WELLSPRING FINANCIAL ADVISORS

IRS Announces New 2024 Income Tax Brackets + Other Important Updates

It is crucial to engage in strategic tax planning, particularly considering the upcoming changes to the standard deduction and tax brackets for the year 2024. These modifications, affecting filers who do not itemize their deductions, will only be reflected in the tax returns filed in early 2025.

The Internal Revenue Service has elevated the thresholds for its seven tax brackets by 5.4% in 2024. This adjustment implies that a single person can now earn up to $609,350 before facing taxation at the highest rate of 37%. Understanding and leveraging these changes can significantly impact one's tax liability.

The Reasons for Adjustments

In the context of the broader economic landscape, the Federal Reserve's efforts to mitigate inflation have influenced recent adjustments in the consumer price index, which is intricately linked to tax changes. Despite some success in curbing inflation, the index continues to rise, albeit at a slower pace.

Moreover, the IRS routinely adjusts various figures in the tax code to account for inflation. For instance, the maximum Earned Income Credit for low-income workers with children has increased to $7,830, marking a $400 raise. Additionally, workers now have the opportunity to contribute more funds to health savings accounts, with the limit set at $3,200.

Estate planning considerations are also paramount, given the rise in the estate tax threshold. Estates valued under $13.61 million are now exempt from taxes, up from $12.92 million in 2023. Similarly, the gift tax threshold has increased to $18,000, allowing for larger tax-free gifts.

Deduction Increases

- In the tax year 2024, the standard deduction for married couples filing jointly has increased to $29,200, reflecting a $1,500 rise from the 2023 tax year.
- Single taxpayers and married individuals filing separately will now have a standard deduction of $14,600 for 2024, indicating a $750 increase from the previous year.
- Heads of households will see their standard deduction elevated to $21,900 for the tax year 2024, making a $1,100 increase compared to the amount in the tax year 2023.

Tax Rates

For the 2024 tax year, the top tax rate remains 37% for individual single taxpayers with incomes greater than $609,350 ($731,200 for married couples filing jointly).

The other marginal tax rates are:

- 35% for incomes over $243,725 ($487,450 for married couples filing jointly)
- 32% for incomes over $191,950 ($383,900 for married couples filing jointly)
- 24% for incomes over $100,525 ($201,050 for married couples filing jointly)
- 22% for incomes over $47,150 ($94,300 for married couples filing jointly)
- 12% for incomes over $11,600 ($23,200 for married couples filing jointly)
- The lowest rate is 10% for incomes of single individuals with incomes of $11,600 or less ($23,200 for married couples filing jointly).

Additional Changes

- The Alternative Minimum Tax exemption amount for the tax year 2024 is set at $85,700 and begins to phase out at $609,350 ($133,300 for married couples filing jointly, where the exemption starts to phase out at $1,218,700). By comparison, the 2023 exemption amount stood at $81,300, with the phase-out beginning at $578,150 ($126,500 for married couples filing jointly, where the exemption phased out at $1,156,300).
- The maximum Earned Income Tax Credit amount for tax year 2024 is $7,830 for qualifying taxpayers with three or more qualifying children, marking an increase from $7,430 in the tax year 2023. The revenue procedure includes a table outlining the maximum EITC amount for various categories, along with income thresholds and phase-outs.
- In tax year 2024, the monthly limitation for the qualified transportation fringe benefit and qualified parking increases to $315, up by $15 from the limit in 2023.
- For taxable years starting in 2024, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements rises to $3,200. In cases where cafeteria plans allow the carryover of unused amounts, the maximum carryover amount is $640, a $30 increase from taxable years beginning in 2023.
- In tax year 2024, participants with self-only coverage in a Medical Savings Account must have an annual deductible not less than $2,800 (up by $150 from tax year 2023) but not more than $4,150 (up by $200 from tax year 2023). For self-only coverage, the maximum out-of-pocket expense amount is $5,550, a $250 increase from 2023. For family coverage in tax year 2024, the annual deductible is not less than $5,550 (up by $200 from tax year 2023), and the deductible cannot exceed $8,350 (up by $450 from tax year 2023). The out-of-pocket expense limit for family coverage is $10,200 for tax year 2024, up by $550 from tax year 2023.
- For tax year 2024, the foreign earned income exclusion is $126,500, up from $120,000 in tax year 2023.
- Estates of decedents who pass away in 2024 have a basic exclusion amount of $13,610,000, an increase from $12,920,000 for estates of decedents in 2023.
- The annual exclusion for gifts rises to $18,000 for calendar year 2024, an increase from $17,000 in calendar year 2023.
- The maximum credit allowed for adoptions for tax year 2024 is the amount of qualified adoption expenses up to $16,810, up from $15,950 in 2023.

Beneficial Ownership Information Required Reporting

In 2021, Congress enacted the Corporate Transparency Act, which includes a beneficial ownership information (BOI) reporting requirement. BOI reporting requirements intend to help U.S. law enforcement fight money laundering and other illegal activity.

Beginning January 1, 2024, businesses outside of sole proprietors will be required to complete BOI reporting. Companies that may be a "reporting company" and will be required to report information to the Financial Crimes Enforcement Network (FinCEN) include:

1. A corporation, a limited liability company (LLC), or was otherwise created in the U.S. by filing a document with a secretary of state or any similar office under the law of a state or Indian tribe; or
2. A foreign company and was registered to do business in any U.S. state or Indian tribe by such a filing.

Entities that are exempt from the BOI reporting requirements include publicly traded companies, nonprofits, and "large operating companies". Large operating companies include those with more than 20 fulltime employees in the U.S., reported gross receipts or sales of over $5mm on the prior year's tax return, and an operating presence at a physical office in the U.S.

A "beneficial owner" is an individual who either owns or controls a minimum of 25% of the ownership interests of a reporting company or exercises "substantial control" over a reporting company. A person may be considered as exercising substantial control if they serve as a senior officer, have authority over any senior officers, or have significant influence over important decisions made by the reporting company.

Reporting companies will report beneficial ownership information electronically via FinCEN's website. Additional information on BOI reporting can also be found here: www.fincen.gov/boi.

In light of these changes, your Wellspring advisor will help navigate the complexities of the evolving tax landscape by identifying opportunities for tax savings and ensuring financial strategies align with the current regulatory environment. This proactive approach to tax planning is essential to help optimize financial outcomes and minimize tax burdens.

As always, please do not hesitate to contact us with any questions regarding how these changes may impact you.

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