

Y E A R - E N D Y E A R - R O U N D



2024

T A X P L A N N I N G G U I D E



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Year-End, Year-Round Tax Planning Guide 2024

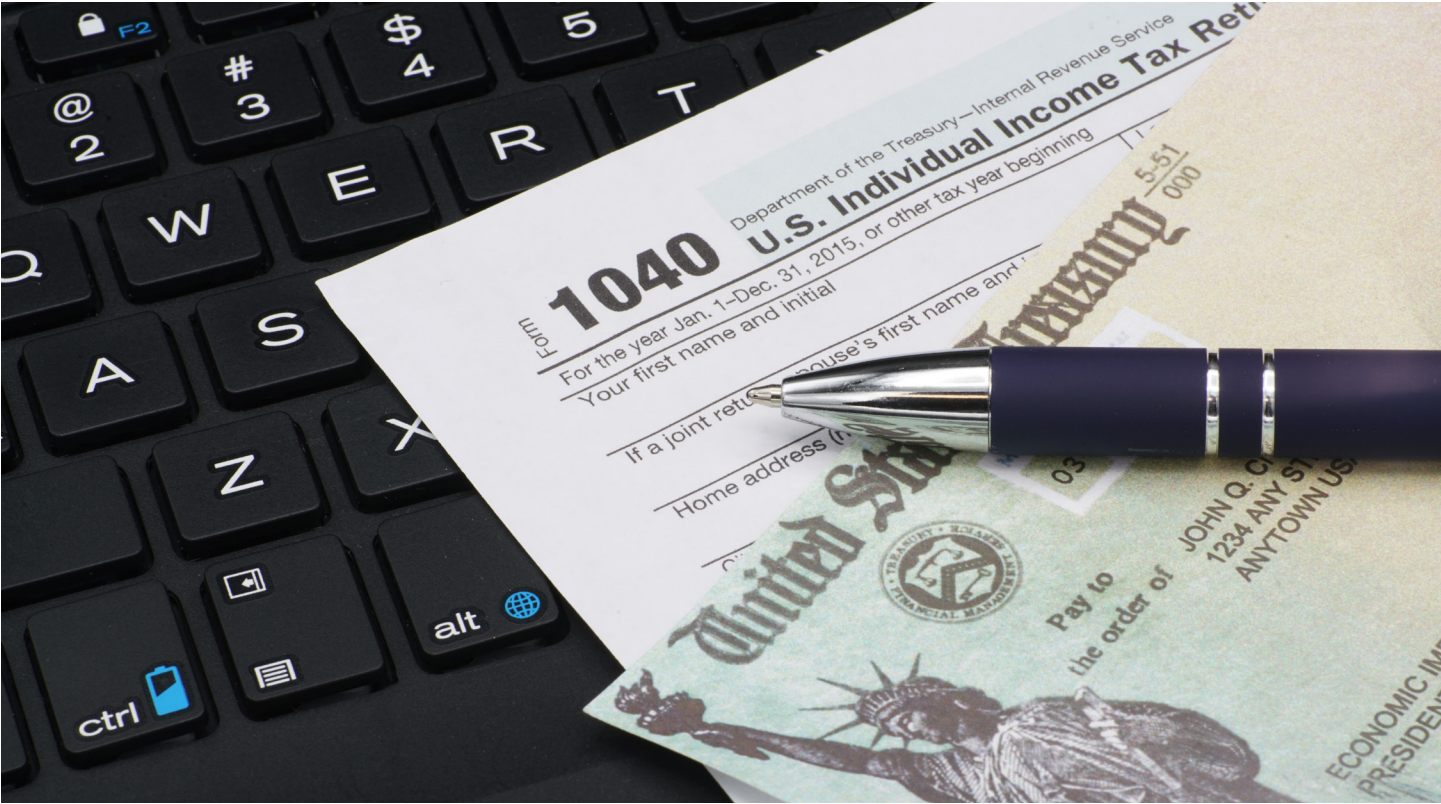
The end of the year presents a unique opportunity to make sensible financial moves that can help save money on your federal and state income taxes. Now is a good time to start working with your tax professional to plan year-end tax moves and formulate a tax plan for the entire year.

This tax planning guide has been prepared based on the current tax laws. After the 2024 presidential election, there may be changes to the tax laws that have implications for your tax planning. We urge you to obtain professional advice before acting on any of the suggestions provided in this guide.

2024 TAX BRACKETS

The following federal tax rates apply to taxable income for tax year 2024 (for tax returns to be filed in the spring of 2025):

| Tax rate | Single filer | Married filing jointly or qualifying widow(er) | Married filing separately | Head of household |
|----------|-----------------------|--|---------------------------|-----------------------|
| 10% | \$0 – \$11,600 | \$0 – \$23,200 | \$0 – \$11,600 | \$0 – \$16,550 |
| 12% | \$11,601 – \$47,150 | \$23,201 – \$94,300 | \$11,601 – \$47,150 | \$16,551 – \$63,100 |
| 22% | \$47,151 – \$100,525 | \$94,301 – \$201,050 | \$47,151 – \$100,525 | \$63,101 – \$100,500 |
| 24% | \$100,526 – \$191,950 | \$201,051 – \$383,900 | \$100,526 – \$191,950 | \$100,501 – \$191,950 |
| 32% | \$191,951 – \$243,725 | \$383,901 – \$487,450 | \$191,951 – \$243,725 | \$191,951 – \$243,700 |
| 35% | \$243,726 – \$609,350 | \$487,451 – \$731,200 | \$243,726 – \$365,600 | \$243,701 – \$609,350 |
| 37% | \$609,351 or more | \$731,201 or more | \$365,601 or more | \$609,351 or more |



Strategies for Individual Taxpayers

A good way to start your year-end tax planning is by identifying any changes in your personal situation that may affect your taxes. A change in your marital status, a move, a job change, a new business, retirement, a new dependent or loss of one—any of these life events would likely have a tax impact. Similarly, you'll want to be alert to any tax law changes that may present planning opportunities.

Your marginal rate. For planning purposes, focus on your marginal tax rate, which is the rate that applies to your next dollar of taxable income. Knowing your marginal rate can help you gauge the impact of various planning strategies. For example, an additional \$1,000 deduction would save \$350 in taxes for a taxpayer in the 35% tax bracket.

Standard deduction vs. itemized deductions. You can reduce your taxable income by claiming the standard deduction, a fixed dollar amount that gets modified each year, or itemized deductions. While itemized deductions can result in a lower tax liability depending on your situation, they require detailed records and receipts to substantiate each deduction. For tax year 2024, the standard deduction is as follows:



Single & married filing separately

\$14,600 (previously \$13,850)



Heads of household

\$21,900 (previously \$20,800)



Married filing jointly

\$29,200 (previously \$27,700)

There is an additional standard deduction for persons age 65 and older or blind. As the standard deduction rises, fewer taxpayers will itemize. As a possible tax savings strategy, consider itemizing every other year and accelerating or postponing itemized deductions as necessary to “bunch” more itemized deductions in a particular year.

Certain deductions are still affected by the measure of the taxpayer's adjusted gross income (AGI), notably charitable donations and medical expenses.

State and local tax deduction limit. There's a limit of \$10,000 for the sum of property tax on a U.S. personal residence plus state income tax (or sales tax can be substituted for state income tax). The property tax deduction limit does not apply when incurred in a trade or business or for the production of income. Some states have enacted legislation allowing owners of pass-through entities to potentially bypass this limit. IRS Notice 2020-75 permitted this as a workaround to the \$10,000 cap for individual taxpayers who own pass-through businesses such as S corporations, partnerships, and LLCs. Consult with your tax advisor about this strategy if you own a pass-through entity.

