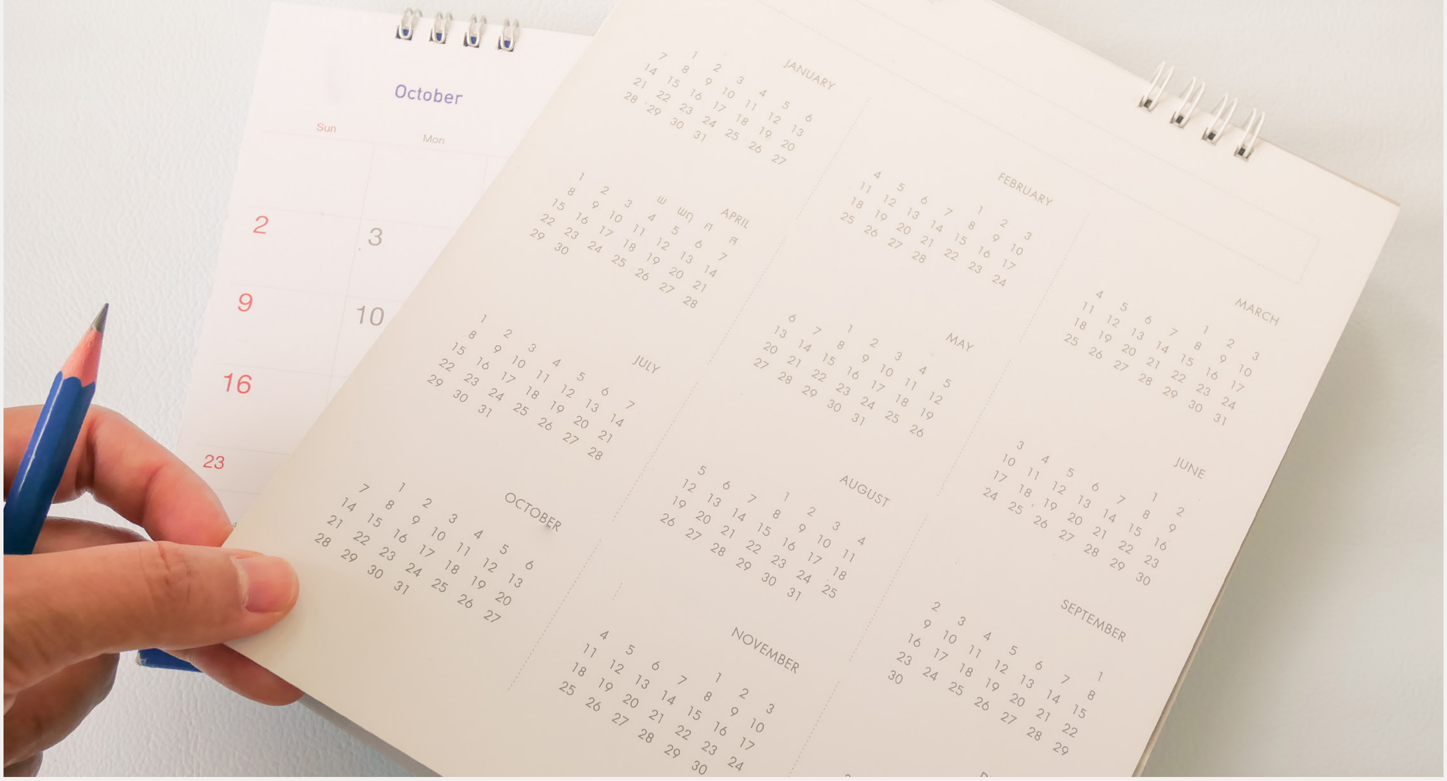
2024 YEAR-END PLANNING IDEAS



It's that time of the year when we are thinking about back to school, the start of cooler weather, leaves turning into fall colors, the upcoming holiday season — and dare we say, year-end tax planning? Now may be the best time to coordinate with your tax and legal advisors to review plans and implement strategies to optimize tax efficiencies. Here we focus on some strategies that may help you reduce this year's tax liability and enhance your overall wealth plan.

