2024-2025 TAX PLANNING GUIDE

Includes recent tax and legislative updates

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2024 Tax Planning Guide

The efforts to save and invest have become a major challenge for most American individuals, families, and business owners. Regardless of your career path it is essential to take advantage of as many tax saving opportunities as possible. This guide will help you to recognize some of the many benefits provided by the Federal Tax Code. It will also provide you with some of the obstacles that you should possibly avoid so that your financial decisions are based on the goals of minimizing tax obligations and maximizing returns on investments.

Table Of Contents

2024 Tax Climate Introduction 4
Tax Tables 5
Tax Rates and AMT 6
Tax Credits & Deductions, Child Tax Credit 7
Itemized Deductions For 2024 7
2024 Interest Expenses, Charitable Contributions 8
Mileage Rates, Flexible Spending Accounts 9
Casualty Losses, Investment Expenses 10
Crypto Currencies, Electric Vehicle Credits 11
Domestic Help, Exemptions, Kiddie Tax 12
More Tax Saving Strategies 13
The Benefits Of 529 Plans 14
Coverdell Education Savings Accounts 15
Education Tax Credits, Financial Aid, Estimated Tax 16
Health Insurance 17
Investors 18
Timing, Dividends, Passive Activities 19
Other Considerations, Mutual Funds 20
Bonds, Real Estate Investments 21
Low-income Housing Credit 21
Choosing A Business Structure, Business Investment 22
Business Tax Credits & Deductions 23
Employer Provided Benefits, Retirement Plans 24
Health Insurance, Penalties Outlined 25
Health Savings Accounts 26
Annual HSA Contribution Limits 27
Section 179 Equipment, Depreciation, Mid-Quarter Convention 27
Vehicle Depreciation,Travel Expenses, Meal, Transportation 28
Expense Reimbursement Plans, Entertainment 29
Mileage Rates, Inventory Control, Business Losses 30
Business Succession Planning 31
Tax Saving Strategies For Your Business 32
Retirement Strategies 33
Individual Retirement Accounts 34
Roth IRAs, IRA Contribution Deductible 35
401(K) Plans, Roth 401(K)s 36
Social Security Benefits, Retirement Contribution Limits 37
Required Minimum Distribution Table 38
Required Minimum Distribution Worksheet 39
Estate Planning 40
Estate Tax Law Changes, Trusts, Beneficiary Designations 41
Succession Planning 42

The Current
2024 TAX CLIMATE INTRODUCTION

Making long range economic predictions, especially when faced with potential inflationary monetary pressure, is certainly a robust challenge. The Fed, in addition, has its own self-imposed mandate for solidifying the labor market and controlling inflation. The fact that this is an election year, also means that Americans may see vivid changes in Congress and/or the Executive branch.

So far, the American consumer has been able to buttress the economy, but in many cases their spending has resulted in increased borrowing and/or credit card debt. Those that are waiting for interest rates to fall may be intent on acquiring a new home or buying a home for the first time. Coupled with the financial leap that is required to buy a home, many people may be confined to the rental market for many years to come.

Parents and grandparents are often being relied on to provide a supplement to monthly income for children or grandchildren who are trying to become financially secure and independent. In addition, many parents and grandparents are providing assistance to their college age students who are faced with ever increasing expenses for college tuition. One visible change in direction is that more people are considering opportunities in the trades which can pay high incomes once the learning curve is met.

Another unknown economic variable is the potential sales direction of Electric Vehicles. Sales have softened to the point where some manufacturers are considering providing the consumer with more hybrid options as opposed to just electric vehicle choices. Essentially, travelers are deeply concerned that the country's electric grid is currently unable to sustain the growing fleet of EV's without major grid expansion.

Business owners are also faced with what seems to be an unending flow of regulations, insurance requirements, increased minimum wages, and frequently the inability to find trained and capable staff.

The above represents only some of the challenges that Americans are facing today. Couple that with the need to save for retirement and many are faced with a significant enigma.

The earlier one plans for future events the easier it becomes to achieve success.

Tax Strategies For Individuals And Families

The tax table below will help provide you with a guestimate of what you might owe for 2024:

2024 INDIVIDUAL INCOME TAX RATES*

Married Filing Jointly or Qualifying Widow (Widower)

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 23,200	......................10%	$ 0
$ 23,200 – $ 94,300	$ 2,320 + 12%	$ 23,200
$ 94,300 – $ 201,050	$ 10,852 + 22%	$ 94,300
$ 201,050 – $ 383,900	$ 34,227 + 24%	$ 201,050
$ 383,900 – $ 487,450	$ 78,221 + 32%	$ 383,900
$ 487,450 – $ 731,200	$ 111,357 + 35%	$ 487,450
$ 731,200 and above	$ 196,669 + 37%	$ 731,200

Married Filing Separately

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 11,600	......................10%	$ 0
$ 11,600 – $ 47,150	$ 1,160 + 12%	$ 11,600
$ 47,150 – $ 100,525	$ 5,426 + 22%	$ 47,150
$ 100,525 – $ 191,950	$ 17,168 + 24%	$ 100,525
$ 191,950 – $ 243,725	$ 39,110 + 32%	$ 191,950
$ 243,725 – $ 365,600	$ 55,678 + 35%	$ 243,725
$ 365,600 and above	$ 98,334 + 37%	$ 365,600

Single

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 11,600	......................10%	$ 0
$ 11,600 – $ 47,150	$ 1,160 + 12%	$ 11,600
$ 47,150 – $ 100,525	$ 5,426 + 22%	$ 47,150
$ 100,525 – $ 191,950	$ 17,168 + 24%	$ 100,525
$ 191,950 – $ 243,725	$ 39,110 + 32%	$ 191,950
$ 243,725 – $ 609,350	$ 55,678 + 35%	$ 243,725
$ 609,350 and above	$ 183,647 + 37%	$ 609,350

Head of Household

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 16,550	......................10%	$ 0
$ 16,550 – $ 63,100	$ 1,655 + 12%	$ 16,550
$ 63,100 – $ 100,500	$ 7,241 + 22%	$ 63,100
$ 100,500 – $ 191,950	$ 15,469 + 24%	$ 100,500
$ 191,950 – $ 243,700	$ 37,417 + 32%	$ 191,950
$ 243,700 – $ 609,350	$ 53,977 + 35%	$ 243,700
$ 609,350 and above	$ 181,954 + 37%	$ 609,350

The 2024 tax rate on qualified dividends is 0%, 15% or 20%, (plus a 3.8% Medicare Surtax on the 20% bracket) depending on your taxable income and filing status.

Note: TAX AMOUNTS HAVE BEEN ROUNDED UP

TAX RATES

Your filing status determines the tax rate schedule you use, and your annual income determines your tax rate. It can be helpful to think of tax rates as layers: Zero tax is paid on the bottom layer, 10% on the next layer, and so forth. The highest layer your income reaches is known as your marginal rate. The highest marginal tax rate for 2024 is 37%.

ALTERNATIVE MINIMUM TAX (AMT)

Tax laws provide benefits for certain kinds of income and allow special deductions and credits for certain kinds of expenses. The alternative minimum tax (AMT) attempts to ensure that anyone who benefits from these tax advantages pays at least a minimum amount of tax. The AMT is a separate tax formula that eliminates many deductions and credits, thus increasing tax liability for an individual who would otherwise pay less. If your taxable income for regular tax purposes, plus any adjustments and preference items, is more than the AMT exemption amount, you must calculate tax using both the AMT and regular tax formulas and pay the higher of the two amounts.

The Tax Cuts and Jobs Act of 2017 increased the AMT exemption amounts and raised the phaseout thresholds. It also permanently indexed the exemptions for inflation. Today, the AMT will primarily affect high-income households, as it was originally intended. The following may increase your risk of triggering the AMT:

- High income
- Interest income from private activity bonds
- Large capital gains
- The exercising of Incentive Stock Options (ISOs)
- Claiming the standard deduction

Under the AMT, individuals are taxed at rates of 26% and 28% on the amount of taxable income above the exemption amounts. In 2024, the exemption amounts are $85,700 for single filers, $133,300 for married couples filing jointly, and $66,650 for married couples filing separately.