• • •
There are two methods for taxpayers to choose from, and a tax advisor can help identify the most beneficial route to reduce overall tax liability.
• • •

Mortgage interest deduction. You can deduct home mortgage interest on loans up to \$750,000 for your primary home or a second home. That limit is \$1M if the home was purchased before December 16, 2017.

“Home equity indebtedness” may not be deductible as home mortgage interest, but there is an exception when such debt is used to buy, build, or substantially improve the home and the home secures the debt. Certain home improvements, including energy-efficient and medical ones, might qualify for deductions or credits, so keep careful records and consult your tax advisor.

Donation deductions. Donations to qualified charities are deductible if you itemize deductions by filing Schedule A. As noted earlier in this guide, you may want to coordinate the year that you itemize with “bunching” your charitable donations so that your total itemized deductions will surpass your standard deduction. There are various ways, including Donor-Advised Funds (DAFs) and Qualified Charitable Distributions (QCDs), to plan charitable giving for tax benefit. In addition, you can consider donating the required minimum distribution of your IRA to a qualified charity. Tax laws and regulations are always evolving, so it’s crucial to consult with your tax advisor to tailor your charitable giving strategy to your specific financial situation.

Additional 0.9% Medicare tax. This is tax imposed on earned income exceeding certain thresholds. While the regular Medicare tax applies to all earnings, the 0.9% tax applies only to earnings over \$200,000 (single/head of household), \$250,000 (married filing jointly) or \$125,000 (married filing separately). The additional Medicare tax was introduced by the Affordable Care Act and is still with us.

Net investment income tax. Another Affordable Care Act provision, the 3.8% net investment income tax, is also still with us. It affects higher-income investors with modified AGI over \$200,000 (single/head of household), \$250,000 (married filing jointly) or \$125,000 (married filing separately). You can find more details regarding the

net investment income tax and some tips for lessening your exposure to it on page 10.

Alternative minimum tax (AMT). The basic purpose of the AMT system is to ensure that taxpayers who use various deductions, credits, and exclusions to reduce their regular tax liability still pay a minimum amount of tax. The discussion on page 6 shows the AMT rates and exemption amounts. A tax projection can tell you whether you are likely to owe the AMT for 2024. If you are, there may be strategies you and your tax advisor can consider to mitigate the impact of the tax.

Medical and related. Unreimbursed medical expenses are still deductible, and in 2024 they qualify as itemized deductions to the extent they exceed 7.5% of AGI. This rule applies regardless of the taxpayer’s age. But keep in mind that medical is just one of the components of itemized deductions, the sum of which must exceed the standard deduction to yield any real tax savings.

Since medical expenses are only deductible to the extent they exceed a percentage of AGI, bunching medical expenses in a single year can help you potentially exceed the threshold and claim a higher medical expense deduction. It’s important to plan your bunching strategy carefully, taking into account your projected medical expenses and other deductible costs over several years. Consult with your tax professional to evaluate the best approach for your specific situation.

Participants enrolled in a High Deductible Health Plan (HDHP) may contribute to a Health Savings Account (HSA). For 2024, the plan must have a minimum annual deductible of \$1,600 for individuals and \$3,200 for family. Contributions to an HSA are fully tax deductible. The maximum contribution to an HSA for 2024 is \$4,150 for individuals and \$8,300 for families. The maximum out-of-pocket expense limits for 2024 are \$8,050 for individuals and \$16,100 for families. Out-of-pocket expenses include deductibles, co-pays, and coinsurance, but not premiums.





Spend FSA funds. Do you have a flexible spending account (FSA) through your employer? Generally, you'll forfeit any amount remaining in your FSA at year-end or the end of the plan's grace period, if applicable. However, you may be able to carry over up to \$640 in 2024 for the next year in lieu of the optional grace period. If you have money in an FSA, you'll want to know the timing rules for your plan so you can use up your money within the allotted time.

Education. The American Opportunity Tax Credit and the Lifetime Learning Credit are still available with little change.

The American Opportunity Tax Credit is designed to support undergraduate education expenses for eligible students. Qualified expenses include tuition, required fees, and course materials at an eligible educational institution. The maximum annual credit of up to \$2,500 per eligible student phases out for taxpayers with modified AGI above \$80,000 for single filers and \$160,000 for joint filers.

Similarly, the Lifetime Learning Credit enables parents and students to reduce their tax liability by up to \$2,000 to help offset higher education expenses such as tuition and related expenses for eligible students. Note that this credit phases out for taxpayers with modified AGI above \$80,000 for single filers and \$160,000 for joint filers.

Both credits apply to similar expenses, but they cannot be claimed at the same time, so speak with your tax advisor to determine what is best for your unique situation.

Child and dependent care credit (CDCC). CDCC allows eligible taxpayers to claim a credit of up to \$2,100 for a portion of the expenses incurred for child and dependent care. It is designed to help working individuals and families offset the cost of child care or care for dependents, such as children or disabled adult dependents. The credit is non-refundable, which means it can reduce your tax liability but cannot result in a refund if the credit exceeds the tax you owed. To claim the CDCC, you must have incurred expenses for the care of qualifying individuals so that you (and your spouse if filing jointly) could work or look for work. Qualifying expenses generally include costs related to:

- ✓ Child care for children under the age of 13
- ✓ Care for disabled dependents of any age who are incapable of self-care

There is no income restriction on the CDCC, but the maximum credit you can claim is generally 35% of eligible expenses, and the percentage gradually decreases to 20% for those with AGI of \$43,000 or more. Maximum allowable expenses are \$3,000 for one qualifying individual or \$6,000 for two or more qualifying individuals.

TIMING MATTERS

Timing plays a significant role in year-end tax planning. Typically, you'll want to look for ways to delay the taxation of income until a later tax year and accelerate deductible expenses into the current tax year. Such strategies can lower this year's taxable income—and the amount of income taxes currently payable.

However, if you expect to be in a higher tax bracket next year, consider doing the reverse: move taxable income into this year and push deductible expenses into next year, when the deductions can potentially save you more tax dollars. Before implementing this plan, though, consider the time value of money. By paying taxes earlier, you give up the opportunity to invest those funds in the interim. However, it's always best to consult with your tax advisor to determine the best strategy before making a decision.

Here are some potential ways to defer taxable income:

- ✓ Increase pretax salary deferrals to an employer's 401(k), 403(b), governmental 457, or SIMPLE retirement plan. You'll find the 2024 deferral limits in the table on page 7.
- ✓ Ask if you can receive a year-end bonus or commission payment shortly after year-end.

Deductible expenses you might be able to accelerate include:

- ✓ **Charitable contributions.** If you mail your check or charge your donation to your credit card by year-end, it will count as a 2024 contribution. Caveat: The tax savings from charitable contributions may be affected by an interplay with the 20% of business income deduction that began in 2018. It is particularly important to "do the math" in planning charitable contributions.
- ✓ **State income tax payments.** Ask your employer to withhold more tax from your remaining 2024 paychecks. Alternatively, make your January estimated state and local income tax payment before year-end and pay enough to cover any projected balance due. Caveat: To obtain a benefit from a state income

tax payment, you must itemize rather than use the standard deduction in 2024. Also, as noted above, there is a \$10,000 limit to the sum of property taxes on a residence plus state income tax (assuming you don't deduct sales tax).

