GBQuarterly: Year-End Individual Tax Update

December 3, 2024

Notes

- This presentation is intended to make participants aware of tax issues that may apply to this audience.
- Information presented herein is not intended to be tax advice.
- Please consult with a qualified practitioner for tax advice related to specific transactions.

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Tax Changes for 2024 and Forward

- Bonus depreciation continues phase down
  - Immediate expensing of 60% of an asset's cost
  - Will move to 40% in 2025
- Various automatic inflation adjustments
  - Changes to start and end points of tax brackets
  - Standard deduction went from $13,850 for single filers in 2023 to $14,600 for 2024. Will go to $15,000 in 2025.
  - Annual gift tax exclusion went from $17,000 in 2023 to $18,000 in 2024. Will go to $19,000 in 2025.
  - Estate tax exemption went from $12.92M in 2023 to $13.61M in 2024. Will go to $13.99M in 2025.
- Corporate Transparency Act reports due

What's New for 2024 – BOI Disclosure

Corporate Transparency Act – Beneficial Ownership Information (BOI) Disclosure

- Effective January 1, 2024, private companies will have until January 1, 2025, to disclose information regarding officers, directors, and beneficial owners who have direct or indirect control of 25% or more of a reporting company.

- Companies must report the following information: full name of the reporting company, any trade name or doing business as (DBA) name, business address, state or Tribal jurisdiction of formation, and an IRS taxpayer identification number (TIN).

- For trusts, this will include indirect ownership held across multiple trusts. Reporting for trustees if trust possess at least 25% ownership and trustee has authority to dispose of trust assets.

What's New for 2024 – BOI Disclosure

- Estimated that 32.6MM businesses will be required to comply with this reporting requirement
- Domestic entities that are not created by the filing of a document with a secretary of state or similar office are not required to report
- This information must be updated any time there is a change within 90 days. This is not currently an annual filing
- Entities created after January 1, 2024, that fall under this reporting have 90 days to report
- Steep penalties for noncompliance
- AICPA and other affiliated organizations have recommended pushing the effective date out a year

IRS Update

- IRS continues to improve systems and hire agents using money appropriated by the Inflation Reduction Act
- Certain types of tax returns that were previously required to be paper filed can now be eFiled, such as Form 5227
- IRS stated that they will continue to expand types of returns that can be eFiled, notably Form 709 (Gift Tax Return)
- Expansion of Direct File program to include residents of more states and taxpayers with more types of income, deductions and credits will be eligible to file via Direct File.
- Note that Direct File does not support state returns
- Has stepped up enforcement in certain targeted areas, such as transfers of intellectual property and use of private aircraft

The Road Ahead – What the Election Might Mean for Taxes

Setting the (Tax) Stage for the Election

- On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act (TCJA) into law.
- The TJCA was the first major overhaul of the tax code in a generation and is generally seen as the premier legislative achievement of President Trump's first term
- Contained many changes to individual, business, nonprofit, and estate taxes.
- Most of the business tax changes made by the TCJA are permanent
- Most of the changes to the individual and estate tax rules are set to expire on 12/31/2025 creating a "tax cliff"

Setting the (Tax) Stage for the Election

- Selected changes to individual and estate tax items set to take effect on 1/1/2026:
    - Tax brackets narrow and rates generally rise. Top tax rate goes to 39.6% from 37%
    - Section 199A deduction of up to 20% of "Qualified Business Income" is repealed
    - Standard deduction to be reduced by about half
    - Personal exemptions return
    - $10,000 cap on state and local income taxes (SALT) repealed
    - Deduction for "miscellaneous itemized deductions" return (unreimbursed employee expenses, investment expenses, etc.)
    - Child Tax Credit cut in half and phases out at lower income levels
    - Credit for "other dependents" will expire
    - Lifetime estate tax exemption will be cut in half

Election Results

- Donald Trump (R) was elected to a second term as president
- Republicans will have a 53-47 majority in the Senate
- Republicans will have a 219*-213* seat majority in the House of Representatives
    - 3 races remain uncalled
- First Republican "trifecta" since 2016-2017, when the Tax Cuts and Jobs Act was passed

