

Abstract: It's almost holiday season, so taxes probably aren't top of mind for taxpayers. But along with the festivities, it's also a good time to consider tax strategies that may reduce this year's tax bill — and possibly future years' tax bills as well. Here are three tax planning moves that might trim the fat off a 2024 tax bill.

Year-end tax planning moves for individuals

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1. Donate stocks to charities

If you itemize deductions and want to donate to IRS-approved public charities, you can combine your generosity with an overall revamping of your taxable investment portfolio. Here are some tax-smart principles to follow:

Sell underperforming stocks. Stocks worth less than they cost can be sold at a tax-saving capital loss. The sales proceeds can then be donated to charity, which doubles your tax benefit when you claim a tax-saving charitable write-off.

Donate appreciated stocks. Stocks held for over a year can be donated to charity, allowing you to claim a deduction for their market value while avoiding capital gains tax, which is another double benefit. Stocks held for less than a year can also be donated, but the deduction is limited to cost basis.

2. Prepay higher education bills

If paid for you, your spouse or a dependent, higher education expenses may qualify you for one of the following credits:

The American Opportunity credit. This credit is equal to 100% of the first \$2,000 of qualified postsecondary education expenses, plus 25% of the next \$2,000. The maximum annual credit is \$2,500 per qualified student.

The Lifetime Learning credit. This credit is equal to 20% of up to \$10,000 of qualified education expenses. The maximum credit is \$2,000 per family.

For 2024, both credits are fully phased out if your modified adjusted gross income (MAGI) is between:

- \$80,000 and \$90,000 for unmarried people, or
- \$160,000 and \$180,000 for married couples filing jointly.

Various other restrictions also apply. If eligible for either credit, consider prepaying college tuition for academic periods from January through March 2025. By reducing your MAGI for 2024 you could also maximize your 2024 education credit.

3. Consider an IRA conversion

If you anticipate being in a higher tax bracket during retirement than you are now, consider a Roth conversion. The downside is that this will generate a current tax cost, because a conversion is considered a taxable liquidation, followed by a nondeductible contribution to a Roth account. However, it can serve as a hedge against future tax increases. Delaying the conversion might lead to higher tax later.

Post-Roth conversion, all income and gains in the account, along with qualified withdrawals, are federal-income-tax-free. Qualified withdrawals occur after:

- The Roth account has been open for over five years, and
- You've reached age 59½, become disabled, or passed away.

This strategy makes it possible to avoid potentially higher future tax rates, because the tax has already been paid.

For more ideas

Federal tax law may be uncertain for the next couple of years because it's an election year — and many of the Tax Cuts and Jobs Act provisions expire at the end of 2025. Consult your tax advisor to discuss these and other tax planning moves that may work for you.