2024 Year-End Planning Guide

Comerica WEALTH MANAGEMENT

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Hot Topics

Each year brings new laws and rules. 2025 is no different. Here are some of the most critical pieces of information you should pay attention to concerning your finances.

The Corporate Transparency Act places new compliance requirements on millions of U.S. companies, including most small businesses. Filings must be completed by January 1, 2025, with stiff penalties for non-compliance.

The IRS recently clarified distribution provisions of The SECURE Act 2.0. Effective in 2025, distributions will be required by inheritors of IRAs and retirement plans of individuals who died after 1/1/2020 during the 10-year period following death.

Over 20 provisions of the Tax Cuts and Jobs Act are set to expire at the end of 2025. That leaves about one year to consult your advisor and explore ways to mitigate potentially unwanted impacts.

Election season is in full swing, with the White House and both chambers of Congress potentially changing hands. The elections outcome will likely impact U.S. tax policy, including whether provisions of the Tax Cuts and Jobs Act are extended beyond 2025.

To reach charitable giving goals, consider the full range of giving options including lump-sum donations, donor-advised funds, charitable split interest gifts and private foundations.

With uncertainty around future estate tax rules, flexible planning techniques such as Disclaimer Trusts, SLATs and SPATs will be key in 2025 to preserve the ability to shift direction as tax laws change.

Early signs point toward increased mergers and acquisitions activity in 2025, supported by lower interest rates and pent-up demand from buyers and sellers.

The real estate market continues to experience increased volatility, with interest rates and housing shortages impacting demand. Still, anticipate an overall increase in market movement in 2025, along with opportunities in commercial real estate.

Introduction

Welcome to the 2024 Comerica Wealth Management Year-End Planning Guide. In this guide, you will find insights from Comerica thought leaders across multiple disciplines. Each section is designed to give a high-level overview of the most important topics, while including links to additional information if you want to go deeper.

This year, the U.S. presidential election is top of mind for everyone. That's why we are publishing the Guide prior to election day — providing timely year-end advice. However, stay tuned for a follow-up video post-election to hear about potential implications.

The elections are less than one month away. And, as Dan Donohoe writes, we have a neck-and-neck race for the White House. He also comments that there is a decent chance both chambers of Congress will flip. Without a single party controlling the White House and Congress, there will likely be roadblocks to new legislation.

While the White House race is a toss-up, John Lynch provides interesting data about market indicators that may help predict the outcome. Take a look at John's notes on the Misery Index, along with equity market performance in the 90 days leading up to the election that has accurately predicted every presidential election since 1984.

Among the issues on the table, the presidential candidates' tax policies are taking center stage. While few details are available, former President Trump indicated he would like to maintain several provisions from the Tax Cuts and Jobs Act. Meanwhile, Vice President Harris mentioned increasing personal tax rates for those making over $400,000 per year and increasing the business tax rates. She has further endorsed some of the estate tax increases that have been suggested over the past few years.

Lisa Featherngill, SVP
National Director,
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Lisa's Bio

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Introduction

However, tax law is made in Congress. The last significant legislation was the Tax Cuts and Jobs Act in 2017 when the White House and both chambers of Congress were Republican-controlled. Even then, it took 11 months to pass a major tax bill. Indications are that Congress will continue to be split between the parties, which may mean an uphill battle for passing substantive tax law.

In the investment section, John Lynch weighs in with a historical perspective about pre-election Federal Reserve rate cuts, referencing that interest rates were adjusted in 10 of the last 11 presidential election years. In the economic section, Bill Adams discusses how inflation is measured and how this measurement impacts Fed activity. With the Fed's September rate cut of 50 basis points, and possibly more on the way, Jeff Wilson then shares insights on how reduced interest rates could also support a much anticipated increase in M&A activity.

Moving from macroeconomics to individual year-end planning, you will also find a note on filing the new Beneficial Ownership Information form if you own or control a business. If this applies to you, please make sure that you file the form before year-end to avoid potentially significant penalties. The form can be filed electronically here: Beneficial Ownership Information Reporting | FinCEN.gov.

Within the guide, you will also find information on essential personal wealth planning topics from estate planning to retirement and real estate to charitable giving. There is even a checklist to help you organize your planning progress.

Altogether, it's another year of uncertainty and opportunity. Now is an optimal time to get ahead of the planned tax law changes taking place in 2026. To make the most of your financial portfolio, work with a Comerica advisor who understands the market and your individual needs and goals. They can help you remain objective and help set you up for continued financial success.

All the best,

Lisa Featherngill

Lisa Featherngill

Economic Insights

Background

The U.S. economy continues to experience turbulent times. The fiscal deficit and inflation, in particular, are pressing issues with widespread concern. In this interview Comerica Wealth Management's National Director of Wealth Planning, Lisa Featherngill, and Comerica Bank's Chief Economist, Bill Adams, offer perspective on the impact of a growing deficit, as well as the future of inflation and interest rates.

Lisa: The fiscal deficit has increased significantly. Does the U.S. face a fiscal crisis?

Bill: The deficit accounted for nearly one in five dollars spent in the U.S. economy during the 2020 recession. In 2024 and 2025, it is on course to run about 6% of GDP. A deficit of that level will increase the ratio of U.S. federal debt to GDP — and, like a business, debt can't keep rising more than the productive activities that service it forever.

This is a long-term problem for the U.S. economy. Debt held by the public amounted to roughly 100% of GDP in 2024. As a comparison, the Japanese government's debt rose to 200% of GDP without triggering a crisis in recent decades. Come 2025, our government will face some important deadlines to make fiscal policy decisions that could potentially result in smaller deficits from 2026 onward.

Lisa: Government statistics show inflation has come down, but prices are higher than ever. Will their numbers catch up with reality and force the Fed to raise rates again?

Bill: Official measures of inflation usually look at monthly increases of prices or their increase over the last 12 months. By those measures, inflation is getting close to where it was in 2018 and 2019. But the experience of inflation isn't strictly tied to the calendar. Most of us remember vividly when the prices of our weekly necessities — gas, eggs, bread — were much lower than they are today.

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Lisa's Bio

Bill Adams, SVP
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Bill: Inflation is slowing down, but many Americans are not feeling it. A big part of the slowdown in inflation is due to lower prices of products that consumers purchase infrequently, like used cars, household appliances and electronics. Unless you buy the same TV two years in a row, the degree that these prices have come down might not be readily apparent. The Fed will probably keep measuring its inflation-fighting performance using the annual rate of inflation as measured by the personal consumption expenditures price index, the cost of all goods and services purchased by consumers, as well as on behalf of them by third parties like private insurers, Medicare and Medicaid.

Lisa: Some financial commentators have speculated that the Fed could raise its inflation target above 2% so that they can cut interest rates without getting inflation under control. Is that likely?

Bill: The Fed's policymakers are strongly committed to the 2% inflation target. They see that commitment as crucial to preventing episodes of high inflation — like the one the U.S. just went through — from becoming longer-lasting problems. And since most major foreign central banks also target 2% inflation, a higher U.S. inflation target would likely cause a trend depreciation of the U.S. dollar, which many would see as a problem. That makes it very unlikely that the Fed would raise the inflation target.

Lisa: Thank you for your insights, Bill. You've given us a lot to think about while we wait to see what happens.

Stay informed.

Subscribe to Bill's economic insights at comerica.com/bill-adams

Investment Insights

Background

Presidential elections have downstream effects on the economy. To see how this year's election may impact investment outlooks, Comerica Wealth Management's National Director of Wealth Planning, Lisa Featherngill, sat down with Chief Investment Officer, John Lynch, to discuss the trends investors should prioritize.

Lisa: There is some discourse that the Federal Reserve may be reluctant to act, for fear of being accused of impacting the outcome of the election. What are your thoughts?

John: History has shown that political considerations typically don't dissuade the Fed from making policy adjustments during election years. In fact, the Fed has altered interest rates in 10 of the last 11 presidential election years. In 2012, the Fed maintained the rate but initiated QE3, as rates were already zero-bound.

While some might suggest that rate cuts benefit the incumbent by stimulating the economy, evidence suggests the opposite may be true. There tends to be a lagged effect of rate cuts on the economy, known as the "J-curve" effect, where economic activity initially slows as savers earn less income, and potential borrowers delay borrowing in anticipation of further rate cuts.

Lisa: While headlines are likely to remain volatile, you've suggested that data points are key for investors. Can you explain?

John: I think it is very important for investors not to be swayed by headlines or political rhetoric. Instead, look at historical trends that may prove worthwhile for objective investment decisions. For example, the Misery Index has been an accurate predictor of presidential elections. The index measures how the average person is doing in the economy by combining the seasonally adjusted unemployment rate and the annual inflation rate into one indicator.

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Lisa's Bio

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John's Bio

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John: Since 1980, if the Misery Index gets worse (increases) on a year-over-year basis leading up to the election, the opposition party tends to win. Conversely, if the Misery Index improves (decreases) from the prior year, the incumbent party is victorious. This also suggests that voters can hold presidents accountable for the Federal Reserve's dual mandate of controlling inflation and maximizing employment.

Lisa: Besides economic indicators, do you see any market-related signals?

John: Yes. Regarding the equity market's predictive capabilities, it is important not to focus on the year-to-date gains, but rather, look to performance for the 90 days leading up to the election.

