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Tax Newsletter

Year-End Tax Ideas for Individuals
Common strategies for reducing tax

As this year draws to a close, individual taxpayers may implement tax planning strategies that can reduce their 2024 tax liability under the prevailing laws. Following are several common examples.

Charitable donations: If you itemize deductions, you can boost your charitable deduction by donating money or property to qualified charitable organizations at year-end. For 2024, the current deduction for monetary gifts is limited to 60% of your adjusted gross income (AGI). Tip: You may deduct the fair market value of gifts of property you have owned longer than one year. There is no tax on the appreciation in value—ever!

Capital gains and losses: Frequently, investors are able to use capital gains and losses to offset each other. For example, you might realize capital gains from sales of securities to absorb capital losses from earlier in the year or realize losses to offset capital gains plus up to $3,000 of ordinary income in 2024. Tip: The maximum tax rate on long-term capital gain for assets held longer than a year is 15% (20% for certain high-income taxpayers).

Medical expenses: An itemizer can deduct unreimbursed medical expenses above an annual threshold of 7.5% of AGI. Thus, if you are close to or already over the 7.5%-of-AGI threshold for 2024, you might accelerate non-emergency expenses, such as medical check-ups or dental cleanings, from 2025 into 2024. Tip: Different rules may apply on the state income tax level.

Residential energy credits: The recent Inflation Reduction Act (IRA) expands the rules for residential energy credits. Generally, you may qualify for a 30% "residential clean energy credit" for installing solar panels or other equipment to harness renewable energy this year. Also, a 30% "energy efficient home improvement credit" of up to $3,200 is available for the cost of qualified energy-efficient improvements: Tip: Dollar caps may limit credits for specific items.

Electric vehicle credits: The IRS also revised the tax credit for electric vehicles (EVs) and plug-in hybrids. Notably, you may be eligible for a credit for up to $7,500 for the cost of buying a new EV if certain requirements are met. Alternatively, you may qualify for a credit of up to $4,000 if you buy a used EV. Tip: Beginning in 2024, new car buyers can benefit from the credit at the point of the sale.

Installment sales: If you sell real estate or other capital assets, you generally owe the full amount of capital gains tax in the year of the sale. But you may benefit from installment sale reporting if you receive payments over two or more years. Essentially, you are taxed on the pro-rata share of the amount received from the sale each year. Tip: This may effectively lower your overall tax bill if more of the capital gain is taxed over several years at the 15% rate instead of 20%.

Required minimum distributions: Under current law, if you have reached age 73 (increasing to age 75 in 2033), you must take annual required minimum distributions (RMDs) from traditional IRAs and qualified plans like a 401(k). Otherwise, you are hit with a 25% tax penalty in addition to regular income tax liability (10% if corrected promptly). Tip: Complex RMD rules also apply to IRA and plan beneficiaries.

Reminder: These are just several ideas to consider. Contact your professional advisor pertaining to your personal situation.

Year-End Tax Ideas for Businesses
Popular strategies for reducing tax

Year-end tax planning is not just for individuals. Following are several tax strategies for small business owners to consider.

Business property: Under Section 179 of the tax code, a business may "expense" up to $1.22 million of qualified business property (e.g., equipment or supplies) placed in service in 2024. This amount begins to phase out above a $3.05 million threshold. Plus, a business may be able to claim first-year "bonus depreciation" on any remaining cost. Tip: The bonus depreciation, which is being gradually phased out over five years, is 60% for 2024 (declining to 40% in 2025).

Start-up costs: Did you undertake a new business venture in 2024? Normally, start-up costs must be amortized over 180 months, but you can currently deduct up to $5,000 of qualified expenses. This includes costs normally deductible by an active business. Make sure you are legitimately "open for business" before 2025 to qualify for this tax break in 2024. Tip: The special deduction is phased out for costs above $50,000.

Cash-basis accounting: A small business often uses the cash-basis method of accounting for convenience and simplicity. But your C corporation may not have qualified in the past because it had average gross receipts above $5 million for the three prior years. Fortunately, recent tax legislation quintupled the limit to $25 million ($30 million in 2024), so a switch may be in the cards. Tip: Discuss timing and all the ramifications with a professional tax advisor.

