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Planning for Taxes 2024: Inflation Edition

The inflation rate has come down from the forty-year highs we experienced in 2022, but it is still elevated. While it's hard to find a silver lining to such high growth rates, with taxes, there are some positive impacts of higher inflation.

The IRS sets annual changes to tax brackets, tax deductions, IRA/401(k) contribution limits and other amounts by tying them to inflation. This means that the impact of higher inflation could mean the opportunity to increase savings for retirement, reduce your tax burden, and earn more without moving into a higher tax bracket. And while inflation will likely continue to decrease, the tax bracket and standard deduction changes and contribution limits are likely to be permanent.

Higher Tax Brackets Can Help You Plan a Multi-Year Strategy

Tax brackets are pegged to inflation to ensure that they reflect real income. Increasing the income range in each tax bracket means more income may be taxed at lower tax rates.

Planning to keep more of your income in the lowest possible brackets can save you considerably on taxes. It requires a multi-year plan to take into account all sources of income and a strategy to take large amounts of taxable income in years in which all income may be lower.

Thinking through sources of income, the tax impacts of larger asset sales, capital gains taxes on investments, and other taxable events (such as ROTH conversion) can help you devise a multi-year plan. The goal isn't just to lower taxes in any one year, but instead to lower the amount you pay over the course of your life, whether you are working or retired.

2024 Tax Brackets

Tax Bracket		Single Filers Income	Married Couples Filing Jointly Income
10%	Up to	$11,600	$23,200
12%	Over	$11,600	$23,200
22%	Over	$47,150	$94,300
24%	Over	$100,525	$201,050
32%	Over	$191,950	$383,900
35%	Over	$243,725	$487,450
37%	Over	$609,350	$731,200

The Standard Deduction Increase is Meaningful

The federal standard deduction has increased to $14,600 this year, from $13,850 in 2023, for single files. For married couples filing jointly, the new deduction amount is $29,200. If your mortgage interest, charitable contributions, and the allowable amount of state and local taxes is more than the new standard deduction, it may make sense to itemize. But it's worth doing the calculation to find out.

One simple and effective option is to combine or bunch charitable gifts that are intended for several years into a single tax year. This strategy can be effective when all your itemized deductions, including the bunched gifts, are more than the standard deduction.

Retirement and Healthcare Savings Contributions

Retirement savings contributions increased as well. The new maximum contribution limit is $23,000. If you are age 50 or over, you can take advantage of the "catch-up" contribution of $7,500, for a total of $30,500. The new limits don't just mean increased savings; they also lower your taxable income. The same limits apply to 403(b) plans, many 457 plans, also the Thrift Savings Plan for federal government employees.

IRA contribution limits have also increased, to $7,000. The catch-up contribution for an IRA for those age 50+ is an additional $1,000.

Flexible health spending accounts can now accept contributions of up $3,200 of pre-tax dollars to this type of account to pay for medical costs that aren't covered by insurance.

Health Savings Accounts (HSAs) have new maximum contributions, too. An individual can contribute up to $4,150, and the family contribution has risen to $8,300. The catch-up amount for age 50+ remains the same at $1,000. These accounts are referred to as "triple-tax-advantaged" because you contribute pre-tax dollars that lower your taxable income in the year you contribute, the accounts grow tax-free, and qualified withdrawals are also not taxed.

Social Security Benefits and the Earnings Test Went Up – But So Did Taxes

Social security benefits increased by 3.2%, a more normal increase than the big numbers we've seen for the last two years. The maximum monthly benefit for claiming at your full retirement age (FRA) will be $3,822 in 2024. If you're working while collecting social security, your earnings are subject to an earnings test limit, above which annual benefits are reduced by $1 for every $2 in income over the limit. That limit this year is $22,320.

If you're still paying into the system, you may be paying a bit more next year. Social security taxes are 6.2% of income, up to a maximum earnings ceiling. The limit increased to $168,600 in 2023.

The Bottom Line

Proactive, multi-year tax planning strategies should be part of every financial plan, and sometimes those plans can be helped along by the silver lining of inflation.

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advice. Please consult a legal, tax or financial professional for information specific to your individual situation.