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Selected Tax Credits

As we approach the end of the year, we recommend that you consult with your personal tax advisors to discuss whether you may be eligible for any one or more of these tax credits:

- The increased premium tax credit for health insurance purchased through the Health Insurance Marketplace, which were extended through 2025.
- Subject to many requirements, the energy-efficient home improvement credit[1] applies to the installation of energy efficient windows, doors, certain heating and cooling systems and certain heat pumps. More information about this credit can be found on the IRS website at the URL in the endnotes.[2]
- Subject to many qualifications, the residential clean energy credit[3] is available for the installation of qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, geothermal heat pump property and qualified battery storage technology. More information about the residential clean energy credit can be found on the IRS website at the URL in the endnotes.[4]
- Subject to many limitations (including income limitations), the clean vehicle credit[5] applies to certain electric and fuel

cell vehicles.[6] The IRS has published guidance to assist taxpayers with respect to the requirements to obtain this credit.[7]

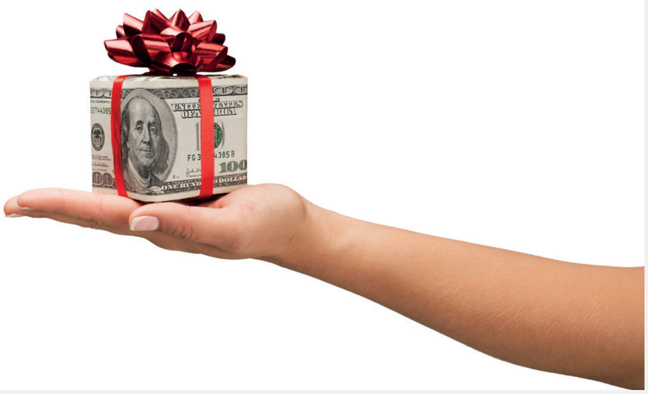
- Subject to qualifications, a tax credit continues to apply to the purchase of used clean vehicles.[8] For more information, see the IRS website at the URL in the endnotes.[9]

Philanthropy

People give to charitable organizations for many reasons. As this article pertains to 2024 year-end planning, in this section we focus on tax benefits for gifts to charity in 2024.

If you itemize your deductions — consider giving cash

If you itemize deductions and make charitable contributions, you may be able to deduct on your federal income tax return the amount of such contributions, limited by the application of certain percentages of your contribution base. Your contribution base is your adjusted gross income (AGI) computed without regard to any net operating loss carryback to the taxable year. Due to the 60% limitation (applicable through December 31, 2025) for certain cash contributions,[10] it remains worthwhile to analyze whether giving appreciated securities or selling the securities and giving cash would produce a greater tax benefit. A PNC Private Bank® Wealth Strategist can work with you and your tax advisors to provide this analysis.



If you are close to being able to itemize your deductions — consider bunching

Making larger contributions less often could allow you to accumulate deductions and itemize in some years. For example, if a married couple filing jointly contributes $20,000 per year to charity, assuming no other itemized deductions, they would not exceed the $29,200 standard deduction for 2024 and would not receive a tax benefit for their contributions. However, if they contribute $40,000 every other year, they would be able to itemize in the year they make the charitable contribution and benefit from an additional $10,800 deduction if that year was 2024. A donor-advised fund (DAF) can be an effective tool for bunching charitable contributions. You could be eligible to take an income tax deduction in the year the contribution is made, but no distribution is required to be made from the DAF in any given year. If this is an option for you, be sure to factor the cost of a DAF into your decision.

If you don't itemize your deductions

The Tax Cuts and Jobs Act (TCJA)[11] substantially increased the amount of the standard deduction. After enactment of the TCJA, many taxpayers who had previously itemized deductions found that the standard deduction was larger than their previously itemized amounts and that taking the standard deduction provided a greater tax benefit.[12]

Individuals age 70½ and older may make qualified charitable distributions (QCDs) from their individual retirement accounts (IRAs) directly to qualified charities up to $105,000 in 2024,[13] indexed for inflation in future years. If you make a QCD, you will not receive a charitable deduction for federal income tax purposes. On the other hand, some or all of the amount distributed will be excluded from your gross income.

