2024 Year-End Tax Planning

Presented by

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Overview

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As far as new legislation is concerned, 2024 was a quiet year – however there were some tax rules that went into effect that were part of legislation passed on previous years. With the presidential election behind us we can start to focus on what 2025 and beyond will look like.

Much of Trump's tax agenda focused on the Tax Cuts and Jobs Act of 2017 (TCJA), the majority of which is set to sunset at the end of 2025. How the impending sunset is handled will be a critical issue throughout the next year.

Overview

Action on the soon-to-expire TCJA is likely to be high on the to-do list for the new Congress. Many leaders in the GOP have expressed interest in taking quick action to extend the provisions beyond their pending expiration at the end of 2025. However, given the fact that TCJA has one more year to go, the issue of extension is not highly relevant to year-end tax planning for 2024.

While there are always new strategies to consider, and indeed there are some changes from recent legislation that are in effect for 2024, the simple tactics of deferring income and increasing current deductions are the best bet for the next few weeks.

Minimizing Individual Taxes

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Income Taxes

Minimize Taxes: Focus on reducing taxable income or increasing deductions to lower your overall tax liability.

Deferral of Income:

- With inflation-adjusted tax brackets, deferring income from 2024 to 2025 could result in more income falling into a lower tax bracket.
- This applies to both ordinary income and capital gains.

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Capital Gains Tax Rates:

- Federal tax rate on capital gains for 2024:
  - **0%** for taxable income ≤ $94,050 (married filing jointly).
  - **15%** for taxable income between $94,051 and $583,750 (married filing jointly).

Offset Capital Gains with Losses:

- Sell investments at a loss to offset or reduce capital gains.
- Be aware of **wash-sale rules**, which disallow losses if a "substantially similar" asset is repurchased within 30 days.

Minimizing Individual Taxes

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Understanding the Net Investment Income Tax (NIIT)

- **Overview of NIIT**:
  - Introduced on Jan. 1, 2013, to help fund the Affordable Care Act.
  - Imposes a 3.8% tax on net investment income for individuals, estates, and trusts exceeding income thresholds.
- **Who is Subject?**
  - Joint filers with adjusted gross income (AGI) over **$250,000**.
  - Single filers with AGI over **$200,000**.
- **Taxable Amount**:
  - Applies to the **smaller** of net investment income (NII) or the amount by which AGI exceeds thresholds.

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Strategies to Reduce NIIT Exposure

- Invest in **municipal bonds**, as their income is exempt from the 3.8% surtax.
- Use **installment sales** to spread a large gain across multiple tax years, potentially lowering AGI in each year.

Maximizing Deductions

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2024 Standard Deduction Amounts:

- **$29,200** for joint filers
- **$21,900** for heads of households
- **$14,600** for single filers and other filers

Impact of High Standard Deduction:

- Coupled with the **$10,000 cap on state and local tax (SALT) deductions**, many taxpayers find itemizing less beneficial.

Maximizing Deductions

Bunching Deductions Strategy:

- Consolidate deductible expenses (e.g., **charitable contributions** or **medical expenses**) into a single tax year to exceed the standard deduction.
- Example: Skip 2023 charitable contributions and double them in 2024.

Donor-Advised Funds (DAFs):

- A more aggressive strategy to maximize charitable contributions while maintaining flexibility in granting funds to charities over time.

Maximizing Deductions

Contributing Appreciated Property:

- Donate assets such as stocks or mutual fund shares held for **more than a year** to:
  - Deduct the **full fair market value** (if itemizing).
  - Avoid capital gains tax on the appreciation.
- **Avoid donating depreciated assets**, as unrealized losses cannot be deducted.

These strategies help taxpayers maximize deductions when itemizing is beneficial and optimize their charitable giving impact.

SALT Deduction

SALT Deduction Cap:

- The **Tax Cuts and Jobs Act (TCJA)** limits the deduction for state and local taxes (SALT) to **$10,000**, creating challenges for taxpayers in high-tax states.
- Efforts to repeal or increase this cap have been **unsuccessful** so far.

Passthrough Entity Tax Strategy:

- Some states have enacted laws allowing **passthrough entities** (e.g., partnerships, S-corporations) to pay SALT taxes at the entity level.
- This approach can **bypass the $10,000 cap** for individual taxpayers by shifting the deduction to the entity.

