tax benefit, is taking advantage of the qualified charitable distribution (QCD) from your IRA. Through a QCD, the IRS allows individuals to transfer up to \$105,000 (in 2024) directly from an IRA to a qualified charitable organization. The amount transferred as part of a QCD can be counted towards your required minimum distribution (RMD), if you are subject to it, without adding to your annual taxable income. This can be a way to remove any unwanted required distributions from your taxable income during a high tax year. The caveat to this strategy is that you must be at least age 70 ½ to utilize a QCD.

Lower than expected income for the year

Conversely, what if you have had a year where your taxable income is lower than usual? You may find it prudent to accelerate income into the current year. Instead of seeking investments that have underperformed for losses, it may be wise to lock in some capital gains on investments that have performed well. Taking on these capital gains in a low-income year may incur lower overall tax, especially in light of the pending tax rate increases in 2026.

Another tactic could be to proactively take distributions from your retirement plan (if eligible and not subject to penalty) and possibly pay a lower ordinary tax rate on those distributions than you could when your required minimum distributions begin. Reducing the value of your retirement plan could be beneficial when you ultimately need to start your RMDs, as this would equate to a lower required distribution when the time comes.

Another opportunity to consider in a year with lower income is a Roth IRA conversion. Typically, retirement plans (IRA, 401(k), 403(b), etc.) are comprised of pre-tax funds. When you take a distribution of those funds, you pay ordinary income tax on those distributions. However, you can strategically convert those pre-tax retirement funds to a Roth account. The benefit of doing this is to allow the funds to grow tax free and to have distributions taken from the Roth be tax free as well (so long as the distributions are qualified). The big caveat to converting pre-tax retirement funds is that you will owe income tax on any converted pre-tax funds in the year of the conversion. In such a situation, your lower income year could signal an opportunity to convert that IRA to a Roth IRA and pay less tax than if you do it in a year with higher taxable income. The entire account does not need to be converted all at once either, so you can add only the amount of income that you are comfortable with, so you and your tax advisor can be strategic with these conversions. Now, with stricter distribution rules for beneficiaries, the potential tax-free nature of the Roth IRA can be an even more valuable asset to you or your heirs.

Lastly, your income situation for the year could also dictate the acceleration or delay of certain tax deductions. For example, in a year with lower income, you may find it more tax efficient to hold off on making large charitable contributions or making improvements to your investment real estate. From an income tax perspective, those may be more advantageous for you as deductions in a higher taxable income year.

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4. Review your investment portfolio

Reviewing your investment portfolio at the end of each year can allow you and your investment advisor to pinpoint opportunities. In 2024, many investors have benefited from positive market performance. That could mean your investment portfolio has become overweighted in some asset classes and perhaps underweighted in other asset classes. Year end is a good time to get together with your investment advisor to determine if there were any outperforming asset classes during the year, possibly harvest some capital gains, and reallocate your portfolio back to its target allocation. This should be implemented with your income tax situation in mind, and in conjunction with your overall financial plan. This portfolio rebalancing may be achieved in a tax-efficient manner.

5. Prepare for potential interest rate changes

Over the last couple of years, interest rates have risen as the Federal Reserve attempted to tame inflation. However, in September the Federal Reserve finally instituted the first interest rate cut since 2020, and there is the potential that those cuts will continue into next year. The possibility of further interest rate cuts presents a chance to review your outstanding debt, particularly loans that were taken during a high interest rate period, and evaluate whether a refinancing makes sense. Secondly, establishing a line of credit, which may have a variable rate tied to it, could prove beneficial as borrowing money becomes cheaper. A securities-based line of credit uses an investment portfolio as collateral and provides liquidity for large expenses as an alternative to selling assets to raise cash.

When reviewing estate planning strategies to take advantage of the historically high exemptions before they expire in 2026, interest rates may impact which strategies work best. With the potential for rate cuts on the horizon, it's a good idea to review which strategies are more appealing in a lower interest rate environment and which strategies you may want to consider taking advantage of now, while rates remain elevated.

