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Year-End Tax Planning – Don't Leave Money on the Table

November 12, 2024

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Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
- 4 Polling Questions will be launched during this session. You must respond to a minimum of 3 to receive the full 1 CPE credit.

Both requirements must be met to receive CPE credit

Learning Objectives

At the end of this session, you will be able to:

- Identify post-election tax strategies
- Recall the credits and incentives to know about before the close of 2024
- Recognize partnership tax planning strategies and opportunities
- Recognize individual tax planning strategies, including gift and estate plans
- Recall how the Tax Cuts and Jobs Act (TCJA) expirations affects year-end tax planning

Speakers

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Principal

Mike Smith
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Principal

Agenda

- Post-election landscape
- Estate planning
- Year-end tax planning
  - Individual
  - Business
- Credits and incentives

Polling *Question*

What topic are you most interested in?

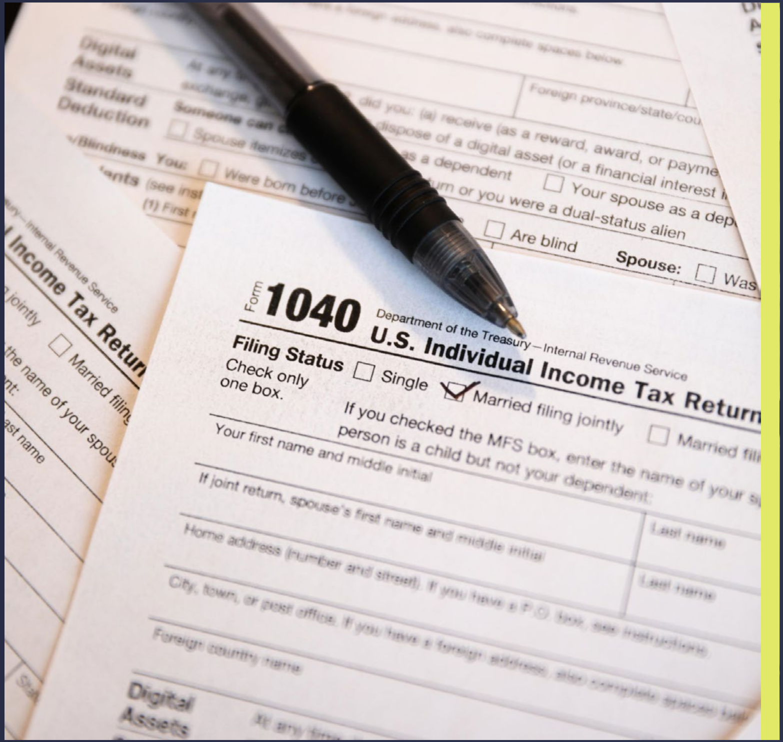
- How the election results affect tax planning
- Estate planning strategies
- Individual tax planning strategies
- Business year-end tax planning strategies
- How to take advantage of credits and incentives

Post-election landscape

Mike Smith

Post-Election Recap

- Election Day Results
    - President-elect Donald Trump
    - Republican majority in the Senate
    - House outcome still to be determined – likely controlled by Republicans



Key Insights

President-elect Trump's Federal Tax Proposals

Potential significant changes for businesses, individuals, and estates

Upcoming Federal Tax Changes in 2026

Expiration of many provisions in the Tax Cuts and Jobs Act

Importance of Proactive Tax Planning

Trump's Tax Proposals

Corporate tax rates	Lower the corporate tax rate from 21% to 15% for companies that produce in the United States
Marginal tax rates	Make the lower TCJA top marginal tax rate of 37% permanent
Lifetime estate, gift, and GST exclusions	Make the TCJA exemptions ($13.6 million for 2024) permanent
Tariffs	Impose 10 – 20% baseline tariff on imports; 60% tariff on imports from China

Business tax credits	Repeal the Inflation Reduction Act
Child tax credit	$5,000 credit
Overtime wages	Exclude overtime wages from income tax
Tip income	Exclude tips from income tax
Social security income	Exclude social security income from tax

