December 2024
Year End Tax Newsletter

Seigneur Gustafson LLP would like to thank you for trusting us with your tax and consulting needs. We want to wish you and yours a happy holiday season and convey our best wishes for a happy, safe and prosperous new year!

Previously, the Tax Cuts and Jobs Act in 2017 (TCJA) overhauled the federal tax code by reforming individual and business taxes. It was pro-growth reform, significantly lowering marginal tax rates and cost of capital. It was estimated to reduce federal revenue by $1.47 trillion over 10 years before accounting for economic growth.

The provisions in the 2017 Tax Cuts and Jobs Act were supposed to expire at the end of 2025. However, because of the 2024 election results, with Donald Trump winning the presidential race and the House and Senate set to be controlled by Republicans, it is predicted that the tax provisions in the TCJA could be extended. Of course, this is just speculation at this time.

That said, the information contained within this planning letter is based on federal laws and policies in effect as of the publication date. We encourage you to consult with us when making tax and financial decisions regarding any of the items on the following pages.

Hot off the Press: Beneficial Ownership Information Reporting on Hold for Small Businesses

A nationwide injunction has temporarily halted the enforcement of Beneficial Ownership Information (BOI) reporting requirements under the Corporate Transparency Act (CTA). This update comes at a critical moment, with many businesses bracing for the upcoming deadline of January 1, 2025 to report their beneficial owners to the Financial Crimes Enforcement Network (FinCEN).

For now, the January compliance deadline for entities created before 2024, along with the different deadlines set for newer entities, are effectively paused. This means that U.S. businesses are momentarily relieved from the obligation to file their BOI, following the court's decision.

This reprieve may be temporary. The current stay on the deadline offers a momentary halt, not a complete abolition of the reporting requirements. It's a critical window of opportunity for businesses to get their affairs in order without the immediate pressure of a deadline but being aware that the requirement could be reinstated, possibly with little notice.

Individual Tax Planning

Retirement Tax Planning

Before the end of the year, confirm that you have contributed to your retirement plan, the maximum amounts allowed under current tax law, and the amount that is feasible given your financial situation.

In addition to contributions to employer-sponsored plans, this may also include:

- You and/or your non-working spouse making contributions to an IRA or Roth IRA.
- Making additional catch-up contributions if you are age 50 or older. In 2024, you can contribute an extra $7,500 per year to your 401(k) account. For those aged 60 – 63, the amount will increase to $11,250 per year starting in 2025. Starting in 2026, if your annual earnings exceed $145,000 you will only be able to make catch-up contributions on an after-tax basis.
- If you are self-employed, deferring significant amounts of earnings through simplified employee pension (SEP) IRAs, solo 401(s)s, or in some cases, through a defined benefit plan to which you also may be able to make significant contributions over several years.
- The SECURE 2.0 Act also allows for a Roth SEP IRA or an after-tax retirement plan contribution to a SEP.

Required Minimum Distributions

If you are over 73 years of age, make sure to take your RMD before the end of 2024. Other considerations include:

- The SECURE Act 2.0 raised the RMD age in 2023 to 73 and increased it to age 75 starting in 2033.
- If you turned 73 in 2024, you could delay taking your first RMD until April 1, 2025. Your second RMD will need to be taken by December 31, 2025, but you could face tax implications if you withdraw two RMDs within the same year.
- If you have inherited an IRA, the IRS waived penalties for missed distributions in 2024 for IRAs specifically inherited from 2020-2023. These accounts are subject to the 10-year distribution rule. As of 2024, required pre-death distributions will be eliminated altogether from non-IRA Roth accounts, including Roth 401(k) plans.
- If you have significant charitable intentions, consider making a qualified charitable distribution – discussed in more detail below.

Converting a Traditional IRA to a Roth IRA

Owners of traditional IRAs may want to convert them into Roth IRAs, which involves taking an immediate income tax hit in exchange for future tax-free withdrawals. Generally speaking, you may benefit from a Roth conversion if your income tax rate has decreased, or if you don't expect to need your Roth IRA assets during your lifetime and wish to leave them to your beneficiaries.

