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2024 Year-End Tax Update

With the election behind us, our attention is turned to how the new administration will reshape the tax landscape. The provisions of the Tax Cuts and Jobs Act are currently set to expire December 31, 2025, and we expect new tax legislation to be introduced before this time next year. While specifics are still unknown, we can assume the impact of any legislation will likely begin on Jan. 1, 2026. With that in mind, we recommend income tax planning centered around current laws and regulations with an eye to the future.

Strategically Plan the Timing of Additional Income or Deductions in 2024

The current provisions of the TCJA don't expire until the end of 2025, so there is no need for drastic tax planning moves (unless individual circumstances require) for 2024. With that in mind, we recommend utilizing the traditional strategies of accelerating deductions in 2024 and deferring income into 2025. However, individual circumstances may warrant the acceleration of income into 2024 (versus deferring to 2025) or deferring deductions into 2025 which may generate a lower aggregate tax burden.

A. LOOK FOR SITUATIONS WHERE GENERATING INCOME IN 2024 WILL RESULT IN NO ADDITIONAL TAX OR WILL BE SUBJECTED TO A LOWER MARGINAL RATE THAN IT WOULD BE IN 2025.

- Realize capital gains:
  - If you have excess (non-deductible) capital losses;
  - If your long-term gains will be subject to the 0% rate;
  - If your long-term gains will be taxed at 15% this year and could be subject to the higher 20% rate in 2025;
- Realizing passive income where you have blocked passive activity losses.
- Generating additional investment income if there is a build-up of disallowed investment interest expense deductions.

- Converting pre-tax retirement accounts into a Roth account. Our preference is to convert pre-tax accounts into a Roth if the effective rate is 25% or lower as we believe rates will only go up in the future.

Do not forget to consider the state income tax implications of any income acceleration into 2024.

We recommend updating tax projections if you are unsure what the impact of any income or expense acceleration/deferral will be.

B. DEVELOP STRATEGIES FOR GENERATING ADDITIONAL DEDUCTIONS BEFORE YEAR-END OR POSTPONING UNTIL NEXT YEAR.

Determine whether additional deductions will produce little or no tax benefit.

- If your childcare expenses are already above the tax credit or salary reduction limits.
- If your rental losses are limited by the passive activity loss rules.
- If your losses or deductions will throw you into a 0%, 10%, or 12% tax bracket.
- If you will not have enough deductions to itemize and instead will use the standard deduction 2024 Standard Deductions: Single/Married Filing Separate = $14,600; Head of Household = $21,900; Married Filing Jointly = $29,200.
- Consider electing into a state's state and local tax (SALT) workaround if your pass-through entity qualifies. You will receive an immediate tax benefit at the federal and state tax level. These elections may not make sense for every taxpayer (some states will not allow a resident taxpayer to claim a credit for pass-through entity taxes paid to another state), so make sure an analysis of the tax benefit is done before proceeding.
- While there remains a dedicated bipartisan coalition of lawmakers seeking to repeal (or remove) the $10,000 deductibility cap on state and local tax (SALT), there doesn’t seem to be enough support for securing its repeal (or removal from any extension). If you are not receiving a tax benefit from state tax payments (i.e., income or sales tax, personal property, and real estate taxes) in 2024, consider postponing payment to 2025 (if due date falls in the next calendar year).

Consider accelerating deductions if they provide a tax benefit.

- If your year-to-date realized gains exceed realized losses, consider realizing additional losses to reduce your overall gain.
    - A scenario we believe you should avoid is one where you are paying tax on capital gains in 2024 but unrealized capital losses are carried over to 2025. Taking capital losses to offset capital gains can also avoid the surtax on investment income. Discuss with your financial advisor if it makes sense to exit certain loss positions before year-end.
- Think about your charitable giving strategy.

- The charitable contribution deduction limit for cash gifts and non-cash (except long-term capital gain property) gifts to qualified public charities is 60% of AGI.

- Gifts of long-term capital gain property to public charities, including donor-advised funds, is limited to 30% of AGI.

- Cash gifts to private non-operating foundations are limited to 30% of AGI and 20% of AGI for long-term appreciated publicly traded assets.

- For some, it may be advantageous to lump two years' worth of charitable contributions into one year to take advantage of itemizing (versus claiming the standard deduction) if you would not otherwise receive a tax benefit from your charitable contributions in 2024 (due to the inflation adjusted standard deduction).

C. REVIEW YOUR ESTATE, GIFT, AND GENERATION SKIPPING TAX PLAN

The current estate tax exemption (currently $13.61 million per individual with portability; up to $13.99 million in 2025) is set to expire Dec. 31, 2025. While wealth accumulation has been a hot political topic the past several years, one can expect that the Trump administration will attempt to extend the higher exclusion amounts as part of any tax legislation. Regardless of what is enacted next year, a re-evaluation of estate and gift planning should be done to ensure you are taking advantage of the higher exemption.

