Barry & Moore, CPAs

2024 Year-End Letter and Tax Information Reference Guide

Tax Planning in a Post-Election Landscape

Dear Valued Clients and Friends,

As the end of the year approaches, it's an ideal time to review your 2024 tax position, finalize year-end planning, and prepare for a smooth transition into 2025.

With the recent presidential election completed, we now have some additional clarity about the political landscape for 2025 and beyond. There is growing speculation that Republicans may prioritize legislation to extend key provisions of the Tax Cuts and Jobs Act (TCJA) beyond their scheduled sunset in 2025. The TCJA, enacted in 2017, introduced significant tax reforms, including lower individual tax rates, an increased standard deduction, an increased estate and gift tax exemption, and expanded child tax credits. Many of these provisions are set to expire after 2025, potentially resulting in higher taxes for individuals and businesses.

Republican lawmakers have indicated a strong interest in preserving the tax relief provided by the TCJA, citing its role in spurring economic growth and supporting American families. If they move forward with legislation to extend or make these provisions permanent, it could provide additional clarity and stability for taxpayers planning their long-term financial strategies. While any changes would still require congressional approval and may face political negotiations, the expectation is that preserving the TCJA's framework will be a key agenda item in the near future.

As we monitor legislative developments, taxpayers should stay informed and be prepared for potential changes that could impact their tax planning for 2025 and beyond. If any relevant legislation is enacted, we will provide updates on how it could affect your financial situation. For now, focusing on the current rules in place for 2024 is the most prudent approach.

As we end 2024 and step into 2025, Barry & Moore, CPAs remains committed to being your partner in navigating these changing times. Our team is dedicated to providing you with the specialized advisory and support services that align with your unique needs and aspirations.

Thank you for your continued trust and partnership. Together, let's look forward to a year of growth, prosperity, and continued success.

Warm regards,

Barry & Moore, CPAs

Corporate Transparency Act
Beneficial Owner Information Reporting

Corporate Transparency Act (BOI Reporting) - As we approach the end of 2024, it's an ideal time to review your compliance with the new requirements under the Corporate Transparency Act (CTA). Effective January 1, 2024, the CTA requires that all entities formed or registered to do business in the United States either confirm they qualify for an exemption or timely submit a Beneficial Ownership Information (BOI) report to the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN). This requirement applies to all entity types, including corporations, limited liability companies (LLCs), and similar entities, unless specifically exempt.

Key Deadlines:

- Entities formed prior to January 1, 2024 must file their BOI report no later than January 1, 2025.
- Entities formed on or after January 1, 2024 must file their BOI report within 90 days of formation.
- Starting January 1, 2025, the filing deadline is reduced to 30 days after formation for new entities.

What to Report:

If an entity is not exempt from the reporting requirements, it must:

- Identify itself (e.g., name, address, and EIN if applicable).
- Identify all individuals who, directly or indirectly, exercise substantial control over the entity or
- own or control at least 25% of the ownership interests.

For detailed definitions of "substantial control" and a list of exempt entities, refer to the resources available on the FinCEN website: https://www.fincen.gov/boi.

Ongoing Compliance:

Once the initial report is filed, entities must report any changes in beneficial ownership within 30 days of the change. BOI reports must be filed electronically via FinCEN's online portal.

Noncompliance carries significant penalties, including:

- Civil Penalties: $500 per day, up to a maximum of $10,000.
- Criminal Penalties: Fines up to $10,000 and/or imprisonment for up to two years.

Year-End Planning:

As part of your 2024 year-end planning, confirm whether your entity is subject to these reporting requirements or qualifies for an exemption. For entities formed during 2024, ensure that BOI reports are filed within the required 90-day timeframe to avoid penalties. For entities formed before January 1, 2024, mark your calendars to file by January 1, 2025.

By addressing these requirements now, you can avoid last-minute complications and ensure a smooth transition into 2025. For questions or assistance with compliance, please reach out to us or consult the FinCEN website for detailed guidance.

BOI - Legislative Challenges:

Business advocacy groups and legal professionals have urged Congress to revisit certain aspects of the CTA to address many of the challenges with BOI reporting, including legal challenges that the reporting may be unconstitutional under the Fourth Amendment to the U.S. Constitution.

Proposed Revisions:

- Expanding the exemption criteria for certain categories of small entities.
- Clarifying definitions of "substantial control" and "beneficial ownership".
- Extending initial filing deadlines or creating staggered timelines based on entity size or type.
- Safeguards to prevent unauthorized access to BOI reports to ensure privacy of the data.

