

# 2024 YEAR END TAX PLANNING FOR BUSINESSES AND INDIVIDUALS



As the year draws to a close, it's an ideal moment to assess your financial strategies and plan for year-end tax considerations. Despite ongoing legislative uncertainties, we'll focus on actionable steps that go beyond the political climate. This includes a range of tax planning opportunities for individuals and businesses. These insights are aimed at helping you fine-tune your financial approach and make the most of your tax planning.

## Individuals

With the year nearing its conclusion, it's an excellent time to evaluate your financial strategies and engage in effective year-end tax planning. With the election now over and the Republicans having control of the House, Senate, and White House, it's always important to look ahead and come up with a tax strategy that best fits your overall objectives. These planning approaches include maximizing retirement contributions, considering Roth conversions, leveraging tax credits, and making charitable donations, all aimed at helping you optimize your financial outcomes.

### Individual Strategies

Year-end tax planning is especially critical in today's dynamic economic

landscape, shaped by factors like interest rate changes, inflation, and market volatility. However, tax planning is inherently complex and varies depending on individual circumstances. Taking time to assess your personal and financial situation now can help you proactively manage your tax obligations. By addressing these strategies and seeking professional guidance, you can make informed decisions to reduce your tax liability and capitalize on available opportunities.

#### Timing Matters

Deferring income can be beneficial for taxpayers expecting to be in a lower tax bracket next year due to changes in their financial circumstances or those anticipating a similar tax bracket. Traditionally, deferring income is paired with accelerating deductions, but as discussed in our *Bunching Deductions* section, this strategy may not always be optimal for everyone. If you expect to be in a higher tax bracket next year due to increased income or other changes in your tax situation, deferring income may not be advisable.

To reduce or defer income, one may consider:

- Delaying capital gain transactions until after year-end or consider structuring 2024 transactions as installment sales so that the gain is recognized past 2024
- Triggering capital losses before the end of the year
- Deferring commission income by closing sales in 2025 rather than 2024
- Accelerating deductions for expenses such as mortgage interest and charitable donations into 2024
- Delaying interest or dividend payments from closely held businesses to individual business owners
- Determining if non-business bad debts are worthless and should be recognized a capital loss in 2024

To increase income, taxpayers should consider the following:

- Accelerating capital gains and/or deferring capital losses until 2025
- Deferring deductions such as charitable contributions to 2025
- Electing out of the installment sale method for 2024 installment sales

## Capital Gains and Losses

If you have significant realized capital gains, consider harvesting capital losses to offset them. This can help reduce your net capital gains while maintaining your investment position. For example, you could sell a security and repurchase it after 31 days to comply with wash-sale rules. Reducing net capital gains also lowers the 3.8% surtax on net investment income.

If you're in a lower tax bracket, your long-term capital gains tax rate could be as low as 0%, so evaluate your financial situation carefully before selling stocks at a loss. At present, there are no proposed changes to increase capital gains tax rates.

## Retirement Savings

Another effective way to reduce taxable income in 2024 is by contributing to retirement plans. Employees should aim to maximize contributions to employer-sponsored retirement plans to defer income to future years.

- For 401(k) plans, the maximum contribution for 2024 is \$23,000, with an additional "catch-up" contribution of \$7,500 for individuals aged 50 and older.
- In 2025, the maximum contribution increases to \$23,500, with the same \$7,500 catch-up amount.

For a detailed comparison of [cost of living adjustments](#), refer to our three-year side-by-side chart outlining the dollar limits for benefits and contributions.

## Roth IRA Conversions

Converting a traditional IRA, 401(k), SEP IRA, or SIMPLE IRA to a Roth IRA may be a smart move, depending on your retirement accounts, personal tax situation, and current market conditions. While the converted amount is taxable in the year of conversion, future earnings grow tax-free and can be withdrawn tax-free.

If your income exceeds the limit for making direct Roth IRA contributions, you can still use a "backdoor" Roth IRA strategy. This involves making nondeductible contributions to a traditional IRA and subsequently converting it to a Roth IRA. The taxable portion of the conversion is based on the percentage of pre-tax

funds across all your traditional IRAs, SEP IRAs, and SIMPLE IRAs. Given the complexity, consult your advisor to determine if a Roth IRA conversion aligns with your financial goals.