- Review gifting opportunities:

  - The current annual gift tax exclusion for 2024 is $18,000 per donee. The annual gift tax exclusion will increase to $19,000 per donee in 2025.

  - Unlimited transfers **directly** to educational institutions for tuition: These amounts are not considered taxable gifts. If amounts are not paid directly to the educational institution, they are considered gifts.

  - Unlimited transfers **directly** to medical care providers for medical expenditures: These amounts are not considered taxable gifts. If amounts are not paid directly to the medical care provider, they are considered gifts.

  - **Gifts to 529 plans**: These are considered gifts that reduce your annual exclusion ($18,000 maximum per donee in 2024). However, there is an exception that allows 5 years of gifts in 1 year - a maximum of $90,000 in 2024. **Please note:** A gift tax return will be required if you intend to "superfund" a 529 plan contribution, however no gift tax will be owed (assuming no other taxable gifts occurred).

D. REVIEW YOUR 2025 MANDATORY RETIREMENT PLAN DISTRIBUTIONS SHORTLY AFTER YEAR-END.

The SECURE Act 2.0 increased the required beginning date age to 73 beginning Jan. 1, 2023 and this age will remain until 2033 when the starting age changes to 75.

Taxpayers who are in their first required minimum distribution (RMD) year will have until April 15 of the following year to make their first required distribution. We rarely recommend deferring the first distribution to the following year as the subsequent year's distribution is required by the end of the same year essentially doubling required distributions into one tax year.

For those who recently inherited an IRA, you may also recall that the SECURE Act 1.0 eliminated the "stretch" IRA for some beneficiaries of inherited retirement accounts (i.e., non-eligible designated beneficiaries). The new rule required that the inherited account for those non-eligible designated beneficiaries must be liquidated by year 10 after the decedent's date of death. Many interpreted the rule to mean that distributions of an inherited account were not required in years 1 through 9 and then in year 10 the account would be liquidated. However, in 2022 the Treasury Department issued Proposed Regulations that require non-eligible designated beneficiaries inheriting from decedents dying after their required beginning date to be subject to *both* the 10-year rule and the 'regular' stretch distributions. The Final Regulations issued on July 18th, 2024 reinforced the Proposed Regulations and non-eligible designated beneficiaries who inherited an IRA of someone who died on or after their required beginning date must follow the 10-year rule while also taking annual required minimum distributions.

The IRS has again waived the annual required distribution for those non-eligible designated beneficiaries for 2024 (via Notice 2024-35), but the intra-10-year-rule with annual RMDs will be effective for 2025.

For non-eligible designated beneficiaries inheriting from individuals dying prior to their required beginning date, the Proposed Regulations call for the 10-year rule to be implemented as many expected - all such beneficiaries must empty their inherited retirement account by the end of the 10th year after death with no RMDs required in the interim.

Review this impact with your financial advisor, or if you manage your own account(s), the custodian to make sure you are distributing the correct amount. It may make sense to accelerate distributions in 2024 despite not being required to do so (eliminate income bunching in subsequent tax years).

2024 Year End Update: Changes Impacting Next Filing Season

A. FORM 1099-K REPORTING RULES UPDATES.

For tax year 2024, payment applications and online marketplaces are only required to send out Form 1099-K to taxpayers who received over $5,000 in payments for goods and services. The IRS has removed its minimum transaction threshold. The payment threshold for 2025 will decrease to $2,500.

Please note that these reporting thresholds do not affect the actual tax law to report income on your tax return. All income, no matter the amount, is taxable unless it is excluded by law regardless of receiving a Form 1099-K. This is reinforced by the current draft 2024 Schedule 1 of Form 1040 that includes lines to report "amounts reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss."

B. ENERGY TAX CREDITS MAY BE ON THE CHOPPING BLOCK

The Trump administration has been vocal about their displeasure with the energy credits made available as part of the Inflation Reduction Act. While legislation passed in 2025 will not impact 2024, it could disallow credits for 2025 which means 2024 could be the last year to take advantage of these credits.

The Energy Efficient Home Improvement Credit is 30% of the taxpayer's qualified expenses, which can include doors, windows, and other energy efficient property. The Residential Clean Energy Credit is also equal to 30% of qualified expenses paid during the year for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, qualified geothermal heat pump property, and qualified battery storage technology. Restrictions and limitations do apply to both credits, so please review eligibility when discussing with your advisor.

