WHITINGER & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

NOW IS THE TIME FOR 2024 YEAR-END TAX PLANNING

Dear Clients and Friends,

With the end of the year approaching, now is an excellent time to review your 2024 income tax situation and take steps to ensure that you are taking full advantage of the many tax planning strategies available.

Before we get to specific suggestions, keep in mind that effective tax planning requires considering both this year and next year at a minimum. Without a multi-year outlook, you cannot be sure planning strategies intended to save taxes for 2024 will not backfire and cost additional money in the future.

Here are a few tax-saving ideas for you to consider. As always, you can call on us to help sort through the options and implement strategies that make sense for you.

YEAR-END INVESTMENT MOVES

Depending on your taxable income, the 2024 federal income tax rates on long-term capital gains and qualified dividends are 0%, 15%, and 20%. High-income individuals can also be hit by the 3.8% NIIT, which can result in a marginal long-term capital gains/qualified dividend tax rate as high as 23.8%. Still, that is substantially lower than the top regular tax rate of 37% (40.8% if the NIIT applies). To minimize your taxes, consider the following:

HOLDING ON FOR FAVORABLE RATES. Whenever possible, try to hold appreciated securities for a minimum of one year and one day to qualify for the more favorable long-term capital gains rates.

SELECT THE RIGHT SHARES TO BE SOLD. Use specific identification or standing orders, instead of the default first-in, first-out method, to identify the stock or mutual fund shares to be sold. Selecting the highest basis shares, even if held for one year or less, may minimize your capital gains taxes.

SELL DEPRECIATED SECURITIES TO HARVEST CAPITAL LOSSES. If the same or similar investments are not acquired within 30 days of the sale, the loss can be used to offset capital gains. If capital losses exceed capital gains, up to $3,000 of capital losses can be used to offset other income.

TAKE ADVANTAGE OF 0% FEDERAL RATE ON LONG-TERM CAPITAL GAINS. If your taxable income is not greater than $94,050 married filing joint, $47,025 single, or $63,000 head of household, sell appreciated securities held for more than one year. Until taxable income exceeds the thresholds above, long-term capital gains are taxed at a 0% federal rate.

SECURE A DEDUCTION FOR NEARLY WORTHLESS SECURITIES. If you own any essentially worthless securities with little chance of recovery, sell them before year-end so that you can deduct the loss in the current year. Do not sell the investments to a related party, which would result in a disallowance of the loss.

CONSIDER CONVERTING TRADITIONAL IRAS INTO ROTH IRAS. Conversions can be beneficial for many reasons, including when an individual would not pay federal income tax on the conversion or expects to be in the same or higher tax bracket in retirement.

CHECK YOUR BENEFICIARY DESIGNATIONS. Retirement plans, pensions, IRAs, life insurance policies, annuities, payable-on-death accounts, and certain other accounts transfer to the beneficiaries designated on the respective account forms. These designations have priority over designations in wills, trusts, etc. Be sure your beneficiary designations are current, especially if you have experienced a significant life event such as marriage, divorce, birth of a child, etc.

MAXIMIZING NONBUSINESS DEDUCTIONS AND CREDITS

GIFT APPRECIATED STOCK. If you have appreciated stock you have held for more than one year and plan to make significant charitable contributions, keep your cash and donate the stock instead. You will avoid paying tax on the appreciation and can generally deduct the donated property's full value. If you want to maintain a position in the donated securities, you can immediately buy back a like number of shares. On the other hand, if the stock is now worth less than when you acquired it, sell the stock, deduct the loss, and then give the cash to the charity. Also, if you sell the stock at a loss, you cannot immediately repurchase it, as this will trigger the wash sale rules. This means your loss will not be deductible but will be added to the basis in the new shares.

MAXIMIZE THE BENEFIT OF THE STANDARD DEDUCTION. For 2024, the standard deduction is $29,200 for married filing joint, $14,600 for single, and $21,900 for head of household. If your total itemized deductions are typically close to these amounts, you may be able to maximize the benefit of your deductions by bunching deductions every other year. This allows you to time your itemized deductions to be high in one year and low in the next. You claim actual expenses in the year they are bunched and take the standard deduction in the intervening years. For instance, you might consider moving charitable donations or state tax payments you usually would make in 2025 to 2024. However, be careful with the timing of state and local tax payments as the maximum amount you can deduct for state and local taxes is $10,000 per year ($5,000 if married filing separate).

CONTRIBUTE TO A 529 PLAN. Contributions to an Indiana 529 Plan can provide a 20% state tax credit (maximum credit of $1,500) for Indiana taxpayers. Contributions to an Indiana 529 Plan must be designated for K-12 tuition or higher education expenses. Specific to K-12 tuition paid with 529 Plan funds, distributions are limited to $10,000 per beneficiary per taxable year, and the tuition must be for attendance at an in-state school. Many other states offer deductions or credits for contributions to that state's 529 Plan. Due to a recent legislative change, Indiana 529 Plan contributions for 2024 must be made on or before April 15, 2025.

