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ALERT — IRS ANNOUNCES INFLATION ADJUSTMENTS FOR 2024

Many amounts upon which federal taxes are based are adjusted annually to consider inflation. Recently the IRS released the inflation adjustments for 2024.

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Many of the dollar amounts upon which federal taxes are based must, by law, be adjusted to reflect the impact of inflation. Not adjusting those value-based provisions within the Internal Revenue Code (IRC) for inflation could cause strange results. For instance, each year many employees receive a cost-of-living adjustment (essentially an inflation adjustment) to their salary. If the income tax brackets were not also adjusted for inflation, over time the employee who receives only cost-of-living adjustments would be pushed into a higher marginal tax rate even though the real purchasing power of the employee's salary had not increased.

Inflation adjustments can be found in various pronouncements from the Internal Revenue Service (IRS). The adjustments discussed in this alert can be found in Notice 2023-75 and Revenue Procedure 2023-34. Both are available at www.irs.gov.

Following are selected inflation adjustments that could impact your tax calculations.



INCOME TAX

INCOME TAX RATES

The IRS has released tax rates for 2024. Table 1 shows the rates for certain individuals and estates and trusts. Rates other than those shown in this alert can be found in Section 3.01 of Rev. Proc. 2023-34.

TABLE 1

2024 FEDERAL INCOME TAX RATES	
FOR MARRIED INDIVIDUALS FILING JOINTLY	
If Taxable Income Is	The Marginal Tax Rate Is
Not over \$23,200	10%
Over \$23,200 through \$94,300	12%
Over \$94,300 through \$201,050	22%
Over \$201,050 through \$383,900	24%
Over \$383,900 through \$487,450	32%
Over \$487,450 through \$731,200	35%
Over \$731,200	37%
FOR UNMARRIED INDIVIDUALS OTHER THAN HEADS OF HOUSEHOLDS AND SURVIVING SPOUSES	
If Taxable Income Is	The Marginal Tax Rate Is
Not over \$11,600	10%
Over \$11,600 through \$47,150	12%
Over \$47,150 through \$100,525	22%
Over \$100,525 through \$191,950	24%
Over \$191,950 through \$243,725	32%
Over \$243,725 through \$609,350	35%
Over \$609,350	37%
ESTATES AND TRUSTS	
Not over \$3,100	10%
Over \$3,100 through \$11,150	24%
Over \$11,150 through \$15,200	35%
Over \$15,200	37%

Source: IRS

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CAPITAL GAIN TAX RATES

The thresholds at which capital gain tax rates apply have also been adjusted for inflation. Table 2 lists the rates for certain individuals and estates and trusts.

Rates other than those shown in this alert can be found in Section 3.03 of Rev. Proc. 2023-34.

TABLE 2

2024 CAPITAL GAIN TAX RATES		
TAXPAYER TYPE	0% RATE APPLIES IF TAXABLE INCOME IS LESS THAN OR EQUAL TO	15% RATE APPLIES IF TAXABLE INCOME IS LESS THAN OR EQUAL TO
Married Individuals Filing Jointly or Surviving Spouse	\$94,050	\$583,750
Married Individuals Filing Separately	\$47,025	\$291,850
Heads of Households	\$63,000	\$551,350
All Other Individuals (Other than Married Individuals Filing Separately)	\$47,025	\$518,900
Estates and Trusts	\$3,150	\$15,450

Source: IRS

A 20% capital gain tax rate applies if taxable income is greater than the taxable income cap shown in the foregoing table for which a 15% rate applies.



TAX ON NET INVESTMENT INCOME

A taxpayer is subject to a tax on net investment income when such taxpayer's modified adjusted gross income exceeds a certain threshold. The threshold amount for individuals is not indexed for inflation. Table 3 lists the threshold amounts for 2024.

TABLE 3

2024 THRESHOLD AMOUNTS ON NET INVESTMENT INCOME	
TAXPAYER TYPE	THRESHOLD AMOUNT (MAGI)
Married Individuals Filing Jointly or Surviving Spouse	\$250,000
All Other Individuals Except Married Filing Separately	\$200,000
Married Filing Separately	\$125,000
Estates and Trusts	\$13,450

Source: IRS

ADDITIONAL MEDICARE WAGE TAX

Taxpayers (other than estates and trusts) are subject to an additional 0.9% Medicare tax on wages (and self-employment income) that exceed a certain threshold. The thresholds are not adjusted for inflation. For 2024, the thresholds are listed in Table 4.

TABLE 4

2024 MEDICARE WAGE TAX	
TAXPAYER TYPE	THRESHOLD AMOUNT (MAGI)
Married Individuals Filing Jointly or Surviving Spouse	\$250,000
All Other Individuals Except Married Filing Separately	\$200,000
Married Filing Separately	\$125,000

Source: IRS

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STANDARD DEDUCTION

When determining taxable income, taxpayers may elect to itemize deductions or take the standard deduction. The standard deduction amount is indexed for inflation. For 2024, the standard deduction amount can be found in Table 5.

