



# Tax & Strategy Guide **2024**

# Welcome

Thank you for downloading our 2024 Tax & Strategy Guide. In this resource, we aim to provide you with a broad overview of the current income and estate tax landscape and give you tools needed to think about your tax strategy for the 2024 tax season and beyond.

Taxes can be a significant obstacle to building wealth, but your financial plan should identify and strategically reduce your potential tax exposure. Less taxes means more wealth to enjoy life, provide for loved ones, and impact causes you care about – your goals.

If you have any questions, please reach out to our team for assistance. We stand ready to help you create the wealth plan that enables your legacy to achieve the impact you intend.

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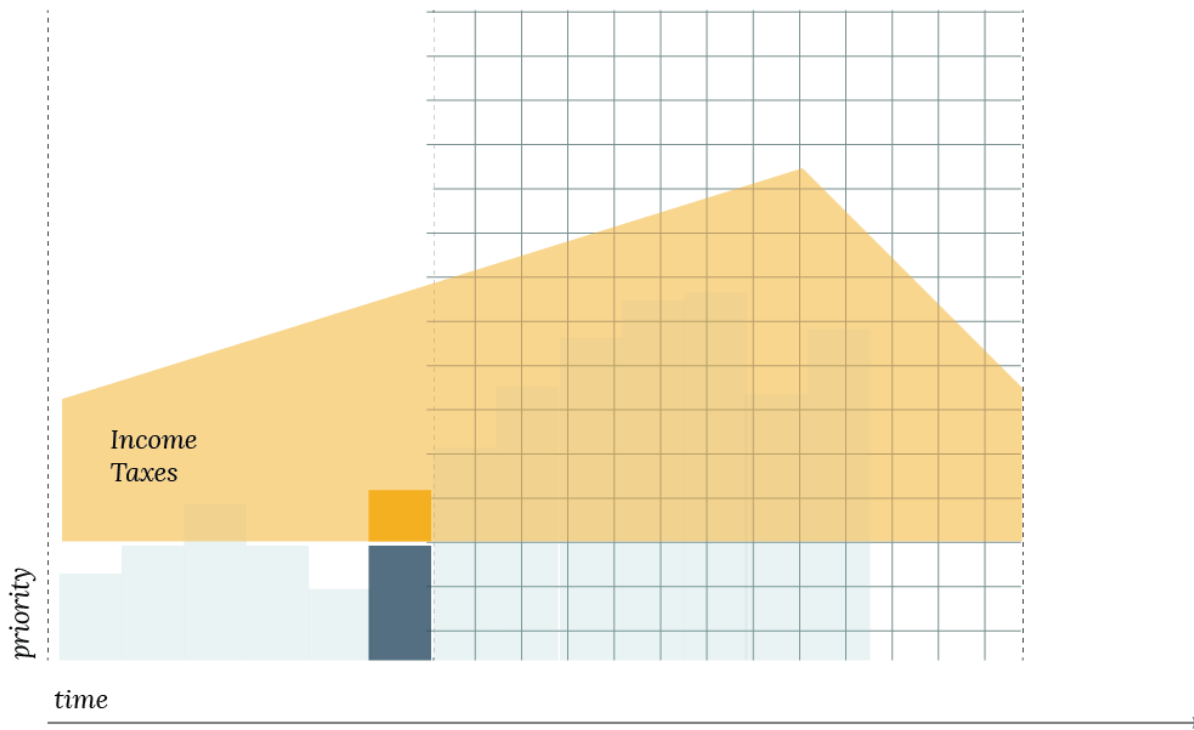
Thank you!

The Alterra Team

# Table of Contents

<b>Income Taxes</b>	<b>4</b>
Income Taxes Rates	
Payroll Tax Rates	
Capital Gains Tax Rates	
<b>Deductions and Credits</b>	<b>8</b>
Deductions	
Credits	
<b>Retirement Plan Strategies</b>	<b>11</b>
Retirement Plan Limits	
Health Savings Account Limits	
Income Tax Strategy	
<b>Estate Taxes</b>	<b>16</b>
Federal Tax Brackets	
Estate Tax Brackets	
<b>Estate Tax Strategies</b>	<b>19</b>
Pass More to Family	
Pass More to Charity	





## Chapter 1

# Income Taxes

Understanding the basics of income taxes is essential to developing a comprehensive financial plan. It helps identify the size of the problem you're trying to solve.