The performance of the S&P 500® from August to October has been a reliable forecaster of presidential elections, correctly predicting each election since 1984. In years when the S&P 500® Index is positive in the three months ending October 31st, the incumbent party has won. Conversely, when the index was negative, the opposition party won. There are a couple of ways to look at this relationship. One explanation is that uncertainty around elections creates market volatility. When investors anticipate significant policy shifts, markets may react by pricing in response to these potential changes.

Another explanation is that equity performance reflects broader economic sentiment. When voters are satisfied with the economy's direction, they tend to support the status quo, and when they are dissatisfied, they are more inclined to vote for change.

Lisa: Thanks for the information, John. I'm sure we'll all be watching the S&P 500® even more closely now.

Explore Insights:

Election Chartbook | 2024

Stay informed.

To hear more from John or to subscribe to his commentaries, visit comerica.com/john-lynch

Election Insights

Background

2024 is an election year, which means tax changes may be on the horizon. Comerica Wealth Management's National Director of Wealth Planning, Lisa Featherngill, spoke with Comerica Bank's Director of Government Relations, Dan Donohoe, to discuss the most likely tax impacts if each party takes office.

Lisa: So, Dan, it looks like we're going to have another close election this November. How do you see things shaping up in the race for the White House?

Dan: We are in a period of extreme political polarization, and a byproduct of that is close elections. The 2016 presidential election was decided by 78,000 votes in Pennsylvania, Michigan and Wisconsin. The 2020 race was even closer, with 43,000 votes in Arizona, Georgia and Wisconsin determining the outcome.

I don't expect this year to be any different – a race decided by a relatively small number of voters in a small number of battleground states. And, while former President Trump was consistently leading in the polls in the first half of the year – especially following the June 27 debate – things have changed dramatically since President Biden withdrew on July 21 and Vice President Harris became the Democratic nominee shortly thereafter. The contest has become a true neck-and-neck horse race that will be decided in the same battleground states as 2016 and 2020.

Lisa: Neither campaign has said much regarding tax policy in a future administration. With many parts of the 2017 Tax Cuts and Jobs Act expiring at the end of 2025, what are the prospects for extensions or alterations in a Trump or Harris administration?

Dan: With so few undecided voters, this is clearly a "base" election. By that, I mean the candidates are spending less time discussing policies to appeal to undecideds and more time ensuring that their base voters turn out on Election Day.

Lisa Featherngill, SVP
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Lisa's Bio

Dan Donohoe, SVP
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Election Insights

Dan: So detailed plans around TCJA have been scarce. Trump has mentioned keeping the personal tax rates at the current level and decreasing the business rate further – to perhaps as low as 15%. Harris, meanwhile, has mentioned keeping the current personal rates in place for those making under $400,000 per year, and increasing the business rate from 21% to 28%. Again, very few details around this, but I should note that it will be nearly impossible for a future administration to do anything on this front without control of both chambers of Congress.

Lisa: That's a good segue into congressional elections. What do you think the 119th Congress will look like?

Dan: I think there is a decent chance that both chambers flip, and we could once again end up with divided government. In the Senate, where Democrats currently hold a slim 51-49 majority, Republicans hold all the advantages. There are three Democrats up for reelection in states that Trump won handily in 2020 (OH, MT and WV) and no Republicans up in states won by Biden. In addition, there are five Democratic seats up in states that Biden won by less than 3%.

In the House, Republicans go into Election Day with a slim 221-214 majority, meaning Democrats need only a net gain of four seats to take back the majority. Following the 2022 midterms, there are currently 17 Republicans up in districts that Biden won in 2020, and only five Democrats in districts Trump won. Additionally, the five closest races in the 2022 midterms – won by a combined 6,600 votes – are held by Republicans. Advantage Democrats.

In the end, I wouldn't be surprised if both chambers flip. That said, I think Republicans have a better chance of taking back the Senate than Democrats taking back the House. Whatever happens, I expect the margins to remain slim!

Lisa: Thanks for sharing your thoughts as we eagerly await the results of this election season.

Explore Insights:

[2024 U.S. Presidential Candidate Tax Plans Quick Reference Guide]

Income Tax Planning

Tax season may feel far away. But as the end of the year wraps and 2025 begins, it will be here before you know it. Take these steps to prepare ahead of time.

Project your 2024 tax liability. First, estimate your income, expenses and tax liability for the year. If possible, consider multi-year planning by projecting those figures for this year and next.

Then, compare projected tax payments (withholding and estimated tax payments) to the tax liability to determine if additional payments are necessary. If additional payments are needed, you can choose to increase withholding or make an estimated tax payment. The lesser of 90% of your 2024 liability or 110% (possibly 100%) of 2023 taxes needs to be paid prior to January 15, 2025. Your state may also require tax payments, which may differ from the Federal tax rules. Withholding occurs throughout the year and could reduce underpayment penalties. Finally, decide which financial moves to make before year end in order to reduce your tax liability.

Plan for sunset of Tax Cuts and Jobs Act (TCJA). Many income tax provisions of the TCJA are scheduled to "sunset" on January 1, 2026, reverting back to the 2017 law (refer to section on TCJA). A significant change will be the individual income tax brackets. Take advantage of tax bracket differences by comparing your bracket in 2017 versus 2024. The 2017 brackets will adjust with inflation if they become law in 2026.

Here are a few observations based on filing status:

- For those married filing jointly, the largest tax bracket difference is for taxable income between approximately $235k and $385k. Currently, you are in the 24% bracket. However, based on 2017 brackets, you would move to the 33% bracket in 2026.
- For singles with taxable income between $160k and $200k, your bracket is 22% in 2024. But based on 2017 brackets, you would be in the 28% bracket in 2026.
- For those married filing jointly with income above $475k, you could see significant increases in tax bills starting in 2026. For 2024, your bracket is 35% on taxable income between $487,450 and $731,200 and 37% on the excess. But the bracket could be 39.6% on the entire amount over $475k in 2026.

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Lisa's Bio

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Income Tax Planning

If you fall into any of these categories, consider accelerating your income to take advantage of these brackets in 2024 and 2025. This might include Roth conversions, but you will need to pay the taxes from other assets. Also consider accelerating bonuses and retirement plan distributions to utilize lower brackets prior to the tax law changes.

Business Owner Considerations

- The 199A deduction against income from pass-through entities is scheduled to sunset January 1, 2026. This could be a reason to accelerate income. The deduction generally equals 20% of Qualified Business Income. The definitions and restrictions can be complex, so be sure to discuss this option with your tax advisor.

- Business owners have several choices for retirement plans. The type of plan depends on the amount you wish to contribute (and deduct), the number of employees you wish to cover and the amount of time you want to contribute. The contribution limit is generally higher for a business owner than an employee and is worth exploring.

- Bonus depreciation is being phased out. For assets placed in service in 2024, 60% bonus depreciation is available. However, business owners may elect to deduct the cost of capital purchases of up to $1.22m instead of claiming a depreciation deduction. There are certain phase-outs and limits on the deduction, but, in general, it is quite generous.

- If you claim auto expenses and choose to use the mileage rate, it is 67 cents per mile in 2024. Be sure to maintain your mileage records.

Capital Gains and Losses – This is a good time to meet with your investment professional or review your recent investment statements to determine your year-to-date capital gains and losses. If gains exceed losses, you may decide to harvest losses in portfolio. Remember to avoid the wash sale rules, which disallow the loss if you acquire substantially the same shares within 30 days prior to or after the sale that generates the loss. Also, check if you have a capital loss carryover from your 2023 income tax return. This carryover can help reduce your gain from investment sales.

If you have a significant gain this year, consider charitable giving to reduce the tax burden (refer to the section on Charitable Giving). More options are available prior to the sale, but you still have other options available post-sale, such as a donor advised fund (DAF), which requires a lump-sum donation to the fund that can be distributed over time.

Stock Donations - Donating stock you've owned for more than a year that has also appreciated since your purchase is one way to satisfy charitable donations. You can claim the charitable deduction for the market value of the stock — as long as it is publicly traded — and avoid paying tax on the appreciation.

Deductions – Determine whether you will itemize deductions or claim the standard deduction for 2024. The standard deduction is $29,200 for a married couple, $14,600 if single and $21,900 if filing as head of household.

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Income Tax Planning

To make an informed decision, compare your expected itemized deductions to the standard deduction. This includes medical expenses in excess of 7.5% of adjusted gross income, state taxes, mortgage interest and charitable deductions.

Remember, state taxes (income tax, real estate tax and personal property tax) are capped at $10,000. If you choose to itemize in 2024, you may want to accelerate charitable contributions to increase the deduction in 2024, especially if you expect to claim the standard deduction in 2025.

Retirement Plan Contributions – Maximize your retirement plan contributions. If you are an employee, you can exclude up to $23,000 of contributions to your 401(k), 403(b) or 457 plan from income. If you are age 50 or older, you can contribute an additional $7,500 this year.

Tax Credits

1. If you purchased an electric vehicle, you may claim the EV tax credit of up to $7,500 as long as you didn't already receive the credit from the auto dealer.

2. Individuals may claim the adoption credit on up to $16,810 of qualified expenses. Full credit is available for special-needs adoption, even if you don't spend that much. However, this credit is subject to income limits.

Reach out to your financial planning team to discuss your options and put a plan in place for upcoming income tax changes.