TABLE 5

2024 STANDARD DEDUCTION AMOUNTS	
TAXPAYER TYPE	STANDARD DEDUCTION
Married Individuals Filing Jointly or Surviving Spouse	\$29,200
Heads of Households	\$21,900
Unmarried Individuals Other than Surviving Spouses and Heads of Households	\$14,600
Married Individuals Filing Separately	\$14,600

Source: IRS

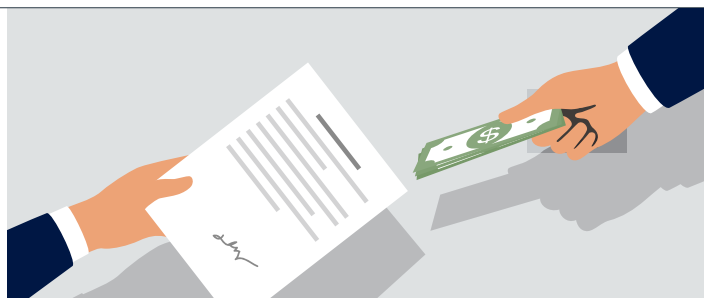
For 2024, the standard deduction amount for an individual who may be claimed as a dependent cannot exceed the greater of \$1,300, or the sum of \$400 and the individual's earned income.

For 2024, the additional standard deduction amount for the aged or the blind is \$1,550. The additional standard deduction amount is increased to \$1,950 if the individual is also unmarried and not a surviving spouse.

UNEARNED INCOME OF MINOR CHILDREN (COLLOQUIALLY KNOWN AS THE KIDDIE TAX)

Parents may elect to include a minor child's income on their own federal income tax return (and not file a separate return for the child) if certain conditions are met, including that the child had income only from interest and dividends for the tax year. For 2024, a parent may make this election if the child has gross income between \$1,300 (the child's standard deduction amount as adjusted for 2024) and \$13,000. Above that threshold, the child must file a separate return.

Also, the threshold for taxing a child's net unearned income at the parent's rates (the Kiddie Tax) is increased to twice the child's standard deduction amount or \$2,600.



TAX CREDITS

Certain tax credits such as the adoption credit, the child tax credit, the earned income credit and others have phase out amounts and other tests dependent upon income thresholds. The inflation adjustments for these thresholds can be found in Section 3.04 et. seq. of Rev. Proc. 2023-34.

ALTERNATIVE MINIMUM TAX

Taxpayers may limit the amount subject to income tax by using deductions, exemptions, losses and tax credits. It is possible to use those items to produce a federal income tax of zero dollars. The alternative minimum tax (AMT) is a separate way of calculating income tax by adding back some of those items (known as tax preference items) to calculate a different base amount on which tax is calculated (alternative minimum taxable income or AMTI). Although the details are beyond the scope of this alert, a taxpayer's AMT is the amount by which AMT exceeds regular federal income tax. A certain amount of AMTI is exempt from the AMT; this amount is adjusted annually for inflation (Table 6). AMT exemption amounts are phased out or reduced 25% for each dollar of AMTI over certain threshold amounts. These thresholds are also adjusted for inflation (Table 7, page 5). The AMT rate is 26% for taxpayers below and 28% for taxpayers above a threshold amount (Table 8, page 5).

TABLE 6

2024 AMT EXEMPTION AMOUNTS	
TAXPAYER TYPE	EXEMPTION AMOUNT (AMTI)
Married Individuals Filing Jointly or Surviving Spouse	\$133,300
Unmarried Individual (other than Surviving Spouses)	\$85,700
Married Filing Separately	\$66,650
Estates and Trusts	\$29,900

Source: IRS

TABLE 7

2024 AMTI EXEMPTION PHASE-OUT AMOUNTS		
TAXPAYER TYPE	THRESHOLD PHASE-OUT AMOUNT (AMTI)	COMPLETE PHASE-OUT AMOUNT (AMTI)
Married Individuals Filing Jointly or Surviving Spouse	\$1,218,700	\$1,751,900
Unmarried Individuals Other than Surviving Spouses	\$609,350	\$952,150
Married Individuals Filing Separately	\$609,350	\$875,950
Estates and Trusts	\$99,700	\$219,300

Source: IRS

TABLE 8

2024 AMTI THRESHOLD OVER WHICH THE 28% AMT RATE APPLIES	
TAXPAYER TYPE	THRESHOLD AMOUNT (AMTI)
All Taxpayers Other than Married Filing Separately	\$232,600
Married Filing Separately	\$116,300

Source: IRS



QUALIFIED BUSINESS INCOME (QBI); IRC SECTION 199A

Owners of pass-through entities, such as partnerships and S corporations, may receive a deduction of up to 20% of qualified business income (QBI) from qualifying pass-through entities. For taxpayers with taxable income below a threshold amount, the full 20% deduction is available. Above that taxable income threshold amount, the deduction phases out. For taxpayers above the maximum taxable income threshold amount engaged in a specified trade or business (SSTB), the QBI deduction is eliminated. For taxpayers above the maximum taxable income threshold amount and not engaged in an SSTB, other rules apply to determine the amount of the QBI deduction. The threshold amounts are indexed for inflation (Table 9).