Outlook for Tax Legislation

The new congress is widely expected to pass legislation that extends most of the TCJA changes, including the increased estate tax exemption

Details of what that law will look like, such as how long any extensions will be, and whether or not additional changes to the tax code will happen are up in the air

What to Watch for in Congress

- Any changes to the tax code will be done through “budget reconciliation”, which will only require 50 votes in the Senate. Most other legislation requires 60 votes due to filibuster.
- What is the "reconciliation number"?
- Narrowness of House Majority – three Republicans who were elected will not be taking their seats due to cabinet appointments or other reasons. Will at least temporarily result in a majority of only two or three seats.
- Do they try to include tariff legislation with tax legislation for budgetary reasons?
- Do they try to include some of the promises President Trump made during the campaign, such as no tax on tips, Social Security benefits, or overtime, and another reduction in corporate tax rate?
- Biggest issue might be what to do with the SALT cap
- The legislative process for a tax bill will begin as soon as the new congress takes office, but specific provisions will not be known for at least a few months
- Where do taxes fall on the “to do” list?

Excess Business Loss Limitation

- Limit is $305k for 2024 ($610k for MFJ) for current-year business losses available to offset income from other sources
- Applies after the outside basis, at-risk, and passive activity loss limitations. Net losses that exceed the threshold are carried forward as a NOL
- NOLs are carried forward and subject to the 80% taxable income limitation
- Under the Inflation Reduction Act, excess business loss limitation rules now expire in 2028, instead of 2026

State PTE Election

- 2017 Tax Reform introduced $10,000 state and local tax limitation “SALT Cap” on Federal individual return

- More than 30 states have enacted or are considering legislation to allow Partnerships and S-Corporations (pass-through entities “PTE”) to elect to pay tax at the entity level for state income tax purposes
  - *Ohio started in 2022

- Basic mechanics of Ohio pass-through entity tax election:
  - Ohio tax paid by PTE and taken as a deduction on PTE’s Federal tax return (SALT Cap workaround)
  - The owners add back the Ohio tax on their individual Ohio return but then claim a credit against their personal tax liability and any excess is refunded to the individual

Inflation Reduction Act Credits

- Nonbusiness Energy Property Credit renamed Energy Efficient Home Improvement Credit and expanded (started in 2023)
    - The credit will be generally equal to 30% of costs, with individual limits in place for different types of property
    - Credit will be limited to $1,200 per year, up from a lifetime limit of $500

- Residential Energy Efficient Property Credit renamed Residential Clean Energy Credit and expanded (started in 2023)
    - Credit equal to 30% of the costs of equipment used to harness renewable energy like solar, wind, geothermal and biomass fuel
    - Credit will also include amounts paid for battery storage technology

Inflation Reduction Act Credits (Continued)

- Extension and expansion of Clean Vehicle Credit for 2023 to 2032
- Credit is up to $7,500 for qualifying new vehicles
- Used vehicles can now qualify for a 30% credit, with a limit of $4,000 per vehicle
- For new vehicles, MSRP must be less than $80,000 for vans, pickup trucks, and SUVs and less than $55,000 for all other vehicles
- Used vehicles must have a sales price of less than $25,000
- Per manufacturer limit has been replaced with "made in North America" sourcing and assembly requirements
- Credit phases out for taxpayers whose MAGI is greater than $150,000 (single) or $300,000 (MFJ).

Practical Reminders for Estate Planning

	2025	2024	2023	2022
Annual Exclusion	19,000	18,000	17,000	16,000
Lifetime Exclusion	13,990,000	13,610,000	12,920,000	12,060,000

Estate & Gift Tax Exemption “Sunset”

- Federal estate and gift tax exemptions would decrease to an estimated $7M as adjusted for inflation.
- Effective January 1, 2026
- With the election results, this may be prevented.

Practical Reminders for Estate Planning

Basic Planning Considerations

- Estates over $14M should still consider estate planning now. Lock in value to defer growth.
- Estates between $7M and $14M may still want to consider creating trusts with attorneys early in 2025.
  - Trusts do not have to be funded in 2025.
  - Trusts can be setup for desired beneficiaries and funded at death in lieu.