The Clean Vehicle Credit likely has the shortest time horizon of all eligible energy tax credits. The maximum credit allowed per vehicle is $7,500 for new clean vehicles (with income limitations in place to limit credit eligibility) and a $4,000 credit for the purchase of a used clean vehicle. The credit is available to individuals and their businesses. Vehicles are not limited to passenger automobiles. They also include, for example, vans, sport utility vehicles, and pickup trucks

2024 Year End Tax Planning: Routine Follow-ups

1. TAXPAYERS SHOULD MAKE SURE THAT WITHHOLDING AND/OR TAX DEPOSITS ARE ADEQUATE TO AVOID UNDERPAYMENT PENALTIES.

- Review tax projections to ensure tax deposits (including withholding) are sufficient to avoid underpayment penalties. We recommend updating your estimate before year-end if income has changed materially during the year.

- Holders of mutual funds in non-tax deferred accounts should review year-end capital gain distributions. Distributions occur as early as the week after Thanksgiving until year-end. Each fund will provide distribution information on their website, so do give this a look over if you are concerned.

2. MAKE SURE THAT YOU ARE MAKING MAXIMUM USE OF THE FOLLOWING TAX BENEFITS:

- $3,000/year capital loss deduction allowance.

- $25,000 rental loss allowance for owners with active participation in the ownership and management of rental real estate. (*Warning*: This benefit is phased out as Adjusted Gross Income increases from $100,000 to $150,000.)

- Child tax credit of $2,000 for every dependent under age 16.

- The dependent care exclusion of $5,000 for individuals or married couples filing jointly ($2,500 for married filing separately).

- The Child and Dependent Care Credit returns to a maximum of $2,100.

- Deductible IRA contributions (Maximum $7,000 per individual). Individuals over age 50 can make an additional "catch-up" contribution of $1,000. Non-working spouses may have deductible IRA's available if adjusted gross income tests are met.

- $105,000 per year exclusion of qualified charitable distributions (QCD) from IRA accounts by individuals aged 70 ½ or older.

- Benefits under IRC section 1202 for exclusion of gain for "Qualified Small Business Stock." A taxpayer may be eligible for up to a 100% exclusion of gain up to the greater of 10 times the taxpayer's basis in the shares or $10 million.

- Review whether bonus depreciation or IRC section 179 expensing is more beneficial for property used in a trade or business. To qualify for bonus depreciation the property categorization must meet the MACRS recovery period of 20 years or less.

    - **Note**: 100% bonus depreciation ended as Dec. 31, 2022, and the is now 60% in 2024, 40% in 2025, and 20% in 2026. After 2026, the deduction will no longer be available as the benefit will have sunset.

      For 2024, the maximum allowable expensing for certain qualifying business property under IRC Section 179 is $1,220,000. This amount begins to phase out when eligible property exceeds $3,050,000. The expense allowance is completely phased out at $4,270,000 of purchases are made.

- The optional standard mileage reimbursement rate for 2024 is 67 cents per business mile driven from 1/1/2024-12/31/2024.

3. SATISFY REQUIRED DISTRIBUTIONS PRIOR TO COMPLETING A ROTH CONVERSION

Required distributions from IRA account(s) must be taken before any Roth conversions occur. If the RMD is not taken before a Roth conversion occurs, the amount converted that would satisfy the person's RMD will be considered an excess contribution into the Roth IRA and must be removed. This rule applies to multiple IRA holders as well, as the total aggregated IRA RMD must be withdrawn before any Roth conversion can be completed, not just the RMD on the account being converted.

4. PAY ATTENTION TO FINANCIAL HOUSEKEEPING.

- Shareholders who have advanced money to their incorporated businesses should evidence the transaction with a note and should charge an adequate rate of interest. Failure to do so could cause the loan to be recharacterized as a capital contribution.

- Loans between family members in excess of $10,000 should be evidenced with a note and an adequate rate of interest should be charged. The rate of interest should be at or above the applicable federal rate for the month the loan was made. Avoid any disguised gift tax issue by having a written debt instrument with appropriate interest, a repayment schedule, and an expectation that the amount will be repaid.

- If you are married to a foreign national, make sure your spouse has an ITIN (Individual Tax Identification Number). E-filing is not allowed without one.

- Apply for Social Security numbers for dependents.

- Change Social Security name records for name changes due to marriage or divorce. (Note: Names used on tax returns must agree exactly to the spelling used by the Social Security Administration, including the use of abbreviations and initials.)

- Obtain documentation for charitable contributions. Gifts of $250 or more must be substantiated by a written acknowledgment from the donee organization.

- Obtain appraisals for non-cash contributions exceeding $5,000. Note that appraisals are not required for donations of publicly-traded securities.