Retirement Planning

Know Your Number

How much money do you need to live fully in your retirement years?

To answer this question, it can be helpful to break retirement planning into three variables: retirement expenses (net of retirement income), investment rate of return and the number of years you will need the funds (i.e., longevity).

From there, planning should be simple, right? Not exactly. The only variable you can directly control is expenses. Investment rate of return and longevity are influenced by external factors, along with your investment and lifestyle decisions.

To determine how much you need for retirement, professional retirement planners go further. They work to refine assumptions around each variable and use software, preferably with Monte Carlo Simulation, to run various scenarios. Here's what they help clients focus on:

1. Expenses – When creating retirement projections, be sure to include all sources of income (e.g., Social Security, pensions, part time income, etc.) and all expenses. Clients often assume that expenses will decrease during retirement. That may be true of some expenses – your work wardrobe and dry-cleaning expenses will likely decrease. However, other expenses may increase more than you think. For example, travel expenses and health care expenses traditionally go up during retirement. To get an accurate expense estimate, consider, for example, whether you will purchase a supplemental Medicare policy and the associated cost.

2. Investment rate of return – Your investment rate of return is largely influenced by your asset allocation. Consider working with an investment professional to determine your most optimal asset allocation, based on your risk tolerance and the rate of return needed for the "nest egg" to last your retirement years.

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Lisa's Bio

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Retirement Planning

3. Longevity – Recently, the oldest person in the United States died at age 117. Of course, not every American needs to plan for retirement through age 117. But it is important to recognize the fact that life expectancy is increasing. When running projections for clients, we often assume they live to age 95.

Putting it all Together – The Modern Approach to Retirement Planning

The math is pretty straightforward. When expenses exceed income, you will need to access principal to cover the shortfall.

The traditional approach to funding this shortfall was by either investing to generate additional income or liquidating a set percentage of the retirement funds each year.

The modern approach is different. Using this approach, you project cash flow and net worth based on your variables for both short-term and long-term analysis. Read more here. The short-term analysis allows you to anticipate liquidity needs for the following year. Each year, sufficient funds are sold from the investment portfolio and reinvested in short term financial instruments. The long-term analysis lets you know if you are still on track to meet your retirement needs throughout retirement. This information can be used to adjust your spending or investments, if necessary.

Tax Law Changes Affecting Retirement Plans

Several changes took effect January 1, 2024 as a result of the SECURE 2.0 Act. Notable changes include:

- An employer's ability to consider student loan payments as retirement plan contributions for purposes of the employer match
- An investor's ability to rollover up to $35,000 from a 529 plan to a Roth IRA
- An investor's ability to withdraw funds for certain emergencies without penalty

Starting in 2026, individuals with Social Security wages greater than $145,000 will be allowed to make catch-up contributions only on an after-tax basis. If you are age 50 or older, consider maximizing your pre-tax catch-up contributions in 2024 and 2025.

Another significant change affecting retirement plans this year was the issuance of both final and proposed regulations on July 18, 2024. The SECURE Act requires most non-spousal beneficiaries of inherited IRAs to completely withdraw funds by the end of the 10th year following the death of the IRA owner. This rule applies to IRAs or retirement plan balances of individuals who die after January 1, 2020.

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Retirement Planning

The final regulations, which are effective January 1, 2025, add an extra wrinkle. They require the beneficiary to take distributions from the plan at least as rapidly as the owner if the owner had reached the age to begin Required Minimum Distributions (RMDs). Thus, annual distributions will be required from inherited retirement plans and IRAs beginning in 2025. If the decedent had not reached this age, the beneficiary is not required to withdraw funds annually. Annual distributions are not required for Roth accounts. In each case, however, the entire balance must be withdrawn by the end of the 10th year.

Note: The 10-year rule does not apply to beneficiaries who are a spouse, a child under age 18 or other "Eligible Designated Beneficiaries."

Retirement Plan Contributions

Take full advantage of your retirement plan options this year. In 2024, you can contribute up to $23,000 to a 401(k), 403(b) or 457(b) plan, with an extra $7,500 if you are age 50 or older. Plans like SIMPLE or IRA (traditional or Roth) have their own limits. If you're a business owner, you may be able to contribute more, depending upon the type of plan and amount of income reported from the business. By investing pre-tax dollars in a tax-deferred retirement plan, you can significantly increase retirement funds.

Health Care Savings Account

Are you eligible to contribute to a Health Savings Account (HSA)? If so, consider maximizing your contribution to the HSA, even if you don't plan to use the entire amount for health care expenses currently. Why? HSA accounts can be used to pay health care expenses during retirement. In 2024, you can contribute up to $4,150 ($8,300 for married individuals), which is made on a pre-tax basis.

Note: If you become eligible for Medicare and want to continue contributing to your HSA, consider delaying enrollment in Medicare. You cannot contribute to an HSA account within six months of applying for Medicare.

Qualified Charitable Distributions

For those facing Required Minimum Distributions (RMDs) and wanting to support charitable causes, a Qualified Charitable Distribution (QCD) can be a smart option. Once you reach age 70 ½, you can allocate up to $105,000 a year to go directly to your favorite charities. These payments count toward your RMD, and you don't pay income tax on the distribution. While you won't be able to claim a charitable deduction, you can still take the full standard deduction even if you don't itemize. Starting this year, due to SECURE Act 2.0, the annual limit for QCDs is adjusted for inflation.

Estate Planning

The end of the year is a great time to evaluate your estate plan. Between the federal election and tax law changes on the horizon, significant uncertainties will impact estate planning through the end of 2025. This section explores some of the key estate planning issues to consider in the coming months.

Uncertainty Surrounding Tax Laws

In 2017, the Tax Cuts and Jobs Act (TCJA) doubled the estate and gift tax exemption amount. After increases for inflation, the 2024 exemption is up to $13.61 million per person ($27.22 million per married couple).

However, on January 1, 2026, the exemption rules are scheduled to sunset, which will cut the exemption in half (likely to around $7 million). If that happens, it could lead to a significant increase in transfer tax for high-net-worth families.

In addition, with federal elections taking place on November 5, 2024, it's uncertain how changes in the political landscape will impact tax laws.

Although some will adopt a wait and see approach, taxpayers risk running out of time to use their large exemption amounts before 2026. Flexible plans that change course as tax laws shift will give taxpayers the best chance of navigating an uncertain tax landscape.

People with No Previous Planning

For those with no previous planning, it's important to define your personal and family goals. Whether you want to reduce tax liability, pass a legacy to kids or benefit a charity, your goals act as the finish line that guides the focus of your estate plan.

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Noah's Bio

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Estate Planning

The next step is to understand how much planning is necessary to achieve your goals. This requires taking stock of what you have, how your assets may grow over time, how they will pass upon death and whether tax planning is necessary. Including a financial advisor can help with this process.

People with Previous Planning

Circumstances and personal preferences change over time. Revisiting a previous estate plan will help ensure your current wishes are reflected in your plan. Children get older and may have their own families and/or wealth. Loved ones get married and divorced. The trustees you chose to carry out your wishes may no longer be a fit. Your financial status may have changed, which could require a different level of tax planning. These and other issues could trigger the need to revise your estate planning documents.

With the upcoming sunset of the estate tax exemption, more people could be facing estate taxes while relying on ineffective estate planning documents. Your estate plan should be flexible enough to anticipate or adapt to changes in tax law.

Planning in Anticipation of Reduced Estate and Gift Tax Exemption

As previously mentioned, unless Congress acts, the current exemption amount ($13.61 million per person) will be cut in half (to approximately $7 million) starting January 1, 2026. Luckily, there are several strategies to consider depending on the amount of wealth each family holds.

Taxpayers with wealth below the 2026 exemption amount ($14 million per married couple or $7 million for an individual) are not likely to need significant estate tax planning. General estate planning documents, such as wills and revocable trusts, may be all that is necessary for this group.

However, gifting and transfers to irrevocable trusts could still accomplish non-tax goals, like efficiently transferring a family business or protecting assets from liability. For married couples in this group, planning to preserve a double step-up in basis could help maximize tax savings for their heirs.

For very wealthy families, with a net worth of $25 million or more, planning will likely involve one or more estate tax mitigation strategies. These often include making large gifts to individuals and trusts, transferring assets to irrevocable trusts, such as dynasty trusts, spousal lifetime access trusts (SLATs), irrevocable life insurance trusts (ILITs) and more. For this group, the need to start planning is imminent. There is limited time to identify strategies, draft documents and transfer assets before 2026.

For those in the middle, near or just above the 2026 estate tax exemption amount, planning decisions may be challenging. This group could have taxable estates but not enough liquidity to transfer significant assets without affecting their lifestyles. For that reason, many in this group will wait and see what happens with the tax laws before implementing significant planning. Developing a plan ahead of time will be key to taking swift action when it is needed. The risk is waiting too long and not being able to implement planning in time. Again, flexibility is key, especially for this group.

