



## Tax Legislation and IRS Inflation Adjustments

December 2023

### Tax Legislation

A politically divided Congress struggled to pass any form of meaningful legislation in 2023. There had been some discussion around extending or modifying certain expiring tax provisions of the Tax Cuts and Jobs Act (TCJA). Expiring TCJA provisions were not the only tax items gathering some movement. Congress had also been discussing multiple tax changes during the year, but the bills were unable to garnish enough support to make their way through committees to the floor for a vote.

### Inflation Adjustments

In November, the IRS released inflation-adjusted figures for different components of the Internal Revenue Code. These adjustments apply to tax brackets, phaseouts, contribution limits and various other items for 2024. This memorandum highlights many of these items as we draw closer to the 2024 tax year.

Considering interest rate increases during 2023, the persistence of inflation, and increased market volatility, strategic tax planning remains paramount for individuals seeking to optimize cash flow while minimizing their tax liabilities. It is imperative to be aware of changes from 2023 to 2024 and evaluate for any potential impact on your taxable situation.

### Standard Deductions & Key Tax Rates

The 2024 standard deduction for single taxpayers that do not itemize is now \$14,600. Married couples filing joint returns that do not itemize will have a standard deduction of \$29,200 in 2024. For itemizers, state and local tax (SALT) deductions continue to remain capped at \$10,000.

The tables below and on the next page reflect applicable ordinary income, long and short-term capital gains, qualifying dividends and net investment income tax brackets for 2024 compared to 2023.

2023 Federal Income Tax Brackets					
Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estates & Trusts	Marginal Rate
Up to \$11,000	Up to \$22,000	Up to \$11,000	Up to \$15,700	Up to \$2,900	10%
\$11,001 to \$44,725	\$22,001 to \$89,450	\$11,001 to \$44,725	\$15,701 to \$59,850	NA	12%
\$44,726 to \$95,375	\$89,451 to \$190,750	\$44,726 to \$95,375	\$59,851 to \$95,350	NA	22%
\$95,376 to \$182,100	\$190,751 to \$364,200	\$95,376 to \$182,100	\$95,351 to \$182,100	\$2,901 to \$10,550	24%
\$182,101 to \$231,250	\$364,201 to \$462,500	\$182,101 to \$231,250	\$182,101 to \$231,250	NA	32%
\$231,251 to \$578,125	\$462,501 to \$693,750	\$231,251 to \$346,875	\$231,251 to \$578,100	\$10,551 to \$14,450	35%
Over \$578,125	Over \$693,750	Over \$346,875	Over \$578,100	Over \$14,450	37%

2024 Federal Income Tax Brackets					
Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estates & Trusts	Marginal Rate
Up to \$11,600	Up to \$23,200	Up to \$11,600	Up to \$16,550	Up to \$3,100	10%
\$11,601 to \$47,150	\$23,201 to \$94,300	\$11,601 to \$47,150	\$16,551 to \$63,100	NA	12%
\$47,151 to \$100,525	\$94,301 to \$201,050	\$47,151 to \$100,525	\$63,101 to \$100,500	NA	22%
\$100,526 to \$191,950	\$201,051 to \$383,900	\$100,526 to \$191,950	\$100,501 to \$191,950	\$3,101 to \$11,150	24%
\$191,951 to \$243,725	\$383,901 to \$487,450	\$191,951 to \$243,725	\$191,951 to \$243,700	NA	32%
\$243,726 to \$609,350	\$487,451 to \$731,200	\$243,726 to \$365,600	\$243,701 to \$609,350	\$11,151 to \$15,200	35%
Over \$609,350	Over \$731,200	Over \$365,600	Over \$609,350	Over \$15,200	37%

Source: Internal Revenue Service

2024 Top Federal Income Tax Rates	
Ordinary earned income, not including short-term capital gains or passive income <sup>1</sup>	37.0%
Ordinary income including net investment income (interest, short-term capital gains, non-qualified dividends and other passive income) <sup>2</sup>	40.8%
Long-term capital gains <sup>3</sup>	23.8%
Qualified dividends <sup>4</sup>	23.8%
Notes:	
1 Medicare surcharge of 0.9% applied to wages and self-employment income that exceeds \$200K for singles and \$250K for couples	
2 Includes interest, dividends, royalties, net rental income and other passive income	
3 Includes 3.8% surtax on net investment income over \$200K for singles and over \$250K for couples	
4 Includes 3.8% surtax on net investment income over \$200K for singles and over \$250K for couples	

Source: Internal Revenue Service

### Capital Gains Tax Rates

2023 Total Income		2024 Total Income		Long Term Capital Gains Rate
Single Filers	Married Filing Joint	Single Filers	Married Filing Joint	
Up to \$44,625	Up to \$89,250	Up to \$47,025	Up to \$94,050	0%
\$44,626 to \$492,300	\$89,251 to \$553,850	\$47,026 to \$518,900	\$94,051 to \$583,750	15%
More than \$492,300	More than \$553,850	More than \$518,900	More than \$583,750	20%

Source: Internal Revenue Service

### Net Investment Income Tax (NII)

2023 Net Investment Income Tax (MAGI Thresholds)		2024 Net Investment Income Tax (MAGI Thresholds)	
Single Filers	Married Filing Joint	Single Filers	Married Filing Joint
Over \$200,000	Over \$250,000	Over \$200,000	Over \$250,000

Source: Internal Revenue Service

Under the former version of the Build Back Better Act, which was being considered by Congress in 2021 and the beginning of 2022, the NII surtax would have been expanded to cover NII derived in the ordinary course of a trade or business for joint filers with modified AGI over \$500,000, single or head-of-household filers with modified AGI over \$400,000, and married people filing a separate return with a modified AGI over \$250,000. The proposed legislation would have clarified that the surtax doesn't apply to wages on which Social Security and Medicare payroll taxes (i.e., FICA taxes) are already imposed. The Build Back Better Act was never passed by Congress and is not likely to be passed during the lame-duck session leading up to the next election cycle in November 2024.