Legislative Developments and the IRS

Tax Cuts and Jobs Act (TCJA) Revisions - One of the pivotal points of discussion this past year has been around the Tax Cuts and Jobs Act (TCJA) and its impending sunset after 2025. However, with recent political developments, there is growing optimism that key provisions of the TCJA may be extended or even enhanced. This could include maintaining or lowering the current lower individual tax rates, such as the top tax rate of 37%, instead of reverting to the pre-TCJA rate of 39.6%.

Additionally, the expanded standard deduction, increased child tax credit, and more favorable treatment of pass-through business income and bonus depreciation are likely to remain focal points of any extension efforts. If enacted, such legislation could provide further tax savings and stability for individuals and businesses alike, reshaping long-term tax planning strategies.

Bonus depreciation has been a valuable tax incentive that allows taxpayers to deduct a percentage of the cost of qualifying property in the year it is placed in service. Under current law it is expected to phase out through 2027, but we expect that 100% bonus will be restored as part of the effort to extend and make permanent many of the provisions of the TCJA.

Focus on Digital Asset Taxation and Reporting - In line with the evolving digital economy, there has been an increasing focus on the taxation of digital assets. The legislation and IRS guidelines surrounding cryptocurrencies and other digital assets are becoming more defined. This year has seen efforts to streamline the tax treatment of these assets, which is particularly pertinent for clients like you who are invested in or considering venturing into digital asset markets.

With the increasing prominence of these digital assets, the IRS has released proposed regulations on broker reporting for digital asset transactions. This is a crucial development for clients who are investing in or using digital assets. Understanding these reporting requirements is essential to ensure compliance and avoid potential penalties.

Pass-Through Entity Tax - The pass-through entity tax (PTET) is an elective state tax that allows pass-through entities (PTEs) to shift taxation from the owner level to the entity level, bypassing the $10,000 SALT deduction cap for individuals. Cash basis PTEs must generally pay specified income tax payments (SITPs) by year-end, while accrual basis PTEs may apply SITPs that are paid or accrued with proper planning.

This strategy is not available for individuals with Schedule C businesses or certain Schedule E rental activities, but converting these activities into a PTE structure could yield significant tax savings, especially in high-income years or during major transactions. Timely planning and ensuring resolutions are in place by year-end are essential to maximizing these benefits.

Strategic Tax Planning for Year-End

As we approach the close of 2024, it's crucial to adopt a strategic approach to your year-end tax planning. This section aims to provide you with actionable insights and recommendations to optimize your tax position before the year ends, considering the unique aspects of your businesses and investments.

Capital Gains Management - For our clients invested in public company stocks and funds, managing capital gains is a key aspect of tax planning. We recommend reviewing your investment portfolio to identify opportunities for harvesting losses to offset gains. This strategy can help in reducing your overall tax liability for the year.

Maximizing Deductions and Credits - Now is an ideal time to evaluate potential tax deductions and credits. Businesses in industries such as construction and manufacturing can benefit from maximizing deductions for equipment purchases or improvements.

For individual taxpayers, consider "bunching" itemized deductions to optimize tax savings. If your 2024 itemized deductions are close to the standard deduction, consolidating deductible expenses into one year can help you exceed the standard deduction and reduce your tax bill. In subsequent years, you can revert to claiming the standard deduction, which adjusts annually for inflation.

Tax-Smart Philanthropy - For those inclined towards philanthropy, consider strategies like donor-advised funds or direct donations of appreciated securities. These methods can offer both tax benefits and fulfill charitable intentions.

Retirement Planning - Contributing to retirement accounts such as IRAs or 401(k)s can provide tax advantages. We encourage our clients to maximize their contributions to these accounts, which can reduce taxable income while enhancing long-term financial security.

Roth & Backdoor Roth Conversions - As the year-end approaches, consider Roth and Backdoor Roth conversions to optimize retirement savings and manage future tax exposure. A Roth conversion can be advantageous if you expect to be in the same or a higher tax bracket in retirement, as it locks in current tax rates. Traditional to Roth conversions are taxable as if distributed, while Backdoor Roth conversions, typically involving non-deductible contributions, often incur little to no tax.

Converting before year-end can secure current tax rates and shield future growth from taxation. Taking action now may offer long-term tax savings and greater financial flexibility in retirement.

Estate & Gift Planning - For clients with significant estate and gift planning considerations, year-end presents an opportunity to review and adjust your strategies. Utilizing annual gift tax exclusions or making charitable gifts can be effective ways to manage estate taxes.