Single-Party Control Scenario

GOP winning the House could lead to quick tax legislation

Concerns about tariff proposals' impact on inflation may slow progress

Support for TCJA Tax Breaks

Extended dialogue on reduced tax revenue impact

Corporate Income Tax Rate

Some leaders support increasing the rate

Others oppose the increase

Inflation Reduction Act

Disagreement within the Republican Party on repealing parts

Tax Legislation Timeline

Legislation may not pass until late 2025 due to complexity

New Congress and Administration Timeline

New Congress and Presidential Oath

Congress sworn in on January 3, 2025

Trump takes oath of office on January 20, 2025

Tax Policy Focus

High visibility expected during early stages of new administration

TCJA provisions set to expire end of next year

CLA's Role in Federal Tax Planning

Assistance with federal tax planning strategies

Estate Planning

Avery Frank

2025 Inflation Index

Lifetime exclusion
$13,990,000

Annual exclusion
$19,000

Estate Planning: Year-end Hygiene

Good ideas even without sunset provision

1. Create, review, and update estate plans
2. Amplify effectiveness of estate plan by using trusts
3. Understand state estate tax liability
4. Review beneficiary designations on retirement plans
5. Review ownership and beneficiaries on life insurance policies
6. Consider trusts to address special family circumstances

2024 Estate Plan Year-end Reminders

CHARITABLE GIVING

Make qualified charitable distributions

Gift highly appreciated securities to donor advised funds

NON-CHARITABLE GIVING

Annual exclusion gifts – Crummey letters if in trust

Does the life insurance trustee need cash to pay premiums?

Forgive outstanding debts

Do any trusts terms adjust how they function because of 2024 or 2025?

Individual Tax Year-End Planning

Terri Lillesand

TCJA Sunsetting - Key Provisions

Effective in 2026*:

- Individual tax rate reverts from 37% to 39.6%
- 20% 199A Qualified Business Income Deduction (QBID) eliminated
- Standard deduction cut in half
- $10k state and local tax deduction cap eliminated
- Mortgage cap reverts to $1M/$100k from $750k
- Cash contribution limit drops from 60% to 50%
- Pease limitation reinstated for itemized deductions
- Lifetime estate/gift exemption cut in half ($13.99M in 2025 to $7M)

List is not all-inclusive

TCJA Sunset Provision – Married Filing Jointly

TCJA (2024)		Post TCJA 2017 tax numbers inflated to 2024	
Tax Rate	**MFJ**	**Tax Rate**	**MFJ**
10%	$0 - $23,200	10%	$0 - $23,200
12%	$23,201 - $94,300	15%	$23,201 - $94,300
22%	$94,301 - $201,050	25%	$94,301 - $190,000
24%	$201,051 - $383,900	28%	$190,001 - $290,000
32%	$383,901 - $487,450	33%	$290,001 - $520,000
35%	$487,451 - $731,200	35%	$520,001 - $585,000
37%	$731,201 +	39.6%	$585,001 +

Loss of Qualified Business Income (QBID)

QBID will ***no longer be allowed as a deduction***

At the current highest individual tax bracket, the QBID deduction ***lowers the rate to 29.6%*** (37% x 80%)

With no QBID, ***the highest individual rate will increase to 39.6%***

The C-corporation rate ***does NOT sunset, remaining at 21%*** (Prior to TCJA, the highest C-corporation rate was 34%)

Some might want to consider ***converting to a C Corporation*** (Caution: be sure to consider all relevant factors)

2024 Tax Planning

Must consider 2024
and 2025 taxable income

Future tax law
is always uncertain

Individual Tax Planning Strategies

- Determine if bunching of itemized deductions makes sense
- If tax rates are going UP in the future:
    - Defer deductions from 2024 to future
    - Accelerate income to 2024 from future years
- If tax rates are going DOWN in the future:
    - Accelerate deductions to 2024 from future
    - Defer income from 2024 to future
- Consider the interaction of changes to taxes on pass-through entities and individual tax changes

Individual Income Tax Provisions: Plan Now

ACCELERATE INCOME

Increase collections	Defer equipment purchases
Roth conversions	Sell appreciated assets
Accelerate bonuses or deferred compensation	Exercise stock options
Complete installment sales	Increase retirement distributions *(post 59.5 years old, or inherited IRA)*

Individual Income Tax Provisions: Plan Now

DEFER DEDUCTIONS

Postpone equipment purchases	Defer charitable contributions
Use accrual accounting	Increase retirement plan contributions
Review depreciation schedules	Adjust tax credits
Manage inventory accounting	Pledge - *but delay* – charitable contributions
Delay paying certain expenses	Hold off on claiming losses

Polling *Question*

Have you:

- Started your 2024 tax planning?
- Thought about converting an IRA to a ROTH IRA?
- Reviewed your estate plan, regardless of net worth?
- None of the above

Business Tax Year-End Planning

Terri Lillesand

What about these provisions?

