BRADFORD TAX INSTITUTE

November 2024

2024 Last-Minute Tax Strategies for Marriage, Kids, and Family

If you have children under the age of 18 and you file your business tax return as a proprietorship or partnership, you can find big savings in the work your children do for your business.

And if you operate as a corporation, don't neglect to hire your children; there are good savings for you there, too.

In this article, you will find five year-end tax-deduction strategies that apply if you are getting married or divorced, have children who did or could work in your business, and/or have situations where you give money to relatives and friends.

1. Put Your Children on Your Payroll

Did your children under age 18 help you in your business this year? Did you pay them for their work?

You should pay them for the work—and pay them on a W-2.

Why?

First, W-2 wages paid by the parent to the parent's under-age-18 child for work done that will be reported on the parent's Form 1040 Schedule C business are[1]

- deductible by the employer-parent, and
- exempt from federal payroll taxes for both the parent and the child.

Thus, if you operate your business as a sole proprietorship or single-member LLC taxed on Schedule C or as a spousal partnership, then the following three points are true:

- You face no federal payroll taxes on the W-2 wages you pay your under-age-18 child.
- In most states, you face no state payroll taxes.

- Your under-age-18 child faces no federal payroll taxes and, in most states, no state payroll taxes.

If you operate as a corporation, your child and the corporation pay payroll taxes. But that does not eliminate the benefits; it simply reduces them.

To see the benefits of hiring your child in your business, regardless of the type of business, see Tax Reform Increases the Tax Benefits of Employing Your Child.

Second, thanks to tax reform, your child can use the 2024 standard deduction to eliminate income taxes on up to $14,600 in wages.[2]

Third, your child can contribute up to $7,000 to either of the following:[3]

1. **A tax-deductible traditional IRA,** which allows the child to deduct that amount from federal taxation. This is the strategy to use if the child has more than $14,600 in W-2 wages and you want the child to have more tax-free money.[4] (On the other hand, many would say if the child is in the 10 percent or 12 percent tax bracket, the traditional IRA tax savings are not worth it. They would say use a Roth for the better financial result.)

2. **A Roth IRA,** which is not tax-deductible but allows the child to (a) remove the contributions (money put in) at any time, tax- and penalty-free; and (b) remove the earnings tax-free after age 59 1/2.[5] This is the best strategy to use if the child has $14,600 or less in total W-2 wages and other earned income, because the child has no need for a tax deduction.

Example. Your child is age 14, and she has no income other than what she earns from your sole proprietorship business. You pay her, as W-2 income, $11,800 in fair market wages for work she actually does during the year. You deduct the $11,800 and pocket $4,366 (because your federal income tax bracket is 37 percent).

Your daughter collects the $11,800 and pays zero taxes to the federal government because

- she is exempt from federal payroll taxes, and
- the $14,600 standard deduction eliminates the $11,800 from her taxable income.

She can then put up to $7,000 in a Roth IRA and begin saving for her retirement, college, or other financial goals.

Your family unit retains the $11,800 and also has $4,366 in additional spendable cash, thanks to the tax deduction.

Key point. To avoid payroll taxes, the parent must pay the wages to the child on a W-2. If you use a Form 1099, your recipient child pays self-employment taxes on the 1099 income.

Corporation. If you operate your business as a C or an S corporation, the corporation does the hiring; therefore, both your corporation and your child pay payroll taxes. This is not a deal-breaker for the strategy, but it does reduce the net family benefit.

The payroll taxes on the child are also a negative for the corporation when you're comparing the corporation with the proprietorship as a possible choice of business entity.

For additional insights into the benefits of hiring your child, see Get Paid: Hire Your Child. Also, see Use Business Tax Deductions to Build Your Child's College Fund for how the Roth IRA enhances this strategy when the child has no taxable income because his or her earned income is less than the standard deduction.

Kiddie-tax note. The nasty kiddie tax does not apply to the child's wages and other earned income. The kiddie tax applies to unearned income, such as dividends, interest, and rents—not to W-2 income.

2. Get Divorced after December 31

The marriage rule works like this: you are considered married for the entire year if you are married on December 31.[6]

Although lawmakers have made many changes to eliminate the tax-benefit differences between married and single taxpayers, in most cases the joint return will work to your advantage. Thus, it may be better to wait until next year to finalize the divorce.

The only way to know the true impact of being married before or after December 31 is to run the taxes in a before-and-after scenario. True, that's an inconvenience, but it can produce a most worthwhile result.

And if you are married on December 31, don't file as married, filing separately. In most cases, this is a sure way to overpay your taxes.