Continued:
Estate Planning

Flexible estate planning strategies:

1. Disclaimer Trusts – A disclaimer trust gives a surviving spouse flexibility to evaluate the need for estate tax planning at the time of a spouse's death. If the estate tax exemption decreases, the surviving spouse can disclaim assets and shift them to a tax-sheltered trust. If the exemption stays high, the surviving spouse can keep the assets, resulting in a step-up in basis at each spouse's death.
2. Spousal Lifetime Access Trusts (SLATs) – Establishing a SLAT is a flexible option for married couples that allows a person to gift assets to a trust that names the other spouse a beneficiary. The beneficiary spouse will retain the ability to access the trust assets if needed, while the assets that stay in the SLAT will be out of both spouses' taxable estates.
3. Special Power of Appointment Trusts (SPATs) – A SPAT is a trust that appoints a powerholder who has the ability to modify distributions and change beneficiaries of the trust. This provides the flexibility to adjust to changing circumstances. If exemption amounts go down, trust assets can be directed to beneficiaries who do not have a taxable estate.

All planning strategies have pros and cons, requiring close attention to detail. Please consult your tax and legal advisors before implementing any estate planning changes.

Election Effect

The 2024 U.S. federal elections could have a great effect on estate planning, especially relating to estate and gift tax laws. Depending on which party has control and the influence of the president, legislative priorities could vary significantly. Some believe Republicans will push to extend the sunsetting estate tax provisions, while Democrats may let the TCJA rules sunset, resulting in a lower exemption.

This could also create a timing issue. If the expiring TCJA provisions are extended for a specific amount of time, instead of a permanent change, we will be revisiting these same issues down the road. This supports the premise that incorporating flexibility is beneficial in almost any estate plan.

The estate tax rate may also become a focal point depending on political outcomes. The range of estate tax rates throughout history varies from 10% to 77%. The current estate tax rate is 40%, but that could change depending on which political party takes control.

Explore Insights:

Estate Planning: Don't Set It and Forget It

Tax Cuts and Jobs Act Expiring Tax Provisions

When the Tax Cuts and Jobs Act (TCJA) was enacted in 2017, it included significant tax changes affecting both individuals and businesses. Although some of the TCJA provisions are permanent, many of them are scheduled to sunset after 2025. Below are some of the expiring provisions that could affect a large number of people.

Individual Tax Provisions Expiring at the end of 2025

1. Lower Income Tax Rates – The TCJA reduced income tax rates for individuals. The top rate through 2025 is 37%. After 2025, the reduced rates revert to the pre-TCJA levels, which will increase the top tax rate to 39.6%. For taxpayers who will be affected by this increase, consider accelerating the recognition of income before the tax rate increases and delaying harvesting losses until 2026.

2. Increased Standard Deduction – The standard deduction, which increased significantly with the TCJA (currently $14,600 single and $29,200 married filing joint), will decline in 2026 to $8,300 and $16,600, making itemized deductions more attractive for many taxpayers. To maximize your itemizations, consider putting off deductible expenses until 2026.

3. State and Local Tax (SALT) Deduction – TCJA capped the SALT deduction at $10,000 per tax return from 2018 through 2025. In 2026, this cap will be eliminated, increasing the amount of state and local tax deductions.

4. Estate and Gift Tax Exemption – The TCJA significantly increased the current estate and gift tax exemption. The 2024 exemption is up to $13.61 million per person ($27.22 million per married couple). However, on January 1, 2026, the exemption rules are scheduled to sunset, which will decrease the exemption to around $7 million. When that happens, high-net-worth families could realize a significant increase in transfer tax. Taxpayers facing estate tax liability should consider whether to use their exemption before it is reduced in 2026.

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Noah's Bio

Continued:
Tax Cuts and Jobs Act Expiring Tax Provisions

Expiring Business Tax Provisions

1. Qualified Business Income Deduction – Owners of many pass-through entities could deduct up to 20% of their qualified business income as a result of the TCJA. That deduction will expire at the end of 2025, impacting many small business owners.

2. Bonus Depreciation Phase Out – Finally, the TCJA introduced 100% bonus depreciation. 2022 was the last year businesses could depreciate 100% of eligible assets. Since then it has reduce by 20% each year and will by fully phased out by the end of 2026 unless legislation changes the law.

If any of the expiring tax provisions affect your financial situation, please consult with your advisor to explore ways to mitigate potentially negative impacts.

Explore on Insights:

[Tax Cuts and Jobs Act: Expiring Tax Provisions]

Personal Income Tax: 2024 Year-End Planning Checklist

It's important to review your personal tax situation at least once a year. The following strategies can help set you up for long-term success. As no tax situation is the same, we recommend you consult with your tax professional or financial advisor.

Personal Income Tax: 2024 Year-End Planning Checklist	
☐ Review your year-to-date tax withholding and payroll contributions.	Based on your year-to-date income, determine if it's time to update your tax withholding. You should take into consideration any bonus or other income that may be paid through the end of the year to avoid a shortfall. If you are expecting a bonus or other non-recurring income, be sure to review your 401(k) contribution rates so you don't exceed the maximum $23,000 limit for 2024 ($30,500 limit if age 50 or older).
☐ Make the most of tax advantage retirement plans.	In addition to your 401(k), review your contributions to any Roth IRA or traditional IRA accounts. The annual contribution limit increased to $7,000 for 2024, but you should still review your financial details for any income phase-outs and age eligibility for catch-up contributions. See the 2024 IRS News Release on this topic for more information.
☐ Maximize tax advantage health and dependent care plans.	If a Health Savings Account (HSA) is available to you, consider contributions. They not only go a long way in preparing for future medical expenses, but they are also a great tax planning strategy. Your contributions are tax-free, along with any interest or earnings. And withdrawals are tax-free if used for qualifying medical expenses. Another great tax-planning strategy is utilizing a dependent care Flexible Spending Account (FSA). This account allows you to contribute tax-free dollars for the reimbursement of qualifying dependent care expenses. There is a maximum contribution of $5,000 for married households and the contributions are " use it or lose it" for the year, so be sure to review upcoming expenses to avoid losing out on this benefit.

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Continued:
Personal Income Tax: 2024 Year-End Planning Checklist

☐ Fund or contribute to a college savings account.	Paying for college can be daunting. Funding and contributing to a 529 Plan early can ease the process. B529 Plans allow you to contribute after-tax dollars and enjoy tax-free growth, with withdrawal treated tax-free if used to pay for qualifying education expenses.
☐ Consider making charitable donations.	If you are able, make charitable contributions before December 31st. This can help maximize your itemized deductions while supporting a good cause.
☐ Take any required minimum distributions (RMDs).	The SECURE 2.0 Act raised the age of required distributions to 73 starting in 2023. This generally applies to traditional IRAs, SEP IRAs, SIMPLE IRAs, and all employer-sponsored retirement accounts. Designated Roth accounts in a 401(k) or 403(b) plan are subject to the RMD rules for 2022 and 2023. However, for 2024 and beyond, RMDs are no longer required from designated Roth accounts. For more information on RMDs refer to the IRS Guidance (irs.gov).
☐ Review your current portfolio for tax savings and restructuring for the new year.	Take the opportunity to work with your financial advisor to review for tax-loss harvesting opportunities. Strategically realizing losses can offset capital gains from the year and potentially reduce taxable ordinary income. With the tax year coming to an end, now is also a great time to work with your financial advisor on restructuring your portfolio to optimize for current market conditions and set you up for a successful 2025.
☐ Start collecting your tax documents.	Tax season is stressful enough. Start now to prepare your receipts and documentation for tax preparation. Your CPA will thank you.

Sources:

irs.gov

Fiduciary Income Tax: 2024 Year-End Planning Checklist

The end of the year is also a good time to review your fiduciary tax situation. The following strategies can help secure your future success. To ensure your specific needs are taken into account, we recommend consulting with your tax professional or financial advisor.

Fiduciary Income Tax: 2024 Year-End Planning Checklist	
☐ Review your trust to make sure it is still in alignment with your long-term goals.	Creating a trust requires significant upfront consideration. But it's also important to recognize that circumstances change over the lifetime of the trust. Reviewing trust aims and terms regularly can ensure that your long-term financial goals are met.
☐ Calculate your 2024 tax projections.	Reviewing your 2024 income and deductions is important to ensure there are no surprises during tax season. Work with your fiduciary tax professional to prepare for tax season and potentially lower your tax liability.
☐ Review your current portfolio for tax savings and restructuring for the new year.	Take the opportunity to work with your financial advisor to review for tax-loss harvesting opportunities. Strategically realizing losses can offset capital gains from the year and potentially reduce taxable ordinary income. With the tax year coming to an end, now is a great time to work with your financial advisor on restructuring your portfolio to review and optimize for current market conditions and set you up for a successful 2025.
☐ Review your estimated tax payments to date.	Reviewing your 2024 tax projection, along with any estimated tax payments year-to-date, will help you avoid underpayment penalties and interest. These penalties can be significant, so it is important that your payment amount is accurate and on time. The fourth installment of estimated tax payments is due January 15, 2025.

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Continued:
Fiduciary Income Tax: 2024 Year-End Planning Checklist

Fiduciary Income Tax: 2024 Year-End Planning Checklist	
☐ Consider your trust assets.	When funding a trust, it's important to carefully consider the assets that make up the trust, along with potential tax impacts. This includes retirement assets like Individual Retirement Accounts, 401(k) accounts and 403(b) accounts. Review trust assets with your trust administrator as well as a tax professional to ensure there are no hidden tax bills.
☐ Review beneficiary distributions and consider the 65-Day Election.	A major difference between individual and trust tax is the tax rate. Estate and trust tax rates reach the maximum 37% tax rate after trust income of just $14,451. For this reason, it is important to carefully monitor beneficiary distributions. An important tool in managing this is the 65-Day Election available to fiduciaries of estates and complex trusts. This tool allows the fiduciary to make distributions 65 days after year-end and still include the distributions on the prior year tax return. This election gives fiduciaries the ability to carefully assess the trust tax situation for the year and plan accordingly.

