2024 YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

It's hard to believe we are nearing the end of another year. Before we say goodbye to 2024, we believe it's important to take a moment and review year-end tax planning opportunities. Examining your 2024 tax situation before year-end could lead to tax savings when you file your tax returns in 2025. As a result, we have included our 2024 year-end income tax planning letter to assist you with this process. We've included selected traditional as well as some new planning ideas for your consideration. If you have questions or want to discuss planning ideas not included in our letter, please call our firm.

Caution! The IRS continues to release guidance on various important tax provisions. We closely monitor new tax legislation and IRS releases. Please call our firm if you want an update on the latest tax legislation, IRS notifications, announcements, and guidance or **if you need additional information concerning any item discussed in this letter.**

Be Careful! We suggest you call our firm before implementing any of the tax planning techniques discussed in this letter. You cannot properly evaluate a particular planning strategy without calculating your overall tax liability with and without that strategy. This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

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POSSIBLE LEGISLATION BEFORE YEAR-END

Each year we work to provide you with our year-end planning letter in time to implement possible tax saving strategies before December 31st. As a result, it's possible Congress could pass new legislation between your receipt of this letter and year-end. Congress has not acted concerning several expiring provisions and extenders, including those introduced by the Tax Cuts and Jobs Act. At this point, it is uncertain whether there will be new legislation after the election and before 2025. Therefore, please contact our firm if you would like an update on possible legislation and how it could affect you.

HIGHLIGHTS OF PROVISIONS INCLUDED IN SECURE 2.0 ACT FIRST EFFECTIVE IN 2024

On December 29, 2022, President Biden signed the "Consolidated Appropriations Act, 2023." In the following summary, we've listed a few provisions of the SECURE 2.0 segment of the Consolidated Appropriations Act, 2023 that could impact your 2024 year-end planning.

Exceptions From 10% Penalty Tax For Certain "Early Distributions" From Retirement Accounts

- **Exception From 10% Penalty Tax Relating To Federally Declared Disasters.** With the recent hurricane disasters, etc. it's important to note that individuals living in a Federally Declared Disaster may be able to withdraw up to $22,000 from their retirement plan (including an IRA), penalty-free, as a Qualified Disaster Recovery Distribution (QDRD). There is a 180-day window within which the amounts may be withdrawn penalty free. **Caution!** Even though there is no penalty on the amount withdrawn, the amount withdrawn will generally be included in your income. However, you may elect to include the distribution in income over 3 years. In addition, you may recontribute all or a portion of the distribution to a qualified retirement plan within three years from the date the distribution was received and obtain a refund of the Federal tax paid on the amount recontributed for the year of the distribution.

  - **QDRD Definition.** A "Qualified Disaster Recovery Distribution" means any distribution meeting the following requirements – **1)** made on or after the first day of the incident period of a Federally Declared Disaster and before 180 days after the later of – **a)** December 29, 2022, **b)** the first day of the incident period, or **c)** the date of the disaster declaration with respect to the disaster **and 2)** made to an individual whose principal place of abode at any time during the **incident period** is in the disaster area and who **sustained an economic loss** because of the disaster.

  - **Incident Period.** IRS says *"The incident period for a qualified disaster is the period specified by the Federal Emergency Management Agency (FEMA) as the period during which the disaster occurred. An incident period might be a single day (for example, in the case of a tornado) or it might be multiple days (for example, in the case of a hurricane or snowstorm). The incident period for a qualified disaster can be located by referring to the FEMA website on declared disasters."*

  - **Sustained An Economic Loss.** IRS says examples of an economic loss **include, but are not limited to:**

    - Loss, damage to, or destruction of real or personal property from fire, flooding, looting, vandalism, theft, wind, or other cause,

    - Loss related to displacement from the individual's home, or

    - Loss of livelihood due to temporary or permanent layoffs.

  - **Employer May Rely On Employee Representations.** A plan sponsor or plan administrator is permitted to rely on a participant's reasonable representations that the participant is a qualified individual who qualifies for this special treatment for distributions, unless the plan administrator (or other responsible person) with respect to the qualified employer plan has actual knowledge to the contrary.

- **Exception For Distributions To Domestic Abuse Victims.** Distributions from an eligible retirement plan (generally qualified plans, other than defined benefit plans) to a domestic abuse victim will not be subject to the 10% penalty tax if such distribution is made to an individual during the one-year period beginning on any date on which the individual is a victim of domestic abuse by a spouse or domestic partner. This includes qualifying distributions from an IRA. A domestic abuse victim distribution is **includible in gross income but is not subject to the 10% penalty tax.** **Domestic abuse** means physical, psychological, sexual, emotional, or economic abuse, including efforts to control, isolate, humiliate, or intimidate the victim, or to undermine the victim's ability to reason independently, including by means of abuse of the victim's child or another family member living in the household.

- The **aggregate amount** which may be treated as an eligible distribution to a domestic abuse victim **shall not exceed the lesser of –**

  i.) **$10,000** as adjusted for inflation after 2024, **or**

  ii.) 50 percent of the present value of the nonforfeitable accrued benefit (vested accrued benefit) of the individual under the plan.

- Any portion of a domestic abuse victim distribution (up to the entire amount of the distribution) may be repaid to an applicable eligible retirement plan in which the individual is a beneficiary and to which a rollover can be made, at any time within 3 years from the day after the date the distribution was received. The repayments will be treated as a trustee-to-trustee transfer.

Note! Employers are not required to allow distributions from an employer sponsored retirement plan because of domestic abuse.

- **No 10% Penalty Tax On Certain Emergency Personal Expenses "Emergency Personal Expense Distribution."** Any distribution from a retirement plan, other than a defined benefit plan, to an individual **to meet unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses will not be hit with the 10% penalty tax.** The administrator of an eligible retirement plan may generally rely on an employee's written certification that the employee satisfies these conditions. **Only one distribution for emergency expenses is allowed per calendar year. An employer is not required to include an "Emergency Personal Expense Distribution" provision in the employer's retirement plan.**

  - **The maximum distribution for emergency expenses is the lesser of –**

    i.) **$1,000** or

    ii.) The excess of the Individual's total nonforfeitable accrued benefit under the plan (for IRAs the entire account balance) over $1,000.

  - Any amount, up to the total amount of an emergency personal expense distribution, **may be repaid to an applicable, eligible retirement plan, in which the individual is a beneficiary and to which a rollover can be made within 3 years** from the day after the date the distribution was received. The repayments will be treated as a trustee-to-trustee transfer.

  - **No additional emergency personal expense distributions for three years unless – 1)** the emergency distribution is fully repaid **or 2)** the aggregate of the individual's elective deferrals and employee contributions to the plan (all amounts contributed to an IRA) after the emergency distribution is at least equal to the amount of the emergency distribution that has not been repaid.

- **Exception For Distributions To Individuals With A Terminal Illness.** Distributions made to a plan participant on or after the date such participant has been certified by a physician as having a terminal illness (i.e., an illness or physical condition which can reasonably be expected to result in death in 84 months or less after the date of the certification) will not be subject to the additional 10% penalty tax on early distributions.

- **Expansion Of Exceptions From 10% Penalty Tax For Public Service Employees Age 50 Or Older.** Prior to the Act, distributions to qualified public safety employees from a governmental plan on or after reaching age 50 were not subject to the 10% penalty tax. The Act provides that public safety employees may take distributions from a governmental plan on or after reaching age 50 **or 25 years of service** under the plan, whichever is earlier, without a 10% penalty tax. This exception also applies to private sector firefighters who are participants in a qualified pension, profit-sharing or stock bonus plan under §401(a); a §403(a) plan; or a §403(b) plan (as well as to firefighters employed by a state or political subdivision of a state). In addition, the Act adds to the list of "public safety employees," employees of a State or a political subdivision of a State providing services as a corrections officer or as a forensic security employee providing for the care, custody, and control of forensic patients.