Practical Reminders for Estate Planning

- Basic Trust Components
  - SLAT – Spousal Limited Access Trust
    - Reciprocal Doctrine (best to fund in two separate years)
  - Dynasty Trust
    - Planning for future generations
    - Important for high taxable estates that would cause an immediate estate issue to next generation as a result of death or in cases where next generation already has substantial wealth.
  - IDGT – Intentionally Defective Grantor Trust
    - Substitution powers create some flexibility with asset swaps and basis issues
    - Consideration to removing assets with anticipated high appreciation versus low cost basis
  - GRAT – Grantor Retained Annuity Trust
    - Requires annual payments back to Grantor. Goal is that growth of original asset will exceed annual payments. Appreciation in remainder interest over value at funding escapes lifetime exemption (but has potential GST impact).
    - Impact of interest rates and market. Funding with publicly traded securities versus closely held business.

Practical Reminders for Estate Planning

- Rev Proc 2022-32 permits five years for late elections filing solely to elect DSUE
- IRS Website: “Making Large Gifts Now Won’t Harm Estates After 2025”
  - 20.20-10-1(c) regulations regarding the anti-clawback still stand. There will not be a clawback of the DSUE transfer or prior gifts over the exemption completed prior to the Sunset.
  - However, there has been discussion with proposed regs regarding a partial clawback for certain gifts not deemed as completed. This potentially includes gifts involving promissory notes, annuity trust transactions, retained interests, life estates, and gifts of preferred partnership interests that trigger "artificial" valuation rules.
  - Proposed reg 20.2010-1(c)(3) was issued in 2022 for these exceptions but has not been finalized.

2024 Tax Brackets

Ordinary Income Tax Rates

Rate	Single	MFJ	Estate/Trust
10%	Up to $11,600	Up to $23,200	Up to $3,100
12%	$11,601 to $47,150	$23,201 to $94,300	
22%	$47,151 to $100,525	$94,301 to $201,050	
24%	$100,526 to $191,950	$201,051 to $383,900	$3,101 to $11,150
32%	$191,951 to $243,725	$383,901 to $487,450	
35%	$243,726 to $609,350	$487,451 to $731,200	$11,151 to $15,200
37%	Over $609,350	Over $731,200	Over $15,200

2024 Tax Brackets

Capital Gains Tax Rates

Rate	Single	MFJ	Estate/Trust
0%	Up to $47,025	Up to $94,050	Up to $3,150
15%	$47,026 to $518,900	$94,051 to $583,750	$3,151 to $15,450
20%	Above $518,900	Above $583,750	Above $15,450

Don’t forget about net investment income tax and when trusts are subject to it.

Consider trustee changes to avoid NIIT on income of operating businesses.

Timing of Income and Deductions

- Taxpayers should consider whether they can shift income or deductions between 2024 and 2025
- Ideally, income should be received in the year with the lower marginal rate
- Deductible expenses should be paid in the year with the higher marginal tax rate
- If the marginal tax rate is the same in both years, deferring income from 2024 to 2025 will provide a one-year tax deferral

Actions to Consider That May Result in a Reduction or Deferral of Taxes

- Delaying closing capital gain transactions until after year-end or structuring 2024 transactions as installment sales so that gain is deferred past 2024
- Triggering capital losses before the end of 2024 to offset 2024 capital gains.
- Delaying interest or dividend payments from closely held corporations to individual business-owner taxpayers.
- Deferring commission income by closing sales in early 2025 instead of late 2024.
- Accelerating deductions for expenses such as mortgage interest and charitable donations (including donations of appreciated property) into 2024 (subject to adjusted gross income (AGI) limitations).
- Evaluating whether non-business bad debts are worthless -- and should be recognized as a short-term capital loss -- by the end of 2024.
- Shifting investments to municipal bonds or investments that do not pay dividends to reduce taxable income in future years.