Income taxes come in a variety of forms—taxes on income, payroll or wages, capital gain, and investments. This chapter will provide an overview of your 2024 tax rates to help estimate your income tax exposure.

# Income Tax Rates

These are your 2024 income tax rates. Income tax rates are progressive, so the rate you pay increases as your income increases.

Example: If single, your first \$11,600 earned is taxed at 10%, income from \$11,600–\$47,150 is taxed at 12%, and so on.

## Single

\$0–\$11,600	10%
\$11,600–\$47,150	12%
\$47,150–\$100,525	22%
\$100,525–\$191,950	24%
\$191,950–\$243,725	32%
\$243,725–\$609,350	35%
\$609,350 and Over	37%

## Married, Filing Jointly

\$0–\$23,200	10%
\$23,200–\$94,300	12%
\$94,300–\$201,050	22%
\$201,050–\$383,900	24%
\$383,900–\$487,450	32%
\$487,450–\$731,200	35%
\$731,200 and Over	37%

## Estates & Trusts

\$0–\$3,100	10%
\$3,100–\$11,150	24%
\$11,150–\$15,200	35%
\$15,200 and Over	37%

# Payroll Tax Rates

These are your 2024 payroll tax rates. Payroll tax is charged on employee wages and self-employed income. It consists of:

- Social Security tax, charged on income up to an annually specified wage threshold.
- Medicare tax, charged on all wage income.
- Employers and employees each pay half of the payroll tax. Self-employed individuals pay both employer and employee portions.

## Payroll Tax Rates and Limits

	Employee Pays	Employer Pays
Social Security Tax (aka OASDI)	6.2% (only the first \$168,600)	6.2% (only the first \$168,600)
Medicare Tax	1.45%	1.45%
<b>Total</b>	<b>7.65%</b>	<b>7.65%</b>
<i>Additional Medicare Tax</i>	<i>0.9% (on earnings over \$200,000 for single filers; \$250,000 for joint filers)</i>	





# Capital Gain Tax Rates

Capital gain taxes are paid when you sell an asset for a gain. The rate you pay depends on how long you owned the investment before selling.

- **Short-term**—if held less than 12 months, your rate equals your highest income tax rate.
- **Long-term**—if held 12 months or more, your rate depends on your total income, as outlined below.