TAX CREDITS & DEDUCTIONS

You can save money by taking advantage of every tax credit and deduction available to you. Credits provide a dollar-for-dollar reduction of your income tax liability; that is, a $1,000 tax credit actually saves you $1,000 in taxes.

Deductions, on the other hand, lower your taxable income. For example, if you are in the 22% tax bracket, a $1,000 deduction saves you $220 in tax, which is $780 less than the savings with a $1,000 tax credit. Here are some valuable credits and deductions.

CHILD TAX CREDIT - ARP ACT 2024 UPDATE

The American Rescue Plan (ARP) Act of 2021 temporarily expanded the Child Tax Credit by allowing families to claim the credit regardless of their income level. It also increased the maximum amount of the credit to $3,600 for each child under age 6 and $3,000 for each child between ages 6 and 17. But that is over now. The 2024 child tax credit will be $2,000 for each dependent age 17 or younger. Congress did not pass an extension of the enhanced benefit, nor an extension of the monthly payments.

ITEMIZED DEDUCTIONS FOR 2024

Because tax rates, deductions, and phaseouts are constantly changing, timing of income and expenses is critical. For most taxpayers, the general rule is to defer income and accelerate deductions. You are allowed to take the standard deduction or to itemize your deductions on your tax return—whichever offers you the most benefit. However, the Tax Cuts and Jobs Act of 2017 eliminated or restricted many itemized deductions starting in 2018, and raised the standard deduction. This means that fewer taxpayers are likely to itemize.

The standard deductions for 2024 are as follows: $29,200 for married taxpayers filing jointly; $14,600 for single filers; $21,900 for head of household filers; and $14,600 for married taxpayers filing separately. There is an additional deduction for visually impaired taxpayers or taxpayers over age 65 of $1,950 (if unmarried and not a surviving spouse) or $1,500 (if married). If you still itemize your deductions, maintain detailed records.

Some itemized deductions—such as medical expenses—are based on “floor” amounts. Only amounts that exceed the given floor can be deducted. For 2024, taxpayers can deduct unreimbursed medical expenses that are more than 7.5% of 2024 adjusted gross income.

2024 INTEREST EXPENSES

All interest paid on qualified residential mortgages that do not exceed $750,000 (including points paid to obtain a mortgage), interest on home equity loans (as long as they are used to buy, build or substantially improve the taxpayer's home that secures the loan), and business debt is tax-deductible based on a formula under the Tax Cuts and Jobs Act of 2017. However, higher limitations ($1 million ($500,000 if married filing separately)) apply if you are deducting mortgage interest from indebtedness incurred before December 16, 2017.

With certain limitations, you may also deduct interest on loans used for investment purposes. Interest expenses related to certain passive activities (trade or business activities in which you do not materially participate) may be deductible, as well. You are allowed to deduct these interest expenses as long as they are paid during the tax year on a valid debt. Interest paid on credit cards or loans for consumer items is not deductible.

Student Loan Interest. Up to $2,500 of interest on student loans incurred during 2024 may be deducted. Since this is an "above-the-line" deduction, even non-itemizing taxpayers benefit. The loans must be used for qualified higher education expenses, such as tuition, fees, room, board, and books. If you are in a higher tax bracket, you may not be eligible for this deduction because of the phaseout rules.

CHARITABLE CONTRIBUTIONS

The primary motivation to donate to charity should be altruism. However, tax benefits exist for those who give. Here are some of the rules and benefits you should consider.

A gift to a qualified charitable organization may entitle you to a charitable contribution deduction against your income tax if you itemize deductions. You must itemize in order to take a charitable deduction. Make sure that if you itemize, your total deductions are greater than the standard deduction. If they're not, stick with the standard deduction.

A contribution is deductible in the year in which it is paid. Putting the check in the mail to the charity constitutes payment. A contribution made on a credit card is deductible in the year it is charged to your credit card, even if payment to the credit card company is made in a later year.

Most, but not all, charitable organizations qualify for a charitable contribution deduction. You can deduct contributions only if they are made to or for the use of a qualified recipient. No charitable

contribution deduction is allowed for gifts to certain other kinds of organizations, even if those organizations are exempt from income tax. Contributions to individuals, foreign governments, foreign charities, and certain private foundations similarly are not deductible. All organizations rated by Charity Navigator qualify for charitable status, and you can deduct your donations to these organizations, subject to certain limitations.

2024 MILEAGE RATES

You may deduct expenses for an automobile you own in one of two ways: either record and deduct your actual expenses, including depreciation, or record your mileage and deduct a standard amount per mile of travel, plus parking and toll fees. For 2024, the standard mileage rates are 67¢ per business mile driven, 21¢ per mile for medical or moving (moving is applicable for members of the U.S. Armed Forces or their spouse or dependents only) and 14¢ per mile for charity.

FLEXIBLE SPENDING ACCOUNTS

For 2024, there is a $150 increase to the contribution limit for FSA accounts.

An employee who chooses to participate in an FSA can contribute up to $3,200 through payroll deductions during the 2024 plan year. Amounts contributed are not subject to federal income tax, Social Security tax or Medicare tax.

If the plan allows, the employer may also contribute to an employee's FSA. If the employee's spouse has a plan through their employer, the spouse can also contribute up to $3,200 to that plan. In this situation, the couple could jointly contribute up to $6,400 for their household.

For FSAs that permit the carryover of unused amounts, the maximum 2024 carryover amount to 2025 is $640. For unused amounts in 2023, the maximum amount that can be carried over to 2024 is $610.

CASUALTY LOSSES

A casualty loss can result from the damage, destruction, or loss of your property from any sudden, unexpected, or unusual event such as a flood, hurricane, tornado, fire, earthquake, or volcanic eruption. A casualty doesn't include normal wear and tear or progressive deterioration.

Federal casualty losses, disaster losses and qualified disaster losses are three categories of casualty losses that refer to federally declared disasters. The requirements for each loss vary. If your property is personal-use property or isn't completely destroyed, the amount of your casualty loss is the lesser of:

- The adjusted basis of your property, or
- The decrease in fair market value of your property as a result of the casualty

If your property is business or income-producing property, such as rental property, and is completely destroyed, then the amount of your loss is your adjusted basis minus any salvage value or insurance or other reimbursement you receive or expect to receive.

If you have a qualified disaster loss you may elect to deduct the loss without itemizing your deductions. Your net casualty loss doesn't need to exceed 10% of your adjusted gross income to qualify for the deduction, but you would reduce each casualty loss by $500 after any salvage value and any other reimbursement.

INVESTMENT EXPENSES

To encourage taxpayers to invest, tax laws allow a deduction for interest on loans used to purchase a taxable investment. You can deduct all of your interest, up to the total of your net investment income. Qualified dividend income and net capital gains from the disposition of investment property are not considered investment
income. However, you may elect to treat qualified dividends and net capital gains as investment income by subjecting them to ordinary income tax rates.

Under the Tax Cuts and Jobs Act of 2017, you can no longer deduct ordinary and necessary investment expenses as miscellaneous itemized deductions, subject to the 2% floor. Any fees you pay to buy, sell, or hold an asset or to collect interest or dividends are not eligible for income tax deduction. This would include brokerage or transaction fees, management and advisor fees, custodial fees, accounting costs, and fund operating expenses.

HOW ARE CRYPTO CURRENCIES TAXED?

Bitcoin, Ethereum, and other cryptocurrencies are taxable. The IRS considers cryptocurrency holdings to be “property” for tax purposes, which means your virtual currency is taxed in the same way as any other assets you own, for example stocks or gold. Taxes are due when you sell, trade, or dispose of cryptocurrency in any way and recognize a gain.

With crypto currencies, you can run afoul of the IRS in a few surprising ways, so it pays to learn the rules. What’s the big picture? If your employer or client pays you in crypto, that payment is taxable income. You report your transactions in U.S. dollars, which generally means converting the value of your cryptocurrency to dollars when you buy, sell, mine or use it. There are also rumblings that the FED is considering a FED Coin.

QUALIFIED PLUG-IN ELECTRIC VEHICLE CREDITS

You may qualify for a credit up to $7,500 under Internal Revenue Code Section 30D if you buy a new, qualified plug-in EV or fuel cell electric vehicle (FCV) and $4,000 of a used EV. The Inflation Reduction Act of 2022 changed the rules for this credit for vehicles purchased from 2023 to 2032.