### Qualified Business Income (QBI) Deduction

The QBI deduction rules are intricate, with taxable income, wage, and asset limitations adding to the complexity. For business owners in specified trades or services, taxable income thresholds are critical and can determine eligibility for the deduction.

Reducing taxable income may help you maximize this deduction. Strategies include deferring income into 2024, increasing itemized deductions (e.g., charitable donations), or contributing more to retirement plans. Work with your tax advisor to evaluate your options and take full advantage of this deduction.

### Alimony

For divorces finalized on or after January 1, 2019, alimony is neither deductible by the payer nor taxable for the recipient. For divorces finalized on or before December 31, 2018, the previous rules still apply, where alimony is deductible for the payer and taxable for the payee.

### Required Minimum Distribution (RMD)

Under the [SECURE Act](#), the age for taking RMDs has increased from 72 to 73. Individuals turning 73 in 2024 will need to take an RMD by the end of the year.

Additionally, the penalty for failing to take an RMD has been reduced from 50% to 25%, and it may drop further to 10% if the missed RMD is corrected within two years. Be sure to stay informed about these rules to avoid penalties and consult with your financial advisor before the year end.

### Education Planning

Consider contributing to a 529 plan to save for educational expenses. While there is no federal tax deduction for contributions, states like Ohio offer a state tax deduction of up to \$4,000 per beneficiary. Additionally, 529 plan distributions can be used for K-12 tuition (up to \$10,000 annually), making them even more versatile.

For parents with children in college, tuition tax credits may be available, even if

your child is pursuing a master's degree. Contributions to 529 plans count as gifts for federal gift tax purposes but qualify under the annual gift tax exclusion of \$18,000 per recipient (\$36,000 if splitting gifts with a spouse). Donors can also "super-fund" a 529 plan, making a lump-sum contribution and electing to spread it over five years for tax purposes. Consult with your tax advisor to explore this strategy.

### Verify Your Withholding

The [IRS](#) provides several ways to pay taxes, including payroll withholding, retirement plan withholding, and quarterly estimated payments. To avoid underpayment penalties, ensure you meet one of the IRS's safe harbors:

1. Pay 100% of your prior year's tax liability (110% if your adjusted gross income exceeded \$150,000).
2. Pay 90% of your current year's tax liability.

Review your withholding and estimated payments to confirm compliance with these requirements.

### Maximize Above-the-Line Deductions

- **Health Savings Accounts (HSA).** If you're eligible to contribute to an HSA by December 2024, you can make a full year's worth of deductible contributions. For 2024, inflation-adjusted limits allow contributions of up to \$4,150 for self-only plans and \$8,300 for family plans, with an additional \$1,000 catch-up contribution for individuals aged 55 or older.
- **Simplified Employee Pension (SEP) Contribution.** If you have self-employment income, consider contributing to a SEP. This option remains available even if you have other retirement plans. SEPs offer flexibility and significant contribution limits, making them an attractive choice for self-employed individuals. If you've already maximized contributions to your employer-sponsored 401(k) plan, consider contributing to a SEP plan. SEP contributions typically reduce both federal and state taxes for the contribution year. For 2024, the maximum SEP contribution is \$69,000, and contributions can be made up until the federal tax return due date, including

extensions.

- **Student Loan Interest.** You may qualify for an above-the-line deduction of up to \$2,500 for student loan interest paid during the year.
- **Self-Employed Health Insurance.** Self-employed individuals, as well as partners and S-Corp shareholders who own more than 2% of the entity's stock, can deduct health insurance premiums for themselves and their dependents. This deduction is above the line, meaning it reduces taxable income without being subject to adjusted gross income (AGI) limitations, unlike itemized deductions.

### Bunching Itemized Deductions

The Tax Cuts & Jobs Act ("TCJA") significantly changed itemized deduction rules, eliminating or limiting many deductions. To maximize deductions that might otherwise be lost due to the higher standard deduction, consider bunching deductions into a single year.