> The excludable amount of qualified charitable distributions for a taxable year is reduced [but not below zero] by the aggregate amount of IRA contributions deducted for the taxable year and any earlier taxable years in which the individual was age 70½ or older by the last day of the year (post-age 70½ contributions) … other than the amount of post-age 70½ contributions that caused

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a reduction in the excludable amount of qualified charitable distributions for earlier taxable years.[14]

Your AGI is the starting point for calculating several tax-related items. For example, AGI is used in determining how much of your Social Security benefits are taxed, Roth IRA contribution eligibility, applicability of the net investment income tax, your Medicare premium, your state income taxes (depending on state law) and whether your itemized deductions are phased out. Accordingly, taking steps to reduce AGI can produce many benefits.

Further, if you must take a required minimum distribution (RMD), a QCD will count toward some, or all, of your IRA RMD. If you no longer itemize deductions, a QCD may be a tax-efficient way to fulfill your charitable giving goals.

Charitable remainder trusts

Interest rates rose in 2023 and leveled off in 2024.[15] Nevertheless, rates are considerably higher than they were between 2009 and 2022.[16] Certain planning techniques perform better in a higher interest rate environment. One such technique is the charitable remainder trust (CRT).

A CRT is a trust that provides one or more non-charitable beneficiaries (beneficiaries), who are living when the trust is created, with a stream of payments for life or (in other cases) a stream of payments for a term of no more than 20 years. At the end of this term, whatever is left in the CRT is distributed to one or more charitable organizations. There are different types of CRTs, each providing a different type of payment stream to the beneficiaries. When you make a gift to a CRT, you may receive an income tax charitable deduction for the actuarial present value of the remainder that is calculated to ultimately pass to the charity when the CRT ends. Your PNC Private Bank Wealth Strategist can work with you and your other advisors to illustrate how each type of CRT works and provide illustrations of how a CRT can fit into your plan.

A CRT is a tax-exempt entity,[17] but as payments are made to the beneficiaries, the beneficiaries will pay income tax on the income that they receive. Ordinary income, capital gain income, tax exempt income and principal are distributed to the beneficiary in that order, with income subject to higher tax rates being distributed before income subject to lower tax rates.[18] As a tax-exempt entity, a CRT does not pay

income tax on capital gains resulting from the sale of its assets. Instead, as distributions are made to the CRT's beneficiaries (as described above), they will pay the income tax on such income. This makes the CRT a useful tool for diversifying a low-basis concentrated position or reinvesting low basis assets, as the tax on the capital gain resulting from the sale of those assets will be spread out over the course of the stream of payments to the beneficiaries. Further, any gain not distributed to the beneficiaries when the CRT ends will escape income tax, as the CRT's assets are distributed to charity.

A CRT can also be coupled with a QCD. An individual may make a one-time election that allows a "split interest entity" to receive a QCD up to an inflation-adjusted amount of $50,000.[19] A CRT that meets certain requirements is considered a split interest entity. The total amount that can be paid into a split interest entity in 2024 $53,000.[20]

Deferred Compensation and Retirement Planning

Revisit deferred compensation arrangements

Before making 2025 elections regarding non-qualified deferred compensation arrangements, we believe it's important to determine if deferring income is right for you and to decide on the deferral timing.

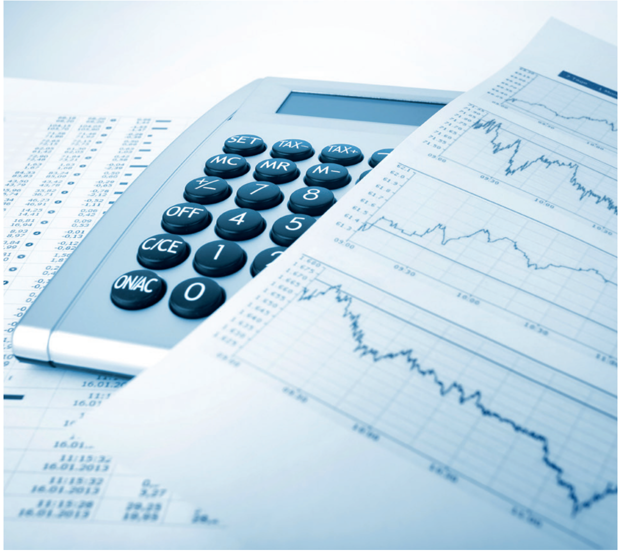
Deferred compensation plans allow highly compensated employees to defer a portion of their income to a future year. The idea is to lower income levels during high-earning years. The income is paid out at a future date of your choice that is typically when overall income is less, as is your corresponding tax bracket. Additionally, during the deferral period, the income may be invested in a selection of investments set by the plan provider and may grow on a tax-deferred basis. If you leave your job, the plan typically will return your vested balance at that time.[21]

Following enactment of the TCJA, most taxpayers found themselves in lower tax brackets, but the lower tax rates are scheduled to expire at the end of 2025. This means any income deferred to 2026 and beyond may be subject to higher tax rates.