The credit is available to individuals and their businesses.
To qualify, you must:

- Buy it for your own use, not for resale
- Use it primarily in the U.S.

In addition, your modified adjusted gross income (AGI) may not exceed:

- $300,000 for married couples filing jointly
- $225,000 for heads of households
- $150,000 for all other filers

You can use your modified AGI from the year you take delivery of the vehicle or the year before, whichever is less. If your modified AGI is below the threshold in 1 of the two years, you can claim the credit.

The credit is nonrefundable, so you can’t get back more on the credit than you owe in taxes. In addition, you can’t apply any excess credit to future tax years.

TAXES FOR DOMESTIC HELP

Here is an example for 2024, you hire a household employee (who is an unrelated individual over age 18) to care for your child and agree to pay cash wages of $100 every Friday. You expect to pay your employee $2,700 or more for the year. You decide to pay your employee's share of social security and Medicare taxes from your own funds. You pay your employee $100 every Friday without withholding any social security or Medicare taxes.

For social security and Medicare tax purposes, your employee's wages each payday are $100. For each wage payment, you will pay $15.30 when you pay the taxes. This is $7.65 ($6.20 for social security tax plus $1.45 for Medicare tax) to cover your employee's share plus $7.65 ($6.20 for social security tax plus $1.45 for Medicare tax) for your share. For income tax purposes, your employee's wages each payday are $107.65 ($100 + the $7.65 you will pay to cover your employee's share of social security and Medicare taxes).

CHANGES TO EXEMPTIONS

In 2018, the Tax Cuts and Jobs Act eliminated the deduction for personal and dependent exemptions. The tax law increased the standard deduction amounts. In 2024, the deduction amounts are $29,200 for married filing jointly, $14,600 for single filers, and $21,900 for heads of households, indexed for inflation. These changes expire at the end of 2025 unless Congress takes further action.

KIDDIE TAX

Congress has provided many favorable tax breaks to individuals in recent years. The "kiddie tax" is unearned income over $2,600 for children under age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students) is taxed at rates that apply to trusts and estates, not the parents' top rates as it has in years past.

The Kiddie Tax rules require that unearned income over $2,600 under your child's name is subject to the parent's marginal tax rate. The first $1,300 on unearned income isn't taxed at all and the next $1,300 - $2,600 is taxed at the child's income tax rate which will be typically be lower than the parent's. If a child's income is over $2,600 it will be taxed at the higher of the parents' top marginal rate or the child's top rate whichever is higher.

After the initial $2,600 in unearned income, the rest of it is reported and taxed at the parents marginal tax rate. Your child would be responsible for paying the increased tax rate.

You can elect to report your child's unearned income on your income tax return and pay the taxes yourself if they earned less than $12,500 in gross income for the year, and the only unearned income is from interest, ordinary dividends, and capital gains distributions.

The Kiddie Tax is applied to all dependent children under the qualifications of the internal revenue code (IRC) that have taxable investment income. A qualifying child might be:

- Less than 18 years old at the end of the tax year.
- Age 18 years old at the end of the tax year if their earned income is less than 50% of their support.
- Age 19 to 24 years old if enrolled full-time as a student and earned income is less than 50% of their support.

MORE TAX SAVING STRATEGIES

For Families And Individuals

- ✔ Lower your taxable income by shifting income to other family members. However, watch out for the kiddie tax.
- ✔ Calculate the value of the tax benefits to see who should claim education deductions and/or credits—you or your child.
- ✔ Consider your plans for the near future. How will marriage, divorce, a new child, retirement, or other events affect your year-end tax planning?
- ✔ Take maximum advantage of your employer's Section 125 flexible spending account, 401(k) plan, health savings account (HSA), and health reimbursement arrangement (HRA).
- ✔ For tax purposes, a deductible purchase is considered "paid" when charged. If you need the deductions this year but do not have the cash, consider charging contributions, medical expenses, business expenses, and some state tax payments. Just remember to pay them off quickly to avoid increasing debt.

529 PLANS

These qualified tuition programs, offered as prepaid tuition plans or college savings plans, are valuable tools to help finance your children's or grandchildren's education. Prepaid tuition programs allow you to lock in today's tuition rates at participating private and public colleges and universities. College savings plans, on the other hand, offer a range of investment options, typically a variety of mutual funds, which can be used to pay for tuition and other qualified education expenses at many colleges and universities nationwide.

THE BENEFITS OF 529 PLANS

To qualify as a 529 plan under federal rules, plan balances cannot exceed the expected cost of a beneficiary's Qualified Higher Education Expenses (QHEE). The frequently accepted guideline is that this limit constitutes five years of tuition, room, and board at the most expensive college in the United States.

This guideline makes investment contribution limits quite large, although every state can individually interpret what five years of qualified education costs means. If you are a potential contributor to a 529 Plan you should check your states' 529 limits to determine specific investment maximums.

Although originally structured to fund post-secondary education, 529 plans can now also be used to fund private K-12 education and apprenticeship programs registered and certified with the U.S. Secretary of Labor. Here are the highlights:

- A 529 plan allows you to save and grow tax-free money for someone's education, including your own.
- Beneficiaries must spend the money on qualified education expenses for the withdrawal to be considered tax-free.
- There are two types of 529 plans: prepaid tuition and savings plans.
- Maximum plan contribution limits vary by state, but such limits generally do not apply across states.

However, there is an exception made for contributions within a 529 plan. You can give five years' worth of contributions in a one-time lump sum. For example, a grandparent can give an $85,000 one-time lump-sum contribution to a 529 plan ($17,000 per year multiplied by five years or $170,000 by joint tax payers) with the understanding that it would cover five years' worth of gifts. As long as that person doesn't contribute again in the next five years, there are no tax consequences.

Remember, your taxable income is not reduced by contributing to a 529 plan. However, more than 30 states give out tax deductions or credits for contributions made to one.

In addition, you may contribute to both a 529 plan and a Coverdell Education Savings Account (ESA) on behalf of the same beneficiary in the same year. As 529s have become more popular, many plan options have emerged. Each type of plan has its own rules and investment options. There are certain pros and cons associated with 529s, for example 529 plans may not be the best choice for low- and middle-income taxpayers who qualify for financial aid because 529 assets are considered when determining need for financial aid; you will be taxed and penalized on the earnings portion of any withdrawals if funds are not used for qualified education expenses; savings plans invested in stocks may lose money, so it may be wise to switch funds into less volatile investments as the beneficiary gets closer to college-age; you may not benefit from additional state tax breaks unless a plan is set up in your state of residence; and some states have residency requirements for establishing an account.

COVERDELL EDUCATION SAVINGS ACCOUNTS

You can use the Coverdell Education Savings Account (ESA) to help pay for your child's elementary and secondary school expenses, as well as college expenses. The annual contribution limit is $2,000, but keep in mind that income limits apply. (Refer to the chart on page 13.) You have until the April tax filing deadline in 2024 to make contributions for 2025. Grandparents and other family members may also make contributions for your children, as can corporations and other entities. There is no limit to the number of accounts that can be held in a child's name or the number of people who may make contributions to a Coverdell ESA—as long as total contributions remain within the $2,000 annual limit per child.

Funds withdrawn from an ESA (both contributions and earnings) are tax free if used to pay for qualified expenses. However, tax-free distributions are not allowed if an education tax credit is used for the same expenses for the same student. The beneficiary must use ESA funds by age 30. If not, the account may be transferred to a relative.

EDUCATION TAX CREDITS

If you are currently paying higher education expenses, two Federal tax credits may help lessen your tax bill: the American Opportunity Tax Credit and the Lifetime Learning Credit.

The American Opportunity Tax Credit is worth $2,500 in 2024. It is now available for all four years of college, and it can be used to cover the cost of course materials. Income phaseout levels for the credit begin at $160,000-$180,000 of modified AGI for joint filers and $80,000-$90,000 of modified AGI for single filers in 2024. In addition, 40% or $1,000 of the credit is refundable, which could enable lower-income taxpayers to get money back from the IRS.

The Lifetime Learning Credit, which applies to undergraduate study, as well as graduate and professional education pursuits, could be worth up to $2,000. The Consolidated Appropriations Act (CAA) of 2021 changed the Lifetime Learning Credit by aligning its income phase out rule with the American Opportunity.