TABLE 9

2024 QBI DEDUCTION THRESHOLDS		
TAXPAYER TYPE	THRESHOLD AMOUNT	PHASE-IN/ PHASE-OUT AMOUNT
Married Individuals Filing Jointly	\$383,900	\$483,900
Married Individuals Filing Separately	\$191,950	\$241,950
All Other Returns	\$191,950	\$241,950

Source: IRS

FEDERAL ESTATE, GIFT AND GENERATION-SKIPPING TRANSFER TAXES

- For 2024, the basic exclusion amount for estate and gift taxes will be \$13,610,000.
- For 2024, the aggregate decrease in the value of qualified real property resulting from a special use valuation election will be \$1,390,000.
- For 2024, the annual exclusion amount for gifts will be \$18,000. For gifts to non-citizen spouses, for 2024, the annual exclusion amount will be \$185,000.
- For 2024, the GST exemption will be \$13,610,000.
- For 2024, a U.S. person must report foreign gifts received from certain foreign persons if the aggregate value of gifts received in the taxable year exceeds \$19,570.

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RETIREMENT PLAN LIMITS

Inflation adjustments for many qualified retirement plans and accounts are found in Notice 2023-75. Below are selected inflation adjustments. For specific inflation adjustments not included in this alert, refer to Notice 2023-75.

For 2024, the deductible amount for contributions to IRAs and Roth IRAs will be \$7,000. For taxpayers aged 50 years and older, the \$1,000 deductible catchup contribution remains the same.

For 2024, basic deferral amounts for employer provided 401(k), 403(b) and many 457 plans will increase to \$23,000. For taxpayers age 50 years and older, the additional catchup contribution limit increases to \$7,500. The overall limit for contributions to an employer provided 401(k) plan (which includes employer contributions) increases to \$69,000.

For 2024, the contribution limit to SEP IRAs increases to \$69,000.

For 2024, the contribution limit to SIMPLE plans increases to \$16,000. For taxpayers age 50 years and older, the additional catchup contribution limit remains \$3,500.

For taxpayers who are covered by an employer plan, the ability to make deductible contributions to a traditional IRA phases out at certain levels of adjusted gross income (AGI) (Table 10).

TABLE 10

2024 DEDUCTIBLE IRA CONTRIBUTION THRESHOLDS FOR TAXPAYERS COVERED BY EMPLOYER PLANS		
TAXPAYER TYPE	THRESHOLD PHASE-OUT AMOUNT (AGI)	COMPLETE PHASE-OUT AMOUNT (AGI)
Married Individuals Filing Jointly; Covered Spouse Contributing	\$123,000	\$143,000
Married Individuals Filing Jointly; Non-covered Spouse Contributing	\$230,000	\$240,000
Unmarried Individuals; Heads of Households	\$77,000	\$87,000
Married Individuals Filing Separately	\$0	\$10,000

Source: IRS

Taxpayers are prohibited from contributing to a Roth IRA if their AGI exceeds certain thresholds (Table 11).

For 2024, the maximum amount allowed as a qualified charitable distribution (QCD) from an IRA is \$105,000.

For 2024, the maximum amount eligible for the one time election to treat a distribution from an IRA to a qualified split interest trust as a QCD is \$53,000.

TABLE 11

2024 ROTH IRA CONTRIBUTION AGI THRESHOLDS		
TAXPAYER TYPE	THRESHOLD PHASE-OUT AMOUNT (AGI)	COMPLETE PHASE-OUT AMOUNT (AGI)
Married Individuals Filing Jointly	\$230,000	\$240,000
Unmarried Individuals; Heads of Households	\$146,000	\$161,000
Married Individuals Filing Separately	\$0	\$10,000

Source: IRS

PLAN FOR INFLATION ADJUSTMENTS

Annual adjustments for inflation can impact your tax and retirement planning for the year 2024.

Your PNC Private Bank® team can help you plan for inflation-adjusted amounts throughout the year.

If you would like to adjust your plans to take account of inflation adjustments or just check their impact on your current plan, please contact any member of your PNC Private Bank team.

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For more information, please contact your PNC Private Bank advisor.

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