## Retirement Plan and IRA Key Numbers

The following tables reflect IRS elective deferral limits, IRA contribution limits, and income phase-out ranges for traditional and Roth IRAs:

Elective Deferral Limits	2023	2024
401(k), 403(b), 457(b), Profit-Sharing Plans	Lesser of \$22,500 or 100% of participant's compensation (\$30,000 if age 50 or older) <sup>2</sup>	Lesser of \$23,000 or 100% of participant's compensation (\$30,500 if age 50 or older) <sup>2</sup>
Defined Contribution Plans, SEPs	Lesser of \$66,000 or 25% of participant's compensation	Lesser of \$69,000 or 25% of participant's compensation
SIMPLE 401(k) plans and SIMPLE IRA plans <sup>1</sup>	Lesser of \$15,500 or 100% of participant's compensation (\$19,000 if age 50 or older)	Lesser of \$16,000 or 100% of participant's compensation (\$19,500 if age 50 or older)
1.) Must aggregate employee deferrals to all 401(k), 403(b) and SIMPLE plans of all employers; 457(b) contributions are not aggregated. 2.) Special catch-up limits may also apply to 403(b) and 457(b) plan participants.		

Source: Internal Revenue Service

The chart below compares the 2023 and 2024 IRA contribution limits:

IRA contribution limits	2023	2024
Traditional and Roth IRAs	Lesser of \$6,500 or 100% of earned income (\$7,500 if age 50 or older)	Lesser of \$7,000 or 100% of earned income (\$8,000 if age 50 or older)

  

Income phaseout range for determining deductibility of traditional IRA contributions for taxpayers:	2023	2024
1. Covered by an employer-sponsored plan and filing as:		
Single/Head of household	\$73,000 - \$83,000	\$77,000 - \$87,000
Married filing jointly	116,000 - \$136,000	123,000 - \$143,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	\$218,000 - \$228,000	\$230,000 - \$240,000

  

Income phaseout range for determining ability to fund a Roth IRA for taxpayers filing as:	2023	2024
Single/Head of household	\$138,000 - \$153,000	\$146,000 - \$161,000
Married filing jointly	\$218,000 - \$228,000	\$230,000 - \$240,000

Source: Internal Revenue Service

## Spousal IRA Planning

A contribution to a Traditional or Roth IRA is allowed only if the taxpayer has earned income. An exception exists for non-working spouses as long as the couple has at least \$14,000 of combined earned income. This allows the working spouse to contribute \$7,000 to their own IRA and \$7,000 to their spouse's IRA. Deductible contributions for 2024 are allowed until the return due date (April 2025 plus extensions).

## Estate, Gift and Generation-Skipping Adjustments

The exemption amounts for the estate, gift and generation-skipping taxes increase to \$13.61 million in 2024. (\$27.22 million per couple). The annual exclusion amount for gifts increases from \$17,000 to \$18,000 per year per recipient. These changes provide high net worth individuals a significant planning window to make gifts, set up irrevocable trusts, and analyze strategies to swap high basis assets included in their taxable estate with low basis assets currently titled in irrevocable trusts.

### State Trust Tax Survey Chart

Since Colony Trust Company offers trust administration in both North Carolina and Tennessee, there could be opportunities to transfer certain administrative functions from less tax friendly states to either one of Colony Trust Company's offices. The chart below provides an overview of popular states for trust administration in the Mid-Atlantic and Southeastern regions and how they impose taxation. For example, moving the principal place of administration of a non-grantor trust from SC or MS to NC or TN could potentially generate significant state income tax savings.

State	Taxing Statute	Top Tax Rate	Under What Conditions Does The State Tax a Non-Grantor Trust?
AL	Ala. Code 40-18-1(33)	5.00%	If the trust is set up by the Will of an AL resident or settlor was an AL resident at time trust became irrevocable <u>and</u> an AL resident is a beneficiary or trustee for more than seven months during the tax year
FL	No tax	0.00%	No tax
GA	O.C.G.A. 48-7-22	5.49%	If there is trust property located in GA <u>or</u> if the trustee is "managing funds for the benefit of a resident of" GA (but see <u>Kaestner</u> where US Supreme Ct ruled unconstitutional if only connection is NC beneficiary without other factors)
MS	Miss. Code Ann. 27-7-5(1)	4.70%	If the trust is administered in MS
NC	N.C. Gen Stat. 105-160.2	4.50%	If there is a NC beneficiary (but see <u>Kaestner</u> where US Supreme Ct ruled unconstitutional if only connection is NC beneficiary without other factors)
SC	S.C. Code Ann. §12-6-30(5)	6.50%	If the trust is administered in SC
VA	Va. Code Ann. 58.1-302	5.75%	If the trust is set up by the Will of a VA resident, <u>or</u> if a trust was created by a settlor who was a VA resident, <u>or</u> a trust which is being administered in VA
TN	No tax	0.00%	No tax
DE	30 Del. Code. 1601(8)-(9)	6.60%	If the trust is set up by the Will of a DE resident, <u>or</u> settlor of trust was a DE resident, <u>or</u> the majority of the trustees are DE residents for more than ½ the year; <u>in all of such cases only if there is a DE beneficiary</u>

Source: Steve Oshins - state trust charts and state Department of Revenue websites

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