YEAR-END MOVES FOR SENIORS AGED 70 ½ PLUS

MAKE CHARITABLE DONATIONS DIRECTLY FROM YOUR IRA. You can make cash donations totaling up to $105,000 per individual IRA owner per year to IRS-approved charities directly from your IRA ($210,000 per year maximum on a joint return if both spouses make Qualified Charitable Distributions [QCDs] of $105,000). QCDs are not treated as taxable distributions, and you receive no itemized deduction for the contribution. QCDs have many potential tax benefits, such as reducing your Adjusted Gross Income (which may decrease the phase-out of other tax benefits and reduce the amount of your Social Security benefits that are taxable), receiving a state tax benefit where you otherwise would not, and effectively allowing you to deduct charitable contributions and claim the standard deduction on the same return. If you decide to make a QCD, transfer the funds directly from your IRA to the charity.

TAKE YOUR REQUIRED MINIMUM DISTRIBUTIONS. Individuals with retirement accounts must generally take withdrawals based on their account size and age every year after they reach age 73. Failure to take a required withdrawal can result in a penalty of 25% of the amount not withdrawn. QCDs discussed above count as payouts for purposes of the required distribution rules. This means you can donate all or part of your 2024 required distribution (up to the $105,000 per individual IRA owner limit on QCDs) and convert taxable required distributions into tax-free QCDs.

If you turned age 73 in 2024, you can delay your 2024 required distribution until April 1, 2025. However, waiting until 2025 will result in two distributions in 2025 (the amount required for 2024 plus the amount required for 2025). While deferring income is usually a sound tax strategy, here it results in bunching income into 2025, which might throw you into a higher tax bracket or have a detrimental impact on your tax deductions.

YEAR-END MOVES FOR YOUR BUSINESS

FILE THE NEW BENEFICIAL OWNERSHIP INFORMATION REPORT WITH THE FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN). Although this report is separate from your income tax filings and does not directly relate to year-end tax planning, we wanted to make you aware of the new reporting requirement. In an attempt to prevent the use of shell companies for criminal activity, the U.S. government implemented reporting requirements that impact most small businesses. Beginning January 1, 2024, most companies registered with the secretary of state or similar office must report beneficial ownership information to FinCEN. Entities created or registered before 2024 must file the initial report by January 1, 2025. For entities created or registered after 2024, the initial report is due 30 days after creation or registration. If there is any change to the beneficial ownership information after the initial report is filed, the entity has 30 days to file an updated report. Penalties for willfully failing to file are $500 per day, up to $10,000, and imprisonment for up to two years. You can file your reports and find more information at https://www.fincen.gov/boi.
(Please note: Whitinger & Company LLC does not prepare these reports.)

On December 3rd, 2024, a federal court in Texas issued a preliminary injunction blocking enforcement of the beneficial ownership information reporting requirements. The ruling is only temporary, so continue to monitor for future developments.

CONSIDER MAKING A PASS-THROUGH ENTITY TAX (PTET) ELECTION FOR YOUR BUSINESS. Indiana and most other states allow partnerships and S-corporations to make an election that allows state income taxes to be paid directly by the entity and deducted from the entity's federal taxable income, effectively avoiding the limitations that would otherwise apply on the owners' individual returns. For Indiana, the election is made annually on a timely filed return, including extensions. If you anticipate your business making the Indiana Pass-Through Entity Tax (PTET) election for the 2024 calendar year, the company must pay at least 50% of the 2024 estimated PTET on or before December 31, 2024, to avoid underpayment penalties. For the 2025 calendar year, estimated PTET payments must be paid quarterly during the year. Other states have varying requirements regarding making the election and payment of the tax.

MAXIMIZE THE DEDUCTION FOR PASS-THROUGH BUSINESS INCOME. For tax years beginning in 2024, the deduction could be up to 20% of a pass-through entity owner's qualified business income, subject to restrictions that may apply when taxable income from all sources exceeds $383,900 if married filing joint and $191,950 for all others. For pass-through entity owners subject to the restrictions, it is imperative to manage taxable income to maximize the deduction. The deduction can also be claimed for up to 20% of income from qualified REIT dividends and publicly traded partnerships. For purposes of this deduction, pass-through entities are defined as sole proprietorships, partnerships, S corporations, and LLCs that are treated as one of the former for tax purposes. The deduction is only available to individuals, trusts, and estates. Because of the various limitations and restrictions on the deduction, other tax planning moves can positively or negatively affect your allowable deduction.