Increase In Age For Required Minimum Distributions (RMDs)

- **Prior Provision.** Required minimum distributions (RMDs) from IRAs and qualified plan accounts were generally required to begin no later than April 1st following the calendar year in which an individual reached age 72. However, if the individual did not own more than 5% of the employer sponsoring the plan for the plan year ending in the calendar year in which the employee attained age 72, RMDs were not required until April 1st following the calendar year the individual retired. This delay until retirement does not apply to IRA owners.

- **RMDs Required After 73, For Individuals Who Attain Age 72 After 2022.** The Act provides:

  - For an individual born after 1950, RMDs are required to begin no later than April 1 following age 73, **and**
  - For an individual born after 1959, RMDs are required no later than April 1 following age 75.

IRA Catch-Up Contribution Limit Indexed For Inflation

- **$1,000 Catch-Up Contribution For IRAs Not Previously Indexed.** The $1,000 catch-up (additional) contribution to IRAs for individuals aged 50 or older was not previously indexed for inflation. Beginning in 2024, the $1,000 catch-up contribution will be indexed in multiples of $100 for inflation. However, the catch-up contribution for 2024 remains at $1,000.

Surviving Spouse May Elect To Be Treated As Account Owner

- **Current Law.** Where an individual dies before the individual's Required Beginning Date, if the surviving spouse is a designated beneficiary of the decedent's retirement account, the surviving spouse is not required to begin RMDs until the deceased spouse would have reached the "applicable age" (e.g., 72 or 73). In addition, if the surviving spouse dies before distributions to the spouse begin, the surviving spouse is treated as if the surviving spouse were the employee or IRA owner.

- **New Provision Effective After 2023 Allows Surviving Spouse To Elect To Be Treated As The Account Owner**

  i.) RMD Where Deceased Spouse Dies Before Required Beginning Date. If an account owner dies before the account owner's Required Beginning Date and the surviving spouse is the sole designated beneficiary of the deceased spouse's retirement account, the surviving spouse may elect to be treated as the account owner. RMDs are not required to be made to the surviving spouse until the deceased spouse would have reached the "applicable age" (currently 73). If the surviving spouse dies before distributions begin, the surviving spouse shall be treated as the employee or original IRA owner. **The proposed regulations provide that the election is automatic if the deceased spouse dies before the deceased spouse's required beginning date.** Under this new provision, once the RMDs for the surviving spouse commence, the RMDs would be calculated using the IRS **Uniform Lifetime Table** versus the **Single Life Expectancy Table** that was previously required for a surviving spouse who does not convert the deceased spouse's account to an IRA in the surviving spouse's name.

  ii.) RMDs Where Surviving Spouse Is Sole Designated Beneficiary, Elects To Be Treated As Account Owner, And Account Owner Dies After Required Beginning Date. In this situation, the Act provides that if the surviving spouse elects to be treated as the deceased spouse, the surviving spouse will be treated as the account owner and distributions will be determined using the Uniform Lifetime Table. This means a surviving spouse who is the sole designated beneficiary of the account owner will not need to rollover the decedent's retirement account to an IRA or treat the decedent's IRA as his or her own to calculate RMDs using the Uniform Lifetime Table which is based on joint and survivor life expectancies of the surviving spouse and someone 10-years younger.

Trustee-To-Trustee Tax-Free Transfer Allowed From 529 Plan To Beneficiary's Roth IRA

- A trustee-to-trustee tax-free transfer is allowed after 2023 from a 529 plan to a beneficiary's Roth IRA without tax or penalty if the following requirements are met:

  i.) The 529 plan has been **maintained for at least a 15-year period** ending on the date of the transfer.

  ii.) **The amount of transfer to the Roth IRA does not exceed** the aggregate amount of contributions and earnings prior to the 5-year period ending on the date of transfer.

  iii.) **Transfers for any one taxable year cannot exceed the IRA contribution limitation for the year** reduced by the amount of all contributions made to all IRAs maintained for the beneficiary's benefit during the year.

  iv.) **The aggregate** of all qualified transfers **for the current and all prior years does not exceed $35,000.**

Selected Other Changes Made To Retirement Plans By SECURE 2.0

- **No Distributions Are Required From A Designated Roth Account In An Employer Retirement Plan Prior To Death Of The Account Owner After 2023.** Prior to 2024, RMDs were required from a designated Roth account in an employer's qualified plan once the employee reached the attained age (currently age 73).

- **Hardship Distributions To Participant In A 403(b) Plan May Be Made From Salary Reduction Contributions, Nonelective Contributions, Matching Contributions, And Earnings On Any Contributions.** Prior to 2024, hardship withdrawals from a 403(b) plan were only allowed to the extent of an employee's salary reduction contributions.

HIGHLIGHTS OF TRADITIONAL YEAR-END TAX PLANNING

Each year, we discus several traditional year-end tax planning strategies to help reduce taxable income. One of those strategies is reducing current year taxable income by deferring taxable income into later years and accelerating deductions into the current year. This strategy is beneficial when your income tax rate in the coming year is expected to be the same or lower than the current year. Consequently, in the following discussion we include traditional year-end tax planning strategies that would allow you to accelerate your deductions into 2024, while deferring your income into 2025. **Planning Alert!** For individuals who expect their 2024 income tax rate to be much lower than their 2025 income tax rate, the opposite strategy might be more advantageous. For example, individuals who have a significant drop in income during 2024, may decide it's better to accelerate income into 2024 (to be taxed at lower rates), while deferring deductions into 2025 (to be taken against income that is expected to be taxed at higher rates).

Tax Benefits Of Above-The-Line Deductions. Traditional year-end planning includes accelerating deductible expenses into the current tax year. So-called **"above-the-line"** deductions reduce both your "adjusted gross income" and your "modified adjusted gross income", while **"itemized"** deductions (i.e., below-the-line deductions) do **not** reduce either adjusted gross income or modified adjusted gross income. Deductions that reduce your adjusted gross income (or modified adjusted gross income) can generate multiple tax benefits by: **1)** Reducing your taxable income and allowing you to be taxed in a lower tax bracket; **2)** Potentially freeing up other deductions (and tax credits) that phase out as your adjusted gross income (or modified adjusted gross income) increases (e.g., Certain IRA Contributions, Certain Education Credits, Adoption Credit, Child Credits, etc.); **3)** Potentially reducing your modified adjusted gross income below the income thresholds for the 3.8% Net Investment Income Tax (i.e., 3.8% NIIT only applies if MAGI exceeds $250,000 if married filing jointly; $200,000 if single); **4)** Possibly reducing your household income to a level that allows you to qualify for a "refundable" Premium Tax Credit for health insurance purchased on a government Exchange, **or 5)** As we discuss later, potentially reducing your taxable income to a level that could maximize your 20% 199A Deduction (i.e., individuals reporting Qualified Business Income will generally find it much easier to qualify for the 20% 199A Deduction if their 2024 taxable income does not exceed **$383,900** if filing a joint return or **$191,950** if filing single).

