



CARDINAL ADVISORS

Capitalize on Low Tax Rates 2024 & 2025

In our video entitled “Capitalize on Low Tax Rates 2024 & 2025” Hans and Tom use the following charts to discuss income taxes.

CAPITALIZE ON LOW TAX RATES 2024 + 2025

S.S	ORDINARY INCOME TAX				HISTORICAL TOP FEDERAL INCOME TAX RATE		INCOME
	2024	2017	MARRIED JOINT	SINGLE	Year	Rate	
<input type="checkbox"/>	10%	10%	0-23,200	0-11,600	1918	77%	<input type="checkbox"/>
	12%	15%	23,201-94,300	11,601-47,150	1929	25%	
MED	22%	25%	94,301-201,050	47,151-100,525	1932	63%	
<input type="checkbox"/>	24%	28%	201,051-383,900	100,526-191,950	1936	79%	ESTATE
	32%	33%	383,901-487,450	191,951-243,725	1945	94%	<input type="checkbox"/>
	35%	35%	487,451-731,200	243,726-609,350	1965	70%	
LTC	37%	39.6%	OVER 731,200	OVER 609,350	1982	50%	
<input type="checkbox"/>	- ROTH CONVERSION UP TO 383,900 OR 191,950 (SINGLE) 2024 + 2025				1988	28%	
	- DISTRIBUTIONS FROM A ROTH ARE TAX FREE				1993	39.6%	
401K/IRA	- NO IRMAA MEDICARE TAX OR SS TAX				2003	35%	
<input type="checkbox"/>	- ROTH CONVERSIONS MAKE SENSE IN 2026 + BEYOND				2013	39.6%	TAXES
					2018	37%	<input type="checkbox"/>
					2024	37%	<input type="checkbox"/>

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Oct. 2024

2024 Tax Planning

Taxable Income Brackets for 2024 Ordinary Income Tax Rates

Marginal Tax Rate	Married Filing Joint	Single
10%	\$0 – \$23,200	\$0 – \$11,600
12%	\$23,201 – \$94,300	\$11,601 – \$47,150
22%	\$94,301 – \$201,050	\$47,151 – \$100,525
24%	\$201,051 – \$383,900	\$100,526 – \$191,950
32%	\$383,901 – \$487,450	\$191,951 – \$243,725
35%	\$487,451 – \$731,200	\$243,726 – \$609,350
37%*	Over \$731,200	Over \$609,350

* The top rate is effectively 40.8% for those subject to the 3.8% Medicare surtax on net investment income (those with MAGI over the thresholds of \$250,000 joint filers/\$200,000 single filers).

2024 Trust Tax Rates

Ordinary Income Tax	Capital Gain Rates
10% \$0 - \$3,100	0% \$0 - \$3,150
24% \$3,101 - \$11,150	15% \$3,151 - \$15,450
35% \$11,151 - \$15,200	20% Over \$15,450
37% Over \$15,200	

Trust Tax Rates – Distributions from inherited IRAs that exceed **\$15,200** and are made to and retained in discretionary trusts will be subject to the top 37% rate. After the SECURE Act, inherited IRA funds will have to be paid out to most of these trusts under the 10-year rule, accelerating trust taxes. Roth conversions during the IRA owner's life become more valuable if the IRA beneficiary is a trust.

Qualified Business Income (QBI) Deduction

20% Deduction Phase-Out Ranges

\$383,900 - \$483,900 - Married Joint
\$191,950 - \$241,950 - Single

Taxable Income Brackets for 2024 Long Term Capital Gains and Qualified Dividends Tax

Long Term Capital Gains Rate	Married Filing Joint	Single
0%	\$0 – \$94,050	\$0 – \$47,025
15%*	\$94,051 – \$583,750	\$47,026 – \$518,900
20%**	Over \$583,750	Over \$518,900

*The 15% rate is effectively 18.8% for those subject to the 3.8% Medicare surtax on net investment income.

**The top rate is effectively 23.8% for those subject to the 3.8% Medicare surtax on net investment income.

2024 Transfer Taxes

Transfer Tax	Exemption*	Maximum Rate
Estate, Gift, GST Tax	\$13,610,000	40%

*The estate and gift exemptions are portable. The unused amount can be transferred to a surviving spouse. The GST exemption is NOT portable.

Annual Gift Tax Exclusion \$18,000

Standard Deductions

Married-Joint	\$29,200
Single	\$14,600
Head of Household	\$21,900
Extra Standard Deduction for Age 65 or Blind	
\$1,550 (married-joint)	
\$1,950 (single)	

Qualified Charitable Distributions

Available only to IRA owners and IRA beneficiaries who are 70½ or older. The annual QCD limit for 2024 is \$105,000 per IRA owner, **not** per IRA account. For 2024, the limit for a QCD to a split interest entity is \$53,000. QCDs are more valuable due to the larger number of taxpayers that are using the increased standard deduction.