For example, while rates are high, you may have an opportunity to move significant assets out of your taxable estate and into either a qualified personal residence trust (QPRT) or a charitable remainder annuity trust (CRAT). With declining interest rates, transferring real estate into a QPRT is attractive today. A QPRT allows you to transfer ownership of your home to a trust, removing the future appreciation of the real estate from your taxable estate while retaining the right to live in the property for a specified period of time. When that time period ends, the home passes to the beneficiary of the trust. With higher interest rates, the value of the taxable gift is significantly reduced. With a CRAT, income produced by the assets held in the trust is distributed to individual beneficiaries for the term of the trust. At the end of the term, what's left in the trust passes to a charitable beneficiary. Based upon how the tax law requires calculation of the distributions to individual noncharitable beneficiaries, the value of the gift to charity is greater when interest rates are higher. Consequently, the time to create a QPRT or CRAT is now if rates will fall in the future.

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It's important to review beneficiary designations on retirement accounts and life insurance policies to make sure that the beneficiaries of those assets are coordinated with the rest of your estate plan.

On the other side, techniques such as intrafamily loans, grantor retained annuity trusts (GRATs), and charitable lead annuity trusts (CLATs) may become more attractive when rates have fallen. Intrafamily loans are governed by what's known as the Applicable Federal Rate, so it may be possible for family members, such as parents, to offer their children loans at rates well below what would be available from a commercial lender without it being a gift. It may also be possible to refinance intrafamily loans issued during a higher rate environment when rates are lower.

6. Review your beneficiary designations

As another year comes to a close, it is time to assess whether your current estate plan still works to fulfill your goals. Reviewing your overall distribution scheme and fiduciary appointments on an annual basis provides opportunities to make adjustments for new circumstances. For example, if your asset levels have increased due to a run up in the market, it is important to ensure that any bequests you have incorporated into your estate plan have the impact you intend. If you planned to leave a retirement account to a charitable beneficiary, is the value of that account now overfunding your philanthropic goals?

In addition, your estate plan should be reviewed in light of any changes you have made as a part of your other year-end planning efforts. If you have begun making sizable gifts to trusts to make use of your lifetime estate and gift tax exemption, you will need to update your broader estate plan. As part of that effort, it is important to review beneficiary designations on retirement accounts and life insurance policies to make sure that the beneficiaries of those assets are coordinated with the rest of your estate plan. Any life changes that occurred in 2024 will also have an impact—major life events such as marriage, divorce, the birth of children or grandchildren, and the death of a beneficiary or spouse can necessitate updates to your beneficiary designations. Outdated beneficiary designations could result in unintended consequences such as an ex-spouse inheriting assets if they are still listed as a beneficiary post-divorce, or minor children inheriting assets directly. Any changes in your estate planning goals might require corresponding updates to your designations. Finally, the tax law allows for a spouse to inherit a health savings account (HSA) and continue deferral of income and elimination of tax if they are the designated beneficiary. Otherwise, death of the HSA owner is an income taxable event even if these assets are ultimately used for medical expenses.

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7. Assess your estate plan

As the end of 2024 approaches, now is the time to engage in a year-end review of your current estate plan (or a perfect time to create an estate plan if you do not already have one in place) to help ensure it aligns with your personal, business, and financial needs and goals. Changes in personal, family, and financial circumstances amid an uncertain economic climate and a changing tax environment can have a direct impact on your estate plan. A planning strategy that was good for you in 2023 may not be the most suitable plan for you now. Revisiting your estate plan on an annual basis can help you identify planning opportunities that better suit your current situation and provide for as much flexibility as possible. When assessing your estate plan on an annual basis, you must review current distribution schemes and fiduciary appointments and make necessary adjustments based on any changed circumstances.

The foregoing action items are intended to help you work toward ensuring that your financial life is in the best shape possible. As we turn the calendar to a new year, many people focus on new year’s resolutions to help achieve personal goals. These action items may assist you with this year’s resolutions as you strive to meet your financial goals. 2024 has seen a lot of change so now is the time to take action to help maximize wealth, mitigate taxes, and properly position your wealth for the future.

For more 2024 year-end planning resources, visit www.wilmingtontrust.com.

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Source for all tax data: www.irs.gov, 2023-2024.

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