46 PEAKS
INVESTMENT ADVISORY GROUP

Tax Time!

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April 15th is fast approaching, and you know what that means.

While most investors emphasize saving money, investing, and perhaps even monitoring their spending, we think few pay enough attention to their overall tax strategy. With taxes being potentially your largest expense over your lifetime, this can be a mistake. Last year we wrote a piece detailing some overlooked tax considerations, the principles of which are unchanged over the last 12 months and worth a reminder. The highlights are:

- Each taxpayer should know their overall and **marginal tax rate**. Your marginal rate is the percentage of tax that you pay on your next dollar of income, and it's this rate that should be considered when making financial decisions.
- In our opinion, Federal Income and Capital Gains tax rates are **currently quite low** and likely to rise in the future. Based on current law, many current tax rates are subject to revert to higher levels at the end of 2025, unless Washington extends or changes them. There's no telling what they will do, and the future of tax rates likely hinges on the outcome of the Presidential election this November.
- If you think that rates are likely to rise in the future, **then recognizing income and capital gains in 2024 and 2025**, as unpleasant as that sounds, may be a wise tax move.
- If you are in a low marginal tax bracket, and could face higher tax rates during your retirement's IRA withdrawal period, you should reconsider the conventional wisdom of maxing out your 401(k) contributions (if you are working) or delaying your IRA withdrawals (if you are retired) and consider ways to **get your assets into a ROTH 401(k) or ROTH IRA**, either through contributions or IRA to ROTH conversions.
- One of the most overlooked tax-advantaged savings vehicles is the **Health Care Savings Account (HSA)**. These have the income tax deductibility of a 401(k) or IRA, with the tax deferral and tax-free withdrawal features of a ROTH IRA. Truly the best of all worlds. HSAs are available to investors with "high deductible" Health Insurance Plans.

Each year, we also publish a two-page summary of important tax figures that we think every investor should have at their fingertips. A PDF version of that document can be accessed **here**. Some important highlights of Tax facts for 2024 are:

- The Standard Deduction increased slightly to $14,600 for single filers and to **$29,200 for married couples filing jointly**. We think this is a pretty large standard deduction, the effect of which is twofold – 1) to significantly reduce taxes for those at lower or modest income levels, and 2) to make it less attractive for a household to itemize deductions, simplifying taxes for many.
- For married filing jointly taxpayers, the Federal Tax rate on qualified dividends and long-term capital gains is **0%** for those with taxable income up to $94,050 and **only 15%** for those with taxable income between $94,050 and $583,750. The rate is 20% for incomes over $583,750.

- The merits of itemizing deductions are restricted by the continued **$10,000 cap on the deductibility of State and Local Taxes**, as well as the limits on the deductibility of mortgage interest (limited to interest on $750,000 of debt taken after December 16, 2017).
- The estate and gift tax exemption, which is indexed to inflation, rose to $13,610,000 per individual for 2023. Without an extension, this amount is **expected to be cut by potentially 50%** when the Tax Cuts and Jobs Act sunsets at the end of 2025.
- The annual **gift exclusion increased to $18,000 per recipient**, up $1,000 from 2023. The gifting exclusion allows you to gift money each year without incurring any tax liability or using up any of your lifetime estate.
- The **maximum monthly social security benefit** for those who begin claiming at their Full Retirement Age (FRA) is **$3,822**. For those still working, the **6.2% Social Security tax** is currently payable on **earnings up to $168,800**. There remains no income limit on the 1.45% Medicare Tax.
- The maximum employee **contribution to a 401(k) plan is $23,000**. Those age 50 or older can contribute an additional **$7,500 as a "catch up"** contribution.
- The annual Required Minimum Distributions on tax deferred retirement accounts for those ages 72, 80, and 90 are roughly **3.65%, 4.95%, and 8.20%** of IRA assets, respectively.
- The 2024 contribution limit for a **family HSA account is $8,300**. Those 55 and older can make an additional $1,000 catch up contribution. The minimum health insurance deductible for a family to be eligible to contribute to an HSA is **only $3,200**.

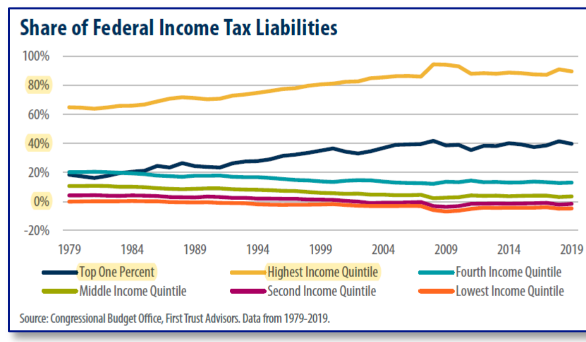
Since 2024 is an election year, the subject of taxes and "fair share" may be a political flash point. Hyperbole and misinformation are likely to pollute the conversation. For those interested in some facts with which to frame the conversation, let's start with 2023 Federal Income taxes owed for a married couple filing jointly, assuming the standard deduction and no other deductions.

Income	Tax	Rate
$50,000	$2,236	4.5%
$100,000	$8,236	8.2%
$250,000	$40,152	16.1%
$500,000	$109,094	21.8%
$1,000,000	$289,665	29.0%

These calculations, obtained from SmartAsset.com, only reflect Federal income taxes and exclude Social Security and Medicare taxes, as well as state and local taxes. The illustration also excludes the impact of any retirement plan contributions. Still, you might be surprised at some of these figures.

A review of the distribution of income and taxes paid in America might also yield some surprises. Or not. First Trust looked at IRS data from 2020 and here's what they found:

- Taxpayers in the top 1% (those with adjusted gross income of $548,336 or higher) paid an average of 26% of their income to the Federal government. Those in the bottom 50% (earning $42,184 or less) had an average income tax rate of 3.1%
- The **top 5%** of taxpayers **earned 38.1% of total income** and **paid 62.7% of total taxes**. Said in reverse, the "bottom" 95% of taxpayers paid 37.3% of taxes.
- Looking at trends over the last four decades (seen in the chart below), **the top 20%** of taxpayers have seen their share of taxes paid grow from 65% in 1979 to **89.7%** in 2019.



- The bottom 40% of taxpayers have a **negative tax rate**. Not only do they not pay any Federal Income taxes, but they receive additional income and support from the Government.

We're not here to opine on what's fair or not. In fact, we think "fairness" is not even the right metric on which to discuss tax policy. Regardless, we think it's clear that a very large number of Americans pay relatively low Federal Income taxes nowadays, while our country simultaneously has a small percentage but large enough number of High-Net-Worth families who pay a lot. Yet it's also pretty much impossible to make summary statements about our country's tax code since there are so many taxes levied throughout our system, and there are also non-tax issues to consider. For example, lower- and middle-income taxpayers are likely to pay a higher percentage of their income to sales tax, social security taxes, property taxes and other miscellaneous taxes like those on gas. And lower income households are hurt the most by the invisible tax of inflation. Perhaps Evan Esar had it right when he said:

"Some taxpayers close their eyes, some stop their ears, some shut their mouths, but all pay through the nose."

We hope you find this information helpful. Naturally, this note and any attachments are designed only to provide a high-level overview and spark some planning considerations - Nothing contained herein should be viewed as tax or personalized advice. Neither 46 Peaks nor any of its associated persons are CPAs or provide tax advice; taxpayers should, of course, consult with their qualified tax professional to assess their specific situation. Yet, if you wish to discuss any of these matters, we would be glad to help.