TAKE ADVANTAGE OF TAX BREAKS FOR PURCHASING EQUIPMENT, SOFTWARE, AND CERTAIN REAL PROPERTY ACQUIRED AND PLACED IN SERVICE DURING 2024.

- Your business can claim first-year bonus depreciation equal to 60% of the cost of most new and used equipment and software placed in service by December 31 of this year. Heavy SUVs, pickups, and vans with a Gross Vehicle Weight Rating above 6,000 pounds also qualify for 60% bonus depreciation. For cars, light trucks, and light vans subject to the luxury auto depreciation limits, the annual limits, including bonus depreciation, were increased to $20,400 in year one, $19,800 in year two, $11,900 in year three, and $7,160 for year four and beyond.

- For assets used for both business and personal purposes, an effective planning strategy is to maximize the business use during the year of acquisition. For example, a $60,000 heavy SUV placed in service in December 2024 and used 95% for business could generate a $38,760 deduction for 2024, even without a Section 179 deduction and even if the business use is less than 95% in future years. However, the business use must remain above 50% in all future years to avoid having to recapture the accelerated depreciation as income.

- Under Section 179, an eligible business can claim significant first-year depreciation for the cost of new and used equipment, software additions, and qualifying real property. Qualifying real property is any improvement to the interior portion of a nonresidential building placed in service after the date the building is first placed in service, except

for expenditures attributable to the enlargement of the building, any elevator or escalator, or the building's internal structural framework. Qualifying real property also includes roofs, HVAC equipment, fire protection and alarm systems, and security systems for nonresidential real property if placed in service after the nonresidential building was placed in service. For tax years beginning in 2024, the maximum Section 179 deduction is $1,220,000. This amount is reduced to the extent qualified purchases exceed $3,050,000. If your business has a tax loss for the year before considering any Section 179 deduction, you cannot claim a Section 179 deduction for the current year.

REVISIT BUSINESS NEXUS FOR MULTI-STATE BUSINESSES. The U.S. Supreme Court decision in Wayfair overturned the physical presence standard that had been in place for decades. This decision has opened the door for states to require an out-of-state business to collect and remit sales tax on sales into those states, even if the business does not have any physical presence in the state. Many states have adopted economic nexus standards that require out-of-state companies to collect sales tax if there are more than a certain number of transactions or sales into the state. Those thresholds are generally 200 transactions and/or $100,000 - $500,000 of sales but can be more or less depending on the state. The Wayfair decision could also have an impact on income tax nexus.

REVIEW AND UPDATE ACCOUNTING POLICY FOR EXPENSING SMALL-DOLLAR EQUIPMENT AND FIXED ASSET PURCHASES. The IRS generally allows taxpayers to expense equipment and fixed assets up to $2,500 per item using the de minimis safe harbor. The de minimis safe harbor requires that an accounting policy be established at the beginning of the tax year that requires items costing less than a specific dollar amount or lasting less than 12 months to be expensed for both book and tax purposes. The accounting policy does not have to be written. For taxpayers with Applicable Financial Statements (generally, certified audited or provided to any federal or state agency other than the IRS), the de minimis threshold increases to $5,000 per item. Additionally, the accounting policy for taxpayers with applicable financial statements must be written.

CHECK YOUR PARTNERSHIP AND S CORPORATION STOCK BASIS. If you own an interest in a partnership or S corporation, your ability to deduct any losses it passes through is limited to your basis. Although any unused loss can be carried forward indefinitely, the time value of money diminishes the benefit of these suspended deductions. If you expect the partnership or S-corporation to generate a loss this year and you lack the sufficient basis to claim a full deduction, you should consider making a capital contribution or loaning additional funds to the business before year-end.

EMPLOY YOUR CHILD. Employing your child provides tax benefits by shifting income from you to your child, who is typically in a lower tax bracket or may avoid tax entirely due to the standard deduction, which could be as high as $14,600 for 2024. There can also be payroll tax savings since wages paid by sole proprietors to their children under age 18 are exempt from both social security and unemployment taxes. Employing your children has the added benefit of providing them with earned income, which enables them to contribute to a traditional or Roth IRA. Remember a couple of things when employing your child. First, wages must be reasonable given the child's age, skills, and job responsibilities. Second, if the child is in college or is entering soon, having too much earned income can harm the student's need-based financial aid eligibility.

REVIEW YOUR HEALTH CARE COSTS AND COVERAGE

TAKE ADVANTAGE OF FLEXIBLE SPENDING ACCOUNTS (FSAS). If your company has a healthcare and/or dependent care FSA, you must specify how much of your salary to convert into tax-free contributions to the plan. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying dependent care costs. Keep in mind, however, that FSAs are "use-it-or-lose-it" accounts. You do not want to set aside more than you will likely have in qualifying expenses for the year. If you currently have a healthcare FSA, make sure you spend it by incurring eligible expenditures before the deadline for your plan.

