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Tax Newsletter

Don’t Miss These Five Tax Deductions
Tax breaks for itemizers on ’24 returns

When you file your 2024 federal income tax return, you claim the higher of your itemized deductions, subject to certain special rules, or the standard deduction. Previously, you may have itemized, but recent tax legislation—most prominently, the Tax Cuts and Jobs Act (TCJA)—has resulted in more taxpayers taking the standard deduction. The standard deduction for 2024 returns is $14,600 for single filers and $29,200 for joint filers.

Nevertheless, comb your records to ensure you are not missing any deductible expenses that could make a difference. Here are five examples.

1. Charitable gifts of property: If you cleaned out your garage or basement last year, you may have found items in good condition that you donated to charity. Generally, the deduction is limited to the property’s value on the donation date. Conversely, if you donated property that has appreciated in value—say, artwork or collectibles—the deduction is limited to your cost. Tax bonus: For appreciated property owned longer than one year, the full fair market value (FMV) is deductible.

2. Mortgage interest: Currently, you can write off mortgage interest paid on the first $750,000 of new “acquisition debt,” down from $1 million. This includes mortgage interest paid to “buy, build or substantially improve” your principal residence and one other home. But the deduction for interest paid on the first $100,000 of home equity debt is suspended until 2026. Caveat: If you incurred a home equity debt in 2024 and used the proceeds for a major home improvement, like installing an in-ground swimming pool, the interest is deductible as acquisition debt (subject to the usual limits).

3. Disaster-area losses: Prior to the Tax Cuts and Jobs Act (TCJA), you could deduct casualty and theft losses above 10% of adjusted gross income (AGI) after subtracting $100 per event. This provision is suspended through 2025. But new legislation allows deductions for losses in most federal disaster areas in 2024 without the 10%-of-AGI limit after subtracting $500, even if you do not itemize. Note: You can elect to deduct a disaster-area loss on the tax return for the year prior to the year of the event. So, a loss suffered early in 2025 may be deducted on your upcoming 2024 return.

4. State and local taxes: The TCJA currently limits the deduction for state and local tax (SALT) payments to $10,000 a year. This includes (a) property tax payments and (b) income tax payments OR sales tax payments. Use the combination that provides the highest deduction amount up to the $10,000 limit. Tax return option: In lieu of your actual sales tax expenses based on receipts, you may use a simplified IRS table and add on the sales tax paid for certain “big-ticket items” like cars and boats.

5. Unreimbursed charitable expenses: The tax law allows you to deduct your out-of-pocket costs incurred on behalf of a qualified charitable organization. This includes both long-distance travel expenses—airfare, meals and lodging and transportation to and from the airport, etc.—as well as local travel expenses. If you travel by car, you can deduct either your actual expenses attributable to charitable functions or 14 cents per mile (plus tolls and parking fees).

Finally, be aware that certain deductions can be claimed whether you itemize or take the standard deduction. These include early withdrawal penalties for investment accounts, IRA contributions, student loan interest and others, subject to special rules and limits. Bottom line: Consult with your professional tax advisors concerning your situation.

The QBI Deduction Is Still in Play
Big write-off for small businesses

Are you the owner of a pass-through business entity—such as a partnership, S corporation or limited liability company (LLC)—or a self-employed individual? The 2025 tax year may be the last year you are entitled to claim the "qualified business interest" (QBI) deduction. The write-off may be as high as 20% of your QBI.

The QBI deduction was created by the Tax Cuts and Jobs Act (TCJA). It is scheduled to expire after 2025 unless Congress takes further action. So, the deduction is still available on your 2024 return as well as the return for next year.

Background: For these purposes, QBI is generally defined as your net income from the business less compensation. The TCJA also adds special rules for those who provide personal services. The "specified service trade or business" (SSTB) group includes attorneys, physicians, accountants, financial planners and others who typically offer services to the public.

Next, the following rules are applied:

- If the total taxable income on your 2024 return does not exceed $191,950 as a single filer or $383,900 as a joint filer, you are entitled to the full 20% QBI deduction—period. It does not matter if you are in the SSTB group or not.

- If the total taxable income on your 2024 return exceeds $241,950 as a single filer or $483,900 as a joint filer, you get no deduction if you are an SSTB owner. For other owners above these thresholds, your deduction is limited and possibly eliminated.

- If the total taxable income on your 2024 return falls between the thresholds stated above, your deduction may be reduced, regardless of whether you are in the SSTB group or not.

Note that these thresholds are indexed for inflation. For simplicity, we have referred to the figures for 2024 tax returns. The figures for 2025 are slightly higher.

Key point: In the event you are an SSTB owner who files a joint return, the amount of your QBI is phased-out on a pro-rata basis until it disappears completely when total taxable income exceeds $483,900. For all other taxpayers above the upper threshold, the deduction is limited by the greater of either (1) 50% of the wages the business paid its employees or (2) 25% of wages plus 2.5% of the basis of the qualified property owned by the business. After comparing this limited deduction to the 20% deduction of QBI, you may deduct the smaller of the two.

As you might imagine, the calculations for the QBI deduction for sole proprietors and owners of pass-through entities are often complex. In addition, depending on your situation, it may make sense to file separate returns if you are married, due to the way the tax brackets work. Of course, filing separately will have other repercussions and may actually increase your overall tax liability.

Clearly, this is not a do-it-yourself proposition. Your professional tax advisors can provide the necessary assistance.

Final words: The current Congress may extend, modify or make permanent the QBI provision as part of a major tax legislation package this year. We will keep you updated on any significant developments.