Here are four reasons you should consider converting your retirement plan to a Roth IRA:

1. You can withdraw the monies you put into your Roth IRA (the contributions) at any time, both tax-free and penalty-free, because you invested previously taxed money into the Roth account.
2. You can withdraw the money you converted from the traditional plan to the Roth IRA at any time, tax-free. (But if you make that conversion withdrawal within five years of the conversion, you pay a 10 percent penalty. Each conversion has its own five-year period.)
3. When you have your money in a Roth IRA, you pay no tax on qualified withdrawals (earnings), which are distributions taken after age 59 1/2, provided you've had your Roth IRA open for at least five years.
4. Unlike traditional IRAs, you don't have to receive required minimum distributions from a Roth IRA when you reach age 73—or to put this another way, you can keep your Roth IRA intact and earning money until you die. (After your death, the Roth IRA can continue to earn money, but someone else will be making the investment decisions and enjoying your cash.)

Charitable Contributions

By being strategic with your charitable dollars, you can make a bigger impact, including by allocating more to the causes you care about as opposed to taxes.

Consider a Donor Advised Fund as one of tax savings and donation bunching strategies. You get the deduction when you contribute to the qualified Fund but get to decide later what charities to donate to.

Another popular tax saving strategy is making a Qualified Charitable Donation (QCD) from your IRA. A QCD is a donation made directly from your IRA to a qualifying charitable organization and is not taxable on your individual income tax return. For 2024, up to $105,000 can be contributed. The QCD amount counts towards your Required Minimum Distribution (RMD) if you are otherwise required to take an RMD.

Contribute to 529 accounts, which now offer greater flexibility for unused funds

While there are no deadlines for making contributions to 529 college savings plans, many states offer income tax deductions or state tax credits for contributions. For example, Colorado allows a tax deduction for contributions to eligible College Invest savings accounts of up to $34,000 for married filing joint taxpayers.

With SECURE Act 2.0, your beneficiaries can now roll over up to $35,000 from their 529 plans to a Roth IRA over the course of their lives, which should help alleviate concerns about the money being "trapped" if the funds aren't used for education. Please note that these rollovers count toward Roth IRA annual contribution limits and that the 529 account must have been open for more than 15 years.

Harvest tax losses

Consider harvesting losses in your taxable investment accounts — the practice of selling investments trading at a loss, replacing them with similar assets and then offsetting gains with those losses. After capital gains and losses are netted against one another, any remaining losses can be used to offset ordinary income up to $3,000 per year and carried over in unlimited amounts until exhausted to be used against future gains and income.

Fully fund health savings accounts (HSAs)

If you participate in a high-deductible health insurance plan, you are eligible for an HSA to help offset out-of-pocket medical expenses. HSAs offer significant, triple-tax benefits: Contributions are tax-deductible, grow tax-deferred, and are not taxed when withdrawn to cover eligible healthcare expenses.

In 2024, individuals can contribute up to $4,150 — plus an additional $1,000 as a catch-up contribution if you are 55 or older — and $8,300 if your insurance covers your family with a qualifying policy.

Consider taking advantage of Clean Energy Tax Credits

The Inflation Reduction Act of 2022 allows credits and rebates for energy efficient upgrades, vehicles, heating and cooling systems, and the like. Some of these are:

- Enhancements and increases to certain green energy tax credits, such as a $4,000 credit for taxpayers with income below certain thresholds to purchase a used clean-energy vehicle, and a $7,500 credit for the purchase of a new clean-energy vehicle.

- Limited energy efficient home improvement credits, such as installing new doors, windows, skylights, insulation and heat pumps that more efficiently regulate temperature.
- Residential clean-energy credits for installing clean-energy units (e.g., solar systems, geothermal heat pumps, etc.), which can provide federal tax credits of up to 30% of the costs.

Transfer wealth to your family ahead of lower exemption amounts:

If you plan to transfer significant wealth to your loved ones, consider taking advantage of increased lifetime exclusion amounts which could be cut significantly when they expire at the end of 2025.

In 2024 this amount is $13.61 million per person and $27.22 million per married couple; in 2025, $13.99 million per person and $27.98 million per married couple.

Gift to family members:

Consider taking advantage of the annual gift tax exclusion — the maximum you can give to a single person within a calendar year without needing to file a gift tax return and pay gift taxes. For 2024, this amount is $18,000 per recipient for an individual and $36,000 per recipient for a married couple. Please note that direct payments of tuition and medical expenses do not count toward these limits; these types of gifts have unlimited exclusions. For example, you could even “front-load” a 529 plan with five years’ worth of annual exclusions, allowing a greater amount of assets to grow tax free for a longer period of time.

Estimated Tax Payments

The last quarterly payment for 2024 is due on January 15, 2025. Taxpayers may need to consider estimated or additional tax payments due to non-wage income from unemployment, self-employment, annuity income or even digital assets. The Tax Withholding Estimator on IRS.gov can help wage earners determine if there is a need to consider an additional tax payment to avoid an unexpected tax bill when they file.