- $500,000 (adjusted for inflation) excess business loss limitation for individuals
- Net operating loss limited to offset 80% of taxable income with no carryback
- Section 174 research and development expense disallowance and required amortization over five years
- Section 163(j) interest expense limitation computed without the addback of depreciation expense
- Gradual phaseout of bonus depreciation through 2026

Bonus Depreciation

The TCJA 100% bonus depreciation started to phase out after 2022

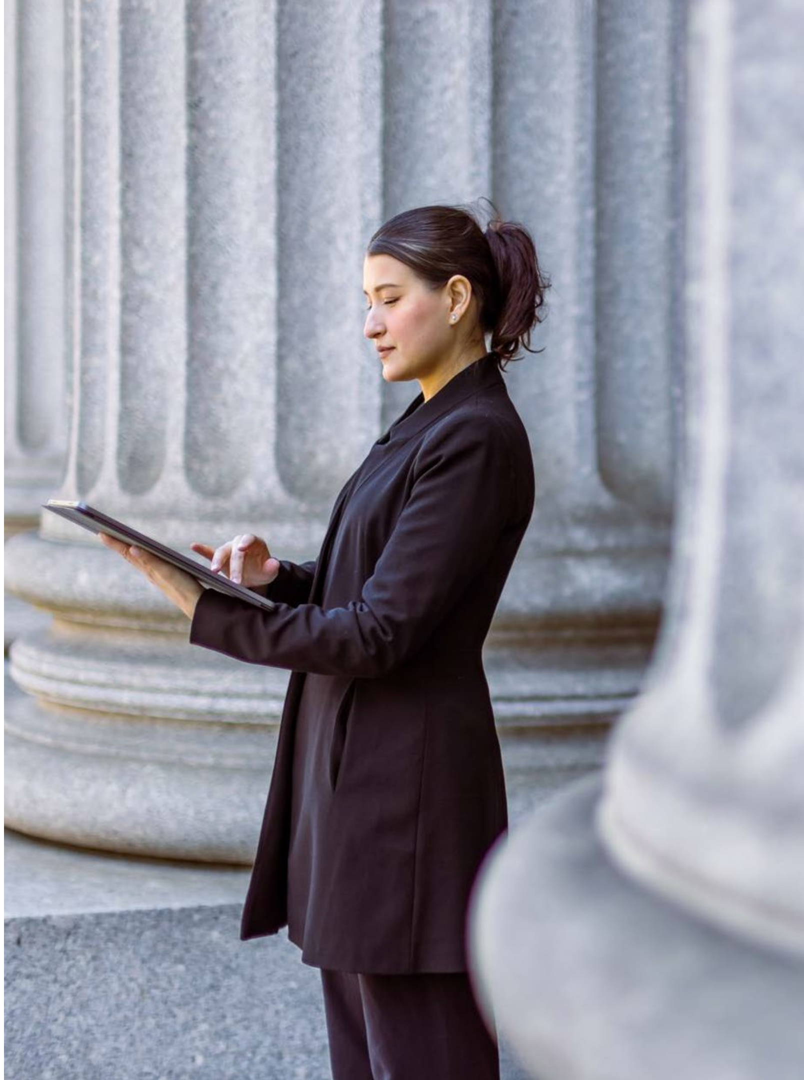
- 2022 – 100%
- 2023 – 80%
- 2024 – 60%
- 2025 – 40%
- 2026 – 20%
- 2027 – 0%

Year-end Tax Planning

- Consider 2024 and 2025 income
- Planning:
  - Inventory- dispose of old, unusable inventory
  - Review fixed asset listings for assets no longer owned
  - Review accounting methods
  - Shift income/deductions depending on current and future tax rates
  - Review state income tax and sales tax nexus
  - Review "pass-thru entity tax" (PTET)
  - Consider deferring income/accelerating deductions if a C corporation

Planning That Can Be Done After Year-end

- Accounting method changes
- LIFO elections
- Depreciation planning
    - Section 179
    - Take/elect out of bonus
- Delay payment of bonuses or profit sharing to post March 15



Credits and Incentives

Jen Rohen

The ERC is a ***fully*** refundable payroll tax credit for ***qualified*** wages (including allocable qualified health plan expenses) that ***eligible*** employers pay their employees.