Work Opportunity Tax Credit: If your business plans to add to its staff for the upcoming holiday season, it may claim the Work Opportunity Tax Credit (WOTC) by hiring workers from designated "target" groups. Generally, the WOTC equals 40% of the first-year wages of up to $6,000 per employee, for a maximum of $2,400. Note: For certain veterans, the credit is available for up to $24,000 in wages, for a maximum of $9,600 per employee.

Repairs and improvements: Generally, an employer can currently deduct the cost of minor repairs to the business premises made before the end of the year, but the cost of major improvements, like building an entire new wing of a building, must be capitalized. Under IRS regulations, you may benefit from a safe-harbor election to currently deduct certain expenses. Tip: If repairs are lumped in with improvements, they may have to be capitalized.

Long-distance travel: Have you returned to long-distance business travel? If so, you may decide to push business trips initially planned for 2025 into 2024 to increase your current deduction. Generally, the list of deductible expenses includes airfare, lodging and 50% of the cost of meals, as long as the primary purpose of the trip is business-related. Tip: If you mix in a little pleasure, too, that is OK and nondeductible, but the trip cannot be a cover for vacation.

Holiday party: Recent legislation generally eliminated tax deductions for business entertainment expenses. However, there is a narrow exception for holiday parties thrown by your small business. If the cost is reasonable and all employees are invited—not just the top brass—you can deduct 100% of the cost. Tip: The usual deduction allowed for qualified meal and beverage expenses is limited to 50% of the cost.

Reminder: Other tax benefits may be available at year-end. Discuss your situation with your professional tax advisors.

Just Saying "No" to an Inheritance
When to use a qualified disclaimer

Usually, if you are in line to receive an inheritance from a parent, you would not even think of turning it down. However, in some cases, it may make sense to relinquish your rights to the assets, assuming you are otherwise in good financial shape. It all has to do with astute estate tax planning.

From a tax and legal perspective, the optimal approach may be to use a document often referred to as a "qualified disclaimer." As long as certain technical requirements are met, this ensures that you will accomplish your goals.

Background: For most individuals, the estate and gift tax exemption is part-and-parcel of their estate plan. Recent legislation raised the exemption from $5 million to $10 million in 2018 with inflation indexing. The indexed amount for 2024 is $13.61 million. In addition, a married couple may effectively utilize the exemption for both spouses. This provides sufficient estate tax shelter for most families.

However, the exemption is currently scheduled to revert to $5 million, with inflation indexing, after 2025. It remains to be seen if this will occur, but you may want to play it safe.

By using a qualified disclaimer, an inheritance bypasses your estate and goes to the next beneficiary, or beneficiaries, in line. Thus, you can preserve your entire estate tax exemption for the future without any erosion. If you were going to pass those assets to the younger generation at some point anyway, the disclaimer speeds up the process without adverse tax consequences.

Note: A special generation-skipping transfer tax (GSTT) applies to most direct gifts or transfers that "skip" a generation, like bequests from grandparents to their grandchildren. But the GSST can also be offset by its own exemption. The amount of the GSST exemption is the same as the regular estate tax exemption.

To qualify under the legal definition of a qualified disclaimer, the document must meet the following requirements:

- It has been put in writing and signed by the disclaiming party.
- It identifies the property, or interest in property, that is being disclaimed.
- It is delivered to the person or entity charged with the obligation of transferring the assets.
- It is written less than nine months after the date the property was transferred or nine months after a minor disclaimant reaches age 21.

Note that you cannot alter the transfers after you have disclaimed the property. For instance, if the contingent beneficiaries are your nephews and nieces, you cannot later redirect the transfer to your own children. The designations made by the decedent control.

Furthermore, a person cannot disclaim property once it has been accepted. For example, if you receive money and use a small portion to pay for funeral arrangements for the decedent, the inheritance can no longer be disclaimed.

Caveat: The use of qualified disclaimers may be affected by post-election legislation. Be aware of all your options and the potential ramifications. Your professional advisors can provide guidance.