The deduction for state and local taxes and real estate taxes is limited to \$10,000 (including state income and real estate taxes). If your mortgage is paid off and you don't have significant medical expenses, charitable contributions may be one of your few remaining itemized deductions. To maximize their value, consider funding multiple years' worth of contributions in a single year. A Donor-Advised Fund is a helpful tool for this strategy, allowing you to claim the deduction in the year of the donation while distributing funds to charities over subsequent years.

- **Medical Expense Deduction.** For 2024, you can deduct medical expenses exceeding 7.5% of your AGI. Eligible expenses include health insurance and Medicare premiums, medical care costs, prescriptions, and more. However, unless your medical expenses are significantly high, you may not meet the threshold for this deduction.
- **State and Local Tax Deduction.** You can deduct up to \$10,000 annually for state and local income taxes, property taxes, and similar expenses. If you can itemize deductions and haven't reached the \$10,000 SALT cap for state and local income taxes and real estate taxes, consider paying your real estate taxes in December 2023 instead of January 2024. However, if you've already hit the \$10,000 limit, pre-paying these taxes won't provide any additional

benefit.

- **Mortgage Interest Deduction.** Mortgage interest is deductible, subject to certain limits:(1) For mortgages taken out after December 15, 2017, the deduction is limited to interest on the first \$750,000 of the mortgage balance and (2) for mortgages in place before that date, the limit is \$1,000,000. Interest on home equity loans is deductible only if the funds were used to buy, build, or substantially improve the home. The prior rule allowing a deduction for the first \$100,000 of home equity loan interest has been eliminated. Additionally, don't overlook the deductibility of mortgage points paid during a home purchase or refinancing.
- **Charitable Contribution Deduction.** Make charitable donations by year-end to maximize deductions. Contributions can be in cash or non-cash items, such as highly appreciated stock. Donating appreciated stock allows you to deduct its fair market value and avoid capital gains tax.
  - Donations made with a credit card by December 31, 2024, qualify for a 2024 deduction, even if you pay the bill in 2025. Similarly, checks mailed on December 31 are deductible for 2024, even if they clear in 2025.
  - Non-cash donations exceeding \$5,000 (excluding publicly traded stock) require a written appraisal and a letter of acknowledgment from the charity to qualify for a deduction.
  - If you are over 70½, consider making a Qualified Charitable Distribution (QCD) from your IRA, up to \$105,000. QCDs can count toward satisfying your Required Minimum Distribution (RMD).
  - Ohio offers a tax-credit program for contributions to Scholarship-Granting Organizations (SGOs), which provide private school scholarships for students in need. This program offers a dollar-for-dollar tax credit of up to \$750 for individual taxpayers or \$1,500 for married couples filing jointly. A list of eligible SGOs is available at [Tax.Ohio.Gov](https://tax.ohio.gov). For detailed guidance on utilizing Ohio's tuition tax credit or other charitable giving strategies, consult your trusted tax advisor.

#### Tax Credits

The Inflation Reduction Act introduces several changes and extensions to popular tax credits:

- **Nonbusiness Energy Property Credit** – The credit rate is now 30%

for qualified energy efficiency improvements and residential energy property expenditures. The lifetime limit of \$500 has been replaced with an annual limit of \$1,200. Lastly, the credit is extended through 2032.

- **New Clean Vehicle Credit** – adjusts the existing credit in the following ways:
  - Introduces a modified adjusted gross income (MAGI) limitation for eligibility.
  - Expands credit eligibility by increasing the MSRP limits for qualifying vehicles.
  - Implements stricter requirements for foreign manufacturing and final assembly, effective in 2024 and 2025.
  - Starting in 2024, taxpayers can transfer the credit to a registered dealer to reduce the purchase price at the point of sale.
  - The credit is extended through 2032.
- **Previously Owned Clean Vehicles Credit** – New refundable personal credit for purchasing previously owned qualifying clean vehicles. Subject to MAGI limitations for eligibility. Beginning in 2024, taxpayers can transfer the credit to a registered dealer to offset the purchase price at the point of sale. The credit is extended through 2032.