What organizations are **eligible**?

- Fully or partially suspended operations due to COVID-19
- Experienced a significant decline in gross receipts during the calendar quarter

Employee Retention Credit

Voluntary Disclosure Program

Available to employers who received their funds and no longer believe they are eligible for the credit.

Open through November 22, 2024, the employer must return the funds along with a disclosure.

The employer may retain 15% of the funds, along with any interest paid by the IRS.

Business Incentives Consulting

Work Opportunity Tax Credit (WOTC)

Offset federal tax liability using WOTC.

When companies hire people from targeted categories and employ them for at least 120 hours, they can reduce federal tax liability by up to $9,600 per eligible employee.

Current law allows claims on qualified employees hired through December 31, 2025. It also expands eligibility to include those who have been unemployed for a long period.

Work Opportunity Tax Credit (WOTC)

Hiring qualifications

Entity requirements

Work Opportunity Tax Credit services

Federal Empowerment Zone Credit

*Extended to December 31, 2025

Opportunity Availability

Purpose of Credit

Provides businesses with an incentive to hire individuals who both live and work in an Empowerment Zone (EZ)

Who Qualifies?

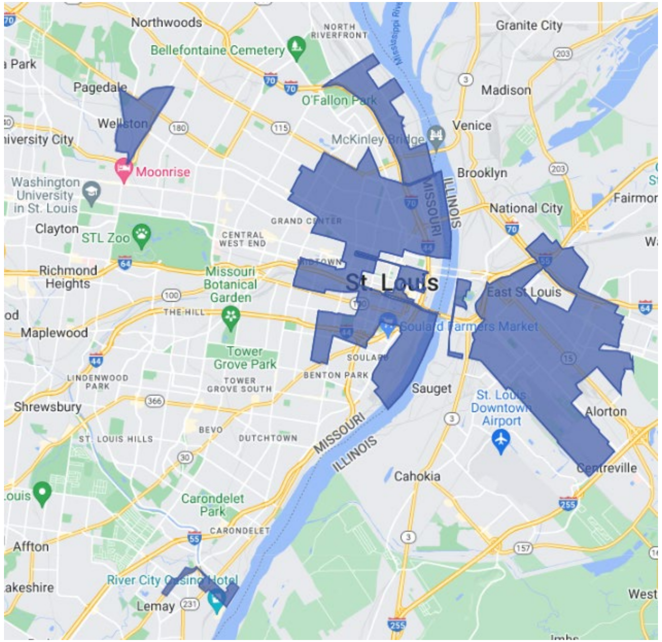
Any employer who pays "qualified zone wages" to a "qualified zone employee" can claim the credit

Credit is 20% of employer’s qualified zone wages (up to $15,000) paid or incurred during the calendar year for services performed

Can claim credit every year for each employee* (15,000 X 20% = $3,000)

Where are the Empowerment Zones?

St. Louis



[EZ Address Locator](#)

Parts of the following urban areas:

- Pulaski County, AR
- Tucson, AZ
- Fresno, CA
- Los Angeles, CA (city and county)
- Santa Ana, CA
- New Haven, CT
- Jacksonville, FL
- Miami/Dade County, FL
- Chicago, IL
- Gary/Hammond/East Chicago, IN
- Boston, MA
- Baltimore, MD
- Detroit, MI
- Minneapolis, MN
- **St. Louis, MO/East St. Louis, IL**
- Cumberland County, NJ
- New York, NY
- Syracuse, NY
- Yonkers, NY
- Cincinnati, OH
- Cleveland, OH
- Columbus, OH
- Oklahoma City, OK
- Philadelphia, PA/Camden, NJ
- Columbia/Sumter, SC
- Knoxville, TN
- El Paso, TX
- San Antonio, TX
- Norfolk/Portsmouth, VA