The decision whether to defer income, the length of the deferral, and whether election dates should be changed, if allowed, is complex. It is impossible to know what future tax rates may be, but it is possible to project what your income may be at the time the compensation is taken and how deferred compensation fits in with other available planning strategies. Deferred compensation elections for 2025, must be made by December 31, 2024. However, employers may require elections to be finalized earlier in the year.

Converting some or all of a traditional IRA to a Roth IRA

Converting your traditional IRA to a Roth IRA[22] could save income tax over the long term. Although converting your traditional IRA will cause an income tax today on the amount converted that would not have been subject to income tax had you not converted to a Roth IRA,[23] future growth in the converted assets (now in a Roth IRA) will be tax-free. This could be important if tax rates rise in the future. Qualified distributions from a Roth IRA are tax-free to the owner and/or beneficiary and the lifetime RMD rules do not apply to Roth IRAs for the owner or the owner's spouse.



Converting to a Roth works best when the tax incurred on the conversion can be paid from assets not held in a traditional IRA or qualified retirement plan, as withdrawing assets therefrom to pay the income tax attributable to the Roth conversion will incur additional income tax. Roth conversions require careful analysis to determine whether incurring an income tax today will save income tax in the future. As each person's financial circumstance is unique, before undertaking a Roth conversion you should seek the advice of your tax and financial advisors.

New rules for RMDs

On July 19, 2024, the Internal Revenue Service released final and proposed regulations regarding RMDs from certain retirement plans.[24] Although the final regulations are quite detailed, and you should consult your tax advisors about their impact on your plan, following are some selected items to consider when tax planning for 2024 and future years.

The final regulations confirmed that non-eligible designated beneficiaries (with some exceptions, generally, non-spouse beneficiaries) who inherit an account (generally, a defined contribution plan or a traditional IRA account) from an owner who dies on or after the required beginning date (RBD) must receive all the funds in the account by the end of the 10th year, but must also receive RMDs during years one through nine.[25] This requirement begins next year as the need to take RMDs from such an account was suspended for 2024.[26] If you have not been taking RMDs from such account, as you plan for 2025, consider discussing with your tax advisors whether you should increase (or begin) estimated tax payments for next year.

Chronically ill and disabled individuals are eligible designated beneficiaries. The final regulations create requirements and deadlines for filing necessary documentation with the deceased owner's employer showing that the beneficiary is chronically ill or disabled. Documentation is due by October 31 of the year after the original account owner's death.[27] Beneficiaries of IRA accounts are not required to provide such documents.[28] The final regulations take effect September 17, 2024 (except with respect to the determination of RMDs, which take effect for tax years beginning on or after January 1, 2025). Obtaining the documents necessary to satisfy this requirement may take time, so plan accordingly.

The rules with respect to designating a trust as beneficiary of a retirement account have been modified by the final regulations. If you have designated (or intend to designate) a trust as beneficiary of your retirement account, consult with your legal and tax advisors to ensure that the trust and the beneficiary designation fit your plan and (if desired) are designed to achieve the optimal tax result for your beneficiaries.

Explore Tax-Loss Harvesting

Losses in your portfolio

If you have unrealized losses in your portfolio, you may be able to use those losses to decrease your 2024 tax bill through tax-loss harvesting.

Tax-loss harvesting generates capital losses by selling assets that are currently worth less than what you paid for them. These losses are then used to offset capital gains recognized during the year. Your plan may be to repurchase the asset at some point, but if you recognize a loss, you must wait at least 31 days to repurchase the same asset, otherwise the tax loss will be disallowed.[29]

If your capital losses exceed your capital gains, you can use up to $3,000 of the excess loss to offset other income. Any remaining capital losses can be carried forward. For example, if you sell an asset and recognize a $15,000 capital loss and have $10,000 of capital gains, you can claim zero gains for the year. You can then use $3,000 of your remaining $5,000 in capital losses to offset other income in 2024. The remaining $2,000 may be used to reduce taxable income in 2025.

