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To Our Clients and Friends:

The end of the tax year is almost upon us, so it's a good time to think about things you can do to reduce your business's 2024 federal taxes. With the presidential election coming up, there's a chance for changes in Congress. We know there will be a new President, so there's no guarantee we won't see a retroactive tax law change affecting 2024, but that would take an actual act of Congress. So, for now, we can only assume that the law currently in effect for 2024 will remain in place. With that said, here are some things to think about for your business and personally before the end of the year.

ESTABLISH A TAX-FAVORED RETIREMENT PLAN

If your business doesn't already have a retirement plan, now might be a good time to consider. Current rules allow for significant deductible contributions. For example, if you are self-employed and set up a SEP plan for yourself, you can contribute up to 20% of your net self-employment income, with a maximum tax-deductible contribution of $69,000 for 2024. If you are employed by your own corporation, up to 25% of your salary can be contributed, with a maximum tax-deductible contribution of $69,000 for 2024.

A 401(k) plan can be especially attractive for self-employed and small corporations, because, in addition to the contribution of up to 20% (25% if you are employed by your own corporation) of compensation, the plan can allow matching contributions, meaning more before-tax money goes into the plan. A SIMPLE-IRA is another option that can be a good choice if your business income is modest. Depending on your circumstances, the SIMPLE-IRA plan can allow for bigger tax-deductible contributions than a SEP or 401(k).

TAKE ADVANTAGE OF GENEROUS TAX BREAKS FOR ADDING FIXED ASSETS

Current federal income tax rules allow generous first-year tax write-offs for eligible assets.

Section 179 Deductions. For qualifying property placed in service in tax years beginning in 2024, the maximum allowable Section 179 deduction is $1.22 million. Most types of personal property, as well as off-the-shelf software, used for business are eligible for Section 179 deductions.

Section 179 deductions also can be claimed for certain real property expenditures, called ***Qualified Improvement Property*** (QIP), up to the maximum annual Section 179 deduction allowance ($1.22 million for tax years beginning in 2024). There is no separate Section 179 deduction limit for QIP expenditures, so Section 179 deductions claimed for QIP reduce the maximum Section 179 deduction allowance dollar for dollar.

QIP includes any improvement to an interior portion of a nonresidential building that is placed in service after the date the building is first placed in service, except for expenditures attributable to the building's enlargement, any elevator or escalator, or the building's internal structural framework.

Section 179 deductions also can be claimed for qualified expenditures for roofs, HVAC equipment, fire protection and alarm systems, and security systems for nonresidential real property. To qualify, these items must be placed in service after the nonresidential building has been placed in service.

Please note, Section 179 deductions can't cause an overall business tax loss, and deductions are phased out if you place more than $3.05 million of qualifying property in service during the 2024 tax year. The limits on Section 179 deductions can get tricky if you own an interest in a pass-through business entity (partnership, S Corporation, or LLC treated as either for tax purposes). Contact us for details on how the limits work and whether they will affect you or your business entity.

First-year Bonus Depreciation. 60% first-year bonus depreciation is available for qualified new and used property that is acquired and placed in service in calendar-year 2024. That means your business might be able to write off 60% of the cost of some or all your 2024 asset additions on this year's return. However, you should generally write off as much as you can using Section 179 deductions before taking advantage of 60% first-year bonus depreciation, since, if no limits apply, Section 179 expensing results in a 100% write-off.

Qualified property includes depreciable property with a recovery period of 20 years or less and off-the-shelf computer software. Most personal property has a recovery period of 20 years or less. Some real property, such as QIP (defined earlier) and land improvements (for example sidewalks and fences) also have a recovery period of 20 years or less and qualifies for bonus depreciation.

To take advantage of Section 179 expensing and/or bonus depreciation, consider making eligible asset acquisitions between now and year end. The bonus depreciation percentage is scheduled to decrease to 40% for assets placed in service in 2025. So, if you are thinking about acquiring qualifying assets, getting them placed in service in 2024 rather than 2025 means that you get the deduction in 2024 rather than 2025, and if you take bonus depreciation, the higher bonus depreciation rate will apply.

