Year End
Financial Planning
HSBC

What should you be thinking about?

With the results of the 2024 election behind us and an incoming, unified Republican government set to take power in 2025, we are likely to see tax changes on the horizon. Sweeping tax change was a top Trump campaign promise, and we expect to see efforts to extend some or all of the sunsetting Tax Cuts and Jobs Act (TCJA) provisions. For more information about the likely impact of the election on tax policy, please see our alert. However, while tax changes may be coming, it may not be the time to employ a 'wait and see' approach to all tax planning. With only a few weeks remaining in the 2024 tax year, now is the time to consider implementing 2024 tax year planning strategies. In addition, you may want to begin to create a plan for 2025 and beyond using the information currently available.

In this alert, we provide the latest tax planning information coming out of Washington along with important personal planning considerations. Given what we know about the incoming administration's tax policy priorities, now is a good time to prepare yourself, your family and business interests by creating a comprehensive wealth planning

Income Tax Rates for 2024 and 2025

The Internal Revenue Service recently announced the tax brackets and rates for 2025 income tax.

Single Taxpayers

2024 Tax Bracket	Tax Rate	2025 Tax Bracket
Standard Deduction: $14,600		Standard Deduction: $15,000
$0 to $11,600	10%	$0 to $11,925
$11,601 to $47,150	12%	$11,926 to $48,475
$47,151 to $100,525	22%	$48,476 to $103,350
$100,526 to $191,950	24%	$103,351 to $197,300
$191,951 to $243,725	32%	$197,301 to $250,525
$243,726 to $609,350	35%	$250,526 to $626,350
$609,351 and up	37%	$626,351 and up

Married Filing Jointly

2024 Tax Bracket	Tax Rate	2025 Tax Bracket
Standard Deduction: $29,200		Standard Deduction: $30,000
$0 to $23,200	10%	$0 to $23,850
$23,201 to $94,300	12%	$23,851 to $96,950
$94,301 to $201,050	22%	$96,951 to $206,700
$201,051 to $383,900	24%	$206,701 to $394,600
$383,901 to $487,450	32%	$394,601 to $501,050
$487,451 to $731,200	35%	$501,051 to $751,600
$731,201 and up	37%	$751,601 and up

Long Term Capital Gains - 2024:

Married Filing Jointly Tax Bracket	Tax Rate	Single Tax Bracket
$0 to $94,050	0%	$0 to $47,025
$94,051 to $583,750	15%	$47,026 to $518,900
$583,751 and up	20%	$518,901 and up

Long Term Capital Gains - 2025:

Married Filing Jointly Tax Bracket	Tax Rate	Single Tax Bracket
$0 to $96,700	0%	$0 to $48,350
$96,701 to $600,050	15%	$48,351 to $533,400
$600,051 and up	20%	$533,401 and up

Trump campaigned on making permanent the top marginal tax rate of 37% (down from 39.6% before the TCJA). We expect the reduced top rate for high earners to continue under a new Trump presidency.

For the time being, capital gains rates remain unchanged. The Biden Administration had previously suggested increasing capital gains rates, but under a new Trump administration this is very unlikely. Trump has suggested implementing no capital gains tax on cryptocurrency transactions, but details have not emerged. If you are considering the strategic sale of a capital asset, consider the unrealized gain and the timing of that realization – while we certainly do not expect capital gains rates to increase, it is at least possible that rates could decrease under the incoming administration (depending on the type of asset sold).

Corporate tax

Under the TCJA, the corporate tax rate was permanently cut to a flat 21% rate for corporate tax years beginning after December 31, 2017. As part of the Inflation Reduction Act, a new 15% minimum tax was enacted on corporations with profits over $1 billion as well as a 1% excise tax when the corporation repurchases stock from its shareholders beginning in 2023. During his campaign, President-Elect Trump indicated he would look to further reduce the corporate tax rate to 15%.