Effective year-end tax planning is about making informed decisions that align with both your short-term needs and long-term financial goals. As always, the team at Barry & Moore, CPAs is here to provide personalized advice and help you navigate these decisions.

Tax Brackets, AZ Tax Credit Information, and Tax Topics - The following pages contain reference information related to 2024 Marginal Tax Brackets, AZ Tax Credit information and other various tax topics and tax credit items that may be related to your individual or business tax needs in 2024 and forward.

2024 Tax Information Reference Guide

2024 Tax Brackets

Rate	Single	Married Filing Jointly	Head of Household
10%	Up to $11,600	Up to $23,200	Up to $16,550
12%	Over $11,600 but not over $47,150	Over $23,200 but not over $94,300	Over $16,550 but not over $63,100
22%	Over $47,150 but not over $100,525	Over $94,300 but not over $201,050	Over $63,100 but not over $100,500
24%	Over $100,525 but not over $191,950	Over $201,050 but not over $383,900	Over $100,500 but not over $191,950
32%	Over $191,950 but not over $243,725	Over $383,900 but not over $487,450	Over $191,950 but not over $243,700
35%	Over $243,725 but not over $609,350	Over $487,450 but not over $731,200	Over $243,700 but not over $609,350
37%	Over $609,350	Over $731,200	Over $609,350

*2024 Standard Deduction**

Single/MFS	Married Filing Jointly	Head of Household
$14,600	$29,200	$21,900

**Under current law, there is no deduction allowed for Personal Exemptions from 2018 through 2025.*

2024 Child Tax Credits

Child Tax Credit	Married Filing Jointly	All Other Taxpayers
$2,000 - Children under age 17 $500 - Credit for other dependents	Phaseout begins at $400,000, credit is fully phased out at $440,000 of AGI.	Phaseout begins at $200,000, credit is fully phased out at $240,000 of AGI.

2024 AZ Tax Credit Limitations

Organization Type	Single/HOH/MFS	Married Filing Jointly
Public School Tax Credit	$200	$400
Qualifying Charitable Organization	$470	$938
Qualifying Foster Care Organization	$587	$1,173
Private School Tuition Tax Credit	$731	$1,459
Private School Tuition - Plus Tax Credit	$728	$1,451
Military Family Relief Fund[1]	$200	$400
Maximum Potential AZ Tax Credits[2]	$2,916	$5,821

1. AZ allows only $1,000,000 in contributions each year to qualify for this credit. If the limit has been reached, your contribution for the tax credit will be returned.
2. Credit eligible contributions made on or before the April due date for individual returns can be utilized on the preceding taxable year (i.e., contributions made by April 15, 2025 can be utilized on 2024 tax returns; excludes Military Relief Fund contributions, which must be made in the year they apply to, due to yearly cap limitation).

AZ Tax Credits - Timing of Contribution

Due to the TCJA, AZ tax credit contributions can no longer be deducted on Schedule A as charitable contributions when a state credit is received. <u>Therefore, we recommend making your AZ tax credit contributions as near as possible to the April 15, 2025 due date to maximize the timing & credit of the payments on your 2024 returns</u>.

529 Plan Deduction - 529 plan contributions of up to $4,000, *<u>per beneficiary</u>*, can be deducted against your Arizona income.

2024 Year-End and 2025 Tax Topics

IRA Contributions - Taxpayers have until April 15, 2025, to make traditional and Roth IRA contributions for the 2024 tax year. The contribution limit for 2024 is $7,000 ($8,000 if aged 50 or older), or, if less, your taxable compensation for the year. Additionally, there is no age limit for contributing to traditional or Roth IRAs.

If your traditional IRA contributions are not tax-deductible, consider making non-deductible contributions instead. These can often be converted to a Roth IRA with minimal or no tax impact using a Backdoor Roth Conversion, allowing you to maximize your retirement savings.

SEP–IRA Contribution Limits - For 2024, employers can make contributions to an employee's SEP-IRA not to exceed the lesser of 25% of the employee's compensation or $68,000. The employee compensation required to reach the maximum contribution limit for 2024 is $273,000. For self-employed individuals, the applicable percentage for calculating the limit is 20% of net self-employment income. While the contribution limits are the same, more net self-employment income is required to meet those limits, which is $340,000 for 2024.