As a cash method taxpayer, you can generally accelerate a 2025 deduction into 2024 by *"paying"* the deductible item in 2024. *"Payment"* typically occurs in 2024 if, **before the end of 2024: 1)** A check is delivered to the post office, **2)** Your electronic payment is debited to your account, or **3)** An item is charged on a *third-party credit card* (e.g., Visa, MasterCard, Discover, American Express). **Caution!** If you post-date the check to 2025 or if your check is rejected, no payment has been made in 2024 even if the check is delivered in 2024. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payments are not deductible in 2024. If you think that you could benefit from accelerating ***above-the-line*** deductions into 2024, consider the following:

- **Possible Above-The-Line Deductions.** **Above-the-line** deductions include: Military Moving Expenses; Qualifying Alimony Payments (if the divorce or separation instrument was **executed before 2019);** Deductions for IRA or Health Savings Account (HSA) Contributions; and, Student Loan Interest. **Caution!** As discussed in more detail below, un-reimbursed employee business expenses are not deductible at all **for 2018 through 2025.** However, employee business expenses that are reimbursed under an employer's accountable plan are excluded altogether from the employee's taxable income. Moreover, there have been changes to the above-the-line deductions for **Moving Expenses,** and **Alimony Payments,** as follows:

    - **Moving Expenses.** Historically, the deduction for qualified **business-related moving expenses** was an above-the-line deduction. However, **for 2018 through 2025,** the deduction for **moving expenses** has been suspended for most individuals. **Planning Alert!** Generally, active members of the Armed Forces who move pursuant to a military order because of a permanent change of station may still deduct un-reimbursed qualified moving expenses as above-the-line deductions and may exclude the employer reimbursements of those moving expenses from income. For 2024, an **Armed Forces Member** may use the standard rate of **21 cents per mile** to determine the deduction for automobile expenses related to a qualified move.

    - **Alimony Payments.** Historically, an individual making qualified alimony payments was allowed an above-the-line deduction for the payments and the recipient of the payments was required to include the payments in income. **However, effective for "Divorce or Separation Instruments" executed after 2018,** the **deduction for alimony payments has been repealed altogether.** The good news is that these alimony payments **are no longer taxable to the recipient.** Alimony paid under a divorce instrument **executed before 2019** will generally be grandfathered under the previous rules. **Planning Alert!** If you are currently paying or receiving alimony pursuant to a divorce or separation instrument ***executed before 2019,*** the tax treatment of the alimony payments **does not change.** That is, if your alimony payments were deductible before 2019, they should continue to be deductible (and includible in the recipient's income). **Caution!** Form 1040, Schedule 1 requires individuals who ***receive*** taxable alimony to disclose the "*Date Of Original Divorce Or Separation Agreement,"* and the amount received. Individuals who ***deduct*** the alimony are required to list the amount paid, the social security number of the recipient and the "*Date Of Original Divorce Or Separation Agreement."*

    - **Contributions To A Health Savings Account (HSA).** You may be eligible for an above-the-line deduction for contributions to an HSA if you are covered under a high-deductible health plan during 2024. The maximum deduction for a self-only coverage plan is **$4,150** and **$8,300** for a family coverage plan. In addition, if you are at least 55 by the close of 2024, you can add **$1,000 ($5,150 & $9,300). Caution!** Distributions from your HSA must be used for qualified medical expenses, or they will be taxed and, with a few exceptions, hit with a 20% penalty.

    - **Student Loan Interest Deduction.** You may be able to deduct up to $2,500 of interest paid on a qualified student loan during 2024. The deduction is allowed to taxpayers who, per the loan agreement, have a legal obligation to make the interest payments. The $2,500 maximum deduction is phased out between **$165,000 and $195,000** of modified adjusted gross income if filing a joint return **($80,000 and $95,000 if filing single). Caution!** The deduction is not allowed to: **1)** A taxpayer filing as married filing separately, or **2)** A taxpayer who may be claimed as a dependent on someone else's tax return.

Itemized Deductions. Although **itemized** deductions (i.e., below-the-line deductions) do **not** reduce your adjusted gross income or modified adjusted gross income, they still may provide valuable tax savings if your itemized deductions exceed your standard deduction. For 2024, the Standard Deduction is: **Joint Return - $29,200; Single - $14,600;** and **Head-of-Household - $21,900.** The following are ideas for planning with itemized deductions:

- **Medical Expense Deductions.** If you think your itemized deductions this year could likely exceed your standard deduction of $29,200 if filing jointly ($14,600 if single), but you do not expect your itemized deductions to exceed your Standard Deduction next year, you could save taxes in the long run by accelerating elective medical expenses (e.g., braces, new eyeglasses, etc.) into 2024. **Note!** For 2024, you are allowed to take an itemized deduction for medical expenses only to the extent your aggregate medical expenses exceed 7.5% of your AGI. **__Planning Alert!__** It may be possible to deduct expenses for your "medical dependent". If you paid medical expenses for a child, parent, etc. who you are unable to claim as a dependent due to their 2024 gross income, **please call us** so we can determine if those expenses qualify to be reported as medical expenses on your return.

- **__$10,000 Cap On State And Local Taxes.__** **From 2018 through 2025,** your aggregate itemized deduction for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) is **limited to $10,000** ($5,000 for married individuals filing separately). Foreign real property taxes are not deductible at all unless the taxes are paid in connection with a business or in an activity for the production of income. You are still allowed a full deduction (i.e., an above-the-line deduction) for state, local, and foreign **property** or **sales** taxes paid or incurred in carrying on your **trade or business** (e.g., your Schedule C, Schedule E, or Schedule F operations).

  __Planning Alert!__ Most states have enacted legislation allowing partnerships and S corporations to elect to pay state and local income taxes on the partnership's or S Corporation's income. If this election is made, the state and local taxes paid by the partnership or S Corporation are deductible by the entity and reduce the income flowing through to the partners or shareholders. This treatment may be beneficial to owners who have state and local taxes above the $10,000 cap discussed above. If the entity pays the state and local income taxes on its income, the owner does not pay tax on the same income. States either give the partners or S corporation shareholders a state credit or deduction on their personal returns for the state and local tax paid on income reported by the entity. Interestingly, the IRS has approved this avoidance of the $10,000 limitation for state and local taxes on partnership and S corporation income. **Please give us a call if you would like to know more about your state's law allowing state and local taxes to be paid by the partnership or S corporation.**

- **__Limitations On The Deduction For Interest Paid On Home Mortgage "Acquisition Indebtedness."__** Before the Tax Cuts And Jobs Act (TCJA), individuals were generally allowed an *itemized* deduction for home mortgage interest paid on up to $1,000,000 ($500,000 for married individuals filing separately) of **"Acquisition Indebtedness"** (i.e., funds borrowed to purchase, construct, or substantially improve your principal or second residence and secured by that residence). Subject to certain transition rules, TCJA reduced the dollar cap for **Acquisition Indebtedness incurred after December 15, 2017, from $1,000,000 to $750,000** ($375,000 for married filing separately) for **2018 through 2025.** Generally, any Acquisition Indebtedness incurred on or before December 15, 2017, is "grandfathered" and will still carry the $1,000,000 cap. Moreover, subject to limited exceptions, if you incurred *Acquisition Indebtedness* on or before December 15, 2017 (i.e., grandfathered Acquisition Indebtedness), the refinancing of that indebtedness after December 15, 2017, will still be entitled to the $1,000,000 cap (to the extent of the outstanding balance of the original *Acquisition Indebtedness* on the date of the refinancing). **__Caution!__** The $750,000 cap that generally applies to Acquisition Indebtedness incurred after December 15, 2017, is reduced by the outstanding balance of any grandfathered Acquisition Indebtedness. **__Planning Alert!__** If you think your itemized deductions this year could likely exceed your *Standard Deduction*, paying your January 2025 qualifying home mortgage payment **before 2025** should accelerate the deduction on the interest portion of that payment **into 2024.**