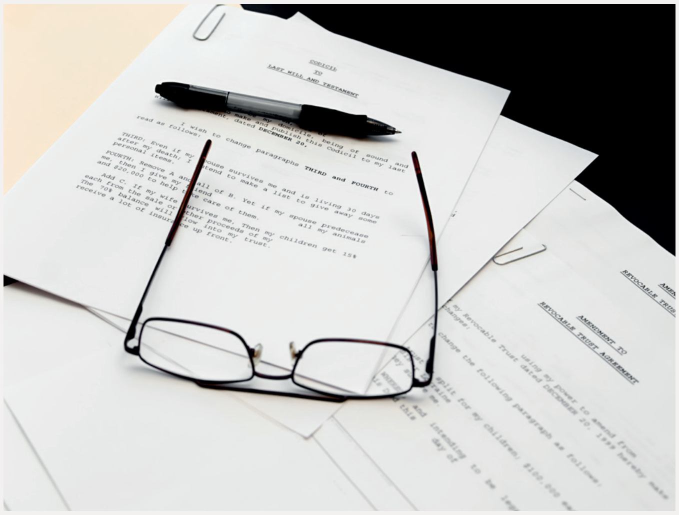
Gains in your portfolio

If you have realized capital gains and mutual fund capital gain distributions, in excess of your realized capital losses in 2024, you may wish to adjust your income tax withholding or quarterly estimated income tax payment to take capital gains into consideration.

Gift and Trust Planning

In 2018, the TCJA increased the basic exclusion amount for the federal estate and gift tax. For 2024 that amount is $13.61 million[30] and is indexed for inflation in future years. Unless Congress takes further action, the increased exclusion amount will "sunset" on January 1, 2026, causing the exclusion amount to be approximately halved (to 2017 levels, indexed for inflation). We are very close to sunset.

Now may be a good time to talk to your attorney about planning to use the increased exclusion amount. If you intend to use the increased exclusion amount, we suggest not waiting until 2025 to meet with your attorney. Waiting until 2025 could see your plans go unfulfilled. Instead, consider working with your attorney now to prepare any legal documents necessary to take advantage of the increased exclusion amount. As 2026 approaches, monitor Congress's actions with respect to the exclusion amount. If it looks like the exclusion amount will indeed be decreased, you can execute your plan without rushing to complete legal documents.



Planning for Business Owners

On June 6, 2024, the U.S. Supreme Court decided *Connelly v. United States*,[31] which determined that, for federal estate tax purposes, the value of a company is increased by the value of the death benefit received from corporate owned life insurance insuring a shareholder's life, but not reduced by the company's obligation (in a redemption buy-sell agreement) to redeem the deceased shareholder's shares.

If you own a business with others and have a redemption buy-sell agreement funded by life insurance that is owned by your company, you should contact your attorney to discuss the impact of the *Connelly* decision on your plans. At the same time, you should review the life insurance policies funding the buy-sell obligation to determine if they are performing as expected and will produce a sufficient death benefit to meet the company's obligation.

Perennial Items

Review withholding and estimated tax payments

Be sure that you are withholding enough to satisfy your federal tax liability. Failure to withhold sufficient tax (or pay sufficient quarterly estimated tax) may cause you to owe tax with your return and to be subject to interest and penalties. Similarly, by withholding too much, you are making an interest-free loan to the government.

The IRS has published a simplified withholding estimator that can provide a rough estimate of overall withholding and income. This calculator can be found at: https://apps.irs.gov/app/tax-withholding-estimator (last accessed August 22, 2024). By updating your Form W-4, Employee's Withholding Certificate, your employer can adjust the amount withheld from your salary to cover any shortfall, avoiding potential underpayment penalties.

Fund employer-sponsored retirement plans

Studies show that many Americans do not have resources adequate to provide for their retirement.[32] If you are able to do so, you should fund your retirement plans to the extent of the amount that can be set aside before taxes. If you cannot fully fund your employer-provided plan and if your employer matches your contributions to a defined contribution plan, at least save enough to get the employer's match. Failing to do that is "leaving money on the table."