If you cannot claim either credit because your income is too high, your child can take the full credit if he or she has sufficient taxable income. However, you will not be able to claim a dependency exemption for the child. Your savings, therefore, will be the amount of the credit less the tax benefit of the lost dependency exemption. But, be aware that, based on your income, the exemption may be reduced.

FINANCIAL AID

Most colleges use Federal guidelines to determine the need-based aid for which your child may be eligible. (Criteria for colleges that use their own formulas may vary from what is discussed here.) Several factors determine the amount of the aid: the "cost of attendance" for the college in question; the money provided from outside sources (such as scholarships or tuition paid directly by a relative); and the "expected family contribution" (EFC). The information you provide each year on the Free Application for Federal Student Aid (FAFSA) is used to calculate or have additional sources of income outside of your regular job, you may be required to pay your Federal taxes four times annually.

ESTIMATED TAX PAYMENTS - GENERAL RULE

You pay estimated tax for 2024 if both of the following apply.
1. You expect to owe at least $1,000 in tax for 2024, after subtracting your withholding and refundable credits.
2. You expect your withholding and refundable credits to be less than the smaller of: a. 90% of the tax to be shown on your 2024 tax return or b. 100% of the tax shown on your 2023 tax return. Your 2023 tax return must cover all 12 months.

Supplementary Higher Income Taxpayers. If your adjusted gross income (AGI) for 2023 was more than $150,000 ($75,000 if your filing status for 2024 is married filing separately), substitute 110% for 100% in (2b) under the *General Rule, earlier.* This rule doesn't apply to farmers and fishermen.

Special Rules. There are special rules for farmers, fishermen, certain household employers, and high income taxpayers.

HEALTH INSURANCE

Supplementary Medical Insurance Trust Fund

This trust is largely funded by the premiums paid by people enrolled in Medicare Part B (medical insurance) and Medicare Part D (Medicare prescription drug plans), but it is also funded by:

- Interest earned on the trust fund investments
- Funds authorized by Congress

The Supplementary Medical Insurance Trust Fund pays for:

- Medicare Part B benefits
- Medicare Part D prescription drug coverage
- Medicare Program administration costs

Medicare taxes and the Affordable Care Act

The Inflation Reduction Act, like the ARPA before it, extends eligibility for premium tax credits to reach people with incomes over 400% FPL (Federal Poverty Line) ($58,300 for a single person in 2024, or $120,000 for family of 4). Now these consumers must contribute no more than 8.5% of their income toward the benchmark silver plan. This change is especially beneficial to older marketplace consumers (50 and older) whose premiums are age-adjusted in most states and can be up to 3 times that of young adult premiums for the same policy. The average unsubsidized silver plan premium for a 60-year-old couple in 2024 is more than $1,515 per month in 2024. Under the original ACA subsidy structure, subsidies were unavailable to people with incomes above 400% FPL, meaning premiums for older enrollees could easily cost more than 20% of their household income. But now, premium payments are capped at no more than 8.5% of household income.

Investment Planning

INVESTORS

Proper planning can help you time your transactions and make tax-efficient investing decisions. In December 2017, the Tax Cuts and Jobs Act changed the brackets for long-term capital gains and dividends. From 2018-2025, the rates have their own brackets, which are no longer tied to the ordinary income brackets. Just above are the 2024 brackets for long-term capital gains and dividends:

2024 LONG-TERM CAPITAL GAINS AND DIVIDEND BRACKETS

	0%	15%	20%
Single	$0–$47,025	$47,025–$518,900	$518,900+
Married filing jointly	$0–$94,050	$94,050–$583,750	$583,750+
Head of Household	$0–$63,000	$63,000–$551,350	$551,350+
Married filing separately	$0–$47,025	$47,025–$291,850	$291,850+
Trusts and estates	$0–$3,150	$3,150–$15,450	$15,450+

*Determine your capital gain bracket by adding your net long-term capital gains and/or qualified dividends to your other taxable income net of deductions.

For example, assume a joint filer has net taxable income of $100,000 which includes $20,000 in net long-term capital gain. The first $9,750 of the gain falls within the 0% rate threshold of $94,050 and will be taxed at 0%; while the remaining $10,250 of long-term capital gain is above the $94,050 threshold and will be taxed at 15%.

Short-term capital gain rate (one year or less)	Taxed at ordinary income tax rate
Dividends	Qualified dividends are taxed at the long-term capital gain rates. Nonqualified dividends are taxed at ordinary income tax rates.

Higher rates apply to collectibles and unrecaptured §1250 gain.

Netting capital gains and losses

1. Net short-term gains and short-term losses.
2. Net long-term gains and long-term losses.
3. Net short-term against long-term.
4. Deduct up to $3,000 of excess losses against ordinary income per year.
5. Carry over any remaining losses to future tax years.

TIMING IS EVERYTHING

When it comes to investing, timing is everything. So, unless you risk a significant loss by holding a volatile stock, consider the tax benefits of holding it for at least a year and one day. Even if the stock price drops, you may cut your taxes on the profit nearly in half if you wait.

Timing is also important at the end of the year. If you have cashed in some big gains during the year, review your portfolio for unrealized losses. You may want to sell off stock unlikely to rebound and use the losses to offset your gains. If you end up with more losses than gains, you can use $3,000 against ordinary income (i.e., compensation, dividends, and interest) and carry over remaining losses to next year.

Always review gains and losses before the end of the year so you can offset gains and make sure you have paid enough in estimated taxes.

DIVIDENDS

Qualified dividends are taxed at the same rates as long-term capital gains.

PASSIVE ACTIVITIES

Some investment activities are defined as "passive" to prevent their use as tax shelters for other types of income. Passive activities are of two types: 1) the owner (often limited partnerships or S Corporations) does not "materially participate" and 2) any rental activity (irrespective of the level of participation) for which payment is mainly for the use of tangible property. (There are a few exceptions.) Passive activity investments do not include stocks and bonds. There is an exception to the passive-loss restrictions for those who actively participate in renting real estate.

Calendar year filers must report new groupings or changes in how passive activities are grouped. The reporting rules are intended to keep filers from playing games to deduct losses. The grouping rules are important because if two or more activities are grouped as one, the disposition of an activity will not trigger any suspended passive losses until all the others are disposed of.

OTHER CONSIDERATIONS

- Think twice about selling stocks to pay a tax bill. Some experts suggest it is usually a bad idea and if they have appreciated, you are generating more taxable income.
- Remember to use the correct basis for stocks or assets you inherit.
- Keep your "buy and hold" stocks in your taxable account and stocks you may hold for shorter periods (as well as high-yield fixed income securities and CDs) in your tax-deferred account.
- The "wash sale" rule disallows losses on stocks and bonds if you buy substantially identical securities (or funds) within 30 days of the sale. Caution: if you sell a mutual fund within 30 days of a reinvested dividend, you could inadvertently violate the rule.
- Owners of worthless securities (but not of worthless partnerships) have seven years to file retrospective claims for tax refunds.
- The penalties for tax-shelter investments the IRS deems lack economic substance are stiff—up to 40%.
- Bond interest is taxable at regular rates that can reach 37% and, when interest rates rise, bond and bond mutual fund values generally fall. Municipal bonds may be good investments for high-incomers, especially in high-tax states.

MUTUAL FUND STRATEGIES

Mutual funds usually pay capital gain distributions in November or December. If you buy into a fund before the distribution date, you can be taxed on the gains distributed even though they have already been reflected in your purchase price. Consider waiting until January to buy into the fund.

Although you have no control over the timing of sales in a mutual fund, you can look for mutual funds that employ certain tax-saving strategies. Some funds trade actively, while others employ a buy-and-hold strategy.

To calculate exact gains or losses on mutual fund investments, save every statement. Determining which shares are sold can reduce your gain, or at least qualify it as a long-term gain, which is subject to lower tax rates. Also consider everything that comprises your basis:

- Commissions or fees paid when you bought the shares;
- Reinvested dividends for which you have been taxed;
- Nontaxable returns of capital.

BONDS

Instead of borrowing money from a bank or a company, a municipality may sell bonds to investors to help raise capital. The interest on tax-exempt bonds (those issued by a municipality) is usually not taxed at the Federal level, but it may be subject to the AMT or cause Social Security benefits to be taxed.