TIME BUSINESS INCOME AND DEDUCTIONS FOR TAX SAVINGS

If you conduct your business as a sole proprietorship or using a pass-through entity (partnership, S corporation, or LLC classified as either of those), your share of the business's income and deductions are taxed at your individual rates. Assuming no legislative changes, the individual federal income tax rates will be the same in 2024 and 2025 as they were in 2023, with bumps in the rate bracket thresholds thanks to inflation adjustments. If your business is a C corporation, income is taxed at 21% in 2024 and 2025, again assuming no changes to tax law.

Depending on the outcome of the November election, individual and corporate tax rates could change in 2025, but only if Congress acts. So, consider how strongly you believe that will happen and which party you think will be in power after November. Absent any Congressional action, both the individual and the corporate income tax rates will increase in 2026.

Timing year-end Bonuses. Both cash and accrual basis taxpayers can time year-end bonuses for maximum tax effect. Cash basis taxpayers should pay bonuses before year end to maximize the deduction available in 2024 if you expect to be in the same or lower tax bracket next year. Cash basis taxpayers that expect to be in a higher tax bracket in 2025, because of significant revenue increases, should wait to pay 2024 year-end bonuses until January 2025, when their deduction for bonuses will offset income taxed at a higher rate. Accrual basis taxpayers deduct bonuses in the year that all events related to the bonuses are established with reasonable certainty. However, the bonus must be paid no later than 2 ½ months of the end of the year end for a current year deduction. Calendar- year taxpayers using the accrual method would have to pay bonuses by 3/15/2025 to accrue and deduct the bonus in 2024. Accrual method employers who think they will be in a higher tax bracket in 2025 and want to defer deductions to that year should consider changing their bonus plans before year-end to set the payment date later than the 2 ½ month window.

STATE INCOME TAX DEDUCTION WORKAROUND

Generally, both federal and state income tax on a pass-through entity's taxable income is paid by the entity's owners. Because individuals cannot deduct more than $10,000 ($5,000 if MFS) of state and local income tax as an itemized deduction, this can limit the owners' deduction for state income tax on the entity's income. The Pass-Through Entity tax (PTE) election allows pass-through businesses to elect to pay state income tax on their business income at the entity level. In other words, the entity elects to pay the state income tax due on the business income that would otherwise pass through to owners and be subject to state income tax at the owner level. The federal itemized deduction cap for state and local taxes that applies to individuals doesn't apply to the pass-through entity. Instead, the state income taxes reduce the business income that flows throw to the entity's owners. Currently, of the 42 states (including the District of Columbia) that impose a personal income tax, 35 have enacted legislation allowing a PTE election and one has proposed such legislation. Contact us to determine whether your business should consider making the PTE election.

MAXIMIZE THE QUALIFIED BUSINESS INCOME (QBI) DEDUCTION

The deduction based on QBI was a key element of 2017 tax reform. For tax years through 2025, the deduction can be up to 20% of a business owner's QBI, subject to limits that apply when the owner's income reaches certain levels and another limit based on the owner's taxable income. Income a business operated as a sole proprietorship (including a single-member LLC) as well as from partnerships, S corporations, or LLCs classified as a partnership or S corporation all potentially qualify for the deduction.

For 2024, if taxable income exceeds $383,900 for taxpayers filing a joint return (about half that for all others), the QBI deduction is limited if the taxpayer is engaged in a service-type business (including law, accounting, health, or consulting). At that income level, the deduction may also be limited by the amount of W-2 wages paid by the business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the business. The limits are phased in. The limits start to apply to joint filers when taxable income exceeds $383,900 and are fully phased in when taxable income reaches $483,900. For all other filers, the limits start to apply when taxable income reaches $191,950 and are fully phased in when taxable income reaches $241,950.

The QBI deduction is scheduled to sunset after 2025. However, depending on the result of the November elections, there is a chance it could end sooner. So, maximizing the deduction before it disappears makes sense. Even if the deduction is still available in 2025, maximizing the 2024 deduction at least defers tax.