SALT Deduction

Requirements Vary by State:

- States' rules for passthrough entity taxation differ.
- Taxpayers interested in this strategy should consult with their **tax professionals** to determine eligibility and compliance with state-specific laws.

This approach offers a potential workaround for high SALT burdens, but careful planning is essential.

Among the proposals Trump made during the campaign was a potential increase in the limitation on the state and local deduction. If this were to happen effective for the 2025 tax year, this workaround may become less prevalent.

Green Energy

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Energy Efficiency Home Improvement Credit (2023 Onward):

- Provides a **30% tax credit** for qualified expenses, including:
  - **Doors, windows, and other energy-efficient property.**
  - **Home energy audits** for energy efficiency improvements.
- First available in **2023** under updated provisions.

Residential Clean Energy Credit:

- Also offers a **30% tax credit** for expenses related to:
  - **Solar panels, small wind turbines,** and **battery storage systems.**
- Supports investments in renewable energy for residential properties.

Green Energy

Restrictions and Limitations:

- Specific eligibility criteria and expense caps may apply.
- Taxpayers should consult with a professional to understand qualification details and maximize benefits.

Both credits encourage energy efficiency and renewable energy upgrades while offering significant tax savings.

While the Trump campaign did not single out any specific credits, there was a general antipathy of many green energy initiatives. It is entirely possible that some or all these green energy incentives could be on the chopping block to help pay for tax cuts elsewhere. If any action on this legislation in 2025 is retroactively applicable to the whole year, 2024 could be the last chance to claim the credits.

Retirement Savings

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RMD Age Increased to 73 (Starting 2023):

- The RMD rules require individuals to take withdrawals from their IRAs (including SIMPLE IRAs and SEP IRAs) every year once they reach age 72 (73 if the account owner reaches age 72 in 2023 or later), even if they're still employed.

Timing for First RMD:

- Taxpayers have until **April 15 of the following year** to take their first RMD.
- Planning is essential to avoid taking **two RMDs in one tax year**, which could push the taxpayer into a **higher tax bracket**.

Future RMD Deadlines:

- RMDs for 2025 must be taken by **December 31, 2025** to avoid doubling up distributions in one year.

Retirement Savings

Qualified Charitable Distributions (QCDs):

- Available to taxpayers aged **70 ½ or older**.
- QCDs:
  - **Count toward RMDs** for taxpayers aged 72 or older.
  - Are **tax-free** if paid directly from the IRA to an eligible charity.
  - Have an **annual limit of $105,000** in 2024 (up from $100,000 in 2023).

These strategies can help taxpayers manage taxable income and support charitable causes efficiently.

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Other Year-End Strategies for Individuals

- **Maximizing Education Credits**: Tuition paid in 2024 can qualify for education credits even if the academic period starts in 2025, provided it begins by the end of March.
- **Increasing 401(k) Contributions**: Boosting 401(k) contributions can help reduce adjusted gross income (AGI).
- **IRA Contributions**: Eligible individuals can claim deductions for IRA contributions made up to April 15, 2025, to lower AGI.
- **Teacher Deductions**: Educators can deduct up to $300 for classroom expenses, including books, supplies, computer equipment, and COVID-19-related materials, and should maximize expenses by year-end.

2024 Year-End Business Strategies

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Corporate Transparency Act

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Your entity (or entities) may be required to file a beneficial ownership information report (BOI) with The Treasury Department's Financial Crimes Enforcement Network (FinCEN). If so, BOI information must be reported on or before December 31, 2024.

When to File:

- *Entities in existence prior to January 1, 2024* – prior to January 1, 2025
- *Entities created or registered during 2024* – within 90 days of formation
- *Entities created or registered on or after January 1, 2025* – within 30 days of formation

Depreciation & Expensing

The TCJA provided very generous depreciation and expensing limitations.

- **Section 179 Expensing**: For 2024, the investment limitation is $3,050,000, and the dollar limitation is $1,220,000.
- **Bonus Depreciation**: Taxpayers can claim a 60% first-year depreciation allowance for qualifying property placed in service during 2024.
- **Time-Sensitive Benefit**: Bonus depreciation decreases by 20% annually and is set to expire on January 1, 2027, making it advantageous to utilize this benefit in the current year.