Review contributions to 529 plans

529 plans can be an effective way to save for educational expenses. A unique feature of 529 plans allows donors to front-load accounts with up to five years of annual exclusion gifts.[33] This means that in 2024 (if you haven't previously front-loaded a 529 plan) you can contribute up to $90,000 ($180,000 for a married couple) to a 529 plan, all of which would qualify for annual exclusion gift treatment (being reported ratably over five years). 529 plans grow tax-free, and distributions for qualified higher education expenses are tax-free. The term "qualified higher education expenses" means:

(i) tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible educational institution,

(ii) expenses for special needs services in the case of a special needs beneficiary which are incurred in connection with such enrollment or attendance, and

(iii) expenses for the purchase of computer or peripheral equipment (as defined in IRC § 168(i)(2)(B)), computer software (as defined in IRC § 197(e)(3)(B)), or internet access and related services, if such equipment, software or services are to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution" provided that it shall not include expenses for computer software designed for sports, games or hobbies unless the software is predominantly educational in nature.

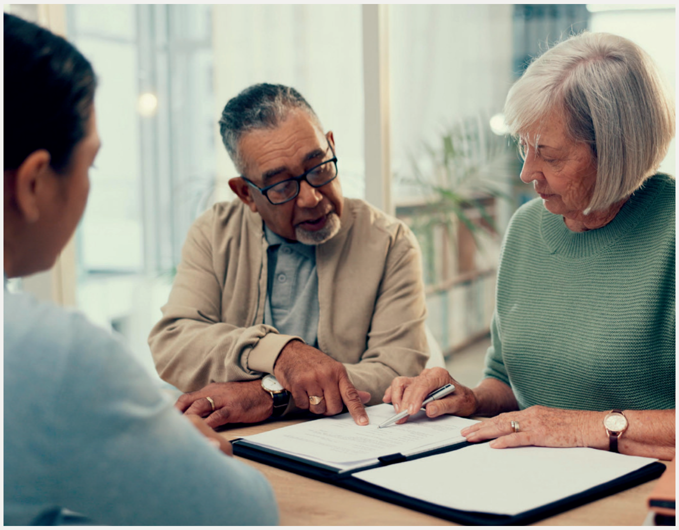
Qualified higher education expenses also include up to $10,000 per beneficiary per year for elementary and secondary school (grades K through 12) tuition, certain expenses for registered apprenticeship programs, and the payment of up to $10,000 (in total from all plans) in student loan debt for the beneficiary and the beneficiary's siblings (including stepsiblings).

The state in which you live may offer a state income tax deduction for contributions to a 529 plan. Confer with a tax advisor who understands the laws of your state to determine how contributing to a 529 plan will affect you.

Plan Now

As the daylight wanes in the Northern Hemisphere, we turn our attention to the fall and winter holidays that make the dark days brighter. It seems somehow appropriate that at the "darkest" time of the year, our annual tax liabilities become fixed.

Each family's tax and financial circumstances are different. Although the ideas presented herein are of a general nature, we hope you can use them to prepare for year's end. We encourage you to consult with your tax, legal and financial advisors with respect to your specific circumstances.



Endnotes

1 Internal Revenue Code (IRC) § 25C.

2 IRS, *Energy Efficient Home Improvement Credit*, https://www.irs.gov/credits-deductions/energy-efficient-home-improvement-credit (last accessed September 9, 2024).

3 IRC § 25D.

4 IRS, *Residential Clean Energy Credit*, https://www.irs.gov/credits-deductions/residential-clean-energy-credit (last accessed September 9, 2024).

5 IRC § 30D.

6 Note that the credit is no longer available for two- and three-wheeled vehicles. Inflation Reduction Act, Pub. L. 117-169, 136 Stat. 1818 (2022) §§ 13401(g) and (k)(4).

7 Fact Sheet, FS-2023-08, March 2023, https://www.irs.gov/pub/taxpros/fs-2023-08.pdf (last accessed September 9, 2024); IRS Publication 5724-G, https://www.irs.gov/pub/irs-pdf/p5724g.pdf (last accessed September 9, 2024); IRS, *Clean Vehicle Tax Credits*, https://www.irs.gov/clean-vehicle-tax-credits (last accessed September 9, 2024).