Parts of the following rural areas:

- Desert Communities, CA (part of Riverside County)
- Southwest Georgia United, GA (part of Crisp County and all of Dooly County)
- Southernmost Illinois Delta, IL (parts of Alexander and Johnson Counties and all of Pulaski County)
- Kentucky Highlands, KY (part of Wayne County and all of Clinton and Jackson Counties)
- Aroostook County, ME (part of Aroostook County)
- Mid-Delta, MS (parts of Bolivar, Holmes, Humphreys, Leflore, Sunflower, and Washington Counties)
- Griggs-Steele, ND (part of Griggs County and all of Steele County)
- Oglala Sioux Tribe, SD (parts of Jackson and Bennett Counties and all of Shannon County)
- Middle Rio Grande FUTURO Communities, TX (parts of Dimmit, Maverick, Uvalde, and Zavala Counties)
- Rio Grande Valley, TX (parts of Cameron, Hidalgo, Starr, and Willacy Counties)

Overview: Credits and Incentives

Negotiated State/Local Credits and Incentives

These projects typically involve the most work and include negotiated incentives.

Site Selection and Location Advisory Services

Negotiated incentives often result in the highest potential benefit but are not guaranteed.

Statutory Credit Identification and Application Assistance

May involve lookback opportunities.

Assistance for Training and Recruitment

On-the-job Training

- Federally funded program, implemented at the state level – often through regional workforce boards
- Hire from pool of eligible workers, they train on-the-job, company gets reimbursed for up to 50% of the employee's wages for while they are training.
- Specific benefits vary by state

Other Workforce Programs

- State funding, program eligibility, and potential benefits vary greatly from state to state
- Typically benefits take the form of grants, partial reimbursement, or in-kind services
- Often administered in partnership with community colleges, colleges, and universities
- Can be for a single employer or partnerships of large employers with common needs

Polling *Question*

I would like to talk with someone at CLA about :

- Post-election tax planning scenarios
- Individual income tax planning
- Estate and gift tax plans
- Business year-end tax planning
- Cost segregation studies to accelerate bonus depreciation
- Tax credits and incentives
- Nothing at this time

Inflation Reduction Act (IRA) Energy Credits

Illustrative credit generating activities: solar, wind, energy storage, biogas, geothermal, solar/wind manufacturing, electric vehicle fleets, car chargers

Energy credits represent big opportunity for our both for-profit & tax-exempt clients – help them maximize use and avoid pitfalls

Transferability at a Glance

The IRA permits tax credit transfers (i.e., sales) of many different types of energy tax credits for "non-applicable" (i.e., taxable) entities.

Estimates are there will be $20-$25B of tax credit transactions in 2024

On December 22, 2023, the IRS released a registration system for which all tax credit sellers must register

Purchasers can time the transaction around estimated tax payments, extensions, or tax return due dates to maximize IRR

Consider potential carryback opportunities

Transferability Process

How to buy and sell credits

- Taxpayers must be unrelated parties
- Credit can only be sold once
- Taxpayers must complete pre-filing registration with the IRS if they intend to transfer some or all of an eligible credit
- Typical transactions are within the .88 to .95 credit range with pricing dependent upon creditworthiness of seller, project/credit size, credit type, and the existence of indemnification/tax insurance
- Consider general business credit rules when sizing purchase amount (i.e., only reduce tax liability by 75% under IRC 38(c)(1))
- 3-year carryback and 22-year carryforward
- Transfer election statement filed with Seller and Buyer tax return
- Practice point: the smaller the credit, the less marketable it is likely to be. CLA generally does not directly assist in tax credit purchases or sales below $1M

Planning Opportunities

C corporations with cash tax liabilities (current year or cumulative over 4-year period) should consider purchasing credits to offset estimated payments or prior year liabilities.

Individuals with significant passive income should also consider purchasing.

2025 CLA Economic Outlook

December 4 | 1 – 2 p.m. CT

Join us for a webinar with insights to help grow your business.

2025 CLA Economic Outlook — Strategies to Navigate 2025 and Beyond

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