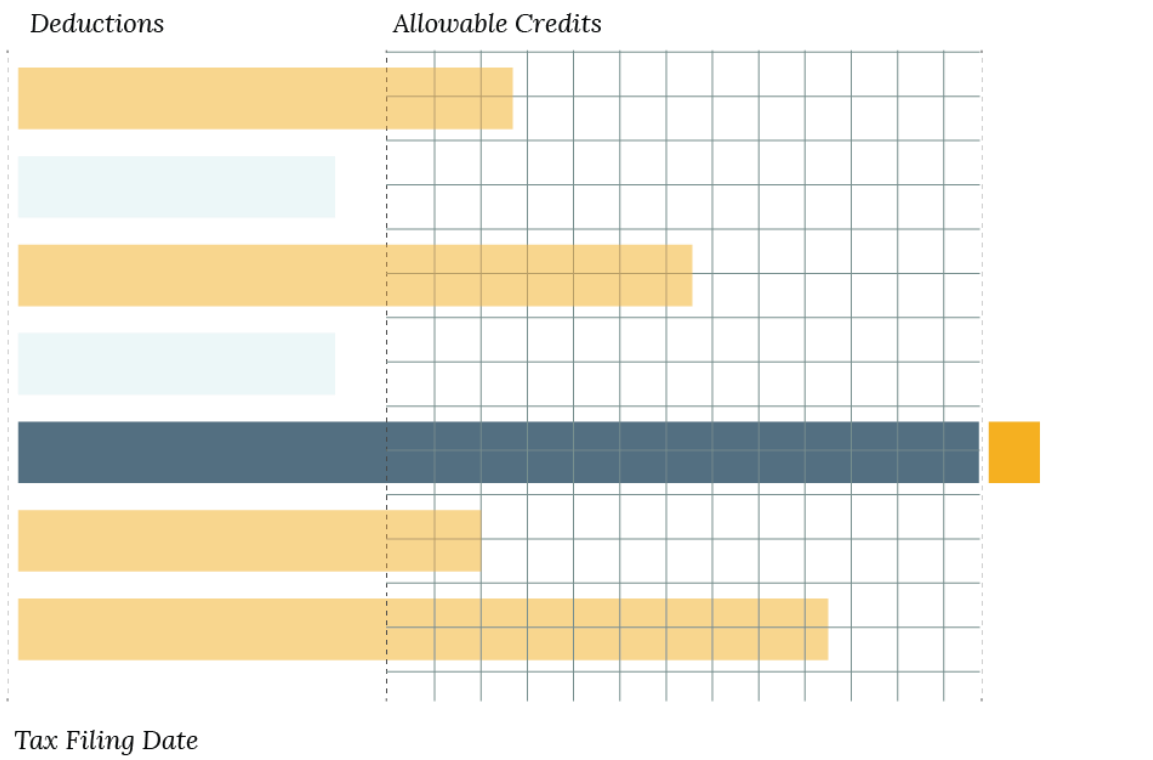
## Long-term Capital Gains Tax Rates

Filing Status	0% Rate	15% Rate	20% Rate
Single	Up to \$47,025	\$47,025–\$518,900	Over \$518,900
Married Filing Jointly	Up to \$94,050	\$94,050–\$583,750	Over \$583,750

Net investment income tax is an additional tax charged on capital gains, interest, and dividends if your total income exceeds an annually specified threshold.

## Net Investment Income Tax

Additional Tax on Investment Income	3.8%
Married Filing Jointly	\$250,000
Single / Head of Household	\$200,000



## Chapter 2

# Deductions and Credits

Identifying the deductions and credits available to you is often the first step to reduce your income tax burden. Your tax professional is always your final authority here, but this chapter will cover common deductions and credits, who they apply to, and how they can help reduce your taxes and leave more for your wealth building strategies.





# Deductions

Deductions are expenses that lower your tax bill by reducing your taxable income. Each taxpayer can choose to itemize deductions, deducting the total of all allowable expenses from total income, or take a standard deduction if deductible expenses are low. Here is your 2024 standard deduction and a few common deductible expenses.

## Standard Deductions

Filing Status	2023	2024
Single	\$13,850	\$14,600
Married Filing Jointly	\$27,700	\$29,200

## Itemized Deductions

Common itemized deductions include:

- Healthcare costs like medical bills and prescription drugs
- Property taxes
- Mortgage interest
- Home office and other job-related expenses
- Charitable contributions



# Credits

Income tax credits are subtracted dollar for dollar from the income taxes you owe.