Maximize above-the-line deductions. Certain expenses are deductible from your gross income in arriving at your AGI. These “above-the-line” deductions (adjustments) are available whether you claim the standard deduction or itemize your deductions. And they’re especially valuable because they work double-time, both reducing your AGI and helping you reserve tax breaks you might otherwise lose because your AGI is too high.

Making the most of your above-the-line deductions will help lower your tax bill. Here are some potential deductions to keep in mind.

- ✔ Contributions to a traditional IRA
- ✔ Student loan interest (up to \$2,500)
- ✔ Health savings account (HSA) contributions (see page 4)
- ✔ Alimony paid under divorce or separation agreement executed before 2019
- ✔ Educator expenses (up to \$300 per person)
- ✔ Penalties on the early withdrawal of savings

Self-employed individuals may also claim an above-the-line deduction for half of their self-employment tax (other than the 0.9% additional tax), certain retirement account contributions, and qualifying medical insurance premiums. Minimizing AGI gives you a variety of tax advantages, so you won't want to overlook any above-the-line deductions you are entitled to claim.

Consider the AMT. Before accelerating state and local tax payments, check to make sure that doing so will not create an AMT problem. Also consider that additional year-end payments of state and local taxes may not translate into additional deductions, because in 2024 the maximum deduction for the sum of the state

income tax and residential property tax on the residence (or state income tax plus sales tax) is limited to \$10,000.

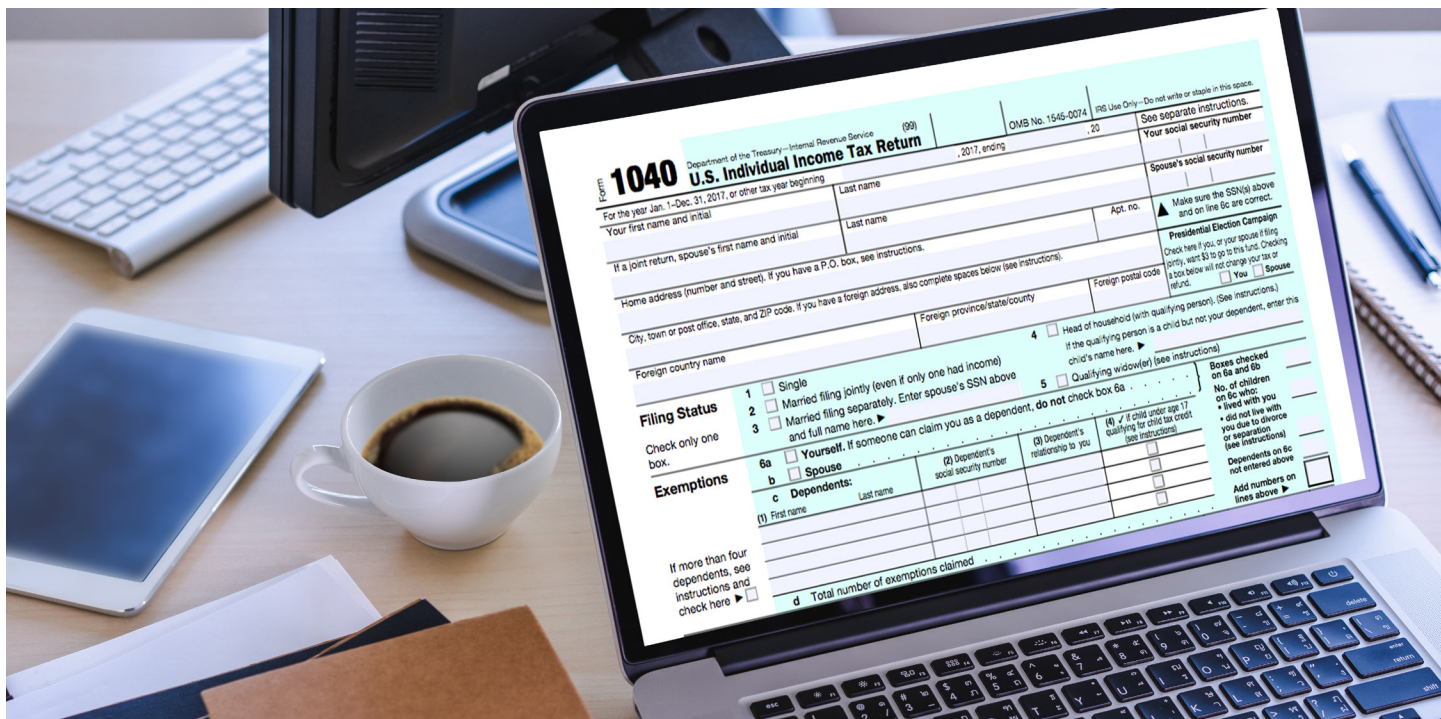
Other potential AMT triggers include:

- ✔ The exercise of incentive stock options
- ✔ Significant amounts of tax-exempt interest from “private activity” municipal bonds
- ✔ Investment interest deduction

2024 AMT tax rates. The AMT for individuals remains, but it has been repealed for corporate taxpayers. However, there are higher exemption thresholds and the phase-out of the exemption begins at a higher level, so there is some relief for individuals. The exemption is much less likely to be reduced or eliminated by higher levels of income. Additionally, some preference items are no longer available or available but with limits.

AMT still remains a factor for certain high-income taxpayers, so consult with your tax advisor to consider various scenarios that may impact AMT.

AMT still remains a factor for certain high-income taxpayers, so you should consult with your tax advisor to consider various scenarios.





RETIREMENT PLANNING

No matter where you are in your career, accumulating assets for future retirement is probably one of your biggest financial goals. Maximizing your contributions to tax-favored retirement plans can help you pursue that goal while also saving money on your taxes.

Take advantage of employer retirement plans. With an employer-sponsored retirement savings plan such as a 401(k), 403(b), or SIMPLE plan, your contributions and any earnings on those contributions generally won't be taxed until you begin receiving funds from the plan.

Some employers also allow employees to make after-tax Roth contributions to their 401(k) or 403(b) retirement savings plans. Roth contributions are subject to current income taxes, but once in the plan, the contributions potentially grow tax deferred. Withdrawals of both Roth contributions and related earnings are not taxed if certain requirements are met.

Fund an IRA. You may make an IRA contribution for the 2024 tax year as late as the April 2025 filing deadline for your federal income tax return. There are no income restrictions on making tax-deductible contributions to a traditional IRA unless you or your spouse actively participates in an employer-sponsored retirement plan. With active plan participation, the 2024 deduction gradually phases out once AGI exceeds:

- ✔ \$77,000 for single/head of household
- ✔ \$123,000 for married filing jointly
- ✔ \$10,000 for married filing separately

HOW MUCH CAN YOU CONTRIBUTE FOR 2024?

To maximize your retirement savings, contribute as much as possible each year. The 2024 limits are shown below. Note, however, that employer plans may not permit employees who have reached age 50 to contribute the higher amount indicated. Additional contribution limits could apply.

| TYPE OF PLAN UNDER | UP TO AGE 50 | AGE 50 OR OLDER |
|---------------------------|--------------|-----------------|
| 401(k), 403(b), 457, SEP* | \$23,000 | \$30,500 |
| SIMPLE IRA | \$16,000 | \$19,500 |
| Traditional/Roth IRA** | \$7,000 | \$8,000 |

**Only SEP plans established before 1997 may allow employees to make pretax contributions.*

***IRA contributions may not exceed earned income.*

With a Roth IRA, contributions aren't tax-deductible and won't be taxed on withdrawal. You also may withdraw account earnings tax-free after you've had a Roth IRA for at least five tax years and reached age 59½ (or in certain other circumstances).

