BMSS Presents:

A YEAR-END TAX UPDATE

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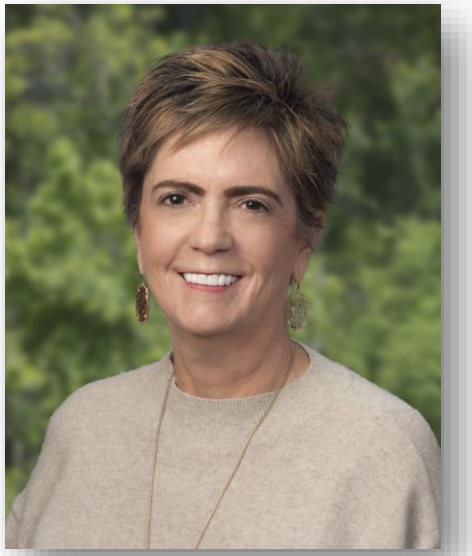
A YEAR-END TAX UPDATE



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All eyes on Washington….

Tax Cuts & Jobs Act (TCJA)

Many Provisions Expire December 31, 2025

- Increased standard deduction
- Increased child tax credit
- Suspension of personal exemption
- Suspension of individual miscellaneous itemized deductions
- $10,000 cap on State and Local Tax (SALT) deduction for individuals
- Decreased cap on home mortgage interest
- Qualified Business Income (QBI) deduction for pass-through businesses
- Doubled Estate Tax Exemption (was $5.6 million in 2017 when law was passed)

Tax Cuts & Jobs Act (TCJA)

Some Provisions Were Permanent or Have Different Expiration Dates

- Lower corporate tax rate – currently 21% compared to 35% before TCJA - permanent
- Required capitalization of Research & Experimental expenditures – permanent
- Full expensing of property using bonus depreciation – this is phasing out as scheduled under TCJA:

2022	100%
2023	80%
2024	60%
2025	40%
2026	20%
2027 and beyond	0%

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State and Local Tax

Specific Issues Relating to State Tax

- SALT deduction as discussed earlier may impact individual returns for owners of pass-through entities and may bring Alternative Minimum Tax into play

- PTE elections for the Pass-Through Entity to pay state tax at the entity level rather than the individual level will need to be evaluated and discussed if the SALT deduction is changed. Many benefits still exist for businesses to make these state-by-state elections.

Other Hot Topics in Tax

- Employee Retention Credit – watch for IRS compliance efforts that are ongoing
- 1099-K forms to be issued by Third-Party Settlement Organizations for 2024 - reporting threshold is $5,000 for 2024
- New IRS Commissioner to be confirmed and IRS budget to be passed – What will the effect be on customer service, technology improvements, and examination efforts of the Agency?

The Hottest Topic for Many Small Businesses – BOI!

Beneficial Ownership Information (BOI) Reporting under Corporate Transparency Act (CTA)

- The CTA provided that initial BOI reports must be filed by January 1, 2025
- CTA and its requirements were designed to curb money laundering, and all reporting is submitted to the Financial Crimes Enforcement Network (FinCEN)
- While there are exceptions, primarily for large businesses and regulated companies, most small businesses operating as LLCs, partnerships, or corporations must file.
- After the initial report, updated reports must be filed when any information changes regarding the beneficial owners to add new individuals or to update information (name, address, etc.).
- The BOI report is filed directly with FinCEN on their website, and the report asks the reporting company to identify each individual beneficial owner of the company. Certain information must be included on the owner (copy of driver's license or passport, SSN, street address, etc.).

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Beneficial Ownership Information (BOI) Reporting under Corporate Transparency Act (CTA)

- Information on company applicants such as attorneys must also be provided if the company was formed after January 1, 2024.
- Significant penalties apply for willful failure to comply
- Court challenges to the CTA have now been filed in several Federal Courts questioning the constitutionality of the law and requesting a delay in the reporting requirements.
- The most recent and far-reaching case was in the Eastern District of Texas, and it resulted in a nationwide preliminary injunction on BOI filings. The U.S. Department of Justice has appealed this ruling to the 5th Circuit Court of Appeals. There are challenges moving through the appeals process in other Circuits as well.