- **__"Home Equity Indebtedness" Suspended For 2018 Through 2025.__** TCJA suspended the deduction for **interest** with respect to **"Home Equity Indebtedness"** (i.e., up to $100,000 of funds borrowed that do not qualify as Acquisition Indebtedness but are secured by your principal or second residence). **__Caution!__** Unlike the interest deduction for Acquisition Indebtedness, TCJA **did not grandfather** any interest deduction for **Home Equity Indebtedness** that was **outstanding before 2018.** **__Planning Alert!__** A loan that has been labeled by your lender as a home equity loan, home equity line of credit (HELOC), or second mortgage on a Qualified Residence may, in certain situations, be classified as **Acquisition Indebtedness.** This would be the case where the borrowed funds were used to **substantially improve** your Qualified Residence that secures the loan. For example, assuming you have not exceeded the dollar caps on Acquisition Indebtedness, you will still be able to deduct the interest on a second mortgage taken out as a home improvement loan so long as the improvement: **1) Adds to the value** of your home that secures the second mortgage, **2) Prolongs** your **home's useful life,** or **3) Adapts** your home to **new uses.** **__Caution!__** These new rules can be tricky. We suggest that you talk with us before you sign off on a new mortgage: to buy your main house, to buy a second home, to place a second mortgage on your existing home, or to refinance your existing home mortgage. We will gladly review your situation and determine if there are ways to structure the loan to maximize your interest deduction.

- **<u>Charitable Contributions.</u>** If you think your itemized deductions this year could likely exceed your Standard Deduction of $29,200 if filing jointly ($14,600 if single) and you want to accelerate your charitable deduction into 2024, please note that a charitable contribution deduction is allowed for 2024 if the check is **"mailed" on or before December 31, 2024,** or the contribution is made by a credit card charge in 2024. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay the note or pledge. In addition, if you are considering a significant 2024 contribution to a qualified charity (e.g., church, synagogue, or college), it will generally save you taxes if you contribute *appreciated* long-term capital gain property, rather than selling the property and contributing the cash proceeds to the charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, Bitcoin, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. If instead you intend to use *loss* stocks to fund a charitable contribution, you should sell the stock first and then contribute the cash proceeds. This will allow you to deduct the capital loss from the sale, while preserving your charitable contribution deduction. **<u>Planning Alert!</u> Starting in 2018** (with no sunset date), a charitable contribution deduction is **not allowed** for contributions made to colleges and universities in exchange for the contributor's right to purchase tickets or seating at an athletic event (prior law allowed the taxpayer to deduct 80% as a charitable contribution).

- **<u>Casualty Losses.</u> From 2018 through 2025,** the itemized deduction for personal casualty losses and theft losses has been suspended. **<u>Note!</u>** Personal casualty losses generally continue to be deductible to the extent the taxpayer has personal casualty "gains" for the same year. In addition, casualty losses with respect to property held in a trade or business or for investment are still allowed. **<u>Planning Alert!</u>** Personal casualty losses attributable to a Federally declared disaster continue to be deductible. If you have a casualty or theft loss resulting from a federally declared disaster, you have the option of taking the loss in the tax year of the loss or the tax year prior to the loss. **Please call us** if you have questions and we can help you decide in which tax year the loss should be taken in order to provide the most benefit.

  - **<u>Planning Alert! Businesses Located In And Individuals Living In A Hurricane Helene Disaster Zone Have Until May 1, 2025, To File Returns And Make Certain Tax Payments.</u>** The IRS has announced that individuals living in, and businesses located in **Alabama, Georgia, North Carolina, South Carolina and certain counties in Florida, Tennessee and Virginia** now have until May 1, 2025, to file various returns and make certain payments. The May 1, 2025, deadline applies to:

    a. Individuals who had an extension to 10/15/24 to file their 2023 return. As tax payments for 2023 were due on 04/15/24, no relief is available for those payments.

    b. Businesses (including tax-exempt organizations) with an original or extended tax return due date on or after the disaster start date and before May 1, 2025, including calendar-year corporations with extensions to 10/15/24 to file, and tax-exempt organizations with extensions to 11/15/24.

    c. Payments normally due after the disaster start date and before 05/01/25, including certain quarterly estimated payments. This generally does not apply to payroll or excise tax deposits. See state specific information below. Penalties for underpayment of estimated taxes will not apply.

    d. Quarterly payroll and excise tax returns normally due 10/31/24, 01/31/25 and 04/30/25.

    e. The performance of certain time-sensitive acts described in Reg. §301-7508A-1(c)(1) and Rev. Proc. 2018-58. Please see Reg. §301-7508A-1(c)(1) and Rev. Proc. 2018-58 for these other important acts for which an extension of time may be available.

  - **<u>State Specific Information.</u>** The extension of time for filing returns and making payments applies to returns and certain payments due during the deferral period beginning on the start date of the FEMA disaster declaration and ending on May 1, 2025. The start dates for the various states are listed below:

    - **Alabama** start date of disaster declaration: **September 22, 2024 (See <u>AL-2024-05</u>).**

    - **Florida** start date of disaster declaration: **September 23, 2024 (See <u>FL-2024-08</u>).**

    - **Georgia** start date of disaster declaration: **September 24, 2024 (See <u>GA-2024-08</u>).**

- **North Carolina** start date of disaster declaration: **September 25, 2024 (See NC-2024-08).**
- **South Carolina** start date of disaster declaration: **September 25, 2024 (See SC-2024-08).**
- **Virginia** start date of disaster declaration: **September 25, 2024 (See VA-2024-01).**
- **Tennessee** start date of disaster declaration: **September 26, 2024 (See TN-2024-01).**

Note! Please see https://www.irs.gov/newsroom/tax-relief-in-disaster-situations concerning disaster filing and payment relief details concerning these and other areas provided disaster relief during 2024. Some recent disasters for which filing and payment relief has been recently granted include:

- **Hurricane Debby – See the following for details: FL-2024-07, GA-2024-07, SC-2024-07, and NC-2024-07.**
- **Hurricane Milton – See the following for details: FL-2024-10.**
- **Severe Storms And Flooding in Connecticut and New York – See the following for details: CT-2024-11 and NY 2024-08.**

Un-Reimbursed Employee Business Expenses. Starting in 2018 and through 2025, *un-reimbursed* employee business expenses are not deductible at all. For example, you **may not deduct** any of the following business expenses **you incur as an employee, even if the expenses are necessary for your work: Automobile expenses** (including auto mileage, vehicle depreciation); **Costs of travel, Transportation, Lodging and meals; Union dues** and expenses; **Work clothes and uniforms;** Otherwise qualifying **home office expenses; Dues** to a chamber of commerce; **Professional dues; Work-Related education expenses; Job search expenses; Licenses and regulatory fees; Malpractice insurance premiums; Subscriptions** to professional journals and trade magazines; and **Tools and supplies** used in your work.

- **Note! An Employer's Qualified Reimbursement Of An Employee's Business Expenses Is Deductible By The Employer And Tax Free To The Employee.** Generally, employee business expenses that are reimbursed under an employer's qualified **"Accountable Reimbursement Arrangement" are deductible by the employer** (subject to the limit on business meals), and the reimbursements are **not taxable to the employee.** However, reimbursements under an arrangement that is ***not*** a qualified accountable reimbursement arrangement generally must be treated as compensation and included in the employee's W-2. In addition, the employee would get no offsetting deduction for the business expense. **Planning Alert!** Generally, for an employer to have a qualified **Accountable Reimbursement Arrangement: 1)** The employer must maintain a reimbursement arrangement that requires the employee to substantiate covered expenses; **2)** The reimbursement arrangement must require the return of amounts paid to the employee in excess of the amounts substantiated; and **3)** There must be a business connection between the reimbursement (or advance) and the business expenses.