New IRS Ruling Provides Key Employee Benefit
Alternatives to matching 401(k) contributions

A new private letter ruling issued by the IRS may pave the way for greater flexibility for employees who have traditionally benefitted from matching 401(k) plan contributions (PLR 202434006, 8/23/24). Under this new ruling, employees could have other options at their disposal.

Background: With a 401(k) plan, a participating employee can elect to defer part of their salary to their own account on a pre-tax basis. The annual limit on deferrals, which is indexed for inflation, is $23,000 in 2024. In addition, if you are age 50 or older, you can make an extra "catch-up contribution" of $7,500 in 2024, for a total of $30,500.

The contributions continue to compound within the account without any current tax erosion. In addition, the employer may choose to make matching contributions to each employee's account up to a stated percentage of salary. These amounts belong to the employees once they have fully vested.

Typically, 401(k) participants can invest these funds in a wide range of mutual funds or comparable alternatives. The plan must adhere to strict nondiscrimination rules designed to prevent it from favoring highly-compensated employees (HCEs).

When amounts are finally withdrawn from the employee's account, they are taxed at ordinary income rates. Plus, penalties may be imposed for taking out funds "too soon" or "too late." Currently, distributions cannot be made without penalty before age 59½ unless an exception applies. Generally, required minimum distributions (RMDs) must begin after attaining age 73. Other special rules may apply.

New options: The new ruling permits the company's employees to use employer-provided funds for traditional both 401(k) matching contributions and other tax-favored accounts. Specifically, the choices are as follows:

- Contributions can be made to the employee's **401(k) account** (or other defined contribution plan account) as an employer matching contribution.

- Contributions can be made to the employee's **Health Savings Account** (HSA) subject to annual limits. For 2024, the HSA limits are $4,150 for individual coverage and $8,300 for family coverage.

- Amounts may be used to pay the employee's **student loan reimbursements** (SLRs) through an educational assistance plan (EAP) subject to the annual limit of $5,250.

- Amounts can be contributed to a retiree **Health Reimbursement Arrangement** (HRA). For 2024, the HRA limit is $6,150 for single coverage and $12,450 for family coverage.

Regardless of the option chosen, the IRS says that employees cannot have the right to receive the employer funds in cash or as another taxable benefit. Your advisors can help you sort through the "alphabet soup."

This can be a cost-effective way to give employees more control over the use of employer-provided funds. They can use the contributions as they see fit.

Reminder: A private letter ruling may be cited as authority only by the party that requested it. Nevertheless, it is an indicator of how the IRS would treat a comparable situation and such rulings may lead to formal IRS approval or even legislation. Watch out for any new developments in this area.

Tax Mileage from Commuting

Can you deduct the cost of commuting back and forth from work as a business expense? The answer is usually "no" regardless of the distance. This is treated as a personal expense that is nondeductible.

However, there are **certain exceptions** to the "commuting" rule. For instance, travel between two business locations—say, separate branches of a company—constitutes a deductible business expense. This can include the cost of a ride service.

Similarly, if you meet with a client on your way to work or on the way home, the travel costs allocable to the trip between the client's business location and your regular business location is deductible business travel.

Facts and Figures
Timely points of particular interest

Tax Gap Widens—The IRS has just released new information on the "tax gap" between the country's projected true tax liability and the amount of tax that is actually paid on time. The new tax gap projection for the 2022 tax year (TY2022) is $696 billion. The 2022TY figure reflects an increase over tax year 2014-2016 estimates and tax year 2017-2019 projections. This amounts to an increase of $200 billion over tax years 2014-2016. Of the $696 billion gap, 77% is due to underreporting, 14% is due to underpayment and 9% is due to non-filing.

Disaster Tax Relief—Although the casualty loss deduction has been suspended from 2018 through 2025, victims in federally-declared disaster areas like those recently devastated by Hurricanes Helene and Milton can still deduct losses. The amount of the loss is limited to the excess above 10% of adjusted gross income (AGI) after subtracting $100 per event. For example, a taxpayer with a $15,000 loss and $100,000 AGI in 2024 may deduct $4,900. Added benefit: A disaster-area loss in 2024 may be claimed on a 2024 return or an amended 2023 return.

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