Your eligibility to make Roth IRA contributions hinges on your income. In 2024, the allowable Roth IRA contribution phases out as AGI rises from \$146,000 to \$161,000 for unmarried filers, \$230,000 to \$240,000 for joint filers, and \$0 to \$10,000 for married persons filing separately.

If a Roth IRA is attractive to you but your income is too high to make a contribution, you may be in a position to convert a traditional IRA to a Roth IRA. There are no income restrictions on conversions. Consider any such conversion carefully, however. A Roth conversion is a taxable event that may trigger a large tax bill.

- ✓ Assuming you want to move forward with a Roth IRA conversion, you may save taxes by completing the transaction during a year in which you expect to be in a relatively low tax bracket (if, for example, you have a large loss or your income from other sources is lower than usual).
- ✓ Converting when the market value of your IRA investments has fallen can save you tax dollars.
- ✓ Consider spreading the conversion over several tax years to prevent the extra conversion income from pushing you into a higher bracket.

Take required minimum distributions (RMDs). The SECURE Act increased the age for taking RMDs to 73 beginning in 2023. If you don't withdraw the required amount, the Internal Revenue Service (IRS) imposes a 25% penalty, referred to as an excise tax. However, if you rectify the issue within two years, the IRS will reduce the penalty from 25% to 10%.

Your first RMD will typically be due by April 1 of the year after you reach age 73, and another RMD will be due by December 31 of that same year. RMDs for subsequent years must be taken by year-end. (You typically can delay distributions from your employer's retirement plan until retirement if you are not a 5% owner of the company. Check with your plan administrator for information on your plan's rules.)

- ✓ Weigh the tax deferral benefit of waiting until right before the April 1 deadline to take your first RMD against the potential for being pushed into a higher tax bracket by taking two RMDs in one year.
- ✓ Consider state tax issues, particularly if you anticipate moving to a state with a significantly different tax rate structure.

WILL YOUR SOCIAL SECURITY BENEFITS BE TAXABLE?

UP TO THIS PERCENTAGE OF YOUR BENEFITS WILL BE TAXED

| On a Joint Return* | | On a Single or Head-of-Household Return |
|--------------------------------|-----|---|
| If your provisional income is: | | If your provisional income is: |
| \$32,000 or less | 0% | \$25,000 or less |
| Between \$32,000 and \$44,000 | 50% | Between \$25,000 and \$34,000 |
| Over \$44,000 | 85% | Over \$34,000 |

**The provisional income threshold is zero for married persons filing separately who do not live apart from their spouses for the entire year.*

Minimize tax on Social Security. If you are a Social Security recipient, monitor your year-end transactions carefully. When "provisional income" exceeds specified levels (see table above), a portion of Social Security retirement benefits becomes taxable (state rules may vary.) For this purpose, provisional income is defined as modified AGI, which includes otherwise tax-exempt municipal bond interest, plus half of your Social Security benefits.

- ✓ If realizing additional income in 2024 would trigger additional tax on your Social Security benefits, consider whether you're able to defer the income until early 2025.



YOUR INVESTMENTS

For tax purposes, not all income is taxed equally. Capital gains and qualified dividends, for instance, are taxed differently—and often more favorably—than ordinary income. Following are some planning strategies you can use to secure more favorable tax treatment for your investment income.

Sale of a home. If you sell your primary residence at a profit, you may be subject to capital gains tax on the profit. However, there are exclusions available. For example, if you’ve owned and used the home as your primary residence for at least two out of the five years before the sale, then up to \$250,000 of the profit is tax-free if you’re single, or up to \$500,000 if you’re married and filing jointly. In addition to federal taxes, many states also impose taxes on the sale of real estate, but the same amount of exclusion can be applied as well.

In some situations, you may still be eligible for a partial tax-free treatment of your home sale profit, even if you haven’t met the standard two-out-of-five-years ownership and residency tests. A reduced exclusion can be available if you sell your house due to

- ✔ A change of employment,
- ✔ A change of health, or
- ✔ Other unforeseen circumstances, such as divorce or multiple births resulting from a single pregnancy.

If you sell your home at a loss, you may not be able to deduct the loss from your taxable income, as personal losses on the sale of personal-use property are generally not tax-deductible.

There are many other factors to consider, including depreciation recapture for rental property, a 1031 Exchange to defer capital gains taxes, and additional Medicare tax for high-income taxpayers, so it is essential to consult with your tax professional to determine the best tax strategy for your specific situation.

Watch holding periods. The length of time you hold an investment before selling it (your “holding period”) determines if a capital gain or loss is short term or long term. The short-term holding period is one year or less. The long-term holding period is more than one year. Ideally, any taxable net capital gain you have will be long term so that you’ll benefit from the preferential tax rates (see table on right).

You can see from the same table that “qualified” dividends are taxed at the favorable capital gain rate.

Most regular dividends paid by US corporations (and certain foreign corporations) will be considered qualified if you hold the stock for a minimum number of days:

- ✔ More than 60 days during the 121-day period that begins 60 days before the stock’s ex-dividend date (common stock)
- ✔ More than 90 days during the 181-day period that begins 90 days before the stock’s ex-dividend date (preferred stock)

A stock’s ex-dividend date is the date on which the stock begins trading without rights to the most recently declared dividend.

Plan investment gains and losses. As part of your year-end tax planning, review investments that you hold outside of your tax-deferred accounts to check for opportunities to save taxes.

If you have already realized (or expect to realize) a large capital gain this year, consider whether you are holding securities in your portfolio that you could sell because they haven’t performed up to your expectations. Realizing capital losses before the end of the year would allow you to use those losses to offset your capital gains. But before making such a decision, speak with your tax and financial advisors.

| INCOME RANGES FOR LONG-TERM CAPITAL GAIN RATES | | | |
|--|----------------|--------------------|----------------|
| | 0% | 15% | 20% |
| Single | Up to \$47,025 | \$47,026-\$518,900 | Over \$518,900 |
| Married Filing Jointly | Up to \$94,050 | \$94,051-\$583,750 | Over \$583,750 |
| Head of Household | Up to \$63,000 | \$63,001-\$551,350 | Over \$551,350 |
| Married Filing Separately | Up to \$47,025 | \$47,026-\$291,850 | Over \$291,850 |
| SHORT-TERM CAPITAL GAINS | | | |
| (taxed at ordinary income tax rates) | | | as high as 37% |

Certain higher-income taxpayers are also subject to the additional 3.8% net investment income tax. Capital losses are generally deductible in full against capital gains, and any capital losses in excess of capital gains may offset up to \$3,000 of ordinary income (\$1,500 if you are married filing separately).

You may carry forward any excess capital losses you aren’t able to deduct for use in later years, subject to the same limitation.

- ✔ If you have incurred capital losses in 2024, it may be a good time to take profits on appreciated investments you no longer want to hold. But be sure to weigh all relevant factors before you make any investment decisions. In certain circumstances taxpayers may want to consider the rule that when the taxpayer passes away, assets usually take on a basis equal to fair market value, so the heir may have little or no gain for tax purposes.
- Avoid wash sales.** Exercise caution before selling securities to realize a tax loss with the thought of buying back in shortly afterward. Under the tax law’s “wash-sale” rules, no capital loss deduction is allowed in the year of the sale if you buy substantially identical securities within 30 days after (or before) the sale. Instead, the disallowed loss becomes part of your cost basis in the newly acquired securities. This delays the tax benefit from the capital loss until you sell the replacement securities.
- ✔ To avoid a wash sale and take advantage of a tax loss on a stock you still want to own, consider “doubling up” on your position by buying additional shares at least 31 days in advance of your planned sale. Then sell your original securities at a loss. But pay attention to any dividend payments during the wash-sale period. If they are reinvested in additional shares, you may lose your ability to deduct part of your original loss.