- **Deducting Food And Beverage Expenses.** The Tax Cuts And Jobs Act generally repealed business deductions with respect to entertainment, amusement, or recreation activities after 2017. Fortunately, the IRS says that businesses can generally deduct 50% of the cost of meals (i.e., food and beverages) with a business associate (e.g., a current or potential business customer, client, supplier, employee, agent, partner, professional advisor). The IRS also says that businesses can deduct 50% of the cost of food and beverages provided during a nondeductible entertainment activity with a business associate provided the food and beverages are purchased separately from the entertainment, or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices, or receipts. **Planning Alert!** If an employer reimburses an employee's deductible business food and beverage expense under an Accountable Reimbursement Arrangement, the employer could deduct 50% of the reimbursement. This same rule applies if you are employed by your own S corporation. However, as discussed previously, an employee who is not reimbursed by the employer for the business meal would get no deduction because un-reimbursed employee business expenses are not currently deductible.

- **Be Careful If You Are Working For Your Own S Corporation.** If you operate your business as an S corporation and you also work for your S corporation as its employee, then it is particularly important that you have your S corporation (i.e., your employer) reimburse all your employee business expenses under an accountable plan. Under this arrangement, the reimbursement will be deductible by your S corporation, the deduction from the reimbursement will pass through to you as the S corporation shareholder, and your S corporation/employer will be able to exclude the reimbursement from your W-2 wages. **Please call our firm** if you need assistance. We can help you establish a qualifying Accountable Reimbursement Arrangement with your employer.

Postponing Taxable Income May Save Taxes. Generally, deferring taxable income from 2024 to 2025 may also reduce your income taxes, if your effective income tax rate for 2025 will be lower than your effective income tax rate for 2024. Moreover, deferring income from 2024 to 2025 may provide you with the same tax benefits listed previously when you accelerate deductions into 2024 (i.e., Freeing up other deductions and tax credits that phase out as your adjusted gross income or modified adjusted gross income increases; Reducing your modified adjusted gross income below the income thresholds for the 3.8% Net Investment Income Tax; Reducing your household income to a level that allows a "refundable" Premium Tax Credit; or, Reducing your taxable income to a level that maximizes the 20% 199A Deduction). **Planning Alert!** If, after considering all factors, you believe deferring taxable income into 2025 will save you taxes, consider the following:

- **Planning For Tax Rates.** The deferral of income could cause your 2024 taxable income to fall below the thresholds for the highest 37% tax bracket (i.e., $731,201 for joint returns; $609,351 if single). If you have income subject to the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral reduces your 2024 modified adjusted gross income below the thresholds for the 3.8% NIIT (i.e., **$250,000 for married filing joint, $125,000 for married filing separate, and $200,000 for all others),** you may avoid this additional 3.8% tax on your investment income. In addition, if you reduce your modified adjusted gross income below the Net Investment Income Tax thresholds above, you may not be subject to the additional Medicare tax of 0.9**%** on your wages and/or self-employment income. **Caution!** If your employment wages and/or self-employment income for 2024 are greater than $250,000 for married filing joint, $125,000 for married filing separate, and $200,000 for all others, it may be necessary, especially if you have multiple employers during 2024, to adjust your withholding for the additional Medicare tax before year-end. If you are self-employed, you may need to adjust your final federal estimate, in January 2025, for the additional Medicare tax.

- **Deferring Self-Employment Income.** If you are a self-employed individual using the cash method of accounting, consider delaying year-end billings to defer income until 2025. **Caution!** You *may not* want to defer billing if you believe this will increase your risk of not getting paid. **Planning Alert!** Remember, if you receive the check in 2024, deferring the deposit of the check until 2025 does not defer the income.

TAX PLANNING FOR INVESTMENT INCOME (INCLUDING NET INVESTMENT INCOME TAX AND CAPITAL GAINS AND LOSSES)

Planning With The 3.8% Net Investment Income Tax (3.8% NIIT). The **3.8% Net Investment Income Tax (3.8% NIIT)** applies to the Net Investment Income of higher-income individuals. This tax applies to individuals with modified adjusted gross income exceeding the following **thresholds: $250,000 for married filing jointly; $200,000 if single; and $125,000 if married filing separately.** The 3.8% NIIT is imposed upon **the lesser of** an individual's: **1)** Modified adjusted gross income in excess of the **threshold,** or **2)** Net investment income. **Note! Trusts and estates** are also subject to the **3.8% NIIT** on the **lesser of: 1)** The adjusted gross income of the trust or estate in excess of $15,200 (for 2024), or **2)** The undistributed net investment income of the trust or estate. The 3.8% NIIT not only applies to traditional types of investment income (i.e., interest, dividends, annuities, royalties, and capital gains), it also applies to "business" income that is taxed to a "passive" owner (as discussed in more detail below) unless the passive income is subject to S/E taxes. If you believe the 3.8% NIIT may apply to you, consider the following planning techniques:

- **Shifting To Investments That Generate Income Exempt From The 3.8% NIIT.** Fortunately, the following types of income are **not subject** to the 3.8% NIIT: **tax-exempt bond interest; gain on the sale of a principal residence** otherwise excluded from income under the **home-sale exclusion** rules (i.e., up to $250,000 on a single return, up to $500,000 on a joint return); and **distributions from qualified retirement plans** (e.g., 401(k) plans, IRAs, 403(b) annuities, etc.). **Tax Tip!** Investments that generate tax-exempt income (e.g., tax exempt municipal bonds) potentially provide higher-income individuals with a double benefit: **1)** The interest will not be included in the individual's modified adjusted gross income, thus reducing the chance that the individual will exceed the income thresholds for the 3.8% NIIT, and **2)** The tax-exempt interest itself is exempt from the 3.8% NIIT as well as from Federal income taxes. **Planning Alert!** Although taxable distributions from qualified retirement plans (e.g., IRAs, 401(k) plans, etc.) are exempt from the

3.8% NIIT, the taxable distributions will increase your modified adjusted gross income. Therefore, to the extent the taxable distributions cause your modified adjusted gross income to exceed the thresholds for the 3.8% NIIT (e.g., $250,000 for joint returns; $200,000 for singles), the distributions could cause your other net investment income (e.g., dividends, interest, capital gains, rents, passive income) to be hit with the 3.8% NIIT.

- **Roth IRAs (Including Roth IRA Conversions).** Tax-free distributions from a Roth IRA are exempt from the 3.8% NIIT, and do not increase your modified adjusted gross income (and thus will not increase your exposure to the 3.8% tax). Therefore, these tax-favored features should be factored into any analysis of whether you should contribute to a Roth IRA. However, if you are considering converting a traditional IRA into a Roth, the income triggered in the year of conversion would increase your modified adjusted gross income and, therefore, may increase your exposure to the 3.8% NIIT on your net investment income (e.g., dividends, interest, capital gains). **Planning Alert!** If you want a Roth conversion to be **effective for 2024,** you must transfer the amount from the regular IRA to the Roth IRA **no later than December 31, 2024** (you do not have until the due date of your 2024 tax return). **Caution!** Whether you should convert your traditional IRA to a Roth IRA can be an exceedingly complicated issue, and the 3.8% NIIT is just one of many factors you should consider. **Please call us** if you need help in deciding whether to convert to a Roth IRA.