8 IRC § 25E.

9 IRS, *Used Clean Vehicle Credit*, https://www.irs.gov/credits-deductions/used-clean-vehicle-credit (last accessed September 9, 2024). See, also, Fact Sheet, FS-2023-08, March 2023, https://www.irs.gov/pub/taxpros/fs-2023-08.pdf (last accessed September 9, 2024); IRS Publication 5724-G, https://www.irs.gov/pub/irs-pdf/p5724g.pdf (last accessed September 9, 2024).

10 IRC § 170(b)(1)(G).

11 Pub. L. 115-97, 131 Stat. 2054 (2017).

12 McClelland, R., *Anybody Can Itemize Their Deductions. But Most Don't Want To*, Tax Vox, Tax Policy Center, Urban Institute & Brookings Institution, September 5, 2019, https://www.taxpolicycenter.org/taxvox/anybody-can-itemize-their-deductions-most-dont-want (last accessed September 9, 2024).

13 Notice 2023-75, 2023-47 I.R.B. 1256.

14 Notice 2020-68, 2020-38 IRB 567; IRC § 408(d)(8)(A). Section 107 of the SECURE Act, Pub. L. 116-94, 133 Stat. 2534, 3149, added the provision regarding to the reduction of post-age 70 ½ contributions when the age limit with respect to tax deductible contributions to traditional IRAs was eliminated. Notice 2020-68 provides an example of how to calculate the reduction in the excludable amount when there are post-age 70 ½ contributions. Consult your personal tax advisor to determine how to calculate the excludable amount of your QCDs.

15 *E.g.*, FRED, Federal Reserve Bank of St. Louis, *Federal Funds Effective Rate, January 1, 2023 to July 1, 2024*, https://fred.stlouisfed.org/series/FEDFUNDS (last accessed September 9, 2024).

16 *E.g.*, FRED, Federal Reserve Bank of St. Louis, *Federal Funds Effective Rate, January 1, 2000 to July 1, 2024*, https://fred.stlouisfed.org/series/FEDFUNDS (last accessed September 9, 2024).

17 Notwithstanding that a CRT is a tax-exempt entity, unrelated business income of a CRT is subject to an excise tax of 100%. IRC § 664(c)(2).

18 IRC § 664(b); Treas. Reg. § 1.664-1(d).

19 IRC § 408(d)(8)(F).

20 Notice 2023-75, 2023-47 I.R.B. 1256.

21 The timing of payments is determined by the deferral agreement, subject to rules governed by IRC § 409A.

22 See, IRC § 408A(c)(5); Treas. Reg. § 1.408A-4 Q&A 1 (contribution limit for Roth conversions eliminated by IRC § 408A(c)(5)(B)).

23 IRS Publication 590-A (March 4, 2024), Contributions to Individual Retirement Arrangements (IRAs).

24 T.D. 10001, 89 F.R. 58886 (final regulations) and REG-103529-23, RIN 1545-BQ66, 89 F.R. 58644 (proposed regulations).

25 Treas. Reg. §§1.401(a)(9)-5(a)(1), 1.401(a)(9)-5(d). The Treasury Department's rationale for this rule can be found in T.D. 10001, Summary of Comments and Explanation of Revisions, Sec. I.E.3., 89 F.R. 58886, 58896.

26 Notice 2024-35; 2024-19 I.R.B. 1051 (April 16, 2024).

27 Treas. Reg. §§1.401(a)(9)-4(e)(7).

28 Treas. Reg. §1.408-8(b)(4)(i).

29 See the wash sale rules of IRC § 1091.

30 Rev. Proc. 2023-34, 2023-48 I.R.B. 1287.

31 *Connelly v. United States*, 602 U.S. ___, 144 S. Ct. 1406, 219 L. Ed.2d 31 (2024).

[32] Biggs, Andrew G., *"Is There a Retirement Crisis? Examining Retirement Planning in the Household and Government Sectors,"* Mercatus Working Paper, Mercatus Center at George Mason University, published online by US Bureau of Labor Statistics, Is There a Retirement Crisis? Examining Retirement Planning in the Household and Government Sectors (bls.gov) https://www.bls.gov/cex/research_papers/pdf/is-there-a-retirement-crisis-examining-retirement-planning-in-the-household-and-government-sectors.pdf (last accessed September 9, 2024).

[33] The annual exclusion amount for 2024 is $18,000, a $1,000 increase from the amount allowed in 2023. Rev. Proc. 2023-34, 2023-48 I.R.B. 1287.

For more information, please contact your PNC Private Bank advisor.