## Child Credits

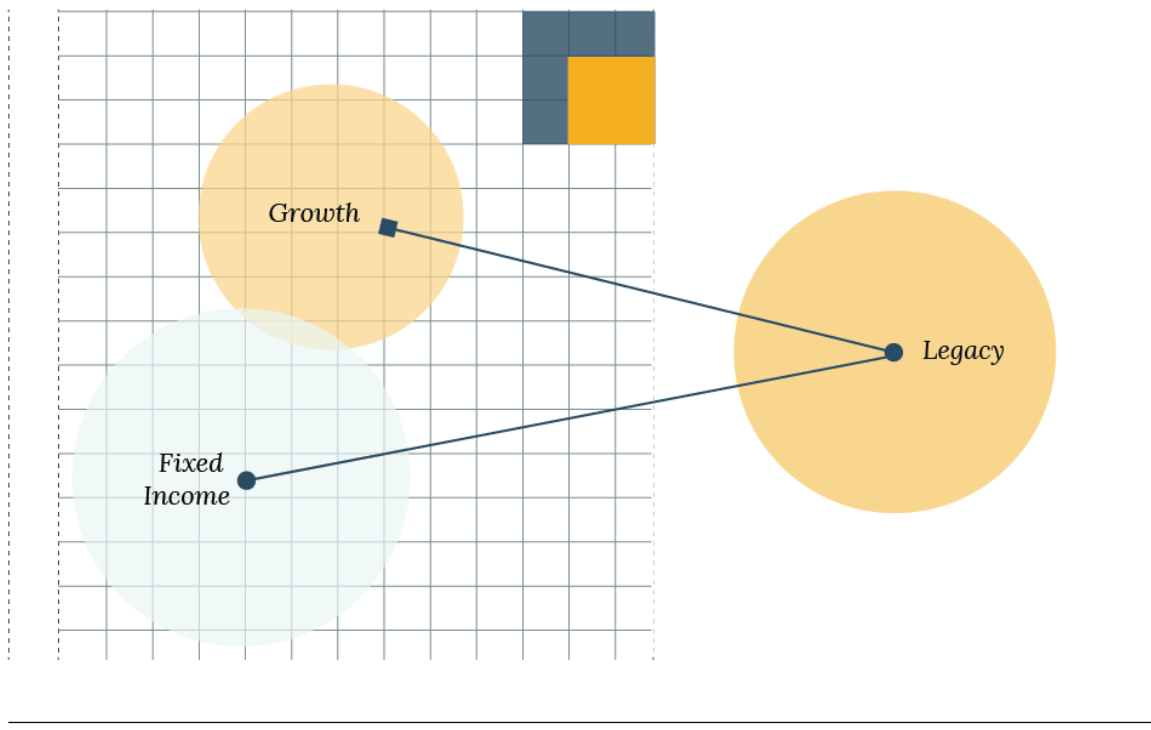
Type of Credit	Amount	Qualification
Child Tax Credit	\$2,000 per qualifying child under age 17	Full credit for income under \$400,000 if married, \$200,000 if single.
Earned Income Credit	\$7,830 max	Depending on filing status and number of children
Adoption Credit	\$16,810	Phases out for AGI between \$252,150–\$292,150

## College Education Credits

Type of Credit	Amount	Qualification
American Opportunity Credit	\$2,500 per student	May not qualify if AGI exceeds \$80,000 if single, \$160,000 if married filing jointly. Student must be enrolled at least half time.
Lifetime Learning Credit	\$2,000 per return	May not qualify if AGI exceeds \$80,000 if single, \$160,000 if married filing jointly

*You can claim both American Opportunity and Lifetime Learning credits on the same return, but not for the same student.*





## Chapter 3

# Retirement Plan Strategies

Retirement plan contributions can reduce your income taxes and accelerate progress toward your long-term goals. Common plans like 401(k)s and IRAs have annual contributions limits, which you'll need to plan your individual savings and, if you own a business, select the right plan for your company.

Here are your 2024 retirement plan contributions limits and three strategies to consider in your tax reduction plan.

# Retirement Plans

Contributing to employer-sponsored retirement plans can reduce your income taxes and accelerate your progress toward your long-term goals. These are your 2024 limits on the most common retirement plans.

## Qualified Retirement Plan Limits

	2023	2024
401(k), 403(b) & 457 Plan Employee Deferrals	\$22,500	\$23,000
401(k), 403(b) & 457 Plan Catch-up Contribution (Age 50+)	\$7,500	\$7,500
Defined Contribution Plan Maximum Total Contribution	\$66,000	\$69,000
SIMPLE IRA Employee Deferrals	\$15,500	\$16,000
SIMPLE IRA Catch-up Contribution (Age 50+)	\$3,500	\$3,500
SEP IRA Maximum Contribution	\$66,000	\$69,000
Defined Benefit Plan Maximum Benefit	\$265,000	\$275,000
Maximum Covered Compensation	\$330,000	\$345,000
Highly Compensated Employee Threshold	\$150,000	\$155,000



## Retirement Plans (cont'd)

In addition to your plan through your business or employer, individual retirement accounts (IRA) can be added to your savings strategy. These are your 2024 IRA contribution and deductibility limits:

### Traditional & Roth IRA Limits

	2023	2024
Contribution	\$6,500	\$7,000
Catch-Up (Age 50+)	\$1,000	\$1,000
Deductible IRA Income limit, single and also active participant in workplace retirement plan	\$73,000– \$83,000	\$77,000– \$87,000
Deductible IRA Income limit, married filing jointly and also active participant in workplace retirement plan	\$116,000– \$136,000	\$123,000– \$143,000
Deductible IRA Income limit, married filing jointly with a spouse that is an active participant in workplace retirement plan	\$218,000– \$228,000	\$230,000– \$240,000
Roth IRA Income limit, single	\$138,000– \$153,000	\$146,000– \$161,000
Roth IRA income limit, married filing jointly	\$218,000– \$228,000	\$230,000– \$240,000

Health Savings Accounts (HSA) allow you to save for healthcare costs on a pre-tax basis if you have a high deductible health plan (HDHP). When used for qualified medical expenses, withdrawals are also tax-free. Here are your 2024 HSA limits.

### Health Savings Account (HSA) Limits

Family	\$8,300
Individual	\$4,150
HSA Catch-Up (Age 55+)	\$1,000
Minimum individual / Family HDHP deductible	\$1,600 / \$3,200

# Income Tax Strategy

Now that you're aware of the tax burden coming your way, what can you do to reduce that bill? Here are 3 ideas.



## Tax Deductible Retirement Plans

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Start a tax-deductible retirement plan. A common first step for a growing small business is a Safe Harbor 401(k) profit-sharing plan.

- **Tax-deductible contributions.** All eligible participants—including you—can save up to \$23,000 (\$30,500 if age 50+) and deduct from that year's taxable income. You can also elect to save into an after-tax Roth, though these contributions would not be tax-deductible.
- **Company Match.** Your company matches employee contributions up to 4% of salary or gives 3% of salary to all eligible participants whether or not they save for themselves. These are tax-deductible for your company, further reducing tax.
- **Profit-sharing.** This is an optional added contribution you can, but aren't required to, make from company profits to all eligible participants. Profit-sharing is also a tax-deductible expense for the company.



## Cash Balance Plans

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Add a Cash Balance Plan. If you're maxed on your 401(k) contributions, add a cash balance plan for added tax and retirement savings.

- **Higher tax-deductible contributions.** Unlike a 401(k), which defines how much can go into the plan, a cash balance plan defines how much must come out of the plan. For example, your plan might target a \$5,000 monthly benefit at age 65 for all participants and would contribute the amount needed to meet that need. If you're a 60-year-old owner, this contribution will be substantially higher than your 40-year-old employee.
- **Required contributions.** Unlike optional profit-sharing, cash balance contributions are mandatory once you start the plan. While there's no formal standard for how long you must keep the plan, 3–5 years is a generally accepted time frame, so plan accordingly.



## Income Tax Strategy (cont'd)



### Executive Benefits

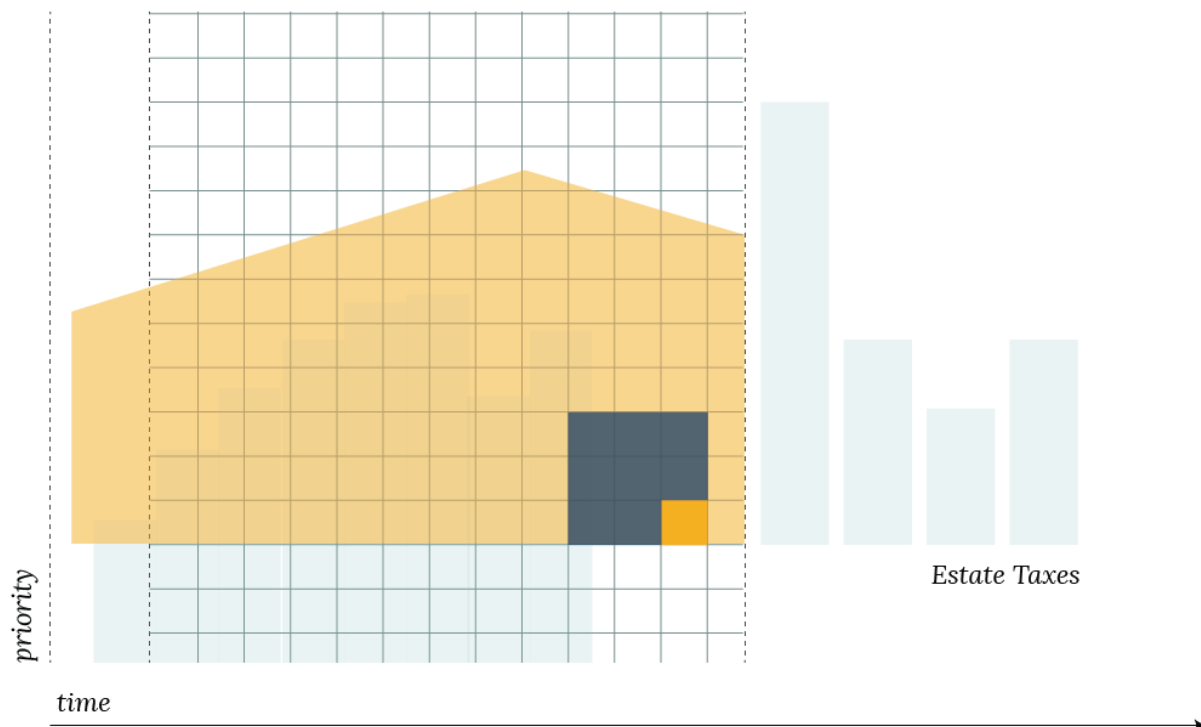
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Consider added executive benefits like a Restricted Property Trust. This plan is limited to owners and key executives of a company and can provide partially tax-deductible, long-term savings.