Because of the various limits on the QBI deduction, tax planning moves (or non-moves) can have the side effect of increasing or decreasing your allowable QBI deduction. For example, claiming big first-year depreciation deductions can reduce QBI and lower your allowable QBI deduction. So, if you can benefit from the QBI deduction, you must be careful in making tax planning moves. We can help you put together strategies that give you the best overall tax results.

CHECK YOUR TAX WITHHOLDING AND ESTIMATED PAYMENTS

If the Federal Income Tax (FIT) withheld from your paychecks plus any estimated tax payments for 2024 aren't at least equal to (1) your 2023 tax liability [110% of that amount if your 2023 AGI was more than $150,000 ($75,000 if you file MFS)] or, if less (2) 90% of your 2024 tax liability, you will be subject to an underpayment penalty for 2024. Making an estimated tax payment reduces any underpayment from the time the payment is made. But federal income taxes withheld from wages is considered paid ratably over the year. So, if it turns out you had unexpected income or gains early this year and haven't made sufficient estimated tax payments to avoid the penalty, you can increase your withholding for the rest of the year to reduce or eliminate your underpayment from earlier quarters. We can help you project your 2024 tax and adjust your withholding to eliminate (to the extent possible) an underpayment penalty. We can also help you see what your remaining 2024 tax bill next April will look like.

CONSIDER BUNCHING ITEMIZED DEDUCTIONS

Each year, you can deduct the greater of your itemized deductions (mortgage interest, charitable contributions, medical expenses, and taxes) or the standard deduction. The 2024 standard deduction is $14,600 for singles and married individuals filing separately (MFS), $29,200 for married couples filing jointly (MFJ), and $21,900 for Heads of Household (HOH). If your total itemized deductions for 2024 will be close to your standard deduction, consider "bunching" your itemized deductions, so they exceed your standard deduction every other year. Paying enough itemized deductions in 2024 to exceed your standard deduction will lower this year's tax bill. Next year, you can always claim the standard deduction, which will be increased for inflation.

For example, if you file a joint return and your itemized deductions are steady at around $28,000 per year, you will end up claiming the standard deduction in both 2024 and 2025. But, if you can bunch expenditures so that you have itemized deductions of $32,000 in 2024 and $24,000 in 2025, you could itemize in 2024 and get a $32,000 deduction versus a $29,200 standard deduction. In 2025, your itemized deductions would be below the standard deduction (which adjusted for inflation will be at least $29,200). So, for 2025, you would claim the standard deduction. If you manage to exceed the standard deduction every other year, you'll be better off than if you just settle for the standard deduction each year.

You can get itemized deductions into 2024 by making your house payment due in January 2025 in 2024. But there's a limit on the amount of mortgage interest you can deduct. Generally, you can only deduct interest expense on up to $375,000

($750,000 if MFJ) of a mortgage loan used to acquire your home. More generous rules apply to mortgages (and home equity debt) incurred before 12/15/2017.

Timing your charitable contributions is another simple way to get your itemized deductions into the year you want them.

Finally, consider accelerating elective medical procedures, dental work, and vision care into 2024. For 2024, medical expenses can be claimed as an itemized deduction to the extent they exceed 7.5% of your Adjusted Gross Income (AGI).

If Congress does nothing, the standard deduction will fall dramatically in 2026 and the cap on the deduction for state and local taxes will disappear. This is even more reason to bunch itemized deductions into 2024, defer them in 2025 and take the standard deduction, and bunch again in 2026. Even if Congress extends the larger standard deduction and the cap on state and local taxes past 2025, this strategy results in accelerating deductions into 2024 and maximizing deductions versus taking the standard deduction in both 2024 and 2025. If the provisions do expire, you will have deferred itemized deductions into 2026, where they are likely to produce a much larger tax benefit than if you had taken them in 2025.

TAKE A LOOK AT YOUR INVESTMENT PORTFOLIO

It's a good idea to look at your investment portfolio with an eye to selling before year-end to save taxes. Note that selling investments to generate a tax gain or loss doesn't apply to investments held in a retirement account [such as a 401(k)] or IRA, where the gains and losses are not currently taxed.