- **Tax-Deferred Investments.** The 3.8% NIIT does not apply to earnings generated by a **tax-deferred annuity** (TDA) contract **until the income is distributed.** Thus, after first considering the economics, investing in a TDA in your higher-income years may allow you to defer the annuity income until later years when your modified adjusted gross income is below the 3.8% NIIT thresholds.

- **Passive Income.** "Net Investment Income" for purposes of the 3.8% NIIT generally includes net income from a business activity if you are a passive owner (unless the income constitutes self-employment income that is subject to the 2.9% Medicare tax). You will generally be deemed a "passive" owner if you do not "materially participate" in the business as determined under the traditional "passive activity loss" rules. For example, under the passive activity loss rules, you may be a passive owner unless you spend more than 500 hours working in the business during the year or meet one of the other "material participation" tests. Furthermore, rental income is generally deemed to be passive income under the passive activity loss rules, regardless of how many hours you work in the rental activity. **Tax Tip!** In certain situations, real estate rentals may not be treated as passive income and could also be exempt from the 3.8% NIIT. For example, if you are a "qualified real estate professional," or you lease property to a business in which you materially participate, the rental income may be exempt from the 3.8% NIIT. If you believe you may qualify for one of these rental real estate exemptions, or you otherwise believe you may have passive income from non-rental business activities, **please contact our firm.** We will gladly evaluate your situation to determine whether there are steps you could take before the end of 2024 to avoid passive income classification, and thus, reduce your exposure to the 3.8% NIIT.

Traditional Year-End Planning With Capital Gains And Losses. Generally, net capital gains (both short- term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual filing a joint return with taxable income for 2024 of **$583,751 or more ($518,901 or more if single)** paying Federal income tax on **net long-term capital gains** at a **23.8%** rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). In addition, an individual's **net short-term capital gains** could be taxed as high as **40.8%** (i.e., 37% plus 3.8%), for Federal income tax purposes. Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities continue to be as important as ever. The following are time-tested, year-end tax planning ideas for sales of capital assets. **Planning Alert!** Always consider the **economics of a sale or exchange first!**

- **Zero Percent Tax Rate For Capital Gains And Dividends.** For individuals filing a **joint return** with 2024 taxable income of **less than $94,051 (less than $47,026 if single),** their long-term capital gains and qualified dividends are taxed at a **zero percent rate.** Individuals who have historically been in higher tax brackets but are now expecting a significant drop in their 2024 taxable income, may find themselves in the zero percent tax bracket for long-term capital gains and qualified dividends for the first time. For example, a significant drop in 2024 taxable income could have occurred because you are between jobs; or you recently retired; or you are expecting to report higher-than-normal business deductions in 2024. **Planning Alert!** If you are experiencing any of these situations, **please call us** and we will help you determine whether you can take advantage of this zero percent tax rate for long-term capital gains and qualified dividends.

- **Lower-Income Retirees.** The zero percent rate for long-term capital gains and qualified dividends is particularly important to lower-income retirees who rely largely on investment portfolios that generate dividends and long-term capital gains. Furthermore, gifts of appreciated securities to lower-income individuals who then sell the securities could reduce the tax on all or part of the gain from as high as 23.8% to as low as zero percent. **Caution!** If the lower-income individual is subject to the so-called kiddie tax, this planning technique will generally not work.

- **Timing Your Capital Gains And Losses.** If the value of some of your investments is less than your cost, it may be a good time to harvest some capital losses. For example, if you have already recognized capital gains in 2024, you should consider selling securities **prior to January 1, 2025,** that would trigger a capital loss. These losses will be deductible on your 2024 return to the extent of your recognized capital gains, plus $3,000. **Tax Tip!** These losses may have the added benefit of reducing your income and allowing you to qualify for other tax breaks, such as: **1)** The $2,500 American Opportunity Tax Credit, **2)** The $2,000 Child Tax Credit, **3)** The Adoption Credit of $16,810, or **4)** The 20% 199A Deduction (discussed in more detail later).

  Caution! If, within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules (although the disallowed loss will increase the basis of the acquired stock). **Planning Alert!** If you are afraid of missing an upswing in the market during this 61-day period, consider buying shares of a different company in the same sector. Also, there is no wash sale rule for gains. Thus, if you decide to sell stock at a gain to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

- **Planning With Capital Loss Carryforwards.** If you have substantial capital loss carryforwards coming into 2024, consider selling enough appreciated securities **before the end of 2024** to decrease your net capital loss to $3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your net capital loss (in excess of $3,000) to offset your short-term capital gain, while preserving favorable long-term capital gain treatment for later years. **Planning Alert!** Your net short-term capital gains can be used to free up a deduction for any investment interest you have incurred (e.g., interest you have paid on your margin account). If you eliminate your short-term capital gains by recognizing your short-term capital losses, you may be restricting your ability to deduct your investment interest.

CONSIDER RECENT CHANGES TO IRAS AND QUALIFIED RETIREMENT PLANS

Final RMD Regulations Keep 10-Year Rule When Account Owner Dies On Or After The Required Beginning Date For Taking Distributions. On Feb. 24, 2022, the IRS issued proposed regulations outlining its interpretation of the requirement minimum distribution (RMD) rules for qualified retirement plans; §403(b) annuity contracts, custodial accounts, and retirement income accounts; IRAs; and §457 deferred compensation plans as modified by SECURE 1.0. The proposed regulations addressed the RMD requirements at the death of the account owner on or after the owner's required beginning date (currently April 1st of the year after reaching age 73). Different calculations apply, depending upon whether there was or was not a Qualified Designated Beneficiary. Where the Qualified Designated Beneficiary is not an "Eligible Designated Beneficiary" (i.e., not a surviving spouse, a disabled or chronically ill individual, an individual who is not more than 10 years younger than the IRA owner, or a child of the employee or IRA owner who has not reached the age 21), the 10-year rule applies. According to the proposed regulations, annual distributions are required to begin in the calendar year following the calendar year of the account owner's death, and the entire account balance must be distributed by the end of the 10th calendar year following the calendar year of the account owner's death. Many tax professionals believed the 10-year rule required no distributions until the 10th calendar year following the year of the account owner's death. The IRS received hundreds of comments concerning the requirement in the proposed regulations for distributions to begin in the calendar year following the year of the account owner's death. As a result, the IRS provided relief for this interpretation of the 10-year rule in three IRS Notices. Taken together, the Notices generally provide that:

- **Designated beneficiaries of account owners in IRAs or defined contribution plans** who **are not** "Eligible Designated Beneficiaries," who are subject to the 10-year rule of the proposed regulations, and who are not using the lifetime or life expectancy payments exception, will not be penalized for failing to take RMDs in 2021, 2022, 2023, or 2024 where the account owner died in 2020, 2021, 2022, or 2023 on or after the account required beginning date, **and**

- **Designated beneficiaries of "Eligible Designated Beneficiaries"** will not be penalized for failing to take RMDs in 2021, 2022, 2023, or 2024 where **1)** the "Eligible Designated Beneficiary" died in 2020, 2021, 2022, or 2023, and **2)** the "Eligible Designated Beneficiary" was using the lifetime or life expectancy payments exception.

