

# It's Your Money

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## Overview and Tax Changes

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# Today's topics

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- Regulation of investment industry
- The financial planning process
- Taxes: what's new for 2024



# Financial planners & advisors

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- Overview

- Independent vs. associated with a brokerage firm (or “broker-dealer”)

- Registered representatives

- Compensation method

- Commission
    - Fee plus commission
    - Fee-offset
    - Fee-based
    - Fee-only

# Financial planners & advisors

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- Credentials
  - Registered investment advisors (RIAs)
    - Or “Investment Advisor Representatives” of an RIA firm
  - Certified financial planner (CFP)
  - Chartered Financial Consultant (ChFC)
  - Chartered Financial Analyst (CFA)
- Experience
- Rapport/trust

# Regulators

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- Financial Industry Regulatory Authority (FINRA)
  - Self-regulatory organization for all U.S. securities firms
  - Any individual who sells securities must register with FINRA under the sponsorship of a broker-dealer.
- Securities & Exchange Commission (SEC)
  - Regulates securities industry and RIAs with more than \$100 million in assets under management
- California Department of Financial Protection and Innovation (DFPI)
  - Regulates securities markets and RIAs with less than \$100 million AUM.

# Ask First! form

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- Education
- Credentials/licenses
- What services do they provide
- ARE THEY A FIDUCIARY???
- Will they put your interests first?
- How do they get paid?



# The financial planning process

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- Understand the Client's personal and financial circumstances
- Identify and select goals (and prioritize them)
- Analyze current course of action and potential alternatives
- Develop the financial planning recommendations
- Present the financial plan
- Implement the planning recommendations
- Monitor and update/adjust the plan



# Net Worth Statement

John & Marie Sample

March 31, 2022

## ASSETS

### Savings And Investments

Checking Accounts	\$2,500	
Bank & Credit Union Savings	35,000	
Certificate of Deposit	30,000	
		<hr/>
		\$67,500

### Retirement Accounts

Qualified Plans-John	\$100,000	
Qualified Plans-Marie	200,000	
		<hr/>
		\$300,000

### Other Assets

Residence	\$925,000	
Autos	15,000	
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		\$940,000

<b>TOTAL ASSETS</b>	<b>\$1,307,500</b>
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## LIABILITIES

Residence Mortgage	\$138,000	
Credit Card Debt	3,000	
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		\$141,000

<b>TOTAL LIABILITIES</b>	<b>\$141,000</b>
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<b>Net Worth (Assets less Liabilities)</b>	<b>\$1,166,500</b>
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# Tax planning

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Financial strategies are based on your tax profile

- Deductions

- Standard deduction or itemize?

- What's your tax bracket?

- Taxable income

# Tax formula

<b>Income Broadly Defined</b>	<b>\$XX,XXX</b>
Less: Exclusions	(X,XXX)
<b>Gross Income</b>	<b>\$XX,XXX</b>
Less: Deductions for Adjusted Gross Income <i>(Above-the-line deductions)</i>	(X,XXX)
<b>Adjusted Gross Income</b>	<b>\$XX,XXX</b>
Less: Deductions from Adjusted Gross Income: Greater of Standard or Itemized Deductions <i>(below-the-line deductions)</i>	<u>(XX,XXX)</u>
<b>Taxable Income</b>	<b>\$XX,XXX</b>
Tax on taxable Income	\$X,XXX
Less: Credit for Taxes Withheld	(X,XXX)
Less: Credit for Estimated Tax Payments	(X,XXX)
Less: Other Tax Credits	<u>(X,XXX)</u>
<b>Tax Due or (Refund Due)</b>	<b><u>\$XXX</u></b>

# 2023-2024 Standard Deductions

Standard Deductions	2023	2024
Married Filing Jointly & Surviving Spouses	\$27,700	\$29,200
Head of Household	\$20,800	\$21,900
Single or Married Filing Separately	\$13,850	\$14,600
<b>Additional Deduction for Blind or aged (over age 65)</b>		
Single or Head of Household	\$1,750	\$1,950
Married Filing Jointly or Separately	\$1,400	\$1,550

Source: IRS Rev. Proc. 2023-34

# 2024 (ordinary income) tax rates

## Federal Income Taxes

Taxable Income Over	Taxable Income Not Over	Tax +	% on excess	of the amount over
<b>Single Filers</b>				
\$0	\$11,600	\$0	10%	\$0
\$11,600	\$47,150	\$1,160	12%	\$11,600
\$47,150	\$100,525	\$5,426	22%	\$47,150
\$100,525	\$191,950	\$17,168.50	24%	\$100,525
\$191,950	\$243,725	\$39,110.50	32%	\$191,950
\$243,725	\$609,350	\$55,678.50	35%	\$243,725
\$609,350	∞	\$183,647.25	37%	\$609,350
<b>Married Filing Jointly and Surviving Spouses</b>				
\$0	\$23,200	\$0	10%	\$0
\$23,200	\$94,300	\$2,320	12%	\$23,200
\$94,300	\$201,050	\$10,852	22%	\$94,300
\$201,050	\$383,900	\$34,337	24%	\$201,050
\$383,900	\$487,450	\$78,221	32%	\$383,900
\$487,450	\$731,200	\$111,357	35%	\$487,450
\$731,200	∞	\$196,669.50	37%	\$731,200