Qualified business income

The TCJA also introduced a deduction for 'qualified business income' (QBI) for non-corporate pass-through entities such as sole proprietorships, partnerships, S corporations, and LLCs. Net taxable income from these entities may qualify for a 20% deduction, which is available to individuals, estates, and trusts that own interests in these pass-through business entities. This provision is scheduled to sunset alongside other TCJA provisions at the end of 2025.

Itemized Deductions and Transfer Tax Exemptions

The TCJA capped or eliminated most itemized deductions and it doubled the standard deduction, meaning most filers will not itemize. For 2025, the standard deduction has again been adjusted-up for inflation. However, this campaign cycle Trump suggested he might reconsider some of the more popular itemized deductions the TCJA had slashed, including the cap on state and local tax (SALT) and mortgage interest. Many clients living in high-cost, high-tax states still benefit from the limited itemized deductions available under the TCJA. Therefore, especially for high earners with potentially large, itemized deductions available to them, it's important to carefully consider whether or not you should itemize your deductions for 2024 and beyond.

Recall that some of the most significant changes under the TCJA included:

- Cap on State and Local Tax (SALT) deduction. Deductions for amounts paid for state and local tax obligations are capped at $10,000. This impacts taxpayers primarily in high tax states, such as New York and California, whose state and local tax obligations often exceed $10,000. There have been bipartisan calls for eliminating the SALT cap, and Trump has suggested he may implement this tax relief in a new tax reform proposal.

- Reduction of mortgage interest deduction. Today, a deduction is available on mortgage interest up to a maximum of $750,000 in new mortgage debt used to purchase or improve a home. Home equity lines of credit (HELOC) are not deductible, unless the line of credit is used to make improvements to the home securing the debt.

- No deduction for miscellaneous deductions. Previously, unreimbursed employee expenses, tax preparation fees, and investment management fees could be deducted if they exceeded 2% of a taxpayer's adjusted gross income.

- Alimony payments. Alimony payments under a divorce or separation agreement are not deductible by the payer, and not taxable to the payee.

- Estate, Gift, and GST (Generation-Skipping Transfer) Tax Exemptions. Estate, gift, and GST transfer tax exemption amounts all doubled under the TCJA. The increased transfer tax exemptions are scheduled to expire at the end of 2025, returning these exemptions to the $5.49 million levels in effect prior to the enactment of the TCJA (adjusted for inflation). There is a 40% tax rate for transfers subject to the estate, gift and GST taxes.

- The sunsetting of these increased exemptions at the end of 2025 is one of our most-discussed planning topics. Trump has indicated willingness to make permanent the increased exemptions.

- The available federal transfer tax exemptions for 2024 are $13.61 million per person, and this figure will increase to $13.99 million in 2025. However, it's important to note that these exemptions are temporary.

- Annual Exclusion Gifts, Medical, and Tuition Expense Exclusions. The annual exclusion for federal gift tax purposes is $18,000 for 2024. In 2025, the annual exclusion increases to $19,000. Individuals can use the annual exclusion to make annual gifts to each of their descendants, other family members, friends, as well as the spouses of these individuals, without incurring any federal gift taxes or consuming their lifetime gift tax exemptions.

- In addition, you may make payments of qualified medical and educational expenses on the behalf of your loved ones without incurring gift taxes or using your gift exemption amount – as long as these payments are made directly to the healthcare providers or educational institutions.

Retirement contribution limits

For 2025, the annual contribution limit for employees who participate in 401(k), 403(b), and 457 plans is increased to $23,500, up from $23,000 in 2024. The limit on annual contributions to an individual retirement account ("IRA") remains $7,000. The IRA catch up contribution limit for individuals age 50 and over remains $1,000 for 2025[1].