Despite the pending drop in the first-year depreciation percentage in 2025, this is one provision that is very likely to see legislative action in 2025, with a possible return of 100% first-year depreciation, so holding off on the acquisition of assets eligible for first-year depreciation may be the better strategy.

Depreciation & Expensing

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Tip: Special "luxury car" rules limit deductions for business vehicles. Nevertheless, due to the TCJA, you can write off up to $20,400 (including bonus depreciation) for such a vehicle placed in service in 2024. The luxury car limits do not apply to certain heavy-duty vehicles. If you buy a heavy-duty SUV or van for business, you may claim a first-year Section 179 deduction of up to $30,500 before considering bonus depreciation.

Clean Commercial Vehicles

- **New Clean Commercial Vehicle Credit**: The Inflation Reduction Act of 2022 offers a $7,500 credit for purchasing clean commercial vehicles starting in 2023.
- **Similar Requirements**: The credit's eligibility criteria closely align with those for individuals.
- **Business Considerations**: Businesses should evaluate the same factors individuals consider when deciding to invest in environmentally friendly vehicles.

The same concerns about green energy credits for individuals being repealed by tax legislation in 2025 could also apply here.

Other Year-End Strategies for Businesses

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Take Advantage of the Work Opportunity Tax Credit (WOTC):

- Hire workers from eligible target groups to qualify for the credit.
- The WOTC provides **40% of first-year wages** up to $6,000, resulting in a maximum **$2,400 credit per worker**.
- For **qualified veterans**, the credit applies to wages up to $24,000, offering a maximum **$9,600 credit**.
- The program is available through **2025**, making it a valuable incentive for employers.

Other Year-End Strategies for Businesses

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TCJA Changes to R&D Cost Treatment:

- As of 2022, the Tax Cuts and Jobs Act (TCJA) mandates that **R&D costs** be **amortized over five years** for domestic research, instead of being fully deducted in the year incurred.
- For **foreign research expenses**, the amortization period is **15 years**.
- This shift affects tax planning for companies investing in research and innovation.

Other Year-End Strategies for Businesses

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Research Credits for Start-Ups:

- Start-up businesses can elect to use up to **$500,000** of qualified research credits to offset **payroll taxes** instead of income taxes.
- A start-up, for this purpose, is defined as a business that:
  - Had **no gross receipts** prior to the 5-year period ending with the current tax year.
  - Has **gross receipts less than $5 million** during the current tax year.
- This provision helps new businesses leverage R&D incentives early in their growth phase.

Other Year-End Strategies for Businesses

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Deducting Start-Up Costs:

- New business start-up costs must generally be **amortized over 180 months**.
- However, businesses can claim an **immediate deduction of up to $5,000** for qualified start-up costs.
- The deduction phases out when total start-up costs exceed **$50,000**.
- This provision offers early tax relief for entrepreneurs launching new ventures.

Net Operating Loss (NOL) Rules for 2024:

- A **2024 net operating loss (NOL)** cannot be carried back under current tax law.
- Instead, the NOL can be **carried forward indefinitely**, allowing future tax relief.
- Utilization of the NOL is limited to **80% of taxable income** in any carryforward year.

Other Year-End Strategies for Businesses

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Maximize the Qualified Business Income (QBI) Deduction:

- Pass-through entities and self-employed individuals can benefit from the **QBI deduction**, which allows a deduction of up to 20% of qualified business income.
- Special rules apply if your business is classified as a **Specified Service Trade or Business (SSTB)**.
- Unless extended, the **QBI deduction** is set to **expire on December 31, 2025**, making it important to plan ahead.

Other Year-End Strategies for Businesses

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Year-End Bonuses and Deductions:

- Year-end bonuses paid to employees in **2024** are generally deductible by the company and taxable to employees in **2024**.
- However, a **calendar-year company** using the **accrual basis** of accounting may deduct bonuses paid as late as **March 15, 2025**, on its **2024 return** if:
  - The bonuses are **not contingent upon any post-year-end events**.
  - The bonuses are paid to **non-owner employees**.
- This rule provides flexibility for companies to manage cash flow and tax planning.

If you have any questions, feel free to contact us.

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801 Corporate Center Drive, Suite 110
Raleigh, NC 27607
Main: 919-845-5315
Tax: 919-465-1265
info@lifetimeasset.com | www.lifetimeasset.com