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2024 Brings Many New Opportunities for Your Clients' Tax Savings

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With the April 15 tax filing season deadline behind us, there are several conversations that practitioners still need to have with their clients about new tax savings opportunities for 2024. Helping your clients take advantage of some of these new opportunities, as well as reminding them of tax savings options that are often forgotten, are value-added services you can provide that will keep them returning for your advice.

New Tax Planning Opportunities Through Retirement Plan Reforms

On Dec. 31, 2022, Congress enacted the SECURE 2.0 Act with the goal to "expand and increase retirement savings and clarify retirement plan rules" (Adkins and Henderson, 2024). The act greatly focused on increasing retirement savings in retirement plans maintained through the workplace and through individual retirement plans (both pre-tax and Roth). The act also offered incentives for employers to contribute to retirement plans through tax credits. Many of its benefits began in 2023; however, several were deferred to start in 2024 and 2025. Below are some of the most notable to make sure your clients know.

Increased Catch-Up Contributions

In 2024, individuals are allowed to contribute $23,000 to qualified workplace retirement plans, and if they are 50 or older, they can "catch up" with an additional $7,500 contribution. The catch-up contribution can be made to a pre-tax or a Roth workplace plan. Originally, the act read that beginning in 2024, if the worker's compensation was greater than $145,000, the catch-up contribution would have to be made to a Roth instead of a pre-tax plan. However, the IRS was having problems with implementation of this part of the act, and they issued Notice 2023-62, allowing catch-up contributions to be made to either pre-tax or Roth plans through 2025, no matter the level of compensation. Beginning in 2026, if workers make greater than $145,000 in compensation, the catch-up contribution must be made to a Roth.

In 2025, aside from the catch-up opportunities for workers 50 or over, workers aged 60 to 63 will be able to make a catch-up contribution equal to the greater of $10,000 or 150% of the standard catch-up contribution (Beck, 2023).

Also in 2024, individuals can contribute $7,000 to an IRA, and if they are 50 or older, they can make an additional $1,000 catch-up contribution.

529 Plans Rollover to Roth IRAs

One of the items beginning in 2024 that can affect many of your clients is the provision allowing taxpayers a penalty-free option for unused funds remaining in a Section 529 plan.

To review, a Section 529 plan offers its beneficiary a robust way to save and pay for college. Funds are contributed by owners (or others), and earnings are allowed to grow potentially without tax if the withdrawals are used to pay for qualified educational expenses, for $10,000 of K-12 tuition per year or for $10,000 of student loans. The funds can be transferred from one beneficiary to another if they are unused by the first one.

However, there is a gamble when investing in these plans for a beneficiary. If the earnings accumulate and they are not used for one of the purposes stated above, then the distributions of earnings are both taxable and are subject to a 10% penalty tax. The risk is only on the earnings because the contributions were already taxed and can be withdrawn without further tax consequences. Prior to the SECURE 2.0 Act, if unused funds were not transferred to another beneficiary, the only ways to avoid the 10% penalty were if a beneficiary became disabled or died or if the beneficiary received a tax-free scholarship that caused the funds to go unused. Some people did not choose this option due to the uncertainty their beneficiaries would attend college. Therefore, they avoided this otherwise beneficial college savings option.

Some individuals who did take the risk and invested in the 529 plan were recently left with unused amounts in these plans due to the COVID epidemic. This unusual and unforeseen event caused many students to choose to live at home instead of college housing (Pon, 2023). The result was an accumulation of unused 529 plan funds that left taxpayers thinking they were doomed to taxes and penalties.

With SECURE 2.0, Congress decided to encourage the 529 plan method of college savings by providing an option for unused earnings to defer taxes and escape penalties. Beginning Jan. 1, 2024, your clients can roll their beneficiary's 529 balances into a Roth IRA for the beneficiary without taxes or penalty. It is a great option for both owners of the plans and their beneficiaries; however, tax advisors need to educate their clients on the strict rules for the rollover to avoid loss of the tax deferral on earnings and loss of the penalty waiver. The guidelines include:

- The rollover into a Roth IRA is for the beneficiary of the 529 plan, not the owner.
- The 529 plan must have been created at least 15 years prior to the rollover.
- Any contributions and earnings made in the last five years cannot be rolled over.
- Only $35,000 per beneficiary qualifies for the rollover from a 529 account to a Roth, and it may have to be accomplished over several years because it must be done without maxing out the amount that can be contributed to an IRA in one year ($7,000 in

2024).

- The rollover must be straight from the 529 plan to the Roth IRA.
- The beneficiary must be earning compensation at a minimum level equal to the rollover for the year.