- ✔ Alternatively, you could sell the securities on which you have a paper loss and replace them with shares of another company in the same industry having similar prospects.

Donate appreciated securities. As noted above, when you contribute appreciated securities that you've held for more than one year to a qualified charitable organization, you may deduct the full fair market value of the donated securities as an itemized deduction (subject to certain restrictions and limitations).

- ✔ Making a charitable gift of appreciated securities can help you avoid the capital gains tax that might otherwise be due if you sold the securities first and then donated the sales proceeds.

Monitor fund distributions. Many mutual funds make taxable distributions of capital gains to fund investors during the last couple of months of the year. All fund investors as of the date of record set by the fund for the distribution receive their proportionate share of the capital gains.

- ✔ If you are considering buying into a fund near year-end, check to see if the fund anticipates making a capital gain distribution. To avoid receiving additional taxable income this year, consider waiting to invest until after the record date for the distribution.

Minimize net investment income tax. If your modified AGI is high enough for the 3.8% net investment income tax to be a factor, you will want to consider strategies to lessen your exposure to the tax. The tax is calculated by multiplying 3.8% by the lesser of: (1) your net investment income or (2) the excess of your modified AGI over the relevant threshold for your filing status. As mentioned earlier, the modified AGI thresholds are \$250,000 (married filing jointly), \$125,000 (married filing separately), and \$200,000 (single/head of household).

Net investment income can include income from interest, dividends, annuities, royalties, rents, net capital gain, and passive trade or business activities. It does not include any amount that is subject to self-employment tax, amounts distributed from retirement plans, exempt interest on state and local bonds, or gain on the sale of a principal residence to the extent the gain is excludable from income.

- ✔ Increasing the number of hours you participate in an entity's affairs to meet the tax law's "material participation" standards can convert passive income into active income that is not subject to the 3.8% tax.
- ✔ Consider structuring a sale of appreciated real estate held as an investment as an installment sale. With an installment sale, you spread your gain—and the taxes on that gain—over more than one year. (The installment sale method cannot be used for sales of publicly traded securities or for certain sales to related parties, and it is not available to dealers.)

MORE PLANNING TIPS

Don't overlook mortgage points. You may deduct mortgage "points" (prepaid interest) in full in the year you purchase or build your main home and the home serves as collateral for the loan. The payment of points must be typical for the area where the transaction takes place and the amount paid should not exceed what is usually charged. The points may also be deducted over the life of the loan.

Track cryptocurrency transactions. It is essential to keep detailed records of all cryptocurrency transactions, including dates, amounts, and values in US dollars, to accurately report them on your tax returns. Here are some common scenarios to consider.

- ✔ **Capital gains and losses:** Cryptocurrency is treated as property for tax purposes. When you sell or exchange cryptocurrency, it can trigger a short-term or long-term capital gain or loss, depending on whether you held the cryptocurrency for one year or more.
- ✔ **Cryptocurrency as payment:** If you receive cryptocurrency as payment for goods or services, its fair market value at the time of receipt should be included in your gross income for tax purposes.
- ✔ **Mining and income:** Cryptocurrency mining, where you earn cryptocurrency as a reward for validating transactions on the blockchain, is generally considered income and is taxable. The fair market value of the cryptocurrency earned at the time of mining should be included in your gross income.

Cryptocurrency transactions can have various tax implications and can be complex. So it's crucial that you avoid potential penalties and issues by working with your tax advisors.

Avoid an underpayment penalty or overpayment. Paying enough income tax during the year is essential if you want to avoid an underpayment penalty. Generally, the amount of federal income tax withheld from your pay and/or your quarterly estimated tax payments for 2024 should at least equal to the lower of (1) 90% of your 2024 tax liability or (2) 100% of your 2023 tax liability (110% if your AGI for the prior year exceeded \$150,000). However, if the tax shown on your 2024 return (after withholding tax paid) is less than \$1,000, an underpayment penalty won't apply.

- ✔ When you are checking your tax payments, be sure to take into account any potential liability you may have for the 0.9% additional Medicare tax discussed on page 4.
- ✔ If you missed an estimated payment earlier this year or didn't pay enough, consider having more income tax withheld from your or your spouse's paychecks before year-end. Because the IRS applies withheld tax pro rata over the full tax year, this strategy can be helpful in reducing underpayments of estimated tax penalty.

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Ultimately, you want to avoid both underpaying and overpaying taxes, as overpaying amounts to offering an interest-free loan to the government. Working with your tax advisors to calculate the estimated payments and informing them when your circumstances change throughout the year is the best strategy.
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Opportunities for Business Owners

There are a number of opportunities for businesses to reduce their 2024 taxes by making certain financial moves before the end of the year. The following are a few to consider, but you should seek the advice of your tax professional for the full list to better understand the tax implications that are specific to your business.

A Note about Qualified Business Income

Qualified Business Income (QBI) is the net amount of money you make or lose from any qualified trade or business.

A qualified trade or business is any kind of business that you run, except for a few specific situations:

- 1. If your business is set up as a C corporation, it doesn't qualify.*
- 2. If you work as an employee and not a business owner, it does not qualify either.*
- 3. Specified service trades or businesses (SSTBs) are businesses that provide services in fields like health, law, accounting, and other select areas. If your business mainly relies on the reputation or skill of its employees or owners, it might also fall under this category. However, these restrictions don't apply if your income is below a certain level, and they apply incrementally when you earn more but remain within a specific income range. If your income is too high, no deduction is allowed for SSTBs.*

REVIEW EARNINGS AND TAXES

The structure of your business determines how your business income is taxed.

Pass-through entities (sole proprietorship, partnership, S corporation, LLC, or LLP). Through the Tax Cuts and Job Act (TCJA), owners of pass-through entities are now eligible for a deduction for qualified business income (QBI). Those eligible can deduct up to 20% of their QBI from their taxable income.

For SSTBs, the pass-through deduction is only available if your income is under the annual threshold. The annual threshold is adjusted for inflation each year. For 2024, the threshold is set to \$383,900 for married individuals filing jointly and \$191,950 for single individuals. The QBI deduction was intended to provide some level of parity between the tax treatment of C corporations and pass-through entities.

Other important business provisions

- ✔ **Individual Business Loss Limitation:** Business losses exceeding \$305,000 (\$610,000 for married filing jointly) are not currently deductible but carried forward as part of net operating loss carry-over, limited to 80% of taxable income.
- ✔ **Net Operating Losses (NOLs):** After 2017, NOLs must be carried forward and cannot be carried back to recover prior taxes.
- ✔ **Business-Related Membership Dues:** Deductibility of business-related membership dues may be limited or eliminated.
- ✔ **Easier Accounting for Small Businesses:** The TCJA made it easier for small businesses with gross receipts under \$30 million to stay on the cash method of accounting and avoid certain inventory costs and uniform capitalization rules.

C CORPORATIONS

All C corporations, regardless of their income, are taxed at a flat rate of 21%.

Corporate income is potentially subject to two layers of income tax—once at the corporate level and again if distributed to shareholders as dividends. Corporate earnings paid out to you as reasonable compensation are included in your taxable income but are deductible by the corporation. Thus, they are taxable only once—to you.