- **Tax-deductible contributions from the company.** Contributions to this company-funded plan on behalf of owners and executives are fully deductible for the business, but partially taxable to each participant.
- **Required contributions.** Like a cash balance plan, minimum contributions are mandatory. Annual contributions must be at least \$50,000 and continue for no less than 5 years. If required contributions are not made, the balance of the plan is forfeited to a chosen charity—great for the charity but not ideal for you.







## Chapter 4

# Estate Taxes

Understanding and planning for estate taxes is vital when creating a plan to pass wealth to your loved ones and causes you care about. This plan starts with understanding your potential tax exposure.

This chapter provides your 2024 federal and Washington State estate tax rates, and how to tell if your estate is at risk of loss to these taxes.



# Federal Estate Tax Brackets

Federal estate tax is levied on the value of your assets above an annual set limit, or exemption. Assets transferred to your spouse are exempt from the estate tax. Your rate depends on how much taxable estate you're left with after exemption. These are your 2024 federal estate tax rates:

## Federal Estate & Gift Tax Rates

Taxable Amount	Tax Rate	What You Pay
\$0–\$10,000	18%	\$0 base tax + 18% on taxable amount
\$10,000–\$20,000	20%	\$1,800 base tax + 20% on taxable amount
\$20,000–\$40,000	22%	\$3,800 base tax + 22% on taxable amount
\$40,000–\$60,000	24%	\$8,200 base tax + 24% on taxable amount
\$60,000–\$80,000	26%	\$13,000 base tax + 26% on taxable amount
\$80,000–\$100,000	28%	\$18,200 base tax + 28% on taxable amount
\$100,000–\$150,000	30%	\$23,800 base tax + 30% on taxable amount
\$150,000–\$250,000	32%	\$38,800 base tax + 32% on taxable amount
\$250,000–\$500,000	34%	\$70,800 base tax + 34% on taxable amount
\$500,000–\$750,000	37%	\$155,800 base tax + 37% on taxable amount
\$750,000–\$1 million	39%	\$248,300 base tax + 39% on taxable amount
\$1 million +	40%	\$345,800 base tax + 40% on taxable amount

*Federal Applicable Exclusion Amount: \$13.61 million per spouse*

### For example:

A married couple has a \$52 million estate. When the first spouse dies, all assets pass tax free to the surviving spouse. When the second spouse dies, the federal estate tax is calculated this way:

- \$52 million total estate.
- \$27.22 million passes tax-free (\$13.61 million per spouse)—if the first spouse doesn't use the exemption at death, the surviving spouse can use both exemptions, called "portability."
- Remaining \$24.78 million is taxed up to 40% resulting in an **estate tax due of more than \$10.1 million.**

# WA State Estate Tax Brackets

In addition to federal estate taxes, many states, including Washington State, have their own estate tax levied on assets above an annual exemption. Like the federal tax, assets transferred to your spouse are exempt and your rate depends on the value of your taxable estate after exemptions. These are your 2024 Washington State estate tax rates:

## Washington State Estate Tax Rates

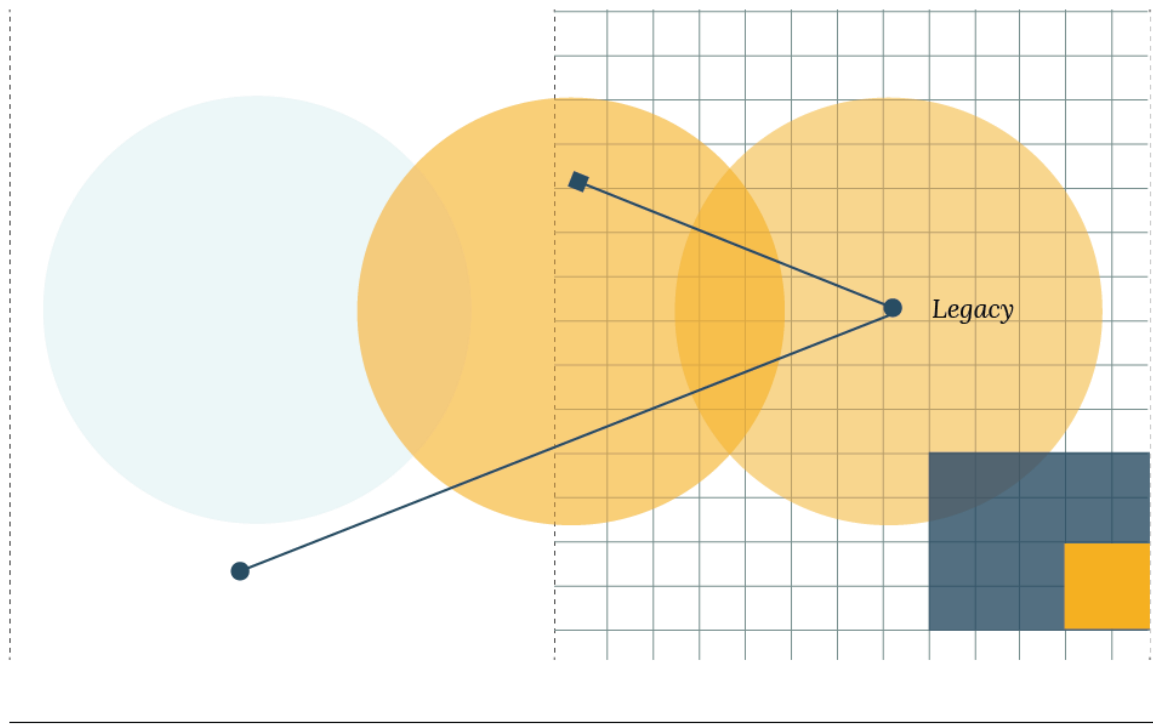
Taxable Amount	Tax Rate	What You Pay
\$0–\$1,000,000	10%	\$0 base tax + 10% on taxable amount
\$1,000,000–\$2,000,000	14%	\$100,000 base tax + 14% on taxable amount
\$2,000,000–\$3,000,000	15%	\$240,000 base tax + 15% on taxable amount
\$3,000,000–\$4,000,000	16%	\$390,000 base tax + 16% on taxable amount
\$4,000,000–\$6,000,000	18%	\$550,000 base tax + 18% on taxable amount
\$6,000,000–\$7,000,000	19%	\$910,000 base tax + 19% on taxable amount
\$7,000,000–\$9,000,000	19.5%	\$1.1 million base tax + 19.5% on taxable amount
\$9,000,000 +	20%	\$1.49 million base tax + 20% on taxable amount

*WA State Applicable Exclusion Amount: \$2.193 million*

### For example:

The same married couple with a \$52 million estate lives in WA. When the first spouse dies, all assets pass tax free to the surviving spouse. When the second spouse dies, the state estate tax is calculated this way:

- \$50 million total estate
- \$2.193 million passes tax-free – unlike the federal tax, WA State exemptions are not portable, so if the first spouse doesn't use the exemption at death, the surviving spouse can use only one exemption.
- State estate tax paid reduces your estate value for federal estate taxes.
- Remaining \$49.807 million is taxed progressively from 10–20% resulting in an **estate tax due of more than \$9.65 million.**



## Chapter 5

# Estate Tax Strategies

You now know how much of your hard-earned legacy is at risk of being lost to estate taxes. What can you do to reduce taxes and pass along more? There are a wide range of strategies to consider, but choosing the right one starts with your goal—do you want to leave your remaining wealth to family or charity? Here are three ideas to pass more to family and three ideas to give more to causes you care about.