## Estate Tax Planning

### Annual Gifting

Take advantage of the **annual gift tax exclusion** to reduce potential gift and estate taxes.

- In 2024, the exclusion allows tax-free gifts of up to \$18,000 per recipient, with no limit on the number of recipients.
- The exclusion will increase to \$19,000 per recipient in 2025.
- Note: Unused annual exclusions cannot be carried forward to future years.

To optimize your estate planning, ensure gifts are made before year-



end. Transferring income-generating property to family members in lower income tax brackets, who are not subject to the kiddie tax, can help reduce the overall family income tax burden.

#### Lifetime Exemption Planning

The current estate tax exemption is \$13,610,000 (indexed for inflation). However, this exemption is set to sunset after December 31, 2025, reducing the exemption to approximately \$7,000,000. At that time, your estate will be subject to the greater of:

- The estate tax threshold, or
- The total taxable gifts made during your lifetime.

To maximize tax efficiency, consider implementing additional wealth transfer strategies before the reduced lifetime exemption takes effect. This is a hot topic issue, and we'll see if the exemption is extended as part of the 2025 legislation.

## Businesses

As the year comes to a close, business owners face a crucial opportunity to reflect on their achievements, address challenges, and prepare for the year ahead. Effective year-end planning not only helps in setting a clear path for growth but also ensures financial stability and operational efficiency. With a new Congress in place, potential changes to tax legislation and regulations could significantly impact planning decisions. It's crucial for business owners to stay informed about these evolving policies and take proactive steps to navigate any potential shifts. In this guide, we'll outline some key year-end tax planning considerations that can help you make the most of your business's financial health as you prepare for the year ahead.

#### Accelerated Depreciation

Take advantage of possibly accelerating depreciation deductions for personal property such as computers, software, equipment, furniture, or certain property improvements purchased in 2024. Also considering

cost segregation or repair studies can provide additional ways to push more depreciation into the current year.

- **Bonus Depreciation.** Businesses can deduct first-year bonus depreciation equal to 60% of the cost of most fixed assets with a tax life of 20 years or less. The 60% first-year bonus depreciation is currently scheduled to phase down to 40% for property placed in service in 2025 and will be fully phased out for property placed in service after 2026.
- **Section 179.** Allows you to expense otherwise depreciable property if placed in service in 2024. You may elect to expense up to \$1,220,000 of fixed asset costs (with a dollar-for-dollar phase-out for purchases greater than \$3,050,000). Additionally, the deduction is limited to business income. Certain real estate improvements can be "Qualified Improvement property" (QIP), such as HVAC and security systems, and still be eligible for the Sec. 179 deduction.

#### De Minimis Safe Harbor Elections

The "de minimis safe harbor election" (also known as the book-tax conformity election) is an annual election that allows businesses to expense lower-cost assets, materials, and supplies. To qualify for the election, the unit of property cost cannot exceed \$5,000 if the taxpayer has an applicable financial statement (e.g., a certified audited financial statement along with an independent CPA's report). If there's no applicable financial statement, the cost of a unit of property can't exceed \$2,500.

#### Tax Credits

There are numerous tax credits that can help lessen the tax burden for a business and its owner.

- **R&D Credit.** Businesses that incur certain research and development (R&D) costs, such as wages, supplies and contract research, are eligible for this general business R&D tax credit.
- **Work Opportunity Tax Credit.** Businesses that hire individuals from targeted groups (i.e. qualified veterans, long-term unemployment

recipients, ex-felons) are eligible for a tax credit equal generally to 40% of up to \$6,000 of the individual's first-year wages paid (per employee).

- **Small employer Health Insurance.** Up to 50% of employer contributions for employee health insurance may be available for two consecutive years for qualifying small businesses with under 25 employees and average wages of \$30,500 or less.
- **Energy Tax Credits.** The Inflation Reduction Act of 2022 gave rise to several clean energy credits. With many credits available, be sure to analyze 2024's qualifying capital expenditures for a possible credit up to 50%. Additionally, businesses do have the option to purchase various clean energy tax credits from unrelated sellers.