Charitable Giving

Philanthropy offers a fulfilling way to build a lasting legacy for you and your loved ones. The charitable planning process is intended to help you establish a legacy that reflects your values now and into the future. Not only do you gain personal satisfaction from making a difference and helping your communities, but charitable giving can also offer significant tax benefits.

Start by identifying the causes and goals that you find most important. Establish the framework for a philanthropic plan by considering the following key questions:

- What are my key motivations for charitable giving? Are they centered on a specific cause, charity or tax mitigation strategy?
- What assets do I have available to fund my preferred philanthropy?
- When do I want to make charitable gifts? During my life, upon my death or both? Do I want to make a lump-sum gift or multiple gifts over time?
- Do I want family members to be part of my philanthropic journey, both now and in the future?
- How does my philanthropic plan fit into my overall financial plan, estate plan and tax strategy?
- How much complexity am I willing to incorporate into the plan to achieve a sustained charitable giving?

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Continued:
Charitable Giving

Charitable Gifting Options

Multiple charitable giving options are available to support important causes and organizations while allowing you to achieve your tax, estate and legacy planning objectives. The right combination of asset allocation and charitable giving strategies can help you meet broader wealth planning goals, such as retirement and cash flow planning.

Charitable giving vehicles range from simple to complex. Some are more suitable for specific types of assets, while others work best for large gifts distributed through a grant-making program. Others are best suited for achieving long-term charitable giving or tax planning objectives. Here is a summary of popular options and their benefits:

- Lump -Sum Donations: Lump-sum donations are direct gifts to a qualified charity using cash or securities. This is a simple, commonly used method that allows charities to immediately benefit from the gift. While cash may be an easy approach to a lump-sum donation, gifting low-basis appreciated securities directly to a charity can also be a great way to maximize charitable gifting while reducing tax impacts. With appreciated assets, you receive a tax deduction for the donation and can avoid paying capital gains tax from the sale of the appreciated assets.

- Donor-Advised Funds (DAFs): A DAF is a charitable giving account, set up with a 501(c)(3), that allows you to deposit cash, stocks or other assets for future distribution across your favorite charities. Donations to the DAF can be invested for tax-free growth over time, giving you flexibility to decide which charitable organizations to support and when to support them. When you are ready to give, you simply advise which charity or charities should receive grants, either in a lump sum or over time. Charitable contributions offer income tax benefits in the year deposited to the DAF, making them a useful way to accelerate your income tax deduction in a particular year. DAFs are easy to set up, and most can be opened with modest initial contributions. A DAF is an ideal vehicle if you are focused on simplicity, flexibility and a low initial dollar commitment.

- Charitable Split Interest Gifts: Charitable split interest gifts have two sets of interests: First, a charitable interest representing the value of the assets the charity will receive; and second, a non-charitable interest that benefits you (the donor) or your designated beneficiaries. Two familiar forms of charitable split interest gifts are Charitable Remainder Trusts and Charitable Lead Trusts.

    - Charitable Remainder Trusts (CRTs) are irrevocable trusts that allow you or your designated beneficiaries to receive income from the trust for a set period of time (not to exceed 20 years), after which the remaining assets are distributed to one or more qualified charities. CRTs can be an effective way to support a charity while also maintaining current cash flow during the income period. Contributions to a CRT generate an immediate income tax deduction based on the valuation of the future remainder interest to the charity. Additionally, income earned on assets in the CRT are not taxable to the beneficiary until they are distributed, which can make CRTs a potentially powerful income tax deferral strategy.

    - Charitable Lead Trusts (CLTs) are trusts that distribute funds to a charity for a term of years or the life of the grantor. At the end of the trust term, the remaining assets are distributed to non-charitable remainder beneficiaries designed by you (the donor). Often, the remainder goes to the grantors themselves or their family members. If a CLT is structured as a grantor trust, you may immediately deduct the present value of the future payments that will be made to the charity. CLTs structured as non-grantor trusts may be a good option to reduce gift or estate taxes.

Continued:
Charitable Giving

- Private Foundations: A private foundation is a non-profit or charitable organization that is created with a single donation of funds (the endowment), by an individual, a family or a business. The investment income earned by the private foundation funds its activities, instead of recurring donations to the foundation. These organizations may be run as private operating foundations — which run the charitable activities of the organizations that they fund, or, more commonly as non-operating foundations — which disburse funds to other charitable organizations. Private foundations are subject to complex IRS rules; and, therefore, suitable only for more sophisticated charitable plans. While private foundations may be complex to create and administer, they offer many tax-saving advantages, including estate, income and capital gains tax benefits. Funds donated to a private foundation are excluded from your estate, and you may be eligible for an income tax deduction. You may also avoid capital gains taxes if you donate appreciated assets to the foundation.

Income Tax Consideration

It's important to recognize limits on the income tax deductions available for charitable gifts. These limits are tied to a percentage of your adjusted gross income (AGI), based on the type of asset gifted and the charitable vehicle or organization that receives the gift. The chart below can help you determine the income tax limitation of a charitable gift. When your charitable contributions are greater than the amount allowed for the current tax year, the excess contributions can be carried forward for up to five years.

Generally, charitable gifts can only be deducted if you itemize deductions on your income tax return. One potential strategy is to consider "bunching" donations in a single year — combining donations for two or more years into a single-year contribution. By bunching, you can reduce tax impacts during a year of higher-than-average income.

For individuals with an IRA, aged 70 1/2 or older, a Qualified Charitable Distribution (QCD) from your IRA of up to $100,000 (indexed for inflation, starting in 2024 under the Secure 2.0 Act) is another potential tax strategy. QCDs are donations made directly from an IRA to a qualified charity. They are excluded from taxable income, unlike a regular IRA withdrawal, and they count towards the required minimum distribution. Of note, Donor Advised Funds (DAFs) and private foundations are not eligible to receive QCDs.

It is important to consult with your tax advisor about the tax benefits available to you from any charitable donation.

Final Thoughts

A successful charitable giving strategy starts with identifying your assets, choosing the right charitable vehicle and selecting the organizations that align with your values. This process helps shape the legacy you want to leave for you and your family. For help with any step in the charitable planning process, consult with a knowledgeable advisor.

Charitable Vehicle	Public Charity	Donor Advised Fund	Private Grant-Making Foundation	Private Operating Foundation	Grantor Charitable Lead Trust	Intervivos Charitable Remainder Trust
Cash Gift Deduction Limit (% of AGI)	60%	60%	30%	60%	30%	50%
Appreciated Assets Deduction Limit (% of AGI)	30%	30%	20%	30%	20%	30%
Gift Value of Appreciated Property	Fair Market Value	Fair Market Value	Adjusted Basis	Fair Market Value	Adjusted Bias	N/A - Actuarial value of remainder interest

Explore Insights:

[The Great Wealth Transfer: Essential Steps for Giving Wealth]

[Part 1: Achieving Your Charitable Giving Goals: Understanding Your Charitable Planning Options]

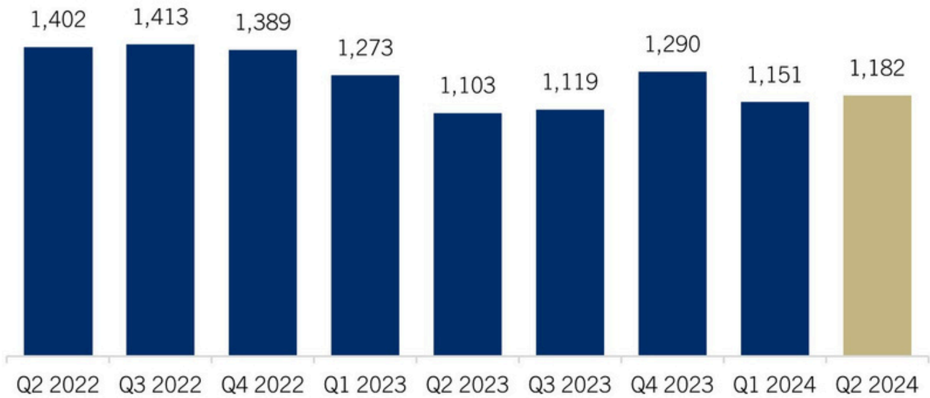
Investment Banking Outlook

Introduction

As we approach the end of 2024, it's time to reflect on the trends shaping the M&A market and anticipate what lies ahead. Comerica Securities, Inc. Investment Banking supports domestic, middle-market M&A, focusing on transactions valued between $25 million and $500 million. The following commentary and projections refer to this range in the U.S. middle market.

To forecast the M&A environment in 2025, we look back at recent market performance and data from the first half of this year. While the anticipated rebound in 2024 did not materialize as expected, signs point to this being the trough of the cycle with a more positive outlook for 2025.

Quarterly Middle Market M&A Volume



Source: PitchBook as of Q2 2024.