REAL ESTATE INVESTMENTS

"Real estate professionals" can deduct some rental real estate losses that might be lost by other investors. Generally, you are considered a real estate professional if you (or your spouse, if you file jointly) spend more than half your business time dealing with real estate and perform more than 750 hours or services during the tax year in real property trades and businesses. This can include time spent on rental properties. Keep detailed records of your time and expenses.

LOW-INCOME HOUSING CREDIT

If you are a real estate investor or builder, you can reduce your tax bill with the low-income housing tax credit. This annual credit applies to your qualified new low-income housing construction costs. The credit is granted for ten consecutive years. Some or all of it can be taken against tax on any type of income, and the unused credit can be carried forward or carried back. For Federally subsidized construction, and for existing housing acquisition, there is a similar credit.

Tax Planning For Business

CHOOSING A BUSINESS STRUCTURE

Your business structure must fit your business needs. As your business grows or your personal financial situation changes, the business form in which you operate may need to change, as well. Keep in mind that the business structure you choose will impact your personal liability, as well as the amount of tax owed by you and your company.

Each business structure has its advantages and disadvantages. Which is right for you? That's a decision that may be best made between you and your team of financial and legal advisors.

2024 Tax Year

For tax years beginning after 12/31/17, the "C" corporation Federal tax rate is a flat 21%. Owners of business entities, which are not taxed as "C" corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual, as well as such factors as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business.

For joint filers with income above $383,900 - $483,900 and $191,950 - $241,950 for single filers, the legislation phases in limits on what otherwise would be an effective marginal rate of not more than 29.6%.

Personal Service Corporations – 21% flat tax rate. Capital Gains Tax Rate for "C" corporations – Same as regular rate.

FIND AN INVESTOR FOR YOUR BUSINESS THROUGH A SMALL BUSINESS INVESTMENT COMPANY (SBIC)

An SBIC is a privately owned company that's licensed and regulated by the SBA (Small Business Administration). SBICs invest in small businesses in the form of debt and/or equity. The SBA doesn't invest directly into small businesses, but it does provide funding to qualified SBICs with expertise in certain sectors or industries. Those SBICs then use their private funds, along with SBA-guaranteed funding, to invest in small businesses.

SBICs invest in small businesses through debt, equity, or a combination of both. Debt is a loan an SBIC gives to a business, which the business must pay back, along with any interest. Equity

is a share of ownership an SBIC gets in a business in exchange for providing funding. Sometimes, an SBIC invests in a business through both debt and equity. Such an investment includes both loans and shares of ownership. A typical SBIC investment is made over a 3-year period.

Debt: A typical SBIC loan ranges from $250,000 to $10 million, with an interest rate between 9% and 16%.
Equity: SBICs will invest in your business in exchange for a share of ownership in your company. Typical investments range from $100,000 to $5 million.

Debt with equity: Financing includes loans and ownership shares. Loan interest rates are typically between 10% and 14%. Investments range from $250,000 to $10 million.

BUSINESS TAX CREDITS & DEDUCTIONS

Credits are a great way to cut your business' tax bill because they offer a dollar-for-dollar reduction in tax liability. To take full advantage of these credits, be sure to monitor changes in Federal law, as some incentives are temporary, while others are subject to Congressional renewal. The Tax Cuts and Jobs Act of 2017 contains many tax breaks for businesses, but there are a number of tax breaks that were eliminated or reduced. More recent legislation, such as the 2020 Coronavirus Aid, Relief, and Economic Security Act as well as the American Rescue Plan Act of 2021, also included some provisions for business tax breaks. We can help you monitor changes in tax law and determine which credits are available to you.

EMPLOYER-PROVIDED BENEFITS

It is important for companies to offer generous benefit packages to attract and retain quality employees. Businesses can avoid payroll taxes on compensation shifted from salary to benefits. Employees who receive certain benefits in lieu of salary also decrease their taxable compensation. Such benefits may include retirement plans, group term life insurance (up to $50,000), medical insurance, parking, employee discounts, and noncash gifts.

Employer-provided group term life insurance coverage for more than $50,000 produces taxable income for covered employees. The amount of taxable income is determined by using a uniform premium table based on employee age.

QUALIFIED & NONQUALIFIED RETIREMENT PLANS

One of the most effective benefits for attracting and retaining employees is a company-sponsored retirement plan. Many pension and profit-sharing plans are "qualified" retirement plans. In other words, each employee's share and earnings are held until the employee either leaves the company or retires. The employee pays taxes upon receiving the money, and the employer receives an immediate deduction when making contributions.

Pension plans usually base eventual benefits on wages and length of service. Profit-sharing plans typically define the employer's annual contribution. Benefits are determined by the size of the contributions and their earnings.

Two types of qualified retirement plans—SIMPLEs and 401(k) plans—can be offered at little cost to a business. Contribution limits for these plans have increased over the years, so there is no better time to sponsor one. Refer to the chart on page 24 to determine which plan might be appropriate for your business.

Because qualified retirement plans often restrict the amount of benefits a higher-paid employee can receive, nonqualified plans can be attractive. Nonqualified plans do not have to cover every employee. There are no compensation, benefit, or contribution limits other than an overall reasonableness test. The bookkeeping and reporting requirements are minimal. However, nonqualified plans do have some disadvantages.

The main drawback is that the benefits are unsecured—they are

merely “promises to pay.” A company cannot formally set aside funds as future benefits. Assets intended for these benefits must remain general company assets and, therefore, may be subject to a creditor’s claims. Another disadvantage is that payroll taxes are generally due when services are performed, not when compensation is paid. Finally, the employer does not receive a tax deduction until the benefits are actually paid to the covered employees.

HEALTH INSURANCE

The Internal Revenue Service has updated the revenue procedure which indexes the health plan contribution percentage required by employers when determining whether an employer’s plan is considered affordable under the Affordable Care Act (ACA). With penalties for noncompliance rising, it is vital employers pay close attention to the changing parameters around ACA regulations.

The IRS has recently updated employer ACA requirements for 2024. Noncompliance for Penalty A is $2,970 ($247.5/month), and for Penalty B it is $4,460 ($372/month). The IRS wants the rising cost of noncompliance to serve as an incentive for employers to examine their group health plan offerings.

PENALTIES OUTLINED

- Penalty A: Failure to offer coverage to 95% of full-time, benefits eligible employees
- Penalty B: Failure to provide affordable, minimum value coverage to a benefits eligible employee

Secondly, the affordability threshold – used for employer shared responsibility to determine whether employer-sponsored health coverage is considered affordable – is 8.39% for 2024.

Which is Best for Your Business?
SIMPLE vs. STANDARD 401(k)

2024	SIMPLE IRA	SIMPLE 401(k)	Standard 401(k)
Maximum Business Size	100 or fewer employees	100 or fewer employees	No limit
Individual Contribution Limit	$16,000	$16,000	$23,000
Discrimination Testing	No	Limited	Yes
Mandatory Employer Match	Yes, 1- 3% of salary	Yes, 3% of salary	No
Vesting	Immediate	Immediate	Up to 7 years
Administration	Least	Medium	Most
Catchup 50+	$3,500	$3,500	$7,500

HEALTH SAVINGS ACCOUNTS (HSAS)

When considering health care benefits, you may want to look at the health savings account (HSA). This portable health care account is available to those who are covered by a high-deductible health plan (HDHP). Employers of any size can set up an HSA plan, and contributions may be made through a flexible spending account.

HSAs reimburse the same expenses as a health flexible spending account (FSA), without the "use-it-or-lose-it" consequences when the plan year ends or the participant changes jobs. In addition, HSA earnings accumulate tax-free.

You can carry over HSA balances from year to year, or roll over an old Medical Savings Account into an HSA if you do so within 60 days. You can roll IRA funds into an HSA – once, up to the maximum annual contribution. A one-time transfer from an IRA to an HSA can make tax sense if after-tax contributions were made to the IRA. Making a medical payment from an HSA after an IRA rollover saves you tax and a 10% penalty on early distributions from the IRA. HSAs can be tapped to pay Medicare Part D premiums if the owner is age 65 or older, but withdrawals to pay them for a spouse are taxed as income and hit with a penalty if the account owner is under age 65. HSAs can be used to pay premiums for COBRA coverage for a spouse or dependent (or medical premiums for them if they're unemployed). Employers

can open HSAs and contribute to them if they include all eligible workers. The contributions are then tax-free to the employees and free from payroll and income taxes.