#### Accounting Method

Review your methods of accounting for tax purposes to determine if you are using the optimal methodologies to maximize tax deductions. Deducting certain prepaid items, accruing for company payroll or bonuses (must be paid within 2.5 months of year-end) are common areas to analyze. Considering your overall accounting method of accrual or the cash method of accounting may also create an opportunity for your business.

#### Cash Method

Many businesses, especially service-based businesses, commonly utilize the cash method of accounting. This method allows them to expedite deductions for the current year. Notably, the Tax Cuts and Jobs Act (TCJA) has broadened the eligibility for this method, providing even more businesses the opportunity to utilize it, specifically those classified as 'small' with average annual gross receipts not exceeding \$30 million over the past three years.

#### 20% Qualified Business Deduction

Continue to maximize the QBI deduction for certain passthrough entities and self-employed individuals. Unless extended, the QBI deduction is set to expire on December 31, 2025.

#### LIFO (Last-in-First-Out) Inventory

While not new, this method allows for deductions of cost of goods sold

to be maximized in periods of rising inflation, substantially reducing taxable income. Inventory management remains an area of focus for allowing companies to possibly increase their deductions.

### State and Local Taxes

We are seeing an increase in changes to state tax laws and regulations, as well as their approach to tax audits. Most states are becoming increasingly aggressive in trying to capture tax revenue from out-of-state businesses. It is important to make sure your business is not caught off guard. Specific state and local tax areas to be mindful of include income tax, sales and use tax, payroll, and property tax.

Additionally, pass through entities may want to revisit how they choose to file at the state level. In certain states, opting for an entity-level assessment of income tax can bypass the \$10,000 itemized deduction limitation at the individual level. This allows taxes to be deducted from the business's income, serving as a reduction of taxable income on the individual return rather than an itemized deduction.

### Ohio's Commercial Activity Tax (CAT)

Some key changes include the elimination of the annual minimum tax and no filing requirement for smaller businesses. Businesses with taxable gross receipts \$6 million or less in 2025 will no longer be required to file a return with the Department of Taxation. If your business is anticipated to fall under the filing threshold, it is advised to cancel your CAT account.

### Interest Deductions

If your business is not 'small' (average annual gross receipts in the three previous years exceeded \$30 million), your interest deductions may be suspended. The rules in this area are complex and wide ranging but proper planning can ensure that deductions are not missed unexpectedly. In general, the interest expense is limited to 30% of adjusted taxable income.

### IC-DISC

If your business has foreign sales, consider utilizing an IC-DISC. A business that has export sales and utilizes an IC-DISC can create a tax benefit in which a portion of its income is taxed at the long-term capital

gains rate.

### Foreign Reporting

The foreign reporting [requirements](#) are comprehensive and complex for businesses with activities outside of the United States. Business owners and employees who have any financial interest in or signature authority over a foreign financial account exceeding \$10,000 at any time in a calendar year must file a [Report of Foreign Bank and Financial Accounts](#) (FBAR). The [Foreign Account Tax Compliance Act](#) (FATCA) requires businesses to report and possibly withhold payments made to foreign entities. Investments, assets, and legal entities outside the U.S. may subject the business to various reporting requirements. The Corporate Transparency Act (CTA), implemented on January 1, 2021, mandates that specific new and existing companies reveal pertinent information about their actual primary owners, referred to as "beneficial owners," to the [Financial Crimes Enforcement Network](#) (FinCEN) of the US Department of the Treasury. Any reporting company formed within the United States before January 1, 2024, is required to submit a report to FinCEN by January 1, 2025. Please consult with your legal counsel to determine if you have a filing requirement.

These are some of the year-end steps that can be taken to minimize your tax burden. We can help tailor a customized plan that will work best for your tax planning goals. Please contact your [BMF Advisor](#) if you would like to review any of the items mentioned, schedule a tax planning strategy session or discuss potential implications of the various tax law changes.