Roth Conversion Planning Ideas

Roth conversions are permanent and work best for those who believe they will be subject to higher marginal tax rates in the future. Roth conversions are not all or nothing. Consider a series of smaller annual conversions over time to spread out the income tax.

Timing Roth conversions for maximum tax efficiency:

Convert before RMDs begin. RMDs cannot be converted, so no conversion can be done until the RMD is withdrawn.

Avoid the impact of Roth conversions on Medicare IRMAA charges for Parts B and D based on income. Since Medicare has a 2-year lookback provision, consider conversions before age 63.

If a spouse died during the year, consider a Roth conversion for the surviving spouse since this may be the last year to take advantage of married-joint tax return rates. Include the conversion income on the final joint tax return.

2017

Table 1. Single Taxable Income Tax Brackets and Rates, 2017

Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$9,325	10% of Taxable Income
15%	\$9,325 to \$37,950	\$932.50 plus 15% of the excess over \$9,325
25%	\$37,950 to \$91,900	\$5,226.25 plus 25% of the excess over \$37,950
28%	\$91,900 to \$191,650	\$18,713.75 plus 28% of the excess over \$91,900
33%	\$191,650 to \$416,700	\$46,643.75 plus 33% of the excess over \$191,650
35%	\$416,700 to \$418,400	\$120,910.25 plus 35% of the excess over \$416,700
39.60%	\$418,400+	\$121,505.25 plus 39.6% of the excess over \$418,400

Table 2. Married Filing Joint Taxable Income Tax Brackets and Rates, 2017

Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$18,650	10% of taxable income
15%	\$18,650 to \$75,900	\$1,865 plus 15% of the excess over \$18,650
25%	\$75,900 to \$153,100	\$10,452.50 plus 25% of the excess over \$75,900
28%	\$153,100 to \$233,350	\$29,752.50 plus 28% of the excess over \$153,100
33%	\$233,350 to \$416,700	\$52,222.50 plus 33% of the excess over \$233,350
35%	\$416,700 to \$470,700	\$112,728 plus 35% of the excess over \$416,700
39.60%	\$470,700+	\$131,628 plus 39.6% of the excess over \$470,700

Table 3. Head of Household Taxable Income Tax Brackets and Rates, 2017

Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$13,350	10% of taxable income
15%	\$13,350 to \$50,800	\$1,335 plus 15% of the excess over \$13,350
25%	\$50,800 to \$131,200	\$6,952.50 plus 25% of the excess over \$50,800
28%	\$131,200 to \$212,500	\$27,052.50 plus 28% of the excess over \$131,200
33%	\$212,500 to \$416,700	\$49,816.50 plus 33% of the excess over \$212,500
35%	\$416,700 to \$444,500	\$117,202.50 plus 35% of the excess over \$416,700
39.60%	\$444,550+	\$126,950 plus 39.6% of the excess over \$444,550

Table 4. Married Individuals Filing Separate Returns Taxable Income Tax Brackets and Rates, 2017

Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$9,325	10% of taxable income
15%	\$9,325 to \$37,950	\$932.50 plus 15% of the excess over \$9,325
25%	\$37,950 to \$76,550	\$5,226.25 plus 25% of the excess over \$37,950
28%	\$76,550 to \$116,675	\$14,876.25 plus 28% of the excess over \$76,550
33%	\$116,675 to \$208,350	\$26,111.25 plus 33% of the excess over \$116,675
35%	\$208,350 to \$235,350	\$56,364 plus 35% of the excess over \$208,350
39.60%	\$235,350+	\$65,814 plus 39.6% of the excess over \$235,350

Table 5. 2017 Standard Deduction and Personal Exemption

Filing Status	Deduction Amount
Single	\$6,350
Married Filing Jointly	\$12,700
Head of Household	\$9,350
Married Filing Separately	\$6,350
Personal Exemption	\$4,050

Table 6. 2017 Alternative Minimum Tax Exemptions

Filing Status	Exemption Amount
Single	\$54,300
Married Filing Jointly	\$84,500
Married Filing Separately	\$42,250
Estates and Trusts	\$24,100

Table 7. 2017 Alternative Minimum Tax Exemption Phaseout Thresholds

Filing Status	Threshold
Single	\$120,700
Married Filing Jointly	\$160,900
Married Filing Separately, Estates and Trusts	\$80,450

2024 Tax Planning for Investment Income

3.8% Surtax on Net Investment Income

What Will Be Considered Investment Income?

