



BRSW CPA'S

2024 YEAR END NEWSLETTER

Dear Clients and Friends,

With the year end approaching, it is time to start thinking about moves that may help lower your tax bill for this year and next. The standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results. Most of the current tax provisions will remain in effect until the end of 2025, at which point the law will revert back to the pre-Trump tax rules unless the new Congress and the new president extends them during 2025.

The biggest change is fast approaching. Starting in 2024, new and existing small domestic LLCs and corporations will need to register their Beneficial Owner Information (BOI) with the Financial Crimes Enforcement Network (FinCEN). With penalties including prison time and daily fines at \$500 with no cap, it is of the utmost importance that anyone who owns a business or works in a senior officer capacity is aware of the requirements. Please speak with your attorney about this upcoming requirement if you have not yet filed a report, which has the deadline of January 1, 2025. On December 3, 2024, a preliminary injunction was issued by a judge in Texas temporarily putting this on hold nationally. It remains to be seen how this will play out in court. We advise to continue with the filing in case the injunction gets revoked.

Not all of these strategies will apply to you, but you (or a family member) may benefit from many of them. We can narrow down specific actions to tailor a particular plan for you when we meet after the new year. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial.

We appreciate the opportunity to be of service to you!

Sincerely,

Bashore Reineck Stoller & Waterman Inc

Your friends at Bashore Reineck Stoller & Waterman Inc

YEAR-END TAX PLANNING FOR INDIVIDUALS

529 to Roth IRA

Up to \$35,000 can be transferred from a 529 account tax free into a Roth IRA for the same beneficiary after it has been open 15 years.

This eliminates a lot of the apprehension surrounding any unused funds in a 529 plan. It can also be used as a potential workaround for those who are above the income threshold to be able to open their own Roth IRA.

Health Savings Account Limits

Depending on the health plan deductible and out-of-pocket limits, you may be able to make contributions to a health savings account (HSA) and receive an above-the-line deduction. The 2024 maximum HSA contributions is \$4,150 for self-only coverage and \$8,300 for family. The maximum Flexible Spending Account (FSA) contribution is \$3,200 with a rollover amount of \$640 for 2024.

Required Minimum Distribution from Pension / IRA

Required Minimum Distribution (RMD) age for 2024 starts at 73 and will increase to 75 in 2033. The penalty for failing to take RMD is 25% with an opportunity to reduce it further to 10%.

Qualified charitable distributions up to \$105,000 transferred directly from pension or IRA to charity can be counted towards the RMD in 2024.

Retirement Contribution Limits

The limit in 2024 for 401Ks, 403Bs, 457s is \$23,000 for employee contributions plus \$7,500 for 50+ catch up.

The limit for contributions in 2024 for SIMPLE IRA & SARASEP is \$16,000 plus \$3,500 for 50+ catch up.

Traditional and Roth IRA contribution limits for 2024 is \$7,000 plus \$1,000 for 50+ catch up.

Documents for Tax Return

Documents to bring or drop off if you have

Earned income: W-2, 1099-NEC, 1099-MISC

Received unemployment: 1099-G

Marketplace Health Insurance: 1095-A

Gambling earnings: W-2G (along with itemized losses separated from winnings, can not be netted)

Sports betting: 1099-MISC or 1099-K

Received retirement distributions: 1099-R

Received Social Security: SSA-1099

Own a partnership or S-Corp: K-1

Savings / Investment interest: 1099-INT

Received dividends: 1099-DIV

Sold securities: 1099-B

Sold Property: 1099-S

Paid mortgage interest: 1098

Paid tuition: 1098-T

Paid student loan interest: 1098-E

Payment to 529: 1099-Q

HSA/FSA/MSA distributions: 1099-SA

IRA: 5498 for value

Donated to charity: receipts for donations

Paid for childcare: Cost and information of caregiver (name, address, EIN/SSN)

Paid rent in Indiana: rental agreement

Other helpful information to bring:

SSN and DOB of new children or spouse

Identify PIN Form if you signed up for one

Signed engagement letter

Copy of up to date drivers license

Estimated tax payments and dates

Any tax agency notices or communications

FARM, ESTATE & RETIREMENT PLANNING

Strategies to Reduce Estate and/or Defer Income

Use one spouse's lifetime exclusion before limitation decreases.