Unfortunately, the 2024 final regulations do not modify the interpretation of the 10-year rule as provided in the proposed regulations. However, the final regulations do not require distributions that were not made in 2021, 2022, 2023, or 2024, pursuant to the relief provided in IRS Notices 2022-53, 2023-54, and 2024-35, be made in a catch-up distribution in 2025. Only the distribution that would otherwise have been required for 2025 will be required for 2025. However, any remaining balance remaining in the 10th calendar year following the calendar year of the account owner's death must be distributed to beneficiary in that 10th year.

SELECTED MISCELLANEOUS YEAR-END PLANNING CONSIDERATIONS

Contributing The Maximum Amount To Your Traditional IRA. As your income rises and your marginal tax rate increases, deductible IRA contributions generally become more valuable. Also, making your deductible contribution to the plan as early as possible generally increases your retirement benefits. As you evaluate how much you should contribute to your IRA, consider the following limitations. If you are married, even if your spouse has no earnings, you can generally deduct in the aggregate up to **$14,000 ($16,000 if you are both at least age 50 by the end of the year)** for contributions to you and your spouse's traditional IRAs. You and your spouse must have *combined earned income* at least equal to the total contributions. However, no more than **$7,000 ($8,000 if at least age 50)** may be contributed to either your IRA account or your spouse's IRA account for 2024. If you are an active participant in your employer's retirement plan during 2024, your IRA deduction is reduced ratably as your adjusted gross income increases from **$123,000 to $143,000** on a joint return **($77,000 to $87,000** on a single return). However, if you file a joint return with your spouse and your spouse is an active participant in his or her employer's plan and you are not an active participant in a plan, your IRA deduction is reduced as the adjusted gross income on your joint return goes from **$230,000 to $240,000. Caution!** Every dollar you contribute to a deductible IRA reduces your allowable contribution to a nondeductible Roth IRA. The sum of your contributions for the year to your Roth IRA and to your traditional IRA may not exceed the **$7,000/$8,000** limits discussed above. For 2024, your ability to contribute to a Roth IRA is phased out ratably as your adjusted gross income increases from **$230,000 to $240,000** on a joint return or from **$146,000 to $161,000** if you are single. **Planning Alert!** Unlike the rule for traditional IRA contributions, the amount you may contribute to a Roth IRA is reduced if your adjusted gross income falls within these phase-out ranges regardless of whether you or your spouse is a participant in another retirement plan. In addition, contributions to a Roth IRA are not deductible. **Planning Alert!** You have until **April 15, 2025,** to make a **2024 traditional IRA** contribution. However, you may have longer to make the contribution if you live in an area that has been declared a Federal Disaster Area during 2024.

- **Don't Forget The Saver's Credit.** The **Retirement Savings Contributions Credit** (Saver's Credit) is a credit of up to **$2,000** on a joint return **($1,000 on others).** The maximum amount of contributions to your IRAs, 401(k)s and similar retirement plans that can qualify for the credit is **$4,000** for married couples **($2,000 for others).** The credit phases out completely when AGI reaches **$76,501 for married filing jointly, $57,376 for head of household** and **$38,251 for all others.**

Contributing The Maximum Amount To Your 401(k). Participants have until December 31st to contribute to their 401(k). For 2024, the maximum contribution amount for 2024 is **$23,000 ($30,500 if at least 50 years old).** Contributions to your 401(k) will decrease your current year taxable income and add to your retirement savings.

If You Are 70½ Or Older By December 31st, Consider A Qualified Charitable Distribution (QCD). A Qualified Charitable Distribution (QCD) allows a donation to a charitable organization of **up to $105,000** from a traditional IRA. These contributions are **excluded from income** and **count toward your RMD** for 2024. **Caution!** These contributions are not deductible as itemized deductions. However, if you normally take the standard deduction, a QCD could be even more beneficial since the distribution will be excluded from your income.

IRS Increases Standard Mileage Rates Effective January 1, 2024. The standard mileage deduction rate for your deductible **business miles** was increased to **67.0 cents per mile** effective January 1, 2024. The **charitable mileage rate is still 14.0 cents per mile** since it's not indexed and the rate for **medical and moving mileage dropped to 21.0 cents per mile for 2024. Planning Alert!** Be sure to keep proper records of your mileage for use as a possible tax deduction.

__The 20% 199A Deduction For Qualified Business Income.__ Don't overlook the **20% Deduction** under **Section 199A (20% 199A Deduction)** with respect to **"Qualified Business Income," "Qualified REIT Dividends,"** and **"Publicly-Traded Partnership Income."** The 20% 199A deduction does not reduce your adjusted gross income or impact your calculation of self-employment tax. Instead, the deduction simply reduces your taxable income (regardless of whether you itemized deductions or claim the standard deduction). In other words, the 20% 199A Deduction is allowed ***in addition to*** your itemized deductions or your standard deduction. **__Note!__** The 20% 199A Deduction is set to **expire after 2025!**

- **__What Type Of Income Qualifies For The 20% 199A Deduction?__** Generally, the following types of income are eligible for the 20% 199A Deduction: *Qualified REIT Dividends*, *Qualified Publicly-Traded Partnership Income*, and *Qualified Business Income*. The rules for determining the 20% 199A Deduction for Qualified REIT Dividends and Publicly-Traded Partnership Income are relatively straightforward. However, the 20% 199A Deduction for **Qualified Business Income** (QBI) is by far having the biggest impact on the greatest number of individual taxpayers and can be complicated and tricky.

- **__Who May Qualify For The 20% 199A Deduction For Qualified Business Income (QBI)?__** Taxpayers who may qualify for the 20% 199A Deduction generally include taxpayers who report Qualified Business Income from a trade or business such as: Individual owners of S corporations and partnerships; Sole Proprietors; Trusts and Estates; and Certain beneficiaries of trusts and estates.

- Based on "Taxable Income" (before the 20% 199A Deduction), all or a portion of qualified business income from a so-called "Specified Service Trade or Business" **may not qualify** for the 20% 199A Deduction. More specifically, if **"Taxable Income"** for 2024 (before the 20% 199A Deduction) is **$191,950 or below ($383,900 or below** if married **filing jointly), all** the qualified business income from a "Specified Service Trade or Business" **(SSTB)** is eligible for the 20% 199A deduction. However, if for 2024 **"Taxable Income"** is **$241,950 or more ($483,900 or more** if married **filing jointly), none** of your SSTB income qualifies for the 20% 199A Deduction. **__Caution!__** If for 2024, your **"Taxable Income"** is **between $191,950 and $241,950** (between **$383,900 and $483,900** if married **filing jointly),** only **a portion** of your SSTB income will be eligible for the 20% 199A Deduction. **__Note!__** A ***Specified Service Trade or Business* ("SSTB")** is generally defined as: **1)** a trade or business activity involved in the performance of services in the field of: health; law; accounting; actuarial science; performing arts; consulting; athletics; financial services; or brokerage services; **2)** a trade or business involving the receipt of fees for celebrity-type endorsements, appearance fees, and fees for using a person's image, likeness, name, etc.; and **3)** any trade or business involving the services of investing and investment management, trading, or dealing in securities, partnership interests, or commodities. An "SSTB" **does not include** the performance of **architectural** or **engineering** services.

  For owners of businesses that are not SSTBs, if **"Taxable Income"** for 2024 (before the 20% 199A Deduction) is **$191,950 or below ($383,900 or below** if married **filing jointly), all** the qualified business income**)** is eligible for the 20% 199A deduction. However, if for 2024 **"Taxable Income"** is **$241,950 or more ($483,900 or more** if married **filing jointly),** the amount of the 199A deduction is limited based on the W-2 wages paid by the business and the qualified property owned by the business.