Investment Income

Interest, Dividends, Capital Gains (long and short - including the gain on the sale of investment real estate and second homes)
Annuities (but not annuities in IRAs or company plans)
Royalty Income
Passive Rental Income and Other Passive Activity Income

NOT Investment Income

Wages and Self-Employment Income
Active Trade or Business Income (including interest, dividends, capital gains)
Distributions from IRAs, Roth IRAs, and Company Plans – Including Net Unrealized Appreciation
Excluded Gain from the Sale of a Principal Residence
Municipal Bond Interest
Proceeds of Life Insurance Policies
Social Security and Veterans' Benefits
Gains on the Sale of an Active Interest in a Partnership or S Corporation

Taxable income from items that are **NOT** investment income can push taxpayers over the income threshold and cause investment income to be subject to the 3.8% surtax.

MAGI Thresholds for 3.8% Surtax

Married Filing Joint	\$ 250,000
Individuals	\$ 200,000
Married Filing Separate	\$ 125,000
Trusts and Estates	\$ 15,200*

* Trusts are hit hard – The 3.8% surtax kicks in at much lower income levels for trusts. The threshold for trusts and estates is the amount at which the top trust tax bracket takes effect. This amount is **\$15,200** in **2024**. All other threshold amounts are NOT indexed for inflation.

MAGI (Modified Adjusted Gross Income)

The 3.8% surtax applies to net investment income when MAGI exceeds these threshold amounts.

For this purpose, MAGI is a taxpayer's regular AGI, plus any foreign income excluded from AGI.

The 3.8% Medicare tax is imposed on the lesser of (1) net investment income or (2) the amount of MAGI over the threshold amount.

Taxpayers with income below these MAGI levels will not be subject to the tax.

– Tax Planning Points –

- 1 - The 3.8% tax is **in addition** to the tax rates for high income individuals. Those at the top brackets can have long-term capital gains and dividends taxed at 23.8% and other investment income taxed at 40.8%.
- 2 - There is an additional 0.9% Medicare tax on wages and self-employment income over the threshold amounts.
- 3 - IRA and plan distributions (including sales of employer securities with net unrealized appreciation) are exempt from the 3.8% surtax on net investment income, but taxable distributions from these accounts can push income over the threshold amounts causing other investment income to be subject to the tax.
- 4 - Roth conversions will increase current income, but future tax-free Roth distributions will be more valuable as a means to eliminate taxable income and required minimum distributions from traditional IRAs.
- 5 - The 3.8% surtax is subject to the estimated tax provisions.
- 6 - Taxpayers who have named a discretionary (accumulation) trust as their IRA beneficiary should consider Roth conversions to avoid potential harsh trust tax rates at low trust income levels. After the SECURE Act, the 10-year payout rule will apply to most trusts named as the IRA beneficiary. The inherited IRA funds will have to be paid out to the trust within the 10 years. Any funds retained in the trust will be subject to the high trust tax rates, including the 3.8% tax on trust net investment income that applies above the MAGI threshold (only **\$15,200** for **2024**).
- 7 - Salary deferrals (401(k), 403(b), etc.) can reduce MAGI for the 3.8% surtax but cannot reduce earned income for the 0.9% additional Medicare tax.

A History of U.S. Tax Rates

TOP FEDERAL INCOME TAX RATE BY YEAR

1913	7%	1936	79%	1959	91%	1982	50%	2005	35%
1914	7%	1937	79%	1960	91%	1983	50%	2006	35%
1915	7%	1938	79%	1961	91%	1984	50%	2007	35%
1916	15%	1939	79%	1962	91%	1985	50%	2008	35%
1917	67%	1940	79%	1963	91%	1986	50%	2009	35%
1918	77%	1941	81%	1964	77%	1987	38.5%	2010	35%
1919	73%	1942	88%	1965	70%	1988	28%	2011	35%
1920	73%	1943	88%	1966	70%	1989	28%	2012	35%
1921	73%	1944	94%	1967	70%	1990	28%	2013	39.6%
1922	58%	1945	94%	1968	70%	1991	31%	2014	39.6%
1923	58%	1946	91%	1969	70%	1992	31%	2015	39.6%
1924	46%	1947	91%	1970	70%	1993	39.6%	2016	39.6%
1925	25%	1948	91%	1971	70%	1994	39.6%	2017	39.6%
1926	25%	1949	91%	1972	70%	1995	39.6%	2018	37%
1927	25%	1950	91%	1973	70%	1996	39.6%	2019	37%
1928	25%	1951	91%	1974	70%	1997	39.6%	2020	37%
1929	25%	1952	92%	1975	70%	1998	39.6%	2021	37%
1930	25%	1953	92%	1976	70%	1999	39.6%	2022	37%
1931	25%	1954	91%	1977	70%	2000	39.6%	2023	37%
1932	63%	1955	91%	1978	70%	2001	39.1%	2024	37%
1933	63%	1956	91%	1979	70%	2002	38.6%		
1934	63%	1957	91%	1980	70%	2003	35%		
1935	63%	1958	91%	1981	70%	2004	35%		

AMERICA'S IRA EXPERTS

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