401(k) contribution limit	Pre-tax and Roth employee contributions	$23,500
	Employee and employer contributions	$70,000
	Catch-up contributions	$7,500 (50-59 or 64+) $11,250 (60-63)
IRA contribution limit	$7,000, plus $1,000 catch-up for ages 50+	

In addition, the income ranges for determining the deductibility of IRA contributions have increased for 2025. The deduction is phased-out at the following income ranges:

- For single taxpayers covered by a workplace retirement plan, the phase-out range is increased to between $79,000 and $89,000, up from between $77,000 and $87,000 in 2024.
- For married couples filing jointly, if the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is increased to between $126,000 and $146,000, up from between $123,000 and $143,000 in 2024.
- For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the phase-out range is increased to between $236,000 and $246,000, up from between $230,000 and $240,000 in 2024.
- For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains between $0 and $10,000.
- The income phase-out range for taxpayers making contributions to a Roth IRA is increased to between $150,000 and $165,000 for singles and heads of household, up from between $146,000 and $161,000 in 2024. For married couples filing jointly, the income phase-out range is increased to between $236,000 and $246,000, up from between $230,000 and $240,000 in 2024. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains between $0 and $10,000.

1 This was amended under the SECURE 2.0 Act of 2022 to include a cost-of-living adjustment but remains flat this year.

Planning Considerations

This year-end tax season is a bit unique, in that we have significant tax code provisions due to sunset and an incoming Republican administration which campaigned on making those provisions permanent. Rather than taking a 'wait and see' approach, especially with very consequential items (which could, in turn, be very costly), our recommendation is to evaluate the trends, and make decisions on the information we know today. As always, individuals are advised to speak with their legal and tax advisors about how these year-end considerations are applicable and how best to implement. Some items savvy individuals and families are considering now:

Income Tax Considerations

- Maximize annual retirement account contributions. Maximizing pre-tax contributions and taking full advantage of employer match dollars is one of the simplest, and important, planning steps a person can take. You can make a 2024 IRA (including Roth) contribution as late as April 15, 2025; but be aware that any excess contributions will be subject to at 6% tax each year unless withdrawn.

- Don't forget to take your required minimum distribution ("RMD"). For older Americans, the IRS requires a minimum amount be distributed from existing qualified retirement accounts each year. If you reach age 72 after December 31, 2022, you must take your first RMD at age 73 (note that previous rules may apply in some cases). The calculation of the required sum is dependent on the balance of the account; your plan provider can help determine the appropriate amount. The 2024 amount must be distributed no later than April 15, 2025 and is included as income for purposes of annual income tax filing. Any required RMD not taken is subject to a 50%

- Utilize Roth IRA contributions, including back-door Roth contributions, if possible. A Roth IRA is a retirement account which allows for qualified tax-free distributions if requirements are satisfied, and which are not subject to RMDs. Roth IRA contributions are subject to income limits, but a 'back-door Roth' strategy may be possible whereby a traditional IRA is converted to a Roth after its funding regardless of the annual income of the accountholder. Back-door Roth IRAs have been di

careful analysis of all retirement accounts owned, as the entire sum of all IRA accounts is deemed taxable upon the Roth conversion.

- Reduce income tax obligations through charitable giving. Charitable giving is a time-honored tradition in the US; even when the TCJA reduced the available itemized deductions, the charitable deduction remained in-tact. Gifts to public charities, foundations, or donor-advised funds can provide a corresponding charitable deduction in the same tax year the gift is made, while supporting important causes and organizations doing good work. Large charitable gifts can be particularly powerful in the same year as a one-time or unusually large income event, such as selling a business or other asset. Note, charitable gifts must be made on or before December 31, 2024 to receive a 2024 tax benefit.

- Consider a Qualified Charitable Distribution. For taxpayers with retirement plans subject to RMDs, but who don't need the income—or were taking the RMD would increase a taxpayer's top marginal tax rate—an alternative option is available to make a distribution from the retirement account directly to a charity of your choosing. No charitable deduction is allowed for the sum gifted via a QCD, but it can nevertheless allow the avoidance of income and also provides for charity.