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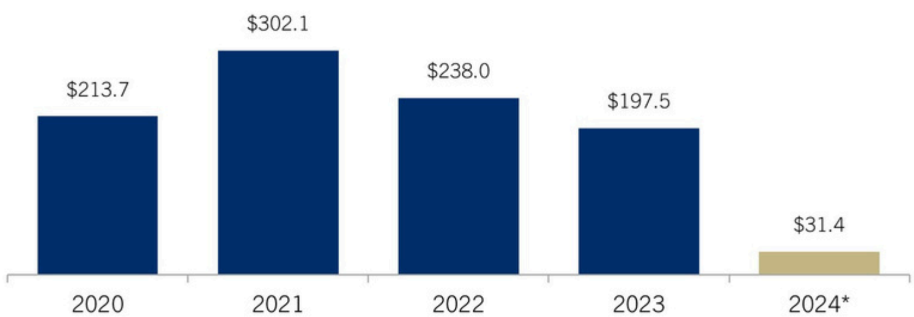
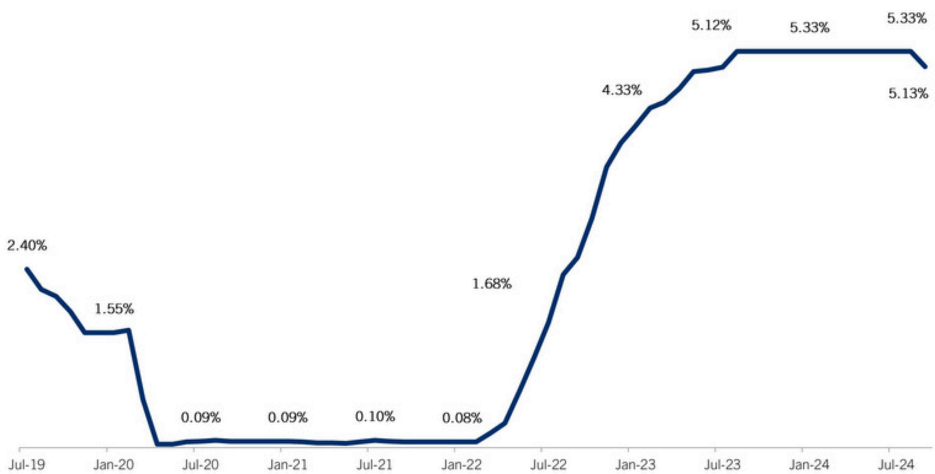
Continued:
Investment Banking Outlook

Private Credit Funding



Source: PitchBook as of Q2 2024.

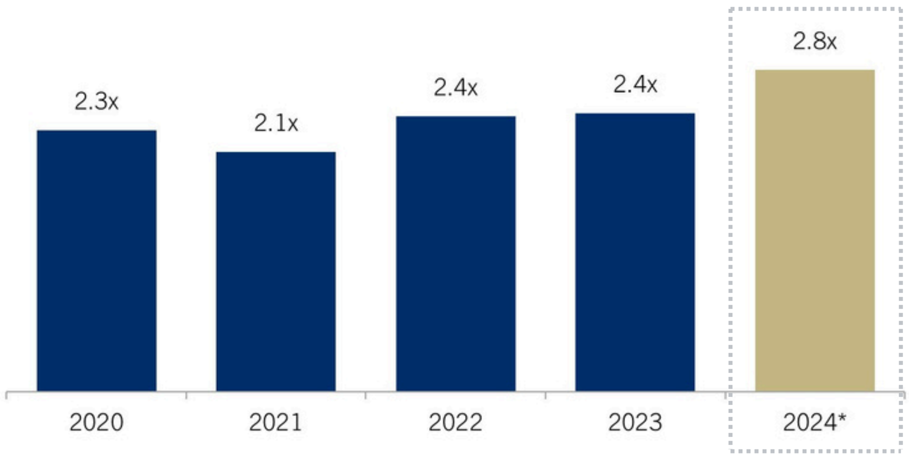
Federal Funds Rate



Source: PitchBook as of Q2 2024. Federal Funds Effective Rate pulled from Federal Reserve Economic Data as of 10/9/2024.

Continued:
Investment Banking Outlook

US PE Investments / Exits



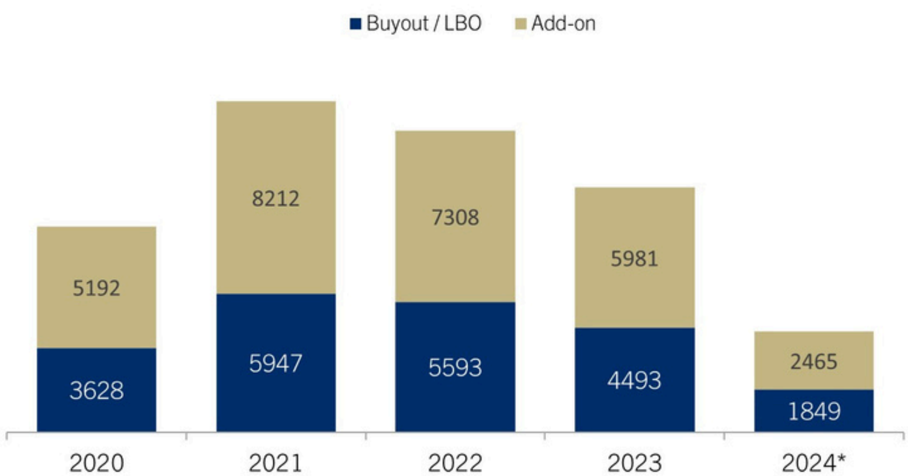
Source: PitchBook as of Q2 2024.

Commentary

- Quarterly M&A volume generally declined in 2023, and this continued through the first half of 2024. Q2 2024 provided some optimism, showing an increase over Q2 2023 and Q1 2024, although it remained 15.7% lower than Q2 2022.
- Private credit fundraising declined, even as it continued to dominate the M&A financing market over traditional banks. This aligns with the broader decline in M&A activity. Despite the slowdown, hundreds of billions in private credit capital remain available, positioned to support future M&A transactions.
- Interest rates have been a key factor since they began rising in March 2022. The federal funds rate increased 365 BPS since July 2022, from 1.68% to 5.33%. This higher cost of debt, combined with lower leverage ratios, resulted in decreased business valuations, making owners less eager to sell their businesses.
- Family business owners are not the only group holding on to their companies in this lower-priced environment. Private equity (PE) funds have also decreased exits relative to acquisitions. While acquisitions have decreased, exits have fallen even more sharply, driving up the investments-to-exits ratio.

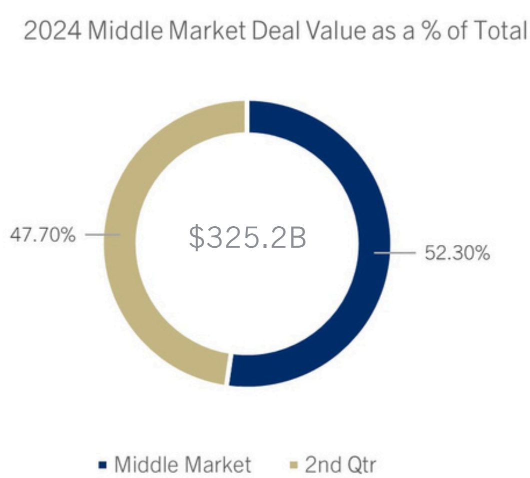
Continued:
Investment Banking Outlook

Add-on Acquisitions as a % of Total PE Buyouts



Source: PitchBook as of Q2 2024.

2024 Q2 Middle Market Deal Value



Source: PitchBook as of Q2 2024.

Continued:
Investment Banking Outlook

Looking Ahead: 2025 Forecast

- Interest rates are expected to decline. While this may not be a bold or unique prediction, it remains important as rates are the primary driver of an anticipated rebound in M&A activity in 2025.
- Middle market M&A volume will increase. We believe that Q1 of 2024 represents the trough of this current market cycle, with volume expected to increase from the end of 2024 through 2025.
- Middle market M&A will lead the overall M&A markets in volume and aggregate deal value. As the widest and deepest M&A segment in the U.S., the middle market will continue to play a leading role, even as mega-deals gain renewed interest.
- Non-bank lenders will continue their dominance in acquisition financing. Although banks may become more aggressive in 2025, private credit — with its higher risk appetite and full war chest — will continue to dominate. Non-bank lenders financed 86.0% of LBO transactions in 2023, and with private credit fundraising hitting $30.4 billion in Q1 2024, we expect this share to grow.
- Consolidation and add-on acquisitions will remain the dominant driver of middle market deals. In 2024, add-on acquisitions are projected to account for roughly 75% of all M&A deals, a trend we see continuing in 2025. Even as lower rates make platform deals more accessible, most transactions are likely to focus on strategic synergies for acquirers.

Potential Disruptions

- U.S. presidential election: While the election may have minimal impact on middle-market M&A, the outcome is always uncertain.
- Interest rates: If rate cuts differ from expectations, or the economy reacts unexpectedly, M&A activity in 2025 may underperform or exceed expectations.
- Geopolitical volatility: Although recent global turbulence has not significantly affected U.S. M&A markets, a heightened trade conflict with China or the escalation of war in Europe could disrupt both the economy and M&A activity.
- Other events: Countless other unpredictable factors remain, which is the built-in challenge of making forecasts.