# 2024 (ordinary income) tax rates

<b>Married Filing Separately</b>				
\$0	\$11,600	\$0	10%	\$0
\$11,600	\$47,150	\$1,160	12%	\$11,600
\$47,150	\$100,525	\$5,426	22%	\$47,150
\$100,525	\$191,950	\$17,168.50	24%	\$100,525
\$191,950	\$243,725	\$39,110.50	32%	\$191,950
\$243,725	\$365,600	\$55,678.50	35%	\$243,725
\$365,600	∞	\$98,334.75	37%	\$365,600
<b>Head of Household</b>				
\$0	\$16,550	\$0	10%	\$0
\$16,550	\$63,100	\$1,655	12%	\$16,550
\$63,100	\$100,500	\$7,241	22%	\$63,100
\$100,500	\$191,950	\$15,469	24%	\$100,500
\$191,950	\$243,700	\$37,417	32%	\$191,950
\$243,700	\$609,350	\$53,977	35%	\$243,700
\$609,350	∞	\$181,954.50	37%	\$609,350

# More favorable tax rates

## Capital Gains/Qualified Dividends

Taxable Income Over	But Not Over	Tax Rate
<b>Single Filers</b>		
\$0	\$47,025	0%
\$47,025	\$518,900	15%
\$518,900	∞	20%
<b>Married Filing Jointly &amp; Surviving Spouses</b>		
\$0	\$94,050	0%
\$94,050	\$583,750	15%
\$583,750	∞	20%
<b>Married Filing Separately</b>		
\$0	\$47,025	0%
\$47,025	\$291,850	15%
\$291,850	∞	20%
<b>Head of Household</b>		
\$0	\$63,000	0%
\$63,000	\$551,350	15%
\$551,350	∞	20%
<b>Trusts &amp; Estates</b>		
\$0	\$3,150	0%
\$3,150	\$15,450	15%
\$15,450	∞	20%

Source: IRS Rev. Proc. 2023-34

# 2023-2024 Estate and gift tax rates

## Gift and Estate Tax

	2023	2024
Annual Gift exclusion	\$17,000	\$18,000
Unified credit amount	\$12,920,000	\$13,610,000
Gift to noncitizen spouse	\$175,000	\$185,000
Highest estate tax bracket	40%	40%

Source: IRS Rev. Proc. 2023-34



# Investment planning – income tax consequences

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- Always look at *total return*
- Not everyone should own muni bonds
- Beware of mutual fund distributions
- Investment location
- Beware of annuities: they may be the most tax *inefficient* investment

# Key changes due to SECURE ACT 2.0

The following table summarizes the ages at which RMDs are generally required to begin under SECURE Act 2.0:

Birth Year	Age at Which RMDs Begin
1950 or earlier	72 (70½ for those who turned 70½ prior to 2020)
1951 - 1959	73
1960 or later	75

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# 529 plans open 15 years+ may be rolled over to Roth IRAs for the account beneficiary

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- Lifetime limit of \$35,000
- Annual amount limited to that year's contribution limit, less any regular contributions (no "doubling up"). 2024 = \$7,000, or \$8,000 for 50 or older
- Beneficiary must be eligible to contribute to Roth, e.g., have earned income
- Can "prime the retirement pump" for the beneficiary
- Changing 529 plan beneficiary will "restart the clock"
- Waiting for further IRS clarification

# Qualified Charitable Distributions (QCDs)

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- \$105,000 limit to be indexed for inflation (beginning in 2024)
- One-time opportunity use max of \$50,000 QCD to fund a split-interest entity.
  - Charitable Remainder Trust (CRT), Charitable Annuity Trust (CRAT) or Charitable Gift Annuity (CGA)
  - Can't use existing CRT or CRAT
  - Only income beneficiaries allowed are the IRA owner and spouse.
  - Distributions are ordinary income
  - Probably only best for CGA. Probably too costly to form CRT or CRAT.
  - Income required to begin no less than 1 year after funding, fixed rate 5% or greater.

# “Active” and “Passive” Investing

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- Active – ongoing buying and selling of investments
  - May involve higher costs (trading costs, management fees, capital gains)
  - May not perform better than an index of the same category of investments
- Passive – buy and hold, typically using index funds
  - “If you can’t beat the market, buy the market”
  - Usually lower-cost alternative, more tax-efficient

# Retirement planning – taxation of retirement benefits

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- Pre-tax retirement contributions decrease taxable income now
- Earnings grow tax-deferred
- You pay taxes when you receive the benefit
- CA does not tax Social Security
- In taxable accounts, CA muni bonds (usually) tax-free both Federal and CA income tax

# Financial planners

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- Experience
- Rapport/trust



# For more information

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- Financial Planning Association (FPA)
  - [www.fpaocc.org](http://www.fpaocc.org)
- National Association of Personal Financial Advisors (NAPFA). Fee-only planners
  - [www.napfa.org](http://www.napfa.org)
  - 888-Fee-Only or 1-888-333-6659