If you are looking to sell appreciated securities, it's usually best to wait until they have been held for over 12 months, so they will generate a long-term, versus short-term, capital gain. The maximum long-term capital gain tax rate is 20%, but for many individuals, a 15% rate applies. The 3.8% Net Investment Income Tax (NIIT) can also apply at higher income levels. Even so, the highest tax rate on long-term capital gains (23.8%) is still far less than the 37% maximum tax rate on ordinary income and short-term capital gains. And, to the extent you have capital losses that were recognized earlier this year or capital loss carryovers from earlier years, those losses can offset any capital gains if you decide to sell stocks at a gain this year.

You should also consider selling stocks that are worth less than your tax basis in them (typically, the amount you paid for them). Taking the resulting capital losses this year will shelter capital gains, including short-term capital gains, resulting from other sales this year. But consider the wash sale rules. If you sell a stock at a loss and within the 30-day period before or the 30-day period after the sale date, you acquire substantially identical securities, the loss is suspended until you sell the identical securities.

If you sell enough loss stock that capital losses exceed your capital gains, the resulting net capital loss for the year can be used to shelter up to $3,000 ($1,500 if MFS) of 2024 ordinary income from salaries, self-employment income, interest, etc. Any excess net capital loss from this year is carried forward to next year and beyond. Having a capital loss carryover into next year and beyond could be a tax advantage. The carryover can be used to shelter both short-term and long-term gains. This can give you some investing flexibility in future years because you won't have to hold appreciated securities for over a year to get a lower tax rate on any gains you trigger by selling, to the extent those gains will be sheltered by the capital loss carryforward.

Nontax considerations must be considered when deciding to sell or hold a security. If you have stock that has fallen in value, but you think will recover, you might want to keep it rather than trigger the capital loss. If, after considering all factors, you decide to take some capital gains and/or losses to minimize your 2024 taxes, make sure your investment portfolio is still allocated to the types of investments you want based on your investment objectives. You may have to rebalance your portfolio. When you do, be sure to consider investment assets held in taxable brokerage accounts as well as those held in tax-advantaged accounts, such as IRAs and 401(k) plans.

MAKE YOUR CHARITABLE GIVING PLANS

You can reduce your 2024 taxable income by making charitable donations (assuming your itemized deductions exceed your standard deduction). If you don't have a charity or charities that you are comfortable making large donations to, you can contribute to a donor-advised fund (also known as charitable gift funds or philanthropic funds) instead. This is a public charity or community foundation that uses the assets to establish a separate fund to receive grant requests from charities seeking distributions from the advised fund. Donors can suggest (but not dictate) which grant requests should be honored. You claim the charitable tax deduction in the year you contribute to the donor-advised fund but retain the ability to recommend which charities will benefit for several years.

Another tax-advantaged way to support your charitable causes is to donate appreciated assets that were held for over a year. If you give such assets to a public charity, you can deduct the donated asset's fair market value and avoid the tax you would have paid had you sold the asset and donated the cash to the charity. Charitable gifts of appreciated property to a private nonoperating foundation are generally only deductible to the extent of your basis in the asset. But qualified appreciated stock (generally, publicly traded stock) donated to a private nonoperating foundation can qualify for a deduction equal to its fair market value.

If you are age 70½ or older, consider a direct transfer from your IRA to a qualified charity [known as a Qualified Charitable Distribution (QCD)]. While you can't claim a charitable donation for the amount transferred to the charity, the QCD does count toward your Required Minimum Distribution (RMD). If you don't itemize, that's clearly better than taking a fully taxable RMD and then donating the amount to charity with no corresponding deduction. Even if you do itemize and would be able to deduct the full amount transferred to the charity, the QCD does not increase your Adjusted Gross Income (AGI), while a RMD would. Keeping your AGI low can decrease the amount of your taxable Social Security benefits and minimize the phaseout of other favorable tax provisions based on AGI.