Continued:
Investment Banking Outlook

Concluding Thoughts

We anticipate a more active M&A market in 2025 — not a banner year, but one that starts unwinding the backlog in the marketplace. A combination of lower interest rates, pent-up demand for acquisitions and divestitures from private equity funds, and the ongoing trend of Baby Boomers exiting their businesses for retirement will fuel a healthy increase in M&A activity. When our clients choose to sell, we look forward to helping them achieve exceptional outcomes.

Business Transition Planning

Business transition planning is a process intended to create a higher likelihood of success in transition for business owners, no matter what "transition" means to them and no matter what "success" means to them. To achieve a higher likelihood of success, it's first necessary to define success. In the context of business transition planning, defining success is all about identifying and prioritizing one's goals and objectives, both quantitative and qualitative, economic and emotional.

Once objectives and priorities are clear, the next step is comparing and contrasting the available alternatives in a way that provides insight into how each does or does not meet the objectives. This means balancing the economic and emotional aspects of transition. Each alternative will require a trade-off of some kind. Knowing the economic and emotional benefits and detriments of each helps owners to choose the best path forward.

When considering transition and searching for the best path forward, the keys are:

- Understanding your financial requirements. This can be accomplished by participating in detailed personal financial planning which considers your future cash-flow requirements based on your basic needs and what you would like to accomplish. This planning should consider the income tax and estate tax implications of various transition alternatives.

- Understanding the financial implications of available transition alternatives. This can be accomplished by evaluating the business and the cash flows associated with various alternatives related to that value. This may include the hiring of investment bankers to test the market for your company.

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Bob's Bio

Continued:
Business Transition Planning

- Understanding the emotional implications of available transition alternatives. This can be accomplished by comparing your personal priorities in transition to how each transition alternative meets (or does not meet) those personal goals. Examples of non-economic objectives include topics like maintaining family harmony, taking care of employees, or leaving a community legacy.

A great time to work on business transition planning is end of year. Reflect on the past and prepare for the future.

Reach out today.

Get in touch with Bob and learn more about business transition planning at https://www.comerica.com/insights/comerica-bank/insights-authors/robert-buchanan.html

The 2024 Corporate Transparency Act

Year-End Filing Deadlines are Quickly Approaching

With the end of 2024 quickly approaching, it is important to review your business holdings to ensure compliance with the requirements of the Corporate Transparency Act (CTA).

The CTA is a part of the Anti-Money Laundering Act of 2020, enacted on January 1, 2021, to help prevent money laundering, terrorist financing, tax fraud, corruption and other illicit activities.

By increasing the information reported on business entities, the CTA aims to prevent the exploitation of U.S. corporations and LLCs for criminal gain and assist law enforcement in detecting criminal activity[1]. The CTA requires companies, beneficial owners and business applicants to file information with the U.S. Department of Treasury.

The details below can help you understand whether the CTA applies to you.

What is the Corporate Transparency Act (CTA)?

All applicable entities ("reporting companies") formed by January 1, 2024, are required to report their beneficial ownership information with the Financial Crimes Enforcement Network (FinCEN), a division of the U.S. Department of Treasury, before year-end 2024. All applicable entities newly formed in 2024 are required to report their beneficial ownership information within 90 days of creation or registration.

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Andrea's Bio

Sources:

[1]https://www.americanbar.org/groups/business_law/resources/business-law-today/2021-may/the-corporate-transparency-act/

Continued:
The 2024 Corporate Transparency Act

What is a Reporting Company?

While the CTA exempts many types of businesses, small businesses specifically are being faced with a particular burden in complying. This is due to the definition of the term "reporting company" and the types of companies exempt under the act.

Reporting companies can be domestic or foreign entities. Domestic reporting companies are created by filing a document with a secretary of state or similar office under the law of that state. A foreign reporting company is formed under the law of a foreign country and registered to do business in the U.S. by filing a document with a secretary of state or similar office under the laws of that state.[2]

Exemptions include banks, insurance companies, public companies registered with the SEC, broker-dealers, certain investment funds, investment advisers and pooled vehicles, certain tax-exempt entities, subsidiaries of certain exempt entities and "large operating companies." Publicly traded companies are not considered reporting companies under the CTA, as they already have sufficient reporting requirements.

Who are the Beneficial Owners of a Reporting Company?

All reporting companies have at least one beneficial owner. A beneficial owner is an individual who, directly or indirectly, either (1) exercises substantial control over the reporting company, or (2) owns or controls at least 25% of the ownership interests of a reporting company. Substantial control can be exercised by individuals serving as senior officers with the authority to appoint or remove other senior officers, or who can direct or make substantial decisions over important matters.[3]

Beneficial ownership includes direct interests, indirect interests and joint ownership or any undivided interests. If an entity is owned by a trust, the beneficial owners could include the trust grantor or settlor who has a right to revoke the trust or withdraw assets, the trustee or person holding authority to dispose of trust assets, a sole beneficiary who is the recipient of income and principal or a beneficiary who has the right to demand distribution or withdraw substantially all assets from the trust.[4]

While there is no limit on the reported number of beneficial owners, there are exclusions to the definition of beneficial owner. These include minor children, non-senior employees and contingent beneficiaries of a trust.

For a full list of exclusions, reference 31 USC §5336(a)(3)(B).

Sources:

[2]https://www.natlawreview.com/article/corporate-transparency-act-reporting-requirements-preparing-your-company-and-other/

[3]https://www.americanbar.org/groups/business_law/resources/business-law-today/2021-may/the-corporate-transparency-act/

[4]https://www.federalregister.gov/documents/2022/09/30/2022-21020/beneficial-ownership-information-reporting-requirements#citation-170-p59532.

Continued:
The 2024 Corporate Transparency Act

Who are the Company Applicants of a Reporting Company?

Newly formed entities are also required to report their "company applicants." A company applicant is any individual who files an application to form or register an entity under the laws of a state, including the person who directed the filing. For example, if a family member files the entity formation document on behalf of a relative, both the family member and the relative are considered company applicants.[5]

How are Reports Filed?

All reports are filed electronically through [FinCEN's BOI e-filing website](). There are no fees for submitting the beneficial ownership information report to FinCEN. Futher, companies are not required to have their attorneys or accountants submit their reports. However, a reporting company may authorize any party — employee, owner, agent or third-party service provider — to file a BOI report on its behalf.

How are Reports Filed?

Reporting companies must submit the following information to FinCEN[6] via its website:

1. Reporting Company Identifying Information

- **Legal name, trade name and "DBA"**
- **Address for principal place of business**
- **Jurisdiction in which it was formed or first registered**
- **Entity Tax ID**

2. Beneficial Owner and Company Applicant Identifying Information

EITHER:

a. Legal name
b. Date of birth
c. Current address
d. ID number (passport, driver's license, etc.)
e. Image of ID document

OR

f. Beneficial owner's/company applicant's own FinCEN Identifier,[7] should they choose to create one.

Sources:

[6]https://www.fincen.gov/sites/default/files/shared/BOI_Reporting_Key_Questions_Published_508C.pdf

[7]https://www.americanbar.org/groups/business_law/resources/business-law-today/2021-may/the-corporate-transparency-act/

Continued:
The 2024 Corporate Transparency Act

The information reported to FinCEN through these reports can only be disclosed by FinCEN to government agencies, law enforcement or financial institutions for compliance with anti-money laundering or other diligence obligations.[8] Freedom of Information Act (FOIA) requests do not cover the CTA reports, which means the reports are not available to the public.

When are Reports Due?

For reporting companies established before January 1, 2024, the initial reports are due by January 1, 2025. For reporting companies created or registered on or after January 1, 2024, the initial report is due 90 calendar days after the entity is created or registered. For reporting companies created or registered on or after January 1, 2025, the initial report is due 30 calendar days after the entity is created or registered.[9]

Following the initial report, if there are any corrections or changes of ownership, a new report must be filed within 30 days of identifying the error or occurrence of the change. Otherwise, there is no ongoing filing requirement.

Some changes that would require a new filing include: a change of address, change in senior management or death of a beneficial owner where the business interests have been passed on to new beneficiaries. Please note: Companies are not required to report the termination or dissolution of a reporting company.

What are the Potential Penalties?

Failing to report the required information to the CTA may result in stiff penalties. These penalties include, civil penalties of up to $500 per day the violation continues, and criminal penalties of up to $10,000, imprisonment of up to two years or both.

Actions to Take Now

- Learn the reporting requirements under the CTA and understand how it applies to your business holdings.
- Gather identifying documentation for the beneficial owners and company applicants for your reporting companies.
- File initial reports before the end of 2024 for your reporting companies created or registered before January 1, 2024.
- File initial reports for newly formed entities, and report updates to beneficial ownership as they occur.

With these new requirements, it's important to have a plan in place before the end of 2024. Please be sure to consult with a professional advisor to identify the full impact of the CTA on your company or business holdings.

Sources:

[8] https://www.americanbar.org/groups/business_law/resources/business-law-today/2021-may/the-corporate-transparency-act/

[9] https://www.mayerbrown.com/en/perspectives-events/publications/2023/12/groundbreaking-us-corporate-transparency-act-takes-effect-january-1

Explore Insights

Prepare for the Corporate Transparency Act: Reporting Requirements and Penalties

Real Estate Outlook

For years, the real estate market has seen increased volatility due to higher interest rates, supply chain disruptions and housing shortages in many major markets. As we move into 2025, let's look at early indicators for which direction the market may be heading.