Bonus Depreciation 60% for 2024, 40% for 2025 - Bonus depreciation is phased down to 60% of the cost of eligible acquired assets in 2024. To take advantage of the current 60% bonus depreciation, businesses should consider making asset purchases and ensuring those assets are ready and available for use or placed in service before the end of 2024. Doing so allows businesses to maximize available tax benefits under the current rules before further reductions take effect.

By utilizing the 60% bonus depreciation along the Section 179 expensing election, many businesses may find that their overall depreciation deductions remain robust. Section 179 allows immediate expensing of qualifying purchases, subject to limitations, making it an effective tool for offsetting the reduced bonus depreciation.

Without new legislation, bonus depreciation is set to continue phasing out, with further reductions of 20% per year, leading to complete elimination by 2027. However, many lawmakers have expressed interest in retaining bonus depreciation as an incentive to encourage business investment. It is anticipated that legislation addressing bonus depreciation could be introduced before the full phase-out, potentially maintaining or reinstating higher bonus depreciation percentages. Discussions around extending the TCJA suggest bonus depreciation could be a priority, along with efforts to spur additional investment in fixed assets.

Section 179 Expensing Limits for 2024:

- Maximum Deduction: $1.2 million
- Phase-Out Threshold: $2.95 million

*The Phase-Out Threshold is the amount of Section 179 eligible assets you can place in service before the business begins to phase out its eligibility to expense fixed assets under Section 179.

QBI Income Deduction & Limitations - The Qualified Business Income (QBI) deduction, established under the TCJA, remains in effect through 2025. For the 2024 tax year, the income phase-out thresholds have increased due to inflation, as follows:

- Single/Head of Household: $191,950
- Married Filing Jointly: $383,900

These adjusted thresholds allow more taxpayers to take advantage of the QBI deduction, which permits eligible individuals to deduct up to 20% of their qualified business income.

2024 Year-End and 2025 Tax Topics

Estate and Gift Tax Unified Exclusion - The estate and gift tax exclusions remain at the elevated levels established under the 2018 Tax Cuts and Jobs Act (TCJA) and will continue through the 2025 tax year, with inflation adjustments for 2024. The annual gift tax exclusion amount has also increased for 2024.

- Estate and Gift Tax Exclusion - $13.61 million for 2024 and $13.99 million for 2025.
- Gift Tax Annual Exclusion - $18,000 for 2024 and $19,000 for 2025.

Following the results of the 2024 election, it is widely anticipated that lawmakers will prioritize extending or making permanent these elevated exclusions before the sunset date in 2025.

Clean Vehicle Tax Credits - Clean vehicle tax credits continue to offer a maximum credit of $7,500 for eligible new plug-in electric and fuel cell vehicles and up to $4,000 for eligible used vehicles. The credit for new vehicles is divided into two equal parts, each worth $3,750, based on specific criteria, detailed below:

Critical Minerals Requirement:
To qualify for the first $3,750, a certain percentage of the vehicle's battery must contain critical minerals (such as lithium, nickel, cobalt, manganese, and graphite) that are either; extracted or processed in the United States or a country with which the U.S. has a free trade agreement, or recycled in North America. Additionally, the vehicle must undergo final assembly in North America to be eligible for the credit.

Battery Components Requirement:
The second $3,750 is contingent upon a specified percentage of the vehicle's battery components being manufactured or assembled in North America.

Price and Income Limitations:
Manufacturer's Suggested Retail Price (MSRP) Limits:

- Vans, SUVs, and pickup trucks: $80,000
- Other vehicles: $55,000

Modified Adjusted Gross Income (MAGI) Limits:

- Joint filers: $300,000
- Head of household: $225,000
- All other filers: $150,000

Non-Business Energy Property Credit for Individuals - The tax credit for non-business energy property has been expanded and extended through 2033. Eligible expenditures include energy-efficient building envelope components (e.g., insulation, windows, doors, roofing) and building systems (e.g., water heaters, heat pumps, central air) that meet updated energy efficiency standards.

- Annual Credit Limit: Up to $1,200 per taxpayer per year (replacing the prior lifetime limit).
- Expanded Eligibility: Now includes properties beyond the taxpayer's principal residence.

Residential Clean Energy Credit - This credit has been extended and updated for 2024 and beyond, covering installations through 2034. Eligible properties include: solar electric, solar hot water, fuel cells, small wind energy, geothermal heat pumps, and biomass fuel systems and applies to primary residences, second homes, and vacation properties.

The credit rate is 30% for property placed in service through December 31, 2032. After that, the credit rate reduces to 26% in 2033 and 22% in 2034 before expiring in 2035.

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