- It is not feasible to provide a thorough discussion of the 20% 199A Deduction with respect to **Qualified Business Income (QBI)** in this letter. However, if you own an interest in a business as a sole proprietor, an S corporation shareholder, or a partner in a partnership, you are a very good candidate for the 20% 199A Deduction. If you want more information on the 20% 199A Deduction, **please call our firm** and we will be glad to provide you with more details.

__Consider Paying Qualified Education Expenses Early To Increase Education Tax Credits.__ If you pay educational expenses for 2024, you may be able to take advantage of either the **American Opportunity Tax Credit (AOTC)** or the **Lifetime Learning Credit.** The **$2,500 AOTC** applies to qualified education expenses for the first four years of higher education for an eligible student. In addition, **up to $1,000** of the AOTC is refundable. The **Lifetime Learning Credit** applies to payment of qualified tuition and related expenses for an eligible student attending a qualifying educational institution. This up to **$2,000** credit applies to both undergraduate and graduate classes. In addition, classes to improve or gain job skills and professional degree classes qualify for the Lifetime Learning Credit. **__Note!__ Both the AOTC and Lifetime Learning Credit** begin phasing out at **$80,000** of modified adjusted gross income and are completely phased-out when modified adjusted gross income reaches **$90,000 ($160,000 to $180,000 for joint returns). __Planning Alert!__** Qualified education expenses paid for the first semester of the following year (2025 spring semester) before the end of 2024 qualify for the credit(s). **Please call us** if you want more details or need our assistance to determine if you qualify.

<u>No Deduction For Expenses Of A "Hobby".</u> Before the 2017 Tax Cuts and Jobs Act, otherwise deductible trade or business expenses attributable to an activity that was *"not engaged in for profit"* (i.e., a hobby loss activity) were deductible: **1)** only as *miscellaneous itemized deductions,* and **2)** only to the extent of the activity's gross income. Since these hobby loss expenses are classified as miscellaneous itemized deductions, no deduction is allowed for these expenses ***from 2018 through 2025.*** **<u>Planning Alert!</u>** This makes it even more important for owners engaged in activities commonly subject to IRS scrutiny, to take steps to demonstrate the business is operated with the intent to make a profit.

- **<u>Three Out Of Five Year Rule Or Two Out Of Seven Year Rule.</u>** To reduce the potential controversy over the question of profit motive, Congress provided that if an activity generates gross income more than expenses in three years out of five (two years out of seven in the case of raising, showing or racing horses) the activity is presumed to be engaged in for profit. **<u>Planning Alert!</u>** If the IRS challenges your business losses for the first few years of activity, **let us know.** We may be able to make an election to extend the statute and prevent a "hobby loss" disallowance until the business has been operating for five years (seven years for a horse activity).

- **<u>Protecting Against Hobby Classification.</u>** To avoid a loss of all deductions related to a business activity that is not profitable, you should: **1)** investigate the potential profitability of a new business activity and document the investigation before entering into the business; **2)** prepare a business plan before entering into a new business activity; **3)** maintain a separate business bank account and good books and records; and **4)** document any changes made and persons consulted to help produce a profit. **Please call us if you need help with this process.**

<u>Energy Credits For Vehicles.</u> If you purchased a new or used electric, hybrid, or fuel cell vehicle during 2024, you may qualify for a credit. For qualifying new personal use vehicles, the credit can be up to $7,500. For used vehicles, the credit can be up to $4,000. Unfortunately, determining if a vehicle qualifies for these credits is complicated. So, if you acquired an electric, hybrid, or fuel cell vehicle during 2024, please retain the documentation provided by the dealer so we can determine if you qualify for either of these credits. **<u>Note!</u>** You will not get an additional credit if you received the credit directly or indirectly from the dealer.

<u>Credits For Energy Efficient Home Improvements.</u> If you installed energy efficient insulation, doors, windows, skylights or energy efficient heat pumps, air conditioners, furnaces, water heaters, or boilers in your residence during 2024 you may qualify for a credit of up to $3,200 if certain energy efficient standards are met. Also, you may be eligible for a credit of 30% of the cost of solar panels, solar water heaters, geothermal heat pump property, and wind turbines installed in your residence during 2024.

<u>Lower Form 1099-K Threshold.</u> For each calendar year between 2010 and 2022, Payment Settlement Entities have been required to file Form 1099-K annually with the IRS with respect to payees and furnish information to the payees, reporting the gross amount of reportable payment transactions. **However, prior to 2023,** third-party settlement organizations were not required to file Form 1099-K where: **1)** the payee had **200 or fewer otherwise reportable transactions** during the calendar year and **2)** the **gross amount of such transactions during the calendar year was $20,000 or less.**

- **<u>American Rescue Plan Act Changed The 1099-K Reporting Threshold To $600.</u>** The American Rescue Plan Act lowered the exception from filing Form 1099-K by Payment Settlement Entities to gross payments of **$600 or less, with no minimum number of transactions. The new $600 reporting threshold was to apply beginning with 2023 transactions. <u>Note!</u>** In Information Release 2023-221, the IRS announced that 2023 would be treated as a transition period and penalties would not apply where a third-party settlement organization applies the prior law $20,000/200 transaction exemption for 2023 transactions.

- **<u>Update! IRS Now Says 2024 Will Be A Phase-In Year With A Reporting Threshold Of $5,000.</u>** In Information Release 2023-221, the IRS announced that "*Given the complexity of the new provision, the large number of individual taxpayers affected and the need for stakeholders to have certainty with enough lead time,* ***the IRS is planning for a threshold of $5,000 for tax year 2024 as part of a phase-in to implement the $600 reporting threshold enacted under the American Rescue Plan (ARP)."***

<u>Gift And Estate Tax Planning.</u> For 2024, a donor can **gift $18,000** to each donee. It is not a taxable gift to the donor and gifts are not included in the recipient's income. That exclusion amount will **go to $19,000 in 2025. Each taxpayer's** amount of unified credit if **used against gift tax or estate tax is $13,610,000 for 2024 and is scheduled to go to $13,990,000 in**

2025. Planning Alert! Using the annual gift tax exclusion (i.e., $18,000 for 2024) is an effective tool to move assets out of your estate without creating any gift tax or using any of a donor's unified credit amount.

Trust And Estate Distributions. If you are the trustee of certain trusts or executor of an estate, don't forget about the **65-day rule** for distributions. Basically, **distributions made** within the **first 65 days of the new year** from certain trust and estates can be treated as **paid and deducted in the prior year.** For example, a fiduciary can wait until 2025 to decide if distributions should be made and treated as paid in 2024. The election is made annually on the trust's or estate's Form 1041. Once the election has been made, it is irrevocable. **Planning Alert!** If a fiduciary makes this election, the fiduciary can decide how much of the distributions made in the first 65 days of 2025 will be treated as 2024 distributions.

Social Security Tax Wage Base. For 2024, wages and self-employment income subject to the 15.3% Social Security Tax is **$168,600,** which is an increase from $160,200 in 2023.

Consider Using The IRS Tax Withholding Estimator To Avoid Surprises. In order to avoid an unexpected tax liability and possible penalties and interest in 2025, it's a good idea to revisit your withholding and estimated tax payments before year-end. The IRS encourages taxpayers to use its Tax Withholding Estimator at https://www.irs.gov/individuals/tax-withholding-estimator to ensure they have the correct amount of taxes paid-in before December 31st. **Remember!** It is especially important to review your withholding if you have had a job change, additional income stream, marriage, divorce, loss of dependent or other significant event occur during 2024. If you believe your tax liability has been affected because of a significant event, and you have questions, **please call our firm** so we can discuss.

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

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