The U.S. economy outperformed expectations with a 2.8% GDP growth through Q2 of 2024, driven by consumer spending and a strong labor market, despite various inflation-related headwinds. A strong economy provided a runway for growth in housing and investment.

At the same time, given the combination of underbuilding over the last 15 years and a growing population, there remains latent demand for new housing. Demand is exacerbated by population migration to the Sun Belt and the lack of existing housing inventory since the onset of the pandemic.

As 2024 comes to an end, we expect housing to remain close to, but under, the historical average of 1.5 million per year — enough to create some weakness in 2025, but not enough to induce a recession. Although the Allen Matkins Data from January 2024 new home starts suggested further decline in housing — with the issuance of new permits for approximately 1.5 million units and the unseasonal weather in the East and Midwest — it looks like this is only a temporary downturn in residential construction.

The often predicted but never seen "recession next quarter" possibility has now faded in the face of expansionary fiscal policy, new national industrial policy and a consumer who is happy to continue spending. Further supporting this trend is the Fed's recent reduction in interest rates.

Looking ahead, we expect gradual productivity gains from new technology, including AI and robotics, to increase wages and drive GDP growth. The real impact is likely to show after 2026 as technology adoption expands, but current tight labor markets could accelerate that.

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[Stephen's Bio]

2024-2025: Awaiting Normalization and Shopping for Opportunities

We believe there could be an increase in real estate demand in late 2024 and 2025, especially if interest rates gradually decline. After years of low financing rates, there is a sense of pent-up demand in residential and commercial real estate.

One of the more attractive opportunities may be in shopping center REITs. Although many have avoided REITs due to the industry's long-term headwinds, shopping centers could prove emerging value.

Malls tend to be destinations for shopping for "wants," such as clothing and luxury items, which consumers often cut back on in a pinch. But shopping centers tend to be destinations for meeting "needs," such as buying groceries and filling prescriptions — items consumers are likely to continue buying even when finances tighten.

With household credit quality weakening under high interest rates, budget-conscious consumers have been gravitating to shopping centers. Furthermore, remote and hybrid work have benefited shopping centers, as these properties are often located closer to people's homes.

Favorable supply and demand dynamics have also benefitted shopping centers — which lease their space to commercial and retail tenants. We've favored shopping center REITs with strong fundamentals, such as those benefitting from high occupancies and robust rental rate growth potential.

Opportunities in Data Centers, Senior Housing and More

Elsewhere in the REITs market, a number of subsectors have shown promising long-term growth potential. Data centers — where cloud providers turn to meet their massive storage needs — are one such area. The rise of artificial intelligence (AI) is accelerating the demand for these interconnection sites, which benefit from restricted supply and strong pricing power.

Another opportunity that shows promise is health care real estate — particularly senior housing, which could enjoy a tailwind from demographics. A rapidly aging U.S. population, as well as some other developed nations, supports demand for higher quality assisted living and memory-care facilities. These facilities generally cater to older individuals who can afford to pay rent out-of-pocket for their rooms.

Continued:
Real Estate Outlook

KEY TAKEAWAYS:

- **There is growing belief the U.S. will avoid recession and achieve a "soft-landing" in 2025, but economic growth is likely to slow, elevating downside risks.**
- **Slowly falling interest rates should boost investment activity in late 2024-2025.**
- **Home sales will remain constrained as long as mortgage rates stay over 6%, but are expected to rise as mortgage rates and inflation decline.**
- **Home prices will mostly hold their value in the short term from lack of supply, but that could vary between markets due to local fundamentals.**
- **Rental growth should flatten as supply increases in fast-growing markets, but will rise quicker for single-family versus multifamily units.**
- **Mortgage rates will likely range from 6%-7% unless there is a recession, but short-term lending rates will likely start gradually falling by late 2024.**

Commercial Real Estate Overview

Commercial real estate and construction activity slowed significantly in 2024 due to higher interest rates, falling cap rates and valuation concerns. As a result, investors have adjusted their strategies in 2024.

Most concerning has been the impact of hybrid work on the office class. Over the last three years, hybrid work has driven portfolio reductions and decreased valuations. According to Bloomberg about $557 billion of value has been erased from U.S. Office because of falling demand with older, lower quality properties disproportionately impacted. CBRE suggests only 2% of the country's office buildings are considered to be top tier, charging rents that are 84% higher on average than the rest of the market.

According to Rich Hill, head of real estate research at Cohen & Steers, "Investors and lenders are indiscriminately putting all Office properties into the same bucket. Office isn't going away, and the market is missing many potential opportunities that are emerging." One of those opportunities is Office Conversions. Older buildings often lack the amenities to attract tenants, so several of them will undergo conversions to other uses like Multifamily or Medical Office.

One boost to the conversion theme is that the federal government has begun to support office-to-residential conversion through a program of grants that include low-interest loans and tax incentives. This should help lenders mitigate many of the risks to conversion.

Continued:
Real Estate Outlook

Multifamily properties continue to perform well. However, a significant wave of new apartment supply has started tempering rent growth and improving affordability for renters. With 440,00 new units in 2024, and an expected 900,000 more in 2025, the overall vacancy rate is expected to rise slightly in many markets, potentially putting pressure on rental rates. As a result, investors should build this into consideration, especially in tertiary markets.

Despite near-term economic weakness and rising vacancy rates, there appears to be enough demand to keep occupancy rates above 94%. Much of the new unit development has occurred in the projected highest job growth markets like Austin, Dallas, Nashville and Atlanta. This should allow for reasonable absorption.

The U.S. Industrial Market has remained robust in 2024 and is projected to continue in 2025, according to CBRE research. However, Industrial Supply has experienced a slowdown in 2024 as new construction tapers off. CBRE expects vacancy rates to remain around the 10-year average of 5.0%, falling off in the second half of 2025. New development will remain low from tight lending conditions, economic uncertainty and an oversupply of large warehouse and distribution facilities in certain markets.

Retail real estate fundamentals remained surprisingly strong in 2024, due to a significant reduction in construction over the past several years. CBRE expects retail vacancy rates to decline to 4.6% by year-end 2025. This is largely from increased costs of construction keeping new supply from coming online. Only a few markets can demand rents high enough to offset the increased costs of construction and financing, which have grown 6.5% year-over-year, according to CBRE. Demand appears to be highest for open-air suburban retail centers versus for traditional mall-based facilities.

KEY TAKEAWAYS:

- **The biggest wave of new apartment supply in decades will temper rent growth and improve affordability, especially in major metro areas. Investor activity is likely to increase in 2024, especially as rates moderate.**
- **Retail real estate fundamentals are expected to remain strong due to the scarcity of new construction deliveries that may continue through the end of the decade.**
- **The Industrial Market is expected to remain healthy, and net absorption should be on par with 2024 levels.**
- **Cap rates should continue to rise through 2025 and stabilize by year-end, marking a new baseline in asset pricing.**
- **It is likely debt funding gaps persist for Office and some Multifamily assets due to higher interest rates and difficulty in passing through rent increases from greater supply.**

Continued:
Real Estate Outlook

Residential Real Estate Overview

Evidence suggests meaningful latent demand for housing, ranging from 1.5 million to 7.2 million units. The National Association of Home Builders expects this pent-up demand to be met between 2025 and 2030. However, unless the post-pandemic rebound in immigration continues, changing demographics by 2030 are likely to result in lower demand for new housing.

Although a recession is no longer predicted, economic growth is expected to decline from 2024's fairly robust rate of 2.8% in Q2 2024 to 2.0% in 2025. However, should the country enter a recession, these predictions would change accordingly.

Home Prices: After rising 1.8% in 2023 and jumping 5.8% year-over-year through May 2024, home prices are forecasted to flatten as more listings come available and rates remain relatively high. From 2025 through 2029, given the large run-up from 2021 through now, home prices are predicted to rise more gradually at around a percentage point above the rate of inflation, estimating an increase of about 17% from 2024 levels.

Home Sales: After falling sharply in 2023 to the lowest level since 1995, existing home sales are predicted to rise from 2025 through 2029 as mortgage rates decline. Sales of new homes, which continued to increase in 2023 due to builders' ability to buy down mortgage rates to boost affordability, will expand on those gains through 2029, but continue to be limited by competition for buildable land and skilled labor.

Home Rents: After rising sharply in 2021 and 2022, home rents continued to rise through May 2024 at a more moderate pace, largely from markets that have seen major increases in supply. For 2025, rents are expected to rise more for single-family homes than multifamily units. By 2029, rent increases are predicted to track inflation rates, but rise more quickly for single-family homes.

As we enter 2025, expect continued development in the Commercial and Residential Real Estate markets. With the recent reduction in interest rates — and more rate cuts expected in 2025 — real estate values are likely to continue fluctuating.

To stay updated on emerging trends, speak with your financial advisor or an expert in the real estate space.

Sources:

CBRE Global Workplace & Occupancy insights 2023-2024

Bloomberg 2024

Allen Matkins and UCLA Anderson Forecast Commercial Real Estate Survey Summer 2024

IMPORTANT DISCLOSURES

comerica.com/wealth-management