Your compensation will be taxed at rates as high as 37% plus additional Medicare Tax and Social Security Tax (FICA) if you have not reached the FICA limit. You may also be subject to the additional 0.9% Medicare tax discussed on page 4.

- ✓ If you expect your closely held C corporation to have a profitable year, consider whether it makes business (as well as tax) sense to pay bonuses or make a tax-deductible profit-sharing contribution this year to minimize corporate taxable income.
- ✓ Bear in mind that the IRS can assess a 20% accumulated earnings tax penalty on corporations that accumulate excessive earnings and profits. Generally, a corporation can accumulate up to \$250,000 of earnings (\$150,000 in the case of certain service corporations) without penalty.
- ✓ If your corporation has a reasonable business purpose for accumulating additional earnings, document why the additional money is needed in the corporate minutes. Possible reasons include the purchase of new equipment or the construction of new facilities.



TIMING STRATEGIES

The tax accounting method your business used determines when income must be recognized for tax purposes and when expenses are deductible. Cash method taxpayers report income when it is actually or constructively received and generally deduct expenses when payments are disbursed. Accrual method taxpayers report income in the year their right to the income becomes fixed and the income amount can be determined with reasonable accuracy. Deductions are taken when all events have occurred creating the liability and when the amounts can be determined with reasonable accuracy.

- ✓ If your business uses the cash method, you might defer income by delaying billing your customers so the payment won't be received until early next year.
- ✓ As an accrual method taxpayer, you might defer income by delaying the shipment of products or provision of services until the beginning of your 2025 tax year.
- ✓ Also look for opportunities to defer certain advance payments received for services and the sale of goods. (Requirements apply.)

Time bonus payments. If your company intends to pay employees bonuses for 2024, consider the timing of those payments. However, if we expect the corporate tax rate to increase in the next year, a reverse strategy should be considered and implemented before the year-end.

- ✓ As a cash method business, your company may want to pay bonuses before the end of the year to gain a 2024 deduction for the expense.
- ✓ For an accrual method business, a 2024 deduction will be available for bonus payments made to unrelated employees if paid within two and one-half months after the year-end, provided the liability to pay the bonuses is both fixed and determinable by the end of that tax year.

Business bad debts. Business bad debts represent another potential deduction your business should consider if it extends credit to customers. A deduction is available for any debt that is wholly or partially “worthless,” assuming your company has already included the amount in income. However, businesses that use the cash method of accounting can't write off uncollectible amounts as bad debts because they don't recognize sales revenue until it is received.

- ✓ Review accounts receivable reports before year-end to identify uncollectible accounts that may be written off as bad debts.

Remember that tax-saving strategies can be complex, and the best approach depends on your specific business circumstances. Consult with a qualified tax advisor or CPA to develop a personalized tax plan tailored to your business structure and financial goals.

ASSET PURCHASES

The PATH Act's provisions regarding tax depreciation and expensing have made it possible for businesses to approach planning for purchases of machinery, equipment, and other fixed assets with more certainty regarding the tax results. Several significant tax breaks are potentially available.

Use Section 179 expensing. A popular provision among small businesses, the Section 179 election allows a business to expense a portion of eligible asset purchases in the year the assets are placed in service, in lieu of depreciating the assets over several years. The expense election is reduced (dollar for dollar) once qualifying asset purchases exceed the investment ceiling. Eligible Section 179 property includes:

- ✓ New and used machinery, equipment, vehicles, and other tangible non-real estate property
- ✓ Computer software purchased off the shelf
- ✓ Qualified restaurant property, retail improvements, and leasehold improvements

For 2024, the expensing election is increased to \$1,220,000 and the investment ceiling to \$3,050,000. The amounts will be indexed for inflation going forward. Additionally, the election is limited to taxable income from your active trades or businesses.

Deduct bonus depreciation. You will also want to consider taking advantage of bonus depreciation, which allows a business to take an immediate write-off of 60% of an asset's cost in 2024, beginning with assets purchased and placed in service after September 27, 2017. Currently, this applies to new and used property. The percentage will decrease to 40% in 2025 and 20% in 2026 before being eliminated in 2027.

Only certain types of depreciable property can qualify, including tangible property with a recovery period of 20 years or fewer under the Modified Accelerated Cost Recovery System (MACRS).



DEPRECIATION ASSET CLASSES

| PROPERTY CLASS | ASSETS INCLUDED |
|---|---|
| 3-year | Tractor units for over-the-road use |
| 5-year | Automobiles, trucks, computers, peripheral equipment |
| 7-year | Office furniture and fixtures, farm machinery and equipment |
| 10-year | Vessels, barges, tugs |
| 15-year | Qualified improvement property |
| 20-year | Farm buildings (other than certain single-purpose structures) |
| Residential Rental Property (27.5-year) | Apartment buildings, single-family rental properties |
| Nonresidential Real Property (39-year) | Office buildings, stores, warehouses |

The lists of property included in each class aren't all-inclusive.

- ✓ Because bonus depreciation isn't limited to taxable income, the deduction can contribute to or create a net operating loss (NOL). However, NOLs for corporate and other taxpayers are no longer available to carryback but rather carryforward. Additionally, there is an 80% limitation applicable to losses arising in tax years beginning after December 31, 2017.
- ✓ If your business intends to elect Section 179 expensing and bonus depreciation for only some of its asset acquisitions and regular depreciation for others, consider using the Section 179 election for the assets with the longest lives.

Expense lower cost purchases. In addition to the Section 179 and bonus depreciation elections, also consider the election that is available for "de minimis" asset purchases if certain requirements are met.

Business meals and entertainment expenses. Business meals reverted to 50% tax deductible for federal and some states that conform to federal rules. Entertainment expenses are still not deductible. Businesses should track meals and entertainment expenses separately in their accounting system.

S CORPORATION STRATEGIES

Is your business organized as an S corporation? If so, you and your individual shareholders will pay taxes on your proportionate share of corporate income at rates as high as 37%. As a result, steps taken to lower your S corporation's business income before year-end can help reduce your income tax burden. As we noted, Subchapter S income may be able to take advantage of the 20% qualified business income deduction.

Review shareholder compensation. Although employee salaries and bonuses (and the related employment taxes) are generally deductible corporate expenses, it is usually best for S corporation shareholders/employees to draw only "reasonable" compensation from their companies. The reason: Any additional nonwage distributions or corporate earnings escape Social Security, Medicare, and self-employment taxes.

- ✔ Review the amount you are taking as a salary from your S corporation to make sure it is reasonable for the services you perform for the company, but don't overpay yourself. If desired, the company can distribute additional earnings to you and any other shareholders free of employment taxes. Wages to yourself may also reduce the 20% of business income deduction.

Know your basis. Special tax planning may be called for if an S corporation expects to generate an NOL for the year. Very generally, a shareholder's loss deduction is limited to the shareholder's investment in the company, as reflected in a figure known as adjusted basis. The adjusted basis figure changes each year to account for any money flowing between the company and the shareholder—distributions, capital contributions, loans, and loan repayments—as well as for the shareholder's allocated share of corporate income or loss.

• • •

If you anticipate that your S corporation will show a loss this year, check to see if you have enough basis to deduct it. If not, you can increase your basis either by loaning the company money or making an additional capital contribution before year-end to potentially save on taxes by deducting the loss individually. Please keep in mind that excess business loss may apply.

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ADDITIONAL PLANNING TIPS

Below are more strategies that can prove useful in lowering business taxes.