Interestingly, the normal income limitations to contribute to a Roth do not apply to this rollover, so your taxpayer can make more than the $161,000 income limit for single taxpayers ($240,000 for married taxpayers) and still qualify for the tax-free rollover. Still without clarification is whether the 15-year clock resets if you change beneficiaries on the 529 plan. If so, this could once again deter individuals from using the 529 plan (Dobbis, 2024).

Required Minimum Distribution Ages

Another retirement-related tax issue to watch for your clients is the age at which RMDs must begin. RMD implementation is gradually increasing from age 72 to age 75 over the next several years. This extension allows your clients to defer income. However, you should make them aware that delaying these distributions will cause the distributions to be much larger in future years (Beck, 2023).

Expanded Penalty-Free Withdrawals From Workplace Retirement Plans

The act now allows penalty-free distributions from a 401(k) in several situations. The rule of 55, as it has come to be known, allows distributions without penalty if you leave your job between 55 and 59 ½. For government public safety workers, the qualifying age for penalty-free distributions is 50. To qualify, the taxpayer must be 55 or older in the year that they leave their job either voluntarily or involuntarily. The distributions can only be made from the taxpayer's most recent employer's 401(k) or 403(b). IRA funds and 401(k) funds from a previous employer do not qualify for these early withdrawals. To be on the safe side, your clients should consult with their current employer's plan administrator to make sure they will comply with early distributions because they are not required to do so (Kim and Campbell, 2024).

The SECURE 2.0 Act also allows up to $1,000 in withdrawals for "emergency personal expense distributions" for "unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses"; however, this can only occur one time every three years or once per year if the amount has been repaid to the plan (Adkins and Henderson, 2024).

Other expanded penalty-free withdrawals beginning in 2025 include distributions from plans to pay up to $2,500 per year for long-term care insurance contract premiums (Adkins and Henderson, 2024).

Student Loan Payments

An interesting part of the SECURE 2.0 Act that some of your younger clients may not know about allows taxpayers to work toward paying off their student debt while still building their retirement. Employers can now make contributions to an employee's retirement plan that match payments the employee makes for "qualified student loan payments." These contributions are subject to the same vesting schedules as the employer would have made to match employees' contributions to a retirement plan. Employees must provide documentation to certify their qualified student loan payments (Adkins and Henderson, 2024).

Often Missed Tax Planning Opportunities

Qualified Charitable Distributions

Although the QCD has been in place for quite a while, it is often missed by taxpayers. If your client is greater than or equal to 70 ½, remind them that they can make their charitable contributions tax-free up to $105,000 if paid directly from their traditional IRAs. This method of making charitable contributions provides several benefits. Your clients can meet their required minimum distribution amounts without increasing their taxable income. They can also receive a tax benefit from the charitable contribution without itemizing and take the standard deduction. Even though more taxpayers are now aware of this option, they still do not properly take advantage of it due to lack of communication from their tax advisors. The 1099-R does not show the charitable amounts paid from the IRA distributions, so the amounts in box 1 and box 2 of the form generally have the same amount in them, or box 2 is left blank without any corresponding information. This puts the burden on the taxpayer to prove that they made payments directly to a charitable organization from their IRA. Moreover, there is not a line on the tax return to deduct the amount or a place in most tax software to input the amount paid to charity from the IRA. The tax preparer must ask the question and know how to input the information, or the tax benefit will be lost (Saunders, 2023).

Manage the Gains on Home Sales

Many homes' appraised values have doubled or more in recent years. Although in the past it might have seemed unlikely that one would exhaust the $250,000 main-home sale capital gain exemption ($500,000 for married taxpayers), it is now quite possible for the sale price over basis to exceed the exemption. As a result, make sure your clients record ALL home improvements and keep documentation so they can increase the basis in their home. Without these records, they may face unexpected taxable gains when they sell their home.

Manage Adjusted Gross Income

Finally, tax advisors should consistently advise clients to always be aware of their adjusted gross income (AGI) due to its use in limitations on many tax benefits. For example, in 2024, individuals with AGI above $161,000 and married taxpayers above $240,000 cannot make contributions to a Roth IRA. Another example is the net investment income surtax of 3.8% for single filers with $200,000 of AGI and married filers with $250,000 (Saunders, 2023).

If clients find themselves close to AGI limits for tax benefits they could qualify for, they need to manage their AGI through a variety of methods. One way is to manage their capital gains. They should try to push capital gains to future lower income years (if those are in sight) and take advantage of capital losses. They can also make contributions to their traditional and Roth IRAs or increase contributions to their 401(k) plans.

Summary

Tax advisors have a professional responsibility to their clients to make them aware of tax savings through planning. Taking time to have a conversation with them is important and worthwhile. Take time to make your clients feel like you are their advocate, and provide them with this new information for 2024 that can help them implement tax planning for their future.

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