Use a Spousal Lifetime Access Trust (SLAT) and/or Grantor Retained Annuity Trust (GRAT) to retain assets but place them outside of your estate.

Maximize retirement, 529, HSA, etc contributions.

Consider Roth conversions if tax rates are to increase.

Strategize timing of charitable giving or gift appreciating assets instead of cash to increase charitable deduction and reduce income.

Consider transferring income producing property to a lower income bracket family member.

Consider switching to cash accounting method if able and don't currently use it in order to further control recognizing income and expenses.

Rethink business structure with C Corp tax rates set to stay at 21% with the possibility of dropping even further.

Use Safe Harbor elections to expense purchases under \$2,500.

Trust and Estate Distributions

Complex trust and estate distributions made within the first 65 days of 2025 may electively be treated as paid and deductible in 2024. The election is generally made on the return for the election year. Thus, fiduciaries do not need to make payments in 2024 for the payments to be deductible in that year. They can wait until 2025, when the 2024 tax picture will be clearer, to decide whether the payments may be more profitably imputed back to 2024 via the 65-day rule or treated as 2025 payments.

Equipment Sales and Leases

Since equipment values are high and interest is no longer cheap, consider selling some of that excess equipment you no longer use. The tax will take care of itself with the increase in prices.

To avoid self-employment tax on equipment leases, a retired farmer should include the equipment lease and land lease together.

Portability and Estate Limits

The estate limit is currently \$13,610,000 per person. When someone dies be sure to elect portability so any unused portion of the estate limit can be transferred to their spouse. Otherwise, the unused portion of the estate exemption will be lost. The estate exemption limit will fall back to \$6.8 million in 2026 when the Trump cuts expire.

Related Party Loans

To avoid imputed interest on a related party or land sale loan, make sure to watch out for below market loans so you do not incur imputed interest. One way to avoid imputed interest is to look at the IRS applicable federal rate chart when determining the interest rate. Those have substantially increased in the recent past.

Gift Tax Exclusion

The annual gift tax exclusion for 2024 is \$18,000 per person, which is increasing to \$19,000 in 2025.

YEAR-END TAX PLANNING FOR BUSINESSES

Other Tax Cuts and Jobs Act (TCJA) and CARES Act Business Provisions

20% Business Deduction: Sole proprietorships, partnerships, limited liability companies and S corporations, may be able to take a deduction of up to 20% of their business income from a qualified trade or business. The deduction cannot exceed 20% of the excess of the taxpayer's taxable income over his or her net capital gain for the tax year. This deduction will sunset at the end of 2025.

Interest Limitation: Businesses are no longer allowed to add back depreciation expense when calculating net income for the interest limitation at 30% of income. This means capital intensive businesses with a high depreciation expense may not be able to deduct all interest expense in 2024. Businesses with average gross receipts (over the last three years) less than \$27 million are exempt.

Research & Development Amortization: Research & development expenses must be amortized over time instead of being deducted as a current year expense.

An accrual basis corporation can take a deduction in its current tax year for a bonus not actually paid to its employees until the following tax year if 1) the employee does not own more than 50% in value of the C corporation's stock, or 2% or more of the S corporation's stock, 2) the bonus is properly accrued on its books before the end of the current tax year, and 3) the bonus is actually paid within the first 2-1/2 months of the following tax year (for a calendar year taxpayer, within the first 2-1/2 months of 2024).

Bonus Depreciation

Bonus Depreciation has dropped to 60% for assets purchased in 2024. Taxpayers may want to consider higher depreciation in 2024 when 60% is allowed versus 2025 when it drops again to 40%. Bonus Depreciation is set to phase out completely in 2027.

New 1099-K Threshold

For those that use third party payment apps to accept payments for selling goods and services, the threshold for receiving a 1099-K is \$5,000 for 2024, reducing to \$2,500 in 2025, and will go down to its final amount of \$600 in 2026.

Mileage Rates

Business mileage for 2024 is 67 cents per mile. The rate has not yet been decided for 2025.