Deduct retirement plan contributions. Maximizing tax-deductible contributions to a retirement plan for yourself and any eligible employees can lower your business taxes and help you accumulate funds for your retirement. The table below shows the 2024 contribution limits for different types of plans.

| 2024 RETIREMENT PLAN CONTRIBUTIONS | |
|------------------------------------|--|
| Plan Type | Maximum Addition to a Plan Participant's Account |
| 401(k)* | Lesser of \$69,000 or 100% of compensation |
| Profit sharing | Lesser of \$69,000 or 100% of compensation |
| SEP-IRA | Lesser of \$69,000 or 25% of compensation |
| SIMPLE IRA | Up to \$16,000 of employee salary deferrals plus employer contributions (3% match or 2% nonelective contributions) |

*See page 7 for the applicable limits on employee salary deferrals.

Some plans allow participants age 50 and older to make additional catch-up contributions, which would not be subject to the limits set forth above.



Know the health care reform rules. If your business is considered an “applicable large employer,” you must offer minimum essential health care coverage that is “affordable” and that provides “minimum value” to your full-time employees (and their dependents) or potentially be required to make a shared responsibility payment to the IRS. You’ll also have reporting responsibilities. Generally, a business that had an average of at least 50 full-time employees (including full-time equivalent employees) during 2023 is considered an applicable large employer for 2024.

Deduct start-up expenditures. If you are involved in a new business venture in 2024, you may elect to deduct up to \$5,000 of your business start-up expenditures, such as travel expenses incurred in lining up prospective distributors or supplies and advertising costs paid or incurred before the new business began operating. (Remaining costs are deductible over a 180-month period.) The \$5,000 deduction is reduced by the amount your start-up costs exceed \$50,000. To claim the deduction for 2024, your new business must be up and running by year-end.

Hire your child. Paying your child to do legitimate work for your business can be a tax saver if you are self-employed. You may deduct reasonable wages paid to your child as a business expense. The income will be taxed to your child, but the standard deduction can shield as much as \$14,600 from tax in 2024. Any earnings over that amount will be taxed at your child’s rate—which is probably much lower than yours. Wages you pay your child will be exempt from FICA taxes until your child turns 18, assuming your business is unincorporated.

Take credit. Eligible businesses can use tax credits to lower their tax liabilities. The table on page 16 shows some of the tax credits available for 2024.

Clean vehicle tax credit

The Inflation Reduction Act of 2022 introduced new regulations governing a credit applicable to vehicle purchases made between 2023 and 2032. This credit is open to both individuals and businesses.

To be eligible for this credit, the following criteria must be met:

1. The vehicle must be acquired for personal use, not for resale purposes.
2. The vehicle must primarily be used within the United States.

Additionally, your modified adjusted gross income (AGI) should not surpass the following thresholds:

For married couples filing jointly, the AGI limit is **\$300,000**.

For heads of households, the AGI limit is **\$225,000**.

For all other filers, the AGI limit is **\$150,000**.

SEE IF YOUR BUSINESS QUALIFIES FOR TAX CREDITS



Employer-Provided Child Care

25% of expenses to buy, build, rehabilitate, or expand property that will be used as part of an employer's child care facility, plus 10% of the amount paid under a contract to provide child care resource and referral services to employees, up to a maximum credit of \$150,000 a year



FICA Tip

Amount of employer's FICA taxes paid on employee tips in excess of the amount treated as wages in satisfaction of minimum wage requirements (food and beverage establishments only)



Small Employer Pension Plan Start-Up Costs

50% of administration and retirement-related education expenses for the first three plan years, up to a maximum credit of \$5,000 a year



Research

Doubled by the Inflation Reduction Act, the research and development (R&D) tax credit increased from \$250,000 to \$500,000 for 2023 and beyond



Employer Wage Differential

20% of up to \$20,000 of wage differential payments paid for each employee called to active military service



Work Opportunity

For hiring members of targeted groups—generally 40% of up to \$6,000 of first-year wages paid per employee (extended until December 31, 2025)



Small Employer Health Insurance

Up to 50% of employer contributions for employee health insurance (available for two consecutive years only)



Disabled Access

50% of eligible access expenditures over \$250 and not more than \$10,250 (eligible small businesses only)

PREPARE FOR THE BOI REPORTING RULE

On September 18, 2023, Financial Crimes Enforcement Network (FinCEN) published a Small Entity Compliance Guide regarding beneficial ownership information (BOI) reporting. The BOI reporting rule, stemming from the Corporate Transparency Act (CTA), aims to enhance transparency in corporate structures and curb illicit fund movements through shell corporations.

Here are some highlights you should know:

- ✓ Beneficial owners are individuals with substantial control of at least 25% of the reporting company's interests.
- ✓ The beneficial ownership rule is applicable to nearly all businesses operating in the United States, with the exception of domestic sole proprietorships. Some exemptions from the requirement to report beneficial ownership have been established, which include banks, credit unions, investment firms,

insurance companies, and regulated public utilities. Additional exemptions include:

- Companies with 20 full-time US employees and at least \$5 million in gross receipts
 - General partnerships
 - Public accounting firms registered with PCAOB
 - Tax-exempt organizations
 - Inactive entities who meet the criteria
- ✓ Businesses that do not adhere to the reporting obligations for beneficial ownership information may incur significant penalties (\$500 per day, with a maximum penalty of \$10,000). More severe violations, such as willful failures or intentional provision of false information, are considered felony offenses, which can result in imprisonment for up to two years. If these violations are coupled with anti-money laundering infractions, the potential penalty can increase to a maximum of 10 years in prison.

LOOKING AHEAD

Plan for the potential sunset of the Tax Cuts and Jobs Act. Unless Congress takes further action, most provisions of the Tax Cuts and Jobs Act passed by Congress in 2017 will expire at the stroke of midnight on December 31, 2025. This means that on January 1, 2026, most provisions of the TCJA will revert to where they were before the legislation was passed.

Even though the sunset date is at least a year away, now is the time to start planning for the potential impact, as it can take time to implement effective strategies. The provisions fall into the following three categories:

INDIVIDUAL INCOME TAXES

Reversion of individual income tax brackets. The TCJA lowered individual income tax rates across the board. If the legislation expires, individual tax brackets will revert as follows:

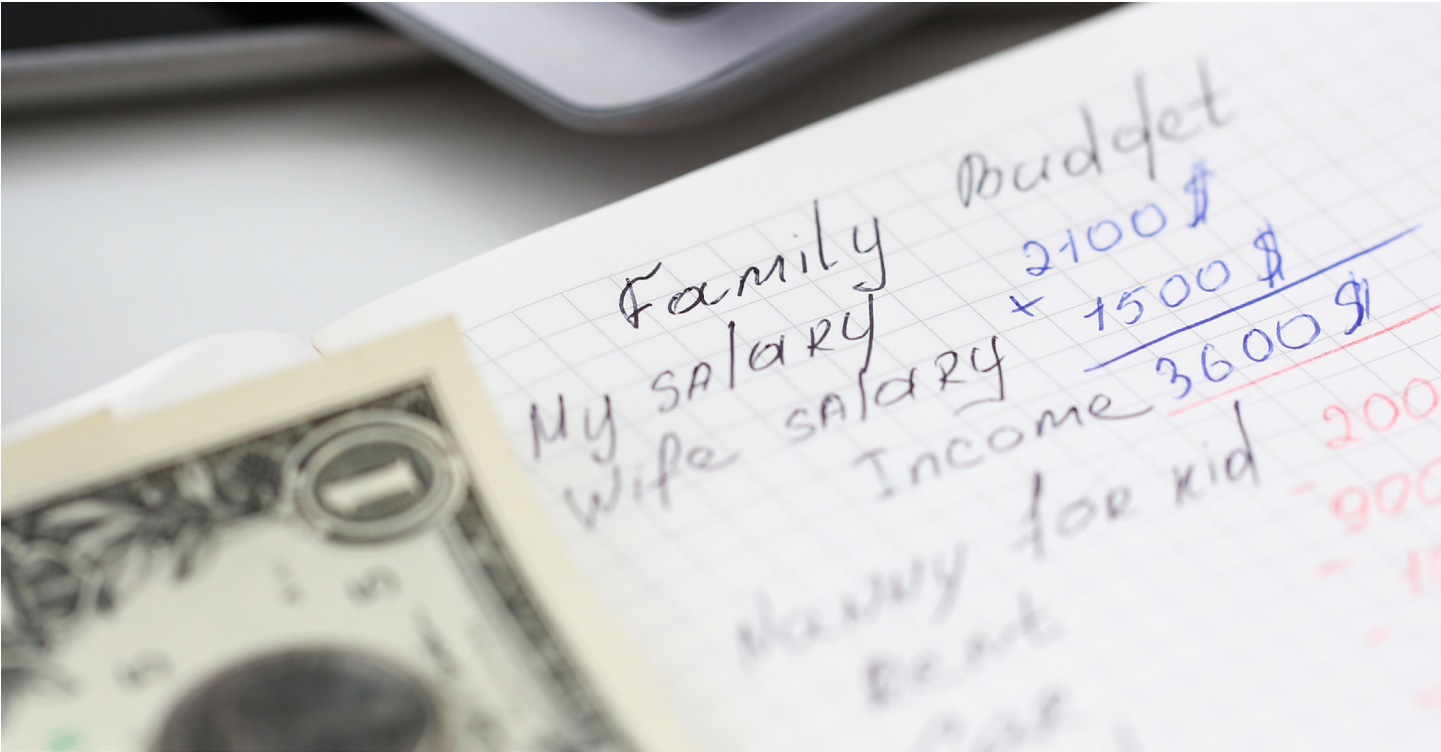
| Current marginal tax rate | Potential new marginal tax rate |
|---------------------------|---------------------------------|
| 10% | 10% |
| 12% | 15% |
| 22% | 25% |
| 24% | 28% |
| 32% | 33% |
| 35% | 35% |
| 37% | 39.6% |

To prepare for higher income tax brackets, consider maximizing contributions to tax-advantaged retirement accounts, such as IRAs and 401(k)s, and health savings accounts (HSAs), as well as converting a traditional IRA to a Roth IRA. Also consider accelerating earned income from 2026 into 2025 to benefit from the lower marginal tax rates.

Lowering of the standard deduction. The TCJA nearly doubled the standard deduction from \$6,500 to \$12,000 for single filers and from \$13,000 to \$24,000 for married couples filing jointly. This has resulted in more taxpayers claiming the standard deduction than itemizing deductions on their federal income tax return. If the legislation expires, the standard deduction will be lowered as follows:

| Filing status | 2024 | 2026 (approximately) |
|--------------------------------|----------|----------------------|
| Single | \$14,600 | \$8,300 |
| Married couples filing jointly | \$29,200 | \$16,600 |

This could result in more taxpayers itemizing deductions if the result is higher overall deductions and a lower tax bill. Then taxpayers can consider delaying or deferring their itemized deductions to 2026.



Elimination of the state and local tax (SALT) deduction cap. The TCJA capped SALT deductions at \$10,000, which has raised taxes for many individuals and households living in high-tax states. If the legislation expires, the SALT cap will be eliminated, which could lower taxes for some of these individuals and households who itemize deductions.

Expansion of the AMT. The TCJA's higher exemption amounts and the exemption phaseout threshold slashed the number of individuals who must pay the AMT to just a few thousand taxpayers nationwide. If the legislation expires, this would affect about 6.7 million taxpayers.

Reversion of child tax credit. The TCJA doubled the maximum child credit from \$1,000 to \$2,000 per child under age 17. If the legislation expires, the child tax credit will revert to \$1,000.

Reinstatement of personal exemption. The TJCA temporarily suspended the personal exemption, which would have been \$4,150 in 2018. If the legislation expires, the personal exemption will be reinstated at an amount adjusted for inflation, though it is phased out at higher income levels.

Reversion of mortgage interest deduction debt limit. The TCJA limited the deduction for home mortgage interest to the first \$750,000 of debt for mortgages originating on or after December 16, 2017. If the legislation expires, the limit will revert to the previous \$1 million in mortgage debt.

CORPORATE INCOME TAXES

Lower corporate tax rate remains. The TCJA lowered the federal corporate income tax rate from a high of 35% to a flat 21%, regardless of income. This is one of the few provisions that will not expire along with the legislation.

Elimination of the qualified business income (QBI) deduction. The TCJA created this new 20% deduction for pass-through entities (S corporations and partnerships) and sole proprietorships on their business income. If the business is a specified service trade or business, certain thresholds would apply to the owner's income level.

The QBI deduction will be eliminated if the TCJA expires, which could result in a significant tax increase for owners of pass-through entities. Given this, it might be worth exploring whether switching from S corporation to C corporation status makes sense in certain situations. Be sure to discuss this with your tax advisor.

Expiration of bonus depreciation. The TCJA changed the applicable percentages and qualifying property eligible for first-year bonus depreciation to include used property. Property purchased and placed in service after September 27, 2017, and before January 1, 2023, was eligible for 100% bonus depreciation. The percentages are lowered each year thereafter as follows until bonus depreciation expires for property purchased and placed in service after December 31, 2026:

- ✓ **80%** for property placed in service after December 31, 2022, and before January 1, 2024
- ✓ **60%** for property placed in service after December 31, 2023, and before January 1, 2025
- ✓ **40%** for property placed in service after December 31, 2024, and before January 1, 2026
- ✓ **20%** for property placed in service after December 31, 2025, and before January 1, 2027



GIFT AND ESTATE TAXES

Reversion of gift and estate tax exemption. The TCJA effectively doubled the federal lifetime gift and estate tax exemption, which currently stands at \$13.61 million for individuals and \$27.22 million for married couples filing jointly. As a result, wealthy families have been able to transfer assets up to these limits out of their estates, which lowers the value of their estates and amount of transfer taxes that must be paid upon passing.

If the TCJA expires, the gift and estate tax exemption will revert to its pre-TCJA level. Adjusted for inflation, this is expected to be about \$7 million for individuals and \$14 million for married couples filing jointly in 2026, or roughly half the current amount. An estate tax of up to 40% would be assessed on the value of estates that exceed these limits beginning in 2026, along with state estate taxes in some states.

Of all the TCJA provisions scheduled to expire, this drop in the gift and estate tax exemption could have the biggest impact on affluent individuals and families, making early planning especially important. One strategy is to transfer income-producing assets to heirs in lower tax brackets before the end of 2025. The IRS has stated that there will be no clawback for gifts which are in excess of the reduced exemption amounts and made before the legislation potentially sunsets.

Another strategy is to utilize one spouse's lifetime exemption by gifting assets now while preserving the other spouse's exemption for use after the exemption is lowered, if the legislation expires. Trusts, such as a spousal lifetime access trust (SLAT) and an intentionally defective grantor trust (IDGT), may be useful estate planning tools at this time.







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