CONSIDER A HEALTH SAVINGS ACCOUNT (HSA). If you are enrolled in a qualified high-deductible health plan and do not have any other coverage, you may be eligible to make pre-tax or tax-deductible contributions to an HSA of up to $8,300 for family coverage or $4,150 for individual coverage, plus an extra $1,000 if you will be 55 or older by the end of 2024. Distributions from the HSA will be tax-free if the funds are used to pay unreimbursed qualified medical expenses. Furthermore, there is no time limit when you can use your contributions to cover costs. Unlike a healthcare FSA, amounts remaining in the HSA at the end of the year can be carried over indefinitely.

MANAGE YOUR ADJUSTED GROSS INCOME (AGI)

Many tax deductions and credits are only available to taxpayers with AGI below certain levels. Some common AGI-based tax breaks include the child tax credit (phase-out begins at $400,000 for married filing joint and $200,000 for single and head of household), the $25,000 rental real estate passive loss allowance (phase-out range of $100,000–$150,000 for most taxpayers), and the exclusion of social security benefits ($32,000 threshold for married filing joint; $25,000 for most other filers).

Accordingly, strategies that lower your income or increase certain deductions might reduce your taxable income and help increase some of your other tax deductions and credits. Managing your AGI can also help you avoid (or minimize the impact of) the 3.8% Net Investment Income Tax that potentially applies if your AGI exceeds $250,000 for joint returns, $200,000 for unmarried taxpayers, and $125,000 for married filing separately.

Managing your AGI can be somewhat difficult since it is not affected by many deductions you can control, such as deductions for charitable contributions and real estate and state income taxes. However, you can effectively reduce your AGI by increasing "above-the-line" deductions, such as those for retirement plan contributions. For property sales, consider an installment sale that shifts part of the gain to later years when the installment payments are received or use a like-kind exchange that defers the gain until the exchanged property is sold. If you're 70½ or older, consider making charitable contributions from your IRA, as discussed previously. If you own a cash-basis business, delay billings so payments are not received until 2025 or accelerate payment of certain expenses, such as office supplies and repairs and maintenance, to 2024. Of course, before deferring income, you must assess the risk of doing so.

CHECK YOUR WITHHOLDINGS

Reviewing your withholdings, especially after significant changes to income, deductions, or credits, is always a good idea.

COMMON ENERGY CREDITS

The Energy Efficient Home Improvement Credit is 30% of qualifying costs up to a maximum of $1,200 for qualifying exterior doors, windows, skylights, insulation materials, central air conditioners, water heaters, and furnaces. Heat pumps, biomass stoves, and boilers have a separate annual limit of $2,000. Unlike in prior years, these energy credits have annual limits instead of lifetime limits.

The Residential Clean Energy Credit (qualifying solar, wind, and geothermal power generation, solar water heaters, fuel cells, and battery storage) is 30% of qualifying costs with no annual or lifetime limit.

The Clean Vehicle Credit is up to $7,500 for the purchase of a qualifying new vehicle. Unlike the prior credit, the Clean Vehicle Credit does not have a manufacturer phase-out, allowing qualifying GM, Tesla, and Toyota vehicles to receive the full $7,500 credit. In addition, there is also a credit of up to $4,000 for the purchase of qualifying used clean vehicles. New for 2024, buyers can transfer clean vehicle credits to qualified sellers at the time of sale and use the credit amount as a down payment or a reduction of the manufacturer's suggested retail price. Qualifying vehicles can be found at https://fueleconomy.gov/feg/tax2023.shtml. Both vehicle credits have AGI limitations.

ESTATE AND GIFT PLANNING

For 2024, the unified federal gift and estate tax exemption is $13,610,000, and the federal estate tax rate is 40%. No estate tax will be due if a decedent's taxable estate and lifetime taxable gifts are below the exemption amount. If a married taxpayer dies, it may be beneficial to file an estate tax return to preserve any unused exemption for the surviving spouse, even though no estate tax will be due currently. The current estate tax exemption is set to expire at the end of 2025 and would decrease to approximately half of the current exemption amount without action by Congress. Taxpayers with substantial assets should monitor this situation closely and may want to take action if the current exemption amount is not extended.

TAKE ADVANTAGE OF THE ANNUAL GIFT TAX EXCLUSION. For 2024, the annual gift tax exclusion is $18,000. Therefore, a taxpayer can give $18,000 per year to any number of recipients without owing any federal gift tax. Direct payments to providers for medical expenses and tuition do not count towards the annual exclusion.

CONCLUSION

The ideas discussed in this letter should help you get started with year-end planning, but they are no substitute for personalized professional assistance. Please do not hesitate to call us with questions or for additional strategies on reducing your tax liability. We would be glad to set up a planning meeting or assist you in any way we can.

Very truly yours,

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