Pass-Through Entity Tax

Ohio and other states have given stakeholders in pass-through entities a new way to avoid the State and Local Tax (SALT) cap of \$10,000 that was passed in the Tax Cuts and Jobs Act by allowing the option of paying an elective Pass-Through Entity (PTE) Tax. Unlike the composite tax for out of state owners, this PTE tax payment applies to all owners and reduces their AGI at an entity level by taking a federal deduction for each state's determined tax rate for 2024 (Ohio's is 3.5%).

INDIVIDUAL AND BUSINESS PLANNING

Qualified Commercial Clean Vehicles Credit

Effective for vehicles acquired after December 31, 2022, and before January 1, 2033. A taxpayer can claim a credit for purchasing and placing in service a qualified commercial clean vehicle during the taxable year. The amount of the credit is the lesser of (1) 15 percent of the taxpayer's basis in the vehicle (30 percent in the case of a vehicle not powered by a gasoline or diesel internal combustion engine), or (2) the incremental cost of the vehicle. The credit is limited to \$7,500 in the case of a vehicle that has a gross vehicle weight rating of less than 14,000 pounds, and \$40,000 for all others.

Clean Energy Tax Credit for Homeowners

Tax credits are extended to 2032 incentivizing homeowners to add solar or wind power systems. Eligible homeowners could qualify for a 30% tax credit. After 2032, a 26% tax credit would apply until 2034. Tax incentives are also included for the purchase of energy-efficient water heaters, heat pumps and HVAC systems. Rebates for these items can add up to as much as \$14,000. These rebates take effect immediately. Also, the non-business energy credit for various home improvements has been expanded to be \$1,200 a year, but only for purchases made after December 31, 2022.

Income Related Monthly Adjustment Amount

Medicare enrolled taxpayers with AGIs higher than \$103,000 for single taxpayers (\$206,000 for married taxpayers) are subject to an additional amount on Medicare Part B and prescription premiums. The adjustment incrementally increases as AGI rises. If you can control your AGI levels, keep these limits in mind when you are planning.

Alternative Fuel Vehicle Refueling Property Credit

Beginning January 1, 2023, fueling equipment for natural gas, propane, hydrogen, electricity, E85, or diesel fuel blends containing a minimum of 20% biodiesel is eligible for a tax credit of 30% of the cost or 6% in the case of property subject to depreciation, not to exceed \$100,000.

Working Capital

As we enter more difficult economic times, take a look at your business working capital (defined as current assets less current liabilities). Current assets are those that can be converted to cash within one year. Current liabilities are those due within one year. Strong working capital will help your business weather tougher times. If your working capital is lower or negative, please talk to your CPA and banker about ways to correct this.

CAT Exclusion

CAT exclusion is increased to \$6 million for 2025 with exceeding amounts taxed at 0.26%.

BUSINESS COMPLIANCE

Cyber Security Best Practices

Internet and technology are powerful tools for small businesses, but pose real threats, so businesses must implement the best tools and tactics to protect themselves, their customers, and their data. You will be able to establish basic security practices and policies for internet use and handling customer information with these cyber security tips if you don't already have some in place. One of the quickest and easiest to implement is to have employees choose unique passwords and change them regularly as well as considering multifactor authentication. Have a separate user account created for each employee and prevent access or use of business computers by unauthorized individuals. Limit employee access to data and information, and limit authority to install software. If employees can access business networks on their mobile devices, require devices to be password protected and set reporting procedures for lost or stolen devices. Keeping the latest security software, web browser, and operating systems are the best defenses against viruses and be sure to run an antivirus scan after every update. If employees work from home, insure that their home system is protected by a firewall. Encrypt and hide Wi-Fi network and password protect access to the router. Even with protections in place, a best practice is to isolate payment systems from other less secure software and not to use the same computer to process payments and surf the web. Regularly backing up data on all computers and storing copies offsite or in the cloud is the quickest way to bounce back from an cyber attack.

Payroll Compliance

The increases to the overtime exempt threshold scheduled for July 2024 and January 2025 has been struck down by a federal court, which means the Highly Compensated Employee (HCE) threshold remains \$107,432 and the salaried employee threshold remains \$684 weekly (\$35,568 annually).