- Get auto usage records compiled. Businesses should make sure that the personal use value of company autos are included in the employee's W-2.

- Make sure that documentation for meal expenses and other deductions is adequate to withstand an IRS audit. With a possible significant increase in IRS funding to enhance audit rates of tax returns, taxpayers may want to focus on making sure they have documentation to support all deductions and credits on their tax returns. Do not dispose of the year's appointment book if you intend to rely on it to support business deductions. **Entertainment expenses are no longer deductible**.

- Get taxpayer ID numbers for 1099 and W-2 recipients (including daycare providers) by having them complete Form W-9.

- Document participation in business activities if you feel that this may be an issue in applying the passive loss rules (or if you are claiming exemption from the Net Investment Income tax on the sale of partnership interests or S-corporation stock). The general cutoff point for material participation is 500 hours per year. To qualify as a real estate professional, a taxpayer must perform more than 50% of services in real property trades or businesses, perform more than 750 hours of service in real property trades or businesses, and materially participate in each rental activity (500 hours or more).

- Update your tax basis records for investments, especially for mutual funds with dividend reinvestment. Also update basis records for improvements made to real estate.

- If you have received any gifts of investment property during the year, ask the donor for the carryover basis information. Maintain gift letters in your permanent records.

- Get business activities segregated into separate bank accounts for 2024.

- If your deductions will change radically in 2025, be sure to adjust your withholding accordingly using Form W-4.

5. REVIEW 2025 BENEFIT PLAN OPTIONS WITH YOUR EMPLOYER.

- 401(k) plan contribution rate and investment choices. (Do not forget to elect the bonus contributions if you are 50 or older.) The maximum elective deferral for 2025 has increased to $23,500. The catch-up contribution for individuals 50 years or older is $7,500.

- Non-qualified deferred compensation plan elections.

- Dependent care assistance salary reductions.

- Compensation paid in the form of mass transit passes. (The Tax Cuts and Jobs Act eliminated the deduction for employers but retained the pre-tax benefit for employees.)

- Health savings account contributions

- Flex spending account contributions

Having health insurance coverage with a high deductible policy entitles you to make contributions to a Health Savings Account (HSA). Minimum qualifying policy deductibles are $1,650 for single coverage or $3,300 for family coverage. The maximum HSA contribution for 2025 is $4,300 for single coverage or $8,550 for family coverage. Catch-up contributions of $1,000 will be allowed for individuals aged 55 or more. **Individuals enrolled in any part of Medicare cannot make HSA contributions**.

- Married couples with HSA-eligible family coverage will share one family HSA contribution limit of $8,550 in 2025. If both spouses have eligible self-only coverage, each spouse may contribute up to $4,300 in separate accounts.

- If both spouses with family coverage are age 55 or older, they must have two HSA accounts in separate names if they each want to contribute an additional $1,000 catch-up contribution.

- If only one spouse is 55 or older but the younger spouse contributes the full family contribution limit to the HSA in his or her name, the older spouse must open a separate account to make the additional $1,000 catch-up contribution.

The maximum annual contribution limit for a flex spending account for 2024 was $3,200. The limit increases to $3,300 for 2025. Participants can carry over up to $640 (of 2024 contributions) in unspent contributions if the plan has not adopted the 2 ½ month grace period rule. (This allows 2 ½ months after year-end to spend unused funds.) The $640 carryover will not reduce the current year's FSA contribution. **Caution:** Taking advantage of the carryover rule will prevent HSA contributions. The 2025 contribution carryover is indexed for inflation and will be $660.

Action:

If you plan on making HSA contributions for 2025, clear out the flex spending account before year-end.

Looking Forward to 2025

Tax policy is front and center for the second Trump administration. And while both parties proposed somewhat similar tax policies during their respective campaigns, most of these proposals don’t seem to have staying power. Instead, we are returning our attention to the existing policies that have been labeled “too complex,” “lack guidance,” or those that are largely inefficient. The TCJA was originally sold as tax simplification (remember tax filings were supposed to be on a postcard!) but it was anything but simple. Complexity begets complexity all while the tax gap continues to grow.

Current reports by the Congressional Budget Office have estimated that a full extension of the TCJA will cost upwards of $5 trillion over the next ten years. While the deficit hawks in Congress may feel empowered to voice their concerns about the ballooning deficit, it will largely fall on deaf ears due to the contentious nature of passing legislation. We can only hope the tax bill is passed earlier in the year versus later in the year (the TCJA was enacted in December of 2017) to avoid leaving millions scrambling weeks before year end.

We'll continue to monitor the developments in Washington as the sunsetting provisions of the TCJA, and what replaces them, will be a critical issue for all.