Warning on alimony! The Tax Cuts and Jobs Act (TCJA) changed the tax treatment of alimony payments under divorce and separate maintenance agreements executed after December 31, 2018:[7]

- Under the old rules, the payor deducts alimony payments and the recipient includes the payments in income.
- Under the new rules, which apply to all agreements executed after December 31, 2018, the payor gets no tax deduction and the recipient does not recognize income.

3. Stay Single to Increase Mortgage Deductions

Two single people can deduct more mortgage interest than a married couple, as we explain in Do New Rules Allow You to Double Your Mortgage Interest Deductions?

If you own a home with someone other than your spouse and you bought it on or before December 15, 2017, you individually can deduct mortgage interest on up to $1 million of a qualifying mortgage.

For example, if you and your partner live together and own the home together (but are not married), the mortgage ceiling on deductions for the two of you is $2 million. If you get married, the ceiling drops to $1 million.

If you bought your house after December 15, 2017, then the reduced $750,000 mortgage limit from the TCJA applies. In that case, for two single people, the maximum deduction for mortgage interest is based on a mortgage ceiling of $1.5 million.[8]

4. Get Married on or before December 31

Remember, if you are married on December 31, you are married for the entire year.

If you are thinking of getting married in 2025, you might want to rethink that plan for the same reasons that apply in a divorce (as described above). The IRS could make big savings available to you for the 2024 tax year if you get married on or before December 31, 2024.

Again, you have to run the numbers in your tax return both ways to know the tax benefits and detriments for your particular case. But an earlier trip to the courthouse may save you thousands.

5. Make Use of the 0 Percent Tax Bracket

In the old days, you used this strategy with your college student. Today, this strategy does not work with the college student, because the kiddie tax now applies to students up to age 24.[9]

But this strategy is a good one, so ask yourself this question: Do I give money to my parents or other loved ones to make their lives more comfortable?

If the answer is yes, is your loved one in the 0 percent capital gains tax bracket? The 0 percent capital gains tax bracket applies to a single person with less than $47,025 in taxable income and to a married couple with less than $94,050 in taxable income.[10]

If the parent or other loved one is in the 0 percent capital gains tax bracket, you can get extra bang for your buck by giving this person appreciated stock rather than cash.

Example. You give Aunt Millie shares of stock with a fair market value of $20,000, for which you paid $2,000. Aunt Millie sells the stock and pays zero capital gains taxes. She now has $20,000 in after-tax cash to spend, which should take care of things for a while.

Had you sold the stock, you would have paid taxes of $4,284 in your tax bracket (23.8 percent x the $18,000 gain).

Of course, $2,000 of the $20,000 you gifted goes against your $13.61 million estate tax exemption if you are single.[11]

If you're married and you make the gift together, you each have an $18,000 gift-tax exclusion, for a total of $36,000, and that eliminates the gift tax. But you must file a gift-tax return that shows the government you split the gift.

Takeaways

If you have a child under the age of 18 and you operate your business as a Schedule C sole proprietor or as a spousal partnership, you absolutely need to consider putting that child on your payroll. Why?

- First, neither you nor your child would pay payroll taxes on the child's income.
- Second, with the addition of a traditional IRA to the standard deduction, the child can avoid all federal income taxes on up to $21,600 in income.

If you operate your business as a corporation, you can still benefit by employing the child even though you and the child have to pay payroll taxes.

If you are getting divorced or married, make sure to consider the mortgage ceiling available to singles who co-own homes as well as the post-TCJA alimony rules. Keep December 31 front of mind. If you are married on that date, you are considered married for the calendar year, and being married affects your taxes.

To know for sure what dollar effect marriage has for you —positive or negative—run the numbers through a tax return or have your tax professional do this.

Finally, if you're giving money to family and friends, in the right circumstances you can give those recipients stock instead and have them take advantage of their zero capital gains tax bracket.

Client Letter on This Article for Your Use. Click Here.

Share this entire article with a friend

1 IRC Sections 3121(b)(3)(A); 3306(c)(5).
2 Rev. Proc. 2023-34.
3 IRS Notice 2023-75.
4 IRC Section 219(b)(5)(A); Rev. Proc. 2023-34.
5 IRC Section 408A; Rev. Proc. 2022-38. For more, see How Are Roth IRA Withdrawals Taxed?
6 IRC Section 7703(a).
7 Pub. L. No. 115-97, Sections 11051(b)(1)(B) and (C); IRC Sections 71; 215.
8 IRC Section 163(h)(3)(F)(i)(II).
9 IRC Section 152(c)(3)(A)(ii).
10 Rev. Proc. 2023-34.
11 IRC Section 2503(b) and IRC Section 2010, both of which were adjusted for inflation by Rev. Proc. 2023-34.