If funds accumulated in an HSA are used for anything other than eligible medical expenses, the account beneficiary is required to pay taxes, plus a 20% penalty. However, there is no penalty for distributions following disability, death, or retirement (at Medicare eligibility age).

Annual HSA Maximum Deductible Amounts

- For single coverage, a maximum of $4,150.
- For family coverage, a maximum of $8,300.
- Individuals age 55 and older can contribute an additional $1,000 for 2024 on a pre-tax basis. Amounts are doubled if the account beneficiary is married and both spouses are over age 55.

NEW EQUIPMENT COSTS - SECTION 179

Section 179 Deduction Limits for 2024: The Section 179 deduction limit for 2024 has been raised to $1,220,000. Your company is allowed to deduct the full cost of equipment (either new or used), up to $1,220,000, from 2024's taxable business income.

BONUS DEPRECIATION

Under the Tax Cuts and Jobs Act of 2017, a 100% first-year deduction is allowed for qualified property acquired and placed into service after September 27, 2017 and before 2023. The 100% allowance is phased down starting after 2023: 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026, with none allowed after 2026.

MID-QUARTER CONVENTION

Maximize your depreciation deduction by planning qualifying purchases before the end of the year. However, be sure to avoid having depreciation deductions reduced as a result of the "mid-quarter convention," which occurs when more than 40% of your total new property is placed in service during the last three months of the tax year. Purchases fully deducted as Section 179 expenses are removed from the mid-quarter convention computation.

BUSINESS VEHICLE DEPRECIATION

For the second year in a row, the IRS has issued sharply higher new depreciation limitations for passenger automobiles. These limits are updated annually for inflation according to the automobile component of the chained consumer price index for urban consumers.

- $20,400 for the 1st taxable year
- $19,800 for the 2nd taxable year
- $11,900 for the 3rd taxable year
- $7,160 for each succeeding taxable year

TRAVEL EXPENSES

The Tax Cuts and Jobs Act of 2017 has changed the way businesses handle meals, entertainment and transportation expenses from a tax perspective.

MEALS

Beginning January 1, 2023, meal deductions reverted to tax rules under Tax Cuts and Jobs Act (TCJA). These deductions temporarily changed for tax year 2021 and 2022 with the passing of the Consolidated Appropriations Act of 2021. For tax year 2024, meal deductions reduce to 50% deductibility.

The recently changed tax law extends the 50% deduction limit to employer-operated eating facilities through 2025. After 2025, employer-operated eating facilities become non-deductible.

TRANSPORTATION

The tax law changes of 2017 also eliminated deductions for qualified transportation fringe benefits and certain expenses to provide commuting transportation to employees. The cost of providing employee's transit passes or parking is no longer allowed as a deduction to the employer. In addition, the costs associated with providing transportation for an employee's commute to work are not deductible unless necessary to ensure an employee's safety.

Business related travel expenses are still deductible. This includes business travel between job sites, travel to a temporary assignment (generally one year or less) that is outside your general area of residence, travel between primary and secondary jobs, and all other cab, bus, train, airline, and automobile expenses. Any regular commuting expenses to your primary job cannot be deducted. The Tax Cuts and Jobs Act

changed the deductibility of unreimbursed employee expenses. Previously if a taxpayer incurred business travel expenses that the company did not reimburse, they could deduct these on their individual income tax return (subject to limitations), but under the recent law changes this is no longer allowed.

EXPENSE REIMBURSEMENT PLANS

Companies may institute “accountable” or “nonaccountable” expense reimbursement plans. Generally, accountable plans better serve both the employer and employee.

Under accountable plans, employees submit mileage logs or actual expense receipts for which they are reimbursed at the standard mileage rate or for actual expenses. The company deducts the reimbursements in full, and employees do not report them as income or deduct related expenses.

Under nonaccountable plans, employees receive flat expense allowances. Employees must declare the allowance as income, and the expenses are taken as miscellaneous itemized deductions, subject to the deduction floor. The employer may owe FICA on the allowances.

ENTERTAINMENT

The law eliminates deductions for entertainment even if it is directly related to the conduct of business.

STANDARD MILEAGE RATES

Use	2024	2023
Business	.67 per mile	.655 per mile
Moving	.21 per mile*	.22 per mile*
Medical	.21 per mile	.22 per mile
Charitable	.14 per mile	.14 per mile

*For members of the U.S. Armed Forces (or their spouse or dependents).
The rates apply to EV's, hybrids, gas and diesel vehicles.

CHOOSING THE BEST INVENTORY METHOD

In a period of rising prices, the use of the LIFO (last-in, first-out) inventory identification method can produce income tax savings. This method increases your cost of goods sold (thereby reducing your taxable income) by assuming that the higher priced inventory units you most recently purchased were the ones actually sold. If you use the LIFO method for tax purposes, you must also use it in preparing financial statements for credit purposes and reports to stockholders.
In times of falling prices, the FIFO (first-in, first-out) inventory identification method may provide larger tax savings. It assumes that the higher priced inventory units you purchased first are the ones that have been sold.

You can generally change from one inventory method to another, but you may need to obtain IRS approval. Depending on your situation, you may be able to realize income tax savings by choosing one method over the other. Some small businesses with gross receipts of $10 million or less may be able to ignore inventories altogether.

BENEFITING FROM BUSINESS LOSSES

If your business has suffered losses, make sure you take advantage of every allowable deduction. Net operating losses (NOLs) are generated when a company’s deductions for the tax year are more than its income. Under the Tax Cuts and Jobs Act of 2017, carrybacks of NOLs are no longer allowed, but an indefinite carryforward of NOLs is allowed. The current tax law also sets a limit on the amount of NOLs that a company can deduct in a year equal to the lesser of the available NOL carryover or 80% of a taxpayers pre-NOL deduction taxable income. Corporate capital losses are also currently deductible, but only to the extent of capital gains. A three-year carryback and a five-year carryforward period apply.

If your business is not incorporated or operates as a partnership, S corporation, or LLC, you may deduct business losses on your personal tax return. But losses may be limited because of the at-risk or passive activity loss rules. Keep in mind that you can only deduct your share of losses to the extent that you have sufficient income tax basis for your investment.

Also, take advantage of other possible loss deductions. You may deduct all or some bad business debts as ordinary losses when your good-faith collection efforts are unsuccessful. Inventory losses, casualty and theft losses (to the extent they are not covered by insurance), and losses from a sale of business assets may also be deductible.

BUSINESS SUCCESSION PLANNING

On average, only one closely held business in three successfully passes on to the next generation. A lack of proper transition planning is often why businesses fail after their founders retire, sustain a disability, or die. By implementing a business succession plan, you can help protect your company's future. At a minimum, a sound plan may help you accomplish the following:

1. Transfer control according to your wishes.
2. Carry out the succession of your business in an orderly fashion.
3. Minimize tax liability for you and your heirs.
4. Provide financial security for you and your family after you step down.

To succeed, you need to examine the immediate, intermediate, and long-term goals of your family and your business. With a timeline in place, it is possible to fine-tune your plan based on the involvement you wish to have in the company and the future you envision for your business.

As you develop the appropriate tax and financial strategies, two important steps are valuating your business and deciding how to transfer ownership. There are many valuation methods. Depending on your situation, one technique may be more appropriate than another. The common goal for business owners selling their businesses is to reach a valuation that fairly compensates the owner for his or her interest, while making the price attractive to the potential buyer. Profit may be less of a concern for owners who are passing a business to children.

Owners have a variety of options for transferring ownership, and the most appropriate strategy depends on your specific situation, considering your personal financial and tax situation, your current form of business ownership (sole proprietorship, partnership, corporation, etc.), and the future owners (family,

employees, third party, etc.). One or more of the following tax minimization strategies can play a key role in your planning process:

- Gift stock to family members. Begin now so ownership can be transferred while avoiding unnecessary transfer taxes.
- Employ a buy-sell agreement that fixes the estate tax value of your business. An effective agreement provides estate tax liquidity and provides your successors with the means to acquire your stock.
- Create an employee stock ownership plan (ESOP), and sell your stock to the plan. Special rules allow you to sell your stock to the ESOP and defer the capital gains tax if you reinvest in qualified securities.
  Ownership can be transferred to your employees over time, and your business can obtain income tax deductions for plan contributions.
- Plan to qualify for the estate tax installment payment option. It allows you to pay the portion of your estate tax attributable to your closely held business interest over a period of up to 14 years. Artificially low interest rates apply during the tax-deferral period. Other special rules apply.