The Hottest Topic for Many Small Businesses – BOI!

What does this mean and what does FinCEN say about filing reports now?

Statement from FinCEN:

In light of a recent federal court order, reporting companies are not currently required to file beneficial ownership information with FinCEN and are not subject to liability if they fail to do so while the order remains in force. However, reporting companies may continue to voluntarily submit beneficial ownership information reports.

The Corporate Transparency Act (CTA) plays a vital role in protecting the U.S. and international financial systems, as well as people across the country, from illicit finance threats like terrorist financing, drug trafficking, and money laundering. The CTA levels the playing field for tens of millions of law-abiding small businesses across the United States and makes it harder for bad actors to exploit loopholes in order to gain an unfair advantage.

The Hottest Topic for Many Small Businesses – BOI!

What does this mean and what does FinCEN say about filing reports now?

On Tuesday, December 3, 2024, in the case of *Texas Top Cop Shop, Inc., et al. v. Garland, et al.*, No. 4:24-cv-00478 (E.D. Tex.), a federal district court in the Eastern District of Texas, Sherman Division, issued an order granting a nationwide preliminary injunction that: (1) enjoins the CTA, including enforcement of that statute and regulations implementing its beneficial ownership information reporting requirements, and, specifically, (2) stays all deadlines to comply with the CTA's reporting requirements. The Department of Justice, on behalf of the Department of the Treasury, filed a Notice of Appeal on December 5, 2024.

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What does this mean and what does FinCEN say about filing reports now?

Texas Top Cop Shop is only one of several cases in which plaintiffs have challenged the CTA that are pending before courts around the country. Several district courts have denied requests to enjoin the CTA, ruling in favor of the Department of the Treasury. The government continues to believe—consistent with the conclusions of the U.S. District Courts for the Eastern District of Virginia and the District of Oregon—that the CTA is constitutional.

While this litigation is ongoing, FinCEN will comply with the order issued by the U.S. District Court for the Eastern District of Texas for as long as it remains in effect. Therefore, reporting companies are not currently required to file their beneficial ownership information with FinCEN and will not be subject to liability if they fail to do so while the preliminary injunction remains in effect.

Nevertheless, reporting companies may continue to voluntarily submit beneficial ownership information reports.

Reminders About Retirement Plan Changes Under the SECURE and SECURE 2.0 Acts

Beginning in 2025, plans have the option to add certain provisions for matching student loan payments, and allow for certain penalty-free distributions for emergencies, disasters, abuse, etc.

In 2025, catch-up contributions for participants aged 60 through 63 are higher – these participants can make catch-up contributions of up to $11,250 in addition to regular deferrals in 2025.

Required changes for 401(k) plans for 2025:

- Reduction in service requirement for long-term, part-time employees – they must be allowed to contribute
- Automatic enrollment and automatic contributions are required for plans established after 12/31/22 – Employees still may opt out, but employers with 10 or more employees must comply with these new automatic enrollment requirements beginning in 2025.

Reminders About Retirement Plan Changes Under the SECURE and SECURE 2.0 Acts

STARTING IN 2026, catch-up contributions for high-income participants MUST be made to a Roth 401(k).

For 2025, there will be an RMD requirement for beneficiaries inheriting retirement accounts under the 10-year rule. This applies to retirement accounts inherited after 2019. The entire balance of the account must be distributed within 10 years, but starting in 2025, yearly RMDs are also required during a 10-year period.

What Does that Mean for 2024 Year-end Tax Planning?

Consult your BMSS Advisor to discuss planning opportunities and techniques such as:

- Year-end bonuses to be paid from the business, and planning for other year-end expenses
- Year-end equipment additions for businesses
- Bunching of deductions to maximize use of standard deduction/itemized deductions
- Qualifying Charitable Distributions (QCDs) from IRAs for those over age 70 ½
- Year-end gifting, using annual exclusion of $18,000 per person to each recipient

Questions?

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