To get a QCD completed by year-end, you should initiate the transfer before December 31. Talk to your IRA custodian but making the transfer no later than December is probably a good idea.

CONVERT TRADITIONAL IRAS INTO ROTH ACCOUNTS

Because you must pay tax on the conversion as if the traditional IRA had been distributed to you, converting makes the most sense when you expect to be in the same or higher tax bracket during your retirement years. If that turns out to be true, the current tax cost from a conversion this year could be a relatively small price to pay for completely avoiding potentially higher future tax rates on the account's post-conversion earnings. In effect, a Roth IRA can insure part or all your retirement savings against future tax rate increases.

If the conversion triggers a lot of income, it could push you into a higher tax bracket than expected. One way to avoid that is to convert smaller portions of the traditional IRA over several years. Of course, that delays getting funds into the Roth IRA where they can be potentially earning tax-free income. There is no one answer here. But keep in mind that you do not have to convert a traditional IRA into a Roth all at once. We can help you project future taxable income and the effect of converting various amounts of your traditional IRA into a Roth IRA.

SPEND ANY REMAINING FUNDS IN YOUR FLEXIBLE SPENDING ACCOUNTS

If you participate in in an employer-sponsored medical or dependent care flexible spending plan, be sure to look at your plan closely. Generally, funds not spent before the plan's year-end are forfeited (the use-it-or-lose-it rule). There are a few exceptions. Employers can allow their employees to carry over up to $640 from their 2024 medical FSA into their 2025 account. Alternatively, FSA plans can offer a grace period (up to 2 ½ months after the plan's year-end) during which employees can incur new claims and expenses and be reimbursed. Plans can (but don't have to) have either a carryover or a grace period, but not both.

FSAs can also have a run-out period (a specific period after the end of the plan year during which participants can submit claims for eligible expenses incurred during the plan year). The run-out period can be in addition to a carryover or a grace period. The runout period differs from a grace period because a runout period only extends the time for submitting claims. A grace period, in effect, extends the plan year so that expenses incurred during the grace period are treated as incurred before the plan year-end. It's important to know how your FSA(s) work so that you can make sure you don't lose any funds. If there is no grace period, be sure you incur qualified expenses before year-end and submit eligible claims by their due date.

TAKE ADVANTAGE OF THE ANNUAL GIFT TAX EXCLUSION

The basic estate, gift, and generation skipping transfer tax exclusion is scheduled to fall from $13.61 million ($27.22 million for married couples) in 2024 to $5 million ($10 million for married couples) in 2026. The 2026 amounts will be adjusted for inflation, but the bottom line is that, absent any tax law changes, the 2026 exclusion will be substantially less than 2024 exclusion. So, many estates that will escape taxation before 2026 will be subject to estate tax after 2025. If you think your estate may be taxable, annual exclusion gifts (perhaps to children or grandchildren) are an easy way to reduce your taxable estate. The annual gift exclusion allows for tax-free gifts that don't count toward your lifetime exclusion amount. For 2024, you can make annual exclusion gifts up to $18,000 per donee, with no limit on the number of donees.

In addition to potentially reducing your taxable estate, gifting income-producing assets to children (or other loved ones) can shift the income from those assets to someone in a lower tax bracket. But, if you give assets to someone who is under age 24, the Kiddie Tax rules could cause some of the investment income from those assets to be taxed at your higher marginal federal income tax rate.

If you gift investment assets, avoid gifting assets worth less than what you paid for them. The donee's basis for recognizing a loss is the lower of your basis or the property's FMV at the date of the gift. So, in many cases, the loss that occurred while you held the asset may go unrecognized. Instead, you should sell the securities, take the resulting tax loss, and then give the cash to your intended donee.

CONCLUSION

This letter only covers some of the year-end tax planning ideas that could reduce your 2024 tax bill. Please contact us if you have questions about any of the strategies described here or for more tax-saving ideas. We would love to help you develop a year-end tax planning strategy that delivers results.

Very truly yours,

Abeles and Hoffman, P.C.

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