Should You Consolidate Your IRAs?
Reasons to consider this approach

If you are like many long-time retirement savers, you may have several IRAs you started up in years gone by. This usually results in a flood of financial statements to your mailbox or email at the end of the year. But you can cut down on the paperwork or digital communications—as well as simplifying your life—by consolidating your IRAs in one place.

Before we go any further, remember that all IRAs are *not* created equal. For instance, you cannot mix and match traditional IRAs with Roth IRAs. However, you can keep accounts for both traditional and Roth IRAs at the same financial institution.

Background: A traditional IRA may include tax-deductible contributions from the time when you were eligible for IRA deductions. The distributions from these IRAs are subject to tax at ordinary income rates. In contrast, contributions to a Roth IRA are never tax-deductible, but future distributions may be completely tax-free if the Roth has been in existence at least five years.

Similarly, you may forfeit tax benefits if you combine the funds in an IRA you have inherited with your own IRAs. Be aware of these critical differences.

Nevertheless, assuming you have several traditional IRAs that may be combined without any adverse tax consequences, consider these possible reasons for consolidation.

- It is difficult to coordinate your retirement planning strategies if you're spread out all over the place. Consolidating enables you to focus on your goals and plans—for example, taking a more conservative approach—by taking your current circumstances into account.

- One or more of your IRAs may be providing a better return on investment than the others. By moving assets into a single IRA, you can eliminate the IRAs that are not performing as well.

- Administrative costs can erode your nest egg. Thus, you may save money in fees overall by consolidating IRA assets, especially if you are eligible for lower fees for a large account.

- It is easier and more convenient to keep track of your investments. Instead of multiple statements, you will receive just one statement covering all your IRA investments.

- You must begin required minimum distributions (RMD)s after reaching a specified age. Currently, the threshold is age 73, although it is scheduled to increase to age 75 in 2033. The RMD amounts are based on the values on December 31 of the prior year in all your accounts. Therefore, taking the RMDs from one account will be a simpler process.

In summary: Of course, you may not want to consolidate your IRAs to maintain greater diversity or for other personal preferences. Discuss your options with your professional advisors before you make any moves.

Filing a Deceased Person's Return
Meet obligations of an executor

It is never easy losing a loved one dear to your heart, but that is not the end of the story. If you are a close family member acting as executor—perhaps you are a surviving spouse or a child—you must ensure that a federal income tax return is filed on the behalf of the deceased individual. Comparable rules apply in situations where state income tax is imposed.

Background: The responsibility for filing the federal income tax return rests with the executor or a personal representative appointed by the court. The return requires information relating to income and deductions in the deceased person's last year of life.

If your spouse passed away, you are treated as having been married for the entire year (assuming you did not remarry). This annual return includes income received by your deceased spouse up until the time of death, such as capital gains from securities sales. In addition, if a deceased spouse realized losses, they may offset your joint collective income. After offsetting capital gains and up to $3,000 of ordinary income, any capital loss carried over to the next year is limited to the portion attributable to your ownership interest.

Key tax break: Notably, a surviving spouse with a dependent child living at home can elect to use the "qualifying widow or widower" tax filing status for up to two years after the deceased spouse's death. Accordingly, if your spouse passed away last year, you may benefit from favorable joint return rates on your 2024, 2025 and 2026 returns. This will generally result in less tax for those three years than you would owe as an unmarried filer.

Otherwise, if the deceased person was unmarried, the return is filed on their behalf as a single filer. Note: In some cases, a deceased taxpayer who was the parent of dependent children may qualify for the beneficial "head of household" filing status.

Do not take the task of executor lightly. If an income tax return is not filed for the deceased person, the IRS will send a notice to their last known address. If the deceased person was due a refund, it will be forfeited after three years if no return is filed. On the other hand, if a tax liability exists, the IRS may pursue payment from the executor or even the decedent's heirs by filing a lien against the estate.

To add insult to injury, the IRS may add interest and penalties to the back taxes. This could turn into a tax disaster if you are not careful. Your professional advisors can provide guidance.

Final words: Note that you can obtain an automatic six-month filing extension if you need more time to collect information. This is not, however, an extension to pay tax. The request for an extension for a 2024 return must be filed by April 15, 2025.

Tax Verdict on Jury Duty

Suppose you served on a jury in 2024. What are the tax consequences?

Basic rules: Normally, this payment for doing your civic duty is taxable. However, if your employer provides your regular wages while requesting the jury duty payment in return, you can deduct this payment to offset the tax liability. Of course, your regular wages remain taxable.

Also, reimbursements received for transportation, parking fees and meals are generally exempt from tax.

Facts and Figures
Timely points of particular interest

Thoroughly Modern IRS—The 2025 tax filing season (for 2024 returns) officially kicked off on January 27. The IRS is touting several of its modernization efforts this year. Since last tax season, it has made improvements such as more access to tax account information from text and voice virtual assistants, expanded features on the IRS Individual Online Account, greater access to dozens of tax forms through cell phones and tablets and increased alerts for scams and schemes that threaten taxpayers, among other upgrades. The IRS says it expects more than 140 million returns to be filed by April 15.

Missing In Action—Did you or someone you know miss out on an "Economic Impact Payment" (EIP) during the pandemic? The IRS has announced it is automatically distributing these "stimulus payments" to one million eligible recipients who did not properly request them when 2021 returns were filed or did not receive them for some other reason. The unclaimed EIPs are expected to total about $2.4 billion with a maximum payment of $1,400 per recipient.

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