Business Tax Planning

Prepay Expenses Using the IRS Safe Harbor

IRS regulations contain a safe-harbor rule that allows cash-basis taxpayers to prepay and deduct qualifying expenses up to 12 months in advance without challenge, adjustment, or change by the IRS. For a cash-basis taxpayer, qualifying expenses include most ordinary operating expenses, rent payments on offices and machinery, and business and malpractice insurance premiums.

Delay Billing Customers, Clients, and Patients

Delay billing your customers, clients, and patients until after December 31, 2024. (We assume here that you or your corporation is on a cash basis and operates on the calendar year.)

Customers, clients, and insurance companies generally don't pay until billed. Not billing customers and clients is a time-tested tax-planning strategy that business owners have used successfully for years.

Purchase Necessary Office Equipment

Increased limits on Section 179 expensing currently enable 100 percent write-offs on most equipment and machinery, whereas bonus depreciation enables 60 percent write-offs. Either way, when you buy your equipment or machinery and place it in service before December 31, you can get a big write-off this year.

Qualifying Section 179 and bonus depreciation purchases include new and used personal property such as machinery, equipment, computers, desks, chairs, and other furniture (and certain qualifying vehicles).

Use Your Credit Cards

If you are a cash basis, single-member LLC or sole proprietor filing Schedule C for your business, the day you charge a purchase to your business or personal credit card is the day you deduct the expense. Therefore, as a Schedule C taxpayer, you should consider using your credit card for last-minute purchases of office supplies and other business necessities.

If you operate your business as a corporation, and the corporation has a credit card in the corporate name, the same rule applies - the date of charge is the date of deduction for the corporation.

However, if you operate your business as a corporation and you are the personal owner of the credit card, the corporation must reimburse you if you want the tax deduction. In that case, the deduction happens on the reimbursement date. Thus, submit your expense report and have your corporation make its reimbursements to you before midnight on December 31.

Utilize the home office deduction

Provided you use at least part of your home regularly and exclusively as your principal place of business or as a place to meet or deal with customers, clients or patients in the normal course of business, you can either deduct a portion of eligible expenses based on the relative square footage of the home or use a simplified method of $1,500 ($5/square foot up to 300 square feet).

Qualified Improvement Property (QIP)

QIP is any improvement made by you to the interior portion of a building you own that is non-residential real property (think office buildings, retail stores, and shopping centers)—if you place the improvement in service after the date the building was placed in service.

The big deal with QIP is that it's not considered real property that you depreciate over 39 years. QIP is 15-year property, eligible for

- immediate deduction using Section 179 expensing, and
- 60 percent bonus and MACRS depreciation.

To get the QIP deduction in 2024, you need to place the QIP in service on or before December 31, 2024.

Vehicle Purchases to Save on Taxes

If you or your corporation buys and places in service a *new or used* SUV or crossover vehicle that the manufacturer classifies as a truck and that has a gross vehicle weight rating (GVWR) of 6,001 pounds or more, this newly purchased vehicle gives you four potential benefits:

1. Bonus depreciation of 60 percent
2. Section 179 expensing of up to $30,500
3. MACRS depreciation using the five-year table

4. No luxury limits on vehicle depreciation deductions

Example. You buy a $100,000 heavy SUV, which you will use 90 percent for business use. Your write-off will look like this:

- $30,500 in Section 179 expense
- $35,700 in bonus depreciation
- $4,760 in 20 percent MACRS depreciation, or $1,190 if the mid-quarter convention applies because you placed more than 40 percent of your MACRS assets in service in the final quarter of the year

The 2024 write-off on this $90,000 (90 percent business use) SUV can be as high as $70,960 ($30,500 + $35,700 + $4,760).

Meals & Entertainment

The 100 percent deduction for food and beverages purchased from restaurants expired in 2022. Starting in 2023, the deduction reverted to 50 percent for meals and no deduction is allowed for entertainment. The following chart provides a brief overview of some of the current meal limitations for 2024.

TYPE OF EXPENSE	CURRENT LAW
Business meals with clients, prospects and referral sources	50%
Events and meals at social or golf clubs	50%
Membership dues for social clubs	No Deduction
Tickets to sporting or theater events	No Deduction
Business gifts	$25 per person

Beginning in 2024, Colorado will no longer allow a deduction for meals and those federal deductions will need to be added to Colorado taxable income.