# Pass More to Family

If you want to reduce estate taxes and pass more to family, friends, and loved ones, these ideas can help!



## Preserve Your Exemption

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A Credit Shelter Trust is created by your will to receive assets when the first spouse dies. In states like Washington State with an estate tax, this is used to preserve the \$2.193 million exemption that would otherwise be lost by passing everything directly to a surviving spouse.



## Give it Away Along the Way

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Rather than hanging on to assets you plan to pass on at death, give them while you're alive. You eliminate estate taxes that would otherwise be levied on gain accrued during the rest of your life. And, in WA State, there is no gift limit, so you can substantially reduce your state estate tax. You also gain the added benefit of seeing your family enjoy your gift!



## Reduce Taxes Without Giving Up Access

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Trust strategies like Intentionally Defective Irrevocable Trusts (IDIT) and Grantor Retained Annuity Trusts (GRAT) can move assets out of your estate and pay you income during your life. This can eliminate taxes on future growth without giving up income you might need to meet your other lifetime goals.



# Pass More to Charity

If your focus has shifted to reducing taxes and making big impact for charities you care about, here are 4 ideas to consider.



## Donor Advised Fund (DAF)

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Reduce taxes now and give flexibly over time with a Donor Advised Fund (DAF). A DAF is a flexible giving account you can set up and fund with a wide range of assets including stocks, real estate, even ownership in a small business. You get an income tax deduction today, can sell the asset with no capital gain tax due, and give from the account to any qualified charity now or in the future. Because this is an irrevocable gift, the assets are no longer included in your taxable estate even though you retain control over the investment in the account and timing of gifts.



## Charitable Lead Trust (CLT)

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Impact both family and charity with a Charitable Lead Trust (CLT). Often thought of as the inverse of a Charitable Remainder Trust, you can use a Charitable Lead Trust to transfer an asset out of your estate, give income to charity for a term of years, then pass remaining assets to your chosen family or other beneficiaries.



## Pass More to Charity (cont'd)



### Charitable Remainder Trust (CRT)

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Reduce taxes, receive income today, and give to charity tomorrow with a Charitable Remainder Trust (CRT). Charitable Remainder Trusts can be a great way to meet current income and tax needs today while making an impact on causes you care about tomorrow. You'll receive an income tax deduction for your gift today, receive income from the trust for term of years while you're alive, then pass the remainder to charity at your death. In addition to the income tax savings, assets gifted to the trust pass to charity estate and income tax-free outside your estate, including the gains earned while you're alive.



### Wealth Replacement Trust (WRT)

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Don't need income today? Use your Charitable Remainder Trust income to fund a Wealth Replacement Trust (WRT) for future generations of your family. A Wealth Replacement Trust is an irrevocable trust set up for the benefit of family members and funded with gifts throughout your lifetime. Often, annual contributions will be used to purchase life insurance inside the trust, which turns your stream of payments into an income and estate tax-free gift to those you love at your death.





# Conclusion

We hope that you have found the information in this tax strategy guide helpful.

Our clients live full lives. They value time spent with family, laughter shared with friends, and relationships forged over a lifetime of being active in their communities. For them, wealth is a way to enjoy today and give more tomorrow. It's about building a legacy that will continue their life's work, provide for their loved ones, and support the causes they care about—for generations to come.

Planning for income and estate taxes is essential to helping our clients protect their wealth and achieve this vision.

Please reach out to us when you are ready to continue the tax planning conversation and find out how our team can support you to reach your goals.

A handwritten signature in blue ink, appearing to read "JW", written in a cursive style.

**Josh Whelan**

**CFP, CLU, ChFC | Financial Advisor, Partner**

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