More Tax Saving Strategies

For Your Business

✔ To the extent possible, shift income into next year and accelerate deductions.

✔ Consider whether your current form of business is still the most appropriate for you.

✔ Set up a nonqualified deferred compensation plan for your highest paid employees.

✔ Perform a compensation and fringe benefit study to see whether tax benefits can allow you to offer more generous benefits that help attract and retain qualified employees. For example, you may choose to “split the difference” with employees on compensation increases by providing benefits that are deductible by the company and tax free to the employee.

✔ Consider how state and local taxes and year-end strategies may affect your overall plan.

Planning for the Future

RETIREMENT STRATEGIES

It is never too early to start saving for retirement. Tax reform through the years has enhanced certain planning opportunities, most recently with the Setting Every Community Up for Retirement Enhancement (SECURE) Act signed into law in December 2019. It is the most far-reaching retirement legislation passed by Congress since the Pension Protection Act of 2006. The SECURE Act incentivizes employers to offer defined contribution (DC) plans, promotes lifetime income options, and improves retirement plan accessibility, design and administration You may still have time to accumulate sufficient retirement assets, provided you plan ahead, stay disciplined, and regularly review your strategies. In late December 2022, Congress passed and

the President signed the Omnibus Appropriations Bill which included the SECURE Act 2.0. Please continue to the following pages where we provide more in depth information about many retirement plan options, definitions, and contribution limits.

Retirement plan contributions can offer two large tax benefits: they can 1) potentially reduce your AGI and current income tax and 2) grow faster than your other assets because they're sheltered from tax until withdrawn. (Roth-type accounts are notable exceptions; withdrawals are generally not taxed.) Take advantage of your employer's plan especially if it features an employer match (which is free money for you once it is vested) or you qualify for catch-up contributions (age 50 or older).

If you have stock from your company in your retirement plan, find out its "cost basis" now; this number will help determine your later taxes and affect how you should take distributions. Employee contributions to pension plans can be rolled over into another plan via a trustee-to-trustee transfer. Non-spousal as well as spousal beneficiaries can roll over a decedent's interest in a qualified plan under strict rules. Consult with your advisor.

If you withdraw funds from your IRA before you reach age 59½, you may be subject to a 10% tax penalty. Withdrawals for qualified college expenses or to fund up to $10,000 of a first home purchase are taxed, but you are not penalized for the early withdrawal.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAS) 2024

IRAs remain an attractive option for retirement savings. Traditional IRA contributions may be tax deductible, depending on your income and participation in an employer-sponsored retirement plan. Contributions and earnings accumulate on a tax-deferred basis. However, income taxes are due when distributions are taken.

The contribution limit is $7,000 in 2024 (and will be adjusted for inflation in subsequent years). If you are age 50 or older, you can contribute $8,000. The total of your contributions to one or more IRAs may not exceed these limits. Deductions phase out for active participants in an employer-sponsored plan as follows: for single filers with AGIs between $77,000 and $87,000, and for joint filers with AGIs between $123,000 and $143,000. Due to changes from the SECURE Act, for tax years beginning in 2020, working individuals are now allowed, regardless of their age, to contribute to a traditional IRA. The age cutoff used to be 70½.

A "nonparticipant" spouse may make a deductible IRA contribution, as long as the couple's AGI is less than $240,000. Couples with a nonworking spouse can make a combined contribution of up to $16,000 (plus catch-up, if applicable).

Required minimum distributions (RMDs) are required once the owner of a traditional IRA reaches age 73. The first RMD can be delayed until April 1 of the year after turning 73 (a change since the passing of The SECURE Act). For each year thereafter, the deadline is December 31. The RMD amount is determined by 1) the previous-year year-end IRA balances and 2) a life-expectancy schedule provided by the IRS. With the passing of The SECURE Act in December 2019, fewer beneficiaries will be able to extend distributions from the inherited IRA over their lifetime. Many will instead need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder.

Exceptions to the 10-year distribution requirement include assets left to a surviving spouse, a minor child, a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent. It is important to recognize that anyone who has inherited an IRA from an original IRA account holder prior to January 1, 2020 may continue to receive the same RMD's based on their current distribution schedule. Tax will be due on withdrawal of the deductible contributions and earnings (see worksheet on page 39).

The Coronavirus Aid, Relief, and Economic Security Act (CARES

Act) temporarily provided for special distribution options and rollover rules for certain retirement plans and IRAs. This included expanded distribution options and favorable tax treatment for up to $100,000 of COVID-related distributions from eligible retirement plans (such as section 401(k) plans and IRAs) to qualified individuals, as well as special rollover rules for those distributions.

ROTH IRAS 2024

Roth IRAs, with their tax-free distributions, continue to be popular savings vehicles. Contributions to Roth IRAs are not deductible and are subject to income limitations. As with traditional IRAs, you may contribute up to $7,000 to a Roth IRA in 2024 ($8,000 if you are 50 or older). Again, combined contributions to one or more IRAs may not exceed these limits.

The greatest benefits of Roth IRAs may be in transferring wealth to heirs. A Roth IRA is not subject to Required Minimum Distributions (RMDs) during the owner's lifetime, contributions are allowable at any age, and may provide far more to a beneficiary than other plans. Assets in the account for five tax years can pass to heirs without current income tax. Non-spousal beneficiaries of a Roth IRA have to take minimum distributions (which are tax-free) but can stretch them out over a lifetime. In the meantime, the Roth continues to enjoy tax-free growth.

A Roth can grow into a large sum for a child who has earned income. The parent can fund the account but the contribution amount cannot exceed the child's earned income.

Is My IRA Contribution Deductible?

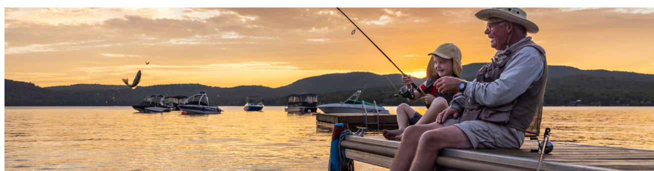
Work	Status	MAGI	Deduction
You are covered	Single and Head of Household	$77,000 or less	Full
		$77,000–$87,000	Partial
		$87,000 or more	None
	Married, Filing Jointly	$123,000 or less	Full
		$123,000–$143,000	Partial
		$143,000 or more	None
Neither you nor your spouse is covered	Single and Head of Household	No Limits	Full
	Married, Filing Jointly	No Limits	Full
You are not covered but your spouse is	Married, Filing Jointly	$230,000 or less	Full
		$230,000–240,000	Partial
		$240,000 or more	None
	Married, Filing Single	$10,000 or less	Partial
		$10,000 or more	None

401(K) PLANS

401(k) plans are qualified plans offered by many employers. As an employee, you can contribute a certain percentage of your salary, as defined by the plan, or up to the contribution dollar limit, whichever is less.

The limit for elective salary deferrals in 2024 is $23,000. Those age 50 and older can contribute an additional $7,500. You do not pay taxes on contributions until you receive money from the plan, which is usually when you retire and may be paying taxes at a lower rate.

Some employers match a portion of employee contributions and may also make additional contributions on behalf of the employees. Self-employed taxpayers may make deductible matching contributions to their plans. Employer contributions may be distributed according to the plan's vesting schedule. So, if you leave a job before being fully vested, you may not receive all of the employer's contribution. You will, however, always be 100% vested in the funds you have contributed and their earnings.



ROTH 401(K)S

A Roth option may be available to those participating in traditional 401(k) plans. Like the Roth IRA, contributions to a Roth 401(k) are made with after-tax dollars, and earnings and distributions are tax free, provided you have owned the account for five tax years and are at least 59½ when you make withdrawals. However, unlike the Roth IRA, Roth 401(k)s have no income restrictions, and they are subject to the more generous elective salary deferral limits that apply to conventional 401(k)s—$22,500 for taxpayers under the age of 50 and $30,000 for older workers in 2023.