Retirement Plan Contribution Reminders

- The maximum amount in elective contributions that an employee can make in 2024 to a 401(k) or 403(b) plan is $23,000 ($30,500 if age 50 or over and the plan allows "catch-up" contributions). For 2025, these limits are $23,500 and $31,000, respectively.

- Under the SECURE Act, individuals are now able to contribute to their traditional IRAs in or after the year in which they turn 70½.

- Beginning in 2023, the SECURE Act 2.0 raised the age at which a taxpayer must begin taking required minimum distributions (RMDs) to 73. If the individual reaches age 72 in 2024, the required beginning date for the first 2025 RMD is April 1, 2026.

Retirement Plan Contribution Reminders (Continued)

- The SECURE Act generally requires that designated beneficiaries of persons who died after December 31, 2019, take inherited plan benefits over a 10-year period. Eligible designated beneficiaries (i.e., surviving spouses, minor children of the plan participant, disabled and chronically ill beneficiaries, and beneficiaries who are less than 10 years younger than the plan participant) are not limited to the 10-year payout rule. Special rules apply to certain trusts.

- Under final Treasury regulations (issued July 2024) that address RMDs from inherited retirement plans of persons who died after December 31, 2019, and after their required beginning date, designated and non-designated beneficiaries will be required to take annual distributions, whether subject to a 10-year period or otherwise.

- Small businesses can contribute the lesser of (i) 25% of employees' salaries or (ii) an annual maximum amount set by the IRS each year to a simplified employee pension (SEP) plan by the extended due date of the employer's federal income tax return for the year that the contribution is made. The maximum SEP contribution for 2024 is $69,000.

Year-End Charitable Giving Strategies

- Gifting Appreciated Securities

- Qualified Charitable Distributions (QCD)
  - Donations out of IRA Required Minimum Distribution (RMD)
  - Especially powerful if taxpayer can’t itemize
  - Direct transfer of funds from IRA payable to qualified charity

- Use a Donor-Advised Fund (DAF)

- Timing of donations ("bunching" strategy)

Method of Charitable Giving	Effective Date of Contribution
Gifts by check	Date the check is mailed
Gifts by credit card	Date the charge is made to the card

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Year-End Charitable Giving Strategies

AGI Limits	Ordinary Income and Property and Cash	Capital Gain Property to the Recipient	Capital Gain Property for the Use of the Recipient
Public Charities, Private Operating and Distributing Foundations	60%	30%	20%
Non-operating Private Foundations	30%	20%	20%

Gifting Appreciated Securities

- Limited to 30% of AGI
- Allows for more dollars to be contributed to a charity and avoids capital gains taxes
- Must be stock held for more than one year to deduct FMV (if held for less than one year, limited to tax basis)

Example if stock sold first:

- 1,000 Shares of ABC Company Stock worth $100,000 (basis is $50,000)
- If sold, capital gains taxes owed of 28.8% (including Ohio) on a $50,000 gain or $14,400, leaving the remaining $85,600 to charity – a maximum tax savings of $31,672 (37%), a net savings of $17,272

Example if stock is donated to charity directly:

- 1,000 Shares of ABC Company Stock worth $100,000 (basis is $50,000)
- Income tax deduction of $100,000 – a tax savings of $37,000

Qualified Charitable Distribution from IRA

- Allows taxpayers over age 70½ to shift as much as $105,000 of their required minimum distributions (RMDs) to qualified public charities

- Acts as an "above the line" deduction, by diverting otherwise taxable income directly to a qualified charity