Beginning in tax year 2023, the threshold for requiring e-filing has been lowered from 250 of each type of return in a year to 10 in total (this includes W-2s and 1099s). This change also requires partnerships with 100 or more partners to e-file all information returns. Corporations that report total assets under \$10 million are no longer exempt from this requirement.

Beneficial Ownership Information Reporting to FinCEN

Domestic LLCs and corporations are now required to register their Beneficial Ownership Information (BOI) with the Financial Crimes Enforcement Network (FinCEN). Exclusions apply to tax exempt entities, larger companies with more than 20 full time US employees and more than \$5 million in gross sales, as well as several other specific types of entities.

Businesses existing prior to January 1, 2024 will have until January 1, 2025 to register with FinCEN, but business created after will only have 90 days to submit their BOI report. Updates to any information changes, such as renewing a driver's license or changing senior officers, will need to be filed within 30 days of the change. However, a nationwide preliminary injunction has been implemented as of December, 3, 2024. See Note on Page 1.

Failure to file timely reports can result in civil penalties of up to \$500 per day or criminal penalties of up to two years imprisonment and a fine of up to \$10,000.

Compensation Reminders

Gift cards are taxable to employees and must be included in gross wages on Form W-2.

Employers will need to use Form 1099-NEC to report all compensation over \$600 paid to nonemployees.

The due date for filing 1099 forms is January 31.

Minors are no longer required to pay Ohio municipal tax beginning in 2024.

SECURE 2.0 requires all new 401(k) and 403 (b) plans starting in 2025 to have the auto enrollment feature.

2025 Changes for Tax Returns Filed in 2026

2025 Tax Brackets

Tax brackets for 2025 for single / married

37% for incomes over \$626,350 / \$751,600

35% for incomes over \$250,525 / \$501,050

32% for incomes over \$197,300 / \$394,600

24% for incomes over \$103,350 / \$206,700

22% for incomes over \$48,475 / \$96,950

12% for incomes over \$11,925 / \$23,850

10% for incomes up to \$11,925 / \$23,850

Standard Deduction, Child Tax Credit, and Earned Income Tax Credit

The standard deduction for married couples filing jointly for tax year 2025 rises to \$30,000, up \$800 from the prior year.

For single taxpayers and married filing separately, the standard deduction rises to \$15,000 for 2025, up \$400 from the prior year.

For heads of household, the standard deduction will be \$22,500 for tax year 2025, up \$600 from the amount for tax year 2024.

The Child Tax Credit remains at \$2,000 for 2025, with the refundable portion up to \$1,700, no change from 2024.

The tax year 2025 Earned Income Tax Credit amount is \$8,046 for qualifying taxpayers who have three or more qualifying children, up from \$7,830 for tax year 2024. The revenue procedure contains a table providing maximum EITC amount for other categories, income thresholds, and phase-outs.

Alternative Minimum Tax Exemption Increase

The Alternative Minimum Tax exemption amount for tax year 2025 is \$88,100 and begins to phase out at \$626,350 (\$137,000 for married couples filing jointly which phases out at \$1,252,700). The 2024 exemption amount was \$85,700 and began to phase out at \$609,350 (\$133,300 for married couples filing jointly and phasing out at \$1,218,700).

The Tax Cuts and Jobs Act narrowed who is required to use AMT tax calculations. When this sunsets in 2025, if it is not extended, the amount of people required to use AMT tax rules will go from around 200,000 to 7,000,000 people.

Adoption Credit Increases

The maximum credit allowed for adoptions for tax year 2025 is the amount of qualified adoption expenses up to \$17,280 up from \$16,810 for 2024.

HSA and FSA Contributions Limits for 2025

For those enrolled in a High-Deductible Health Plan (HDHP) where the deductible is not less than \$1,600 and maximum out of pocket expenses capped at \$8,050 individuals can contribute up to \$4,150 to an HSA in 2024, up \$300 from 2023. Families with coverage under an HDHP where the deductible is not less than \$3,200 and the out of pocket expenses are capped at \$16,100 can contribute up to \$8,300 in 2024, up \$550 from 2023. The catch up contribution for those over 55 years old remains at an additional \$1,000.

The maximum contribution limit for an FSA is increasing to \$3,200 in 2024, up from \$3,050 in 2023. The rollover amount is also increasing to \$640 in 2024, up \$30 from the prior year.