You may choose to designate all or part of your elective 401(k) contributions as Roth contributions. However, matching contributions made by an employer must be invested in a traditional account, not a Roth. Participants in 401(k), 403(b), and 457(b) plans are permitted to roll over funds into Roth accounts within their plans, if available. Because contributions to traditional 401(k)s are made on a pre-tax basis, any funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion.

SOCIAL SECURITY BENEFITS

In retirement, up to 85% of your Social Security benefits may be taxed, depending on your income level. You may be affected if your modified adjusted gross income (AGI plus half of Social Security benefits plus tax-exempt income) exceeds specific limits.

The age at which individuals may start collecting full Social Security benefits is increasing. Full retirement age will increase gradually for those born after 1937 from age 65 to age 67. Early retirement at age 62 is still an option, but your monthly benefit will be reduced.

Taking benefits at age 62 may be tempting, even with the reduced benefit. However, if you choose to continue working to supplement your Social Security income, your benefits may be reduced further if you earn more than the maximum amount allowed. If you are under the full retirement age, receive Social Security benefits, and earn additional income in 2024, your benefits will be reduced by $1 for each $2 earned over $22,320. If you reach full retirement age in 2024, your benefits will be reduced by $1 for every $3 earned over $59,520 in months leading up to full retirement age. Upon reaching full retirement age, Social Security benefits are not reduced because of earnings.

The Social Security Administration offers online calculators to help you plan your retirement income. For more information, visit their website at www.ssa.gov.

2024 Retirement Contribution Limits

	Under Age 50	Age 50 and Over
IRA	$7,000	$8,000
401(k)	$23,000	$30,500
SIMPLE	$16,000	$19,500

IRA REQUIRED MINIMUM DISTRIBUTION TABLE

Based on the SECURE Act (Setting Every Community up for Retirement Enhancement) and SECURE ACT 2.0 changes, you must take out your first RMD (Required Minimum Distribution) by April 1 of the year after you turn 73. For all subsequent years, you must take the money out of your accounts by December 31.

Generally, your marital status is determined as of January 1 of each year. If your spouse is the beneficiary of your IRA on January 1, he or she remains a beneficiary only for purposes of calculating the required minimum distribution for that IRA even if you get divorced or your spouse dies during the year.

You must increase your IRA balance by any outstanding rollover and recharacterized Roth IRA conversions that were not in any traditional IRA on December 31 of the previous year.

Here is the IRS RMD table to 120 years old.

AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD
73	26.5	97	7.8
74	25.5	98	7.3
75	24.6	99	6.8
76	23.7	100	6.4
77	22.9	101	6.0
78	22.0	102	5.6
79	21.1	103	5.2
80	20.2	104	4.9
81	19.4	105	4.6
82	18.5	106	4.3
83	17.7	107	4.1
84	16.8	108	3.9
85	16.0	109	3.7
86	15.2	110	3.5
87	14.4	111	3.4
88	13.7	112	3.3
89	12.9	113	3.1
90	12.2	114	3.0
91	11.5	115	2.9
92	10.8	116	2.8
93	10.1	117	2.7
94	9.5	118	2.5
95	8.9	119	2.3
96	8.4	120	2.0

USE THIS WORKSHEET TO CALCULATE YOUR RMD

You can easily figure out how much you need to take out based on the RMD table. Here's how to do the calculation:

1. Determine the balance of your IRA account(s).
2. Find your age on the table and note the distribution period number.
3. Divide the total balance(s) of your account by the distribution period.

This is your RMD.

EXAMPLE

You are 77 years old and the balance of your IRA account is $650,000:

Balance	$650,000
Distribution period for Age 78	22.0
(use chart on adjacent column)	

SAMPLE CALCULATION FOR REQUIRED MINIMUM DISTRIBUTION

Balance divided by distribution period

$650,000 divided by 22.0 = $29,545.45

This amount is the RMD you would have to withdraw for that year.

CALCULATE YOUR RMD HERE

Your IRA Balance	$__________
Distribution period for your Age *(use chart on page 29)*	÷__________
RMD Balance divided by distribution period	$__________

ESTATE PLANNING

For most people, transferring wealth to loved ones or a favorite charity is a long-term goal. Appropriate tax planning for your personal situation may help ensure you leave a legacy. Estate planning involves many strategies generally designed to preserve assets, minimize taxes, and distribute property according to your wishes.

BENEFITS OF ESTATE PLANNING

	With an Estate Plan	Without an Estate Plan
Your Assets	You decide who gets what	Inheritance is determined by state law
Your Children	You choose the guardian	The court appoints a guardian
Your Inheritance	You decide how and when beneficiaries receive their inheritance	Terms and timing are set by law
Your Business	You decide how the family business is to continue	Forced sale or liquidation may cause financial loss and family hardship
Your Executor	You decide who will manage your estate	The court appoints an executor
Your Final Expenses	You can reduce estate settlement costs	Costs may add up due to administrative expenses and unnecessary taxes

ESTATE, GIFT, AND GST TAX EXEMPTIONS

Estate Tax Rate Exemption	40%	$13.61 million
Gift Tax Rate Exemption	40%	$13.61 million
GST Tax Rate Exemption	40%	$13.61 million

ESTATE TAX LAW CHANGES

The estate planning landscape has been marked by change and uncertainty over the years. Under 2001 tax law, the Federal estate tax became progressively generous in the run-up to 2010, when it was phased out completely for a single year. Under the 2010 Tax Relief Act, the Federal estate tax was reinstated. The Tax Cuts and Jobs Act of 2017 doubled the exemption amounts from 2018 to 2025. In 2024, there is a top tax rate of 40% and an exemption amount of $13,610,000, or $27,220,000 for married couples.

Early preparation is key to developing appropriate strategies to minimize potential estate taxes and ultimately maximize the amount transferred to your heirs. Bear in mind that an unlimited amount may be passed tax free to a spouse. If you are married and your combined assets (including life insurance) surpasses $27.22 million, consider implementing advanced planning tools, such as trusts, to help minimize taxes. an unlimited amount may be passed tax free to a spouse.) If you are married and your combined assets (including life insurance) surpasses $27.22 million, consider implementing advanced planning tools, such as trusts, to help minimize taxes.

TRUSTS

A trust, simply defined, is an arrangement whereby one person holds legal title to an asset and manages it for the benefit of another. One of the valued characteristics of a trust is its ability to bridge the gap between life and death, allowing a person to “rule from the grave,” so to speak. Generally, a trust may be established to last for many generations, ending 21 years after the death of the last named beneficiary, or after a specific number of years as permitted by state law.

BENEFICIARY DESIGNATIONS

Your provisions in a will do not necessarily supersede or trump the beneficiary designations you make in trust agreements, insurance policies, bonds, bank accounts and retirement and profit-sharing plans, which can represent most of an estate. These may trump a will, so keep them up to date. Better yet, make sure your will and such designations agree. Don’t name your child as beneficiary if your spouse will need the money. These are critical issues to keep in mind.

IDEAS FOR SUCCESSION PLANNING

- Gift stock to family members. Begin now so ownership can be transferred while avoiding unnecessary transfer taxes.
- Employ a buy-sell agreement that fixes the estate tax value of your business. An effective agreement provides estate tax liquidity and provides your successors with the means to acquire your stock.
- Create an employee stock ownership plan (ESOP), and sell your stock to the plan. Special rules allow you to sell your stock to the ESOP and defer the capital gains tax if you reinvest in qualified securities.

  Ownership can be transferred to your employees over time, and your business can obtain income tax deductions for plan contributions.
- Plan to qualify for the estate tax installment payment option. It allows you to pay the portion of your estate tax attributable to your closely held business interest over a period of up to 14 years. Artificially low interest rates apply during the tax-deferral period. Other special rules apply.

ACT NOW

Early planning is key to making the most of your opportunities, especially considering the changing tax laws. We are here to help you reduce your current tax bill and plan for the future. Contact us when planning transactions and before year-end. We will keep you up-to-date.

Be advised that this information was not intended or written to be used, and cannot be used, for the purposes of avoiding tax-related penalties; or for promoting, marketing, or recommending to another party any tax-related matters addressed herein.

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