- Harvest tax losses and accelerating capital gains. Suffering investment losses is never enjoyable, but a silver lining is that investors can obtain a tax benefit by recognizing investment losses and applying them against current and future realized capital gains. Short-term losses and long-term losses must first be used to offset gains of the same type. However, once losses of one type exceed the gains of that particular type, the

excess losses can be applied to the other type of capital gains. Up to $3,000 per year in net capital losses can be applied against ordinary income, with the remainder carried forward to apply to future years. Investors looking to take advantage of this opportunity must be mindful of the "wash sale" rules – the IRS will not recognize a tax loss generated from the sale of a security where there has been a repurchase of the same or a substantially identical security within 30 days before or after the sale.

- Layer QBI with charitable gifts to further reduce income tax. A strategic charitable gift can provide relief if you have qualified business income (QBI) but your taxable income is slightly above the QBI income limitation. Charitable gifts reduce taxable income – so an amount that would reduce your taxable income to below the QBI limitation would enable you to take both the charitable deduction for the amount of the gift, and a QBI deduction.

Estate planning and wealth transfer considerations

- Review existing estate plans. As your financial and family circumstances change, so too will your estate plan. It is always a prudent idea to ensure the estate plan you have in place is current and accurately reflects your current wishes. This might mean accounting for new property acquired, new family members born or married into the family, even a physical move to a new state requires an update to an existing estate plan. Be sure to review the fiduciaries and powerholders named in the documents, including those granted lifetime powers over health care and financial decisions.

- Review beneficiary designations. Year-end is also a good time to review beneficiary designations on existing life insurance policies, retirement accounts, and other bank accounts with a transfer on death ("TOD") provision.

- Utilize the increased wealth transfer tax exemptions now to lock-in valuations. Even if the TCJA is extended and made permanent, transferring property to estate tax protected vehicles such as irrevocable trusts allow future appreciation to occur entirely outside the transfer tax system. For owners of assets expected to increase in value significantly, there is a real benefit in planning today. Further, for wealthy individuals, even an extension of the TCJA won't be sufficient to properly eliminate future tax liability. Larger gifts can further be leveraged for tax purposes by making gifts into trust and allocating GST exemption to the transfer – thereby providing long term estate tax efficiency for future generations.

- Remember to utilize annual exclusion gifts. Maximizing annual exclusion gifting is an effective way to support loved ones today without reducing the availability of lifetime exemptions--and without needing to report such gifts to the IRS. We particularly like utilizing annual gifts to fund 529 accounts for education savings; 'superfunding' a 529 account by bunching together five years of annual gifts allows for even greater savings. Some states, such as New York, even offer a state income tax benefit for 529 account contributions.

- Advanced planning utilizing declining interest rates. Interest rates have dramatically increased since the beginning of 2022 but have recently started declining. Many advanced wealth transfer planning strategies rely on prevailing interest rates imposed by the IRS, and as interest rates continue to decline, some of these planning options may become more appealing as they allow an individual to transfer more wealth to future beneficiaries. These strategies include grantor retained annuity trusts (GRATs), intra-family loans and sales to grantor trusts, all of which allow very wealthy individuals to transfer wealth above and beyond the lifetime exemption amount.

- Consider life Insurance as a planning tool. Life insurance can provide crucial liquidity for loved ones, allowing minor children, a spouse, or other financial dependents to maintain their lifestyle upon your passing. Life insurance may also be a tax-efficient way to maximize your wealth and pass it on to the people and causes important to you.

Summary

Since tax planning is a core piece of every individual financial plan[1], understanding the current and future tax landscape is essential when it comes to taking care of your family and your assets. Making the best use of your wealth today may help you sustain your legacy in the future. Year-end presents an opportune moment to proactively review your financial plan, and your tax planning in particular, to ensure you are on track and maximizing tax efficiency for you and your family.

For more information and for assistance with your wealth planning, please contact your Wealth Relationship Manager.

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