- Generally not available for donor advised fund

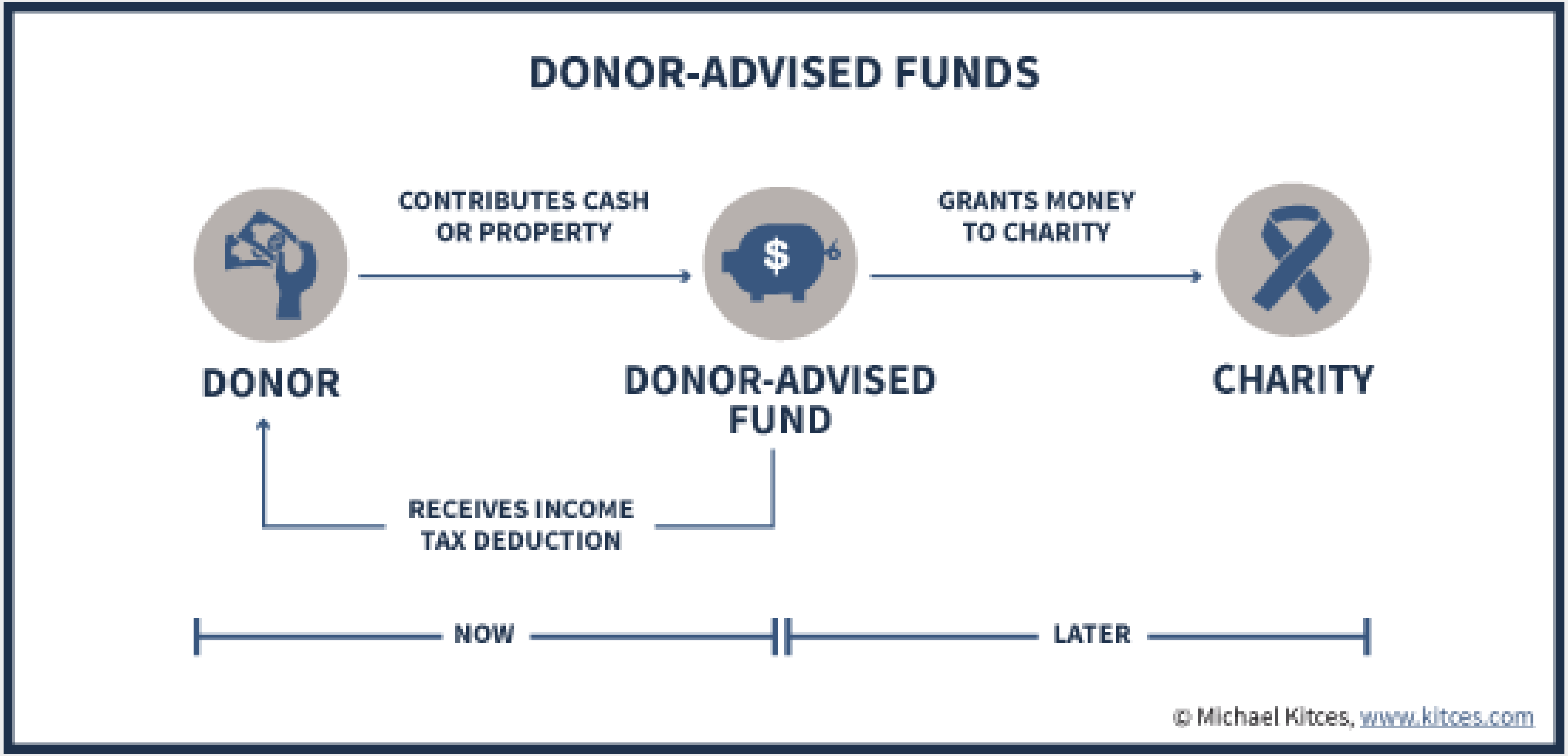
- By excluding income, it may keep someone in a lower marginal tax bracket that also allows for Roth conversions, lower taxability of Social Security, etc.

- Provides state income tax benefit that would otherwise not be available for a charitable contribution

Donor-Advised Funds

- A separately identified fund or account that is maintained and operated by a 501(c)(3) organization (i.e. The Columbus Foundation, The Catholic Foundation, Fidelity, Schwab, etc.)
- Each DAF is composed of contributions made by separate donor
- Once the donor makes the contribution, the sponsoring organization has legal control over it
- The donor retains advisory privileges with respect to the distribution of funds and the investment of assets
- DAF provides a fairly affordable option to individuals to help them accomplish their charitable goals

Donor-Advised Funds (Continued)



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- 12/11/24 Restaurant MasterClass – Serving Up Tax Tips: Year-End Strategies for Restaurant Owners *(webinar)*
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