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The presentation will begin shortly.

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Key Tax Planning Considerations for the 2024 and 2025 Tax Years

Tuesday, January 14, 2025

CPAs & ADVISORS

Julie Hulem, CPA
Partner, Tax

Ryan Ham, CPA
Partner, Tax

Mark Sakats, CPA
Senior Manager, Tax

Presenters

Meet the instructors

Julie Hulem, CPA
Partner, Tax

Ryan Ham, CPA
Partner, Tax

Mark Sakats, CPA
Senior Manager, Tax

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Additional Information

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<tr><td>Learning Objective
To provide attendees with methods to reduce tax liability for the 2024 and 2025 tax years.</td><td>Instructional Delivery Methods
Group Internet-based</td></tr>
<tr><td>Recommended CPE
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Taxes</td></tr>
<tr><td>Prerequisites
None required</td><td>Advance Preparation
None</td></tr>
<tr><td>Program Level
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None</td></tr>
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Today’s Agenda

- Individual Tax Discussion
- Business Tax Discussion
- Estate and Trust Tax Discussion
- Questions

2024 Income Tax Rates for Individuals

Filing Status				
Rate (%)	Single	Head of Household	Married Filing Jointly and Surviving Spouses	Married Filing Separately
Ordinary Income Brackets				
10%	$0 to $11,600	$0 to $16,550	$0 to $23,200	$0 to $11,600
12%	$11,600 to $47,150	$16,550 to $63,100	$23,200 to $94,300	$11,600 to $47,150
22%	$47,150 to $100,525	$63,100 to $100,500	$94,300 to $201,050	$47,150 to $100,525
24%	$100,525 to $191,950	$100,500 to $191,950	$201,050 to $383,900	$100,525 to $191,950
32%	$191,950 to $243,725	$191,950 to $243,700	$383,900 to $487,450	$191,950 to $243,725
35%	$243,725 to $609,350	$243,700 to $609,350	$487,450 to $731,200	$243,725 to $365,600
37%	$609,350 or more	$609,350 or more	$731,200 or more	$365,600 or more

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2024 Capital Gains and Qualified Dividends Tax Rates

	Filing Status				
Rate (%)	Single	Head of Household	Married Filing Jointly and Surviving Spouses	Married Filing Separately	Trusts and Estates
0%	$0 to $47,025	$0 to $63,000	$0 to $94,050	$0 to $47,025	$0 to $3,150
15%	$47,025 to $518,900	$63,001 to $551,350	$94,051 to $583,750	$47,025 to $291,850	$3,150 to $15,450
20%	$518,901+	$551,351+	$583,751+	$291,851+	$15,451+

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Marginal Tax Rates – What to Expect

- Marginal tax rate reductions enacted via the Tax Cuts and Jobs Act ("TCJA") were not permanent reductions in the rates.
- Absent new legislation, the reduced marginal tax brackets will revert to the pre-TCJA rates starting January 1, 2026.
- Continue to monitor negotiations and proposed adjustments to the tax code.
- Extension, or further reduction, of the marginal tax rates are a possibility.
- Consider these potential changes during your tax planning discussions.

Standard Deduction vs. Itemized

- Standard deduction increased to -
  - $29,200 for Married Filing Jointly.
  - $21,900 for Heads of Household.
  - $14,600 for Single individuals and Married Filing Separately.
- Review Itemized deductions for the year to determine best course of action.

Specific Itemized Deductions

- Medical expenses - 7.5% AGI threshold for 2024.
- To date, the State and Local Tax (SALT) deduction is still capped at $10,000.
- Mortgage Interest -
  - Mortgage prior to December 15, 2017 – cap is $1,000,000.
  - After December 15, 2017 – cap is $750,000.
- Home equity loans are **only deductible** if used for buying, building or fixing up the taxpayer's residence.
- If you can't itemize your deductions but give to charity regularly, you can bunch charitable contributions into one year to generate higher charitable contributions in one year thereby increasing your itemized deductions above the standard deduction threshold.

Itemized Deductions - Charity

- AGI Limits
  - Cash to regular qualified charity – 60% of AGI.
  - Noncash to regular qualified charity – 30% of AGI.
  - Cash/Noncash to certain Private Foundations – 30%/20% of AGI.
  - 5-year carryover of excess contributions.
- Capital Gain Property
  - FMV deduction.
  - Do not pay tax on appreciation.
  - Creates magnified tax benefit due to FMV deduction without income (donation of $200K of stock with a basis of $100K results in extra tax savings between $15,000 – $23,800).

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Itemized Deductions - Charity

Continued

- Donor Advised Fund
    - Can be set up by most retail brokerages.
    - Make large gift to fund in year 1 and take the full deduction but spread giving over many years.
    - Can donate cash or stock (stock is more advantageous and the generally the more popular choice).
- Qualified Charitable Distribution
    - Must be a direct transfer from your IRA to the charity.
    - Taxpayer must be at least 70 ½ at the time of transfer.
    - Maximum amount is $100,000 per year per taxpayer.
    - Distribution is not taxable, and contribution is not deductible.

Individual Taxes – What We're Watching

TCJA Provision Cliff

- Standard Deduction
  - Scheduled to revert to pre-TCJA deduction levels (around half) as of January 1, 2026
- Personal Exemptions
  - Scheduled to return as of January 1, 2026
- Itemized Deductions
  - State and local tax (SALT) deduction limitation is scheduled to be phased out as of January 1, 2026.
  - Miscellaneous deductions, subject to 2% of AGI, are scheduled to return as of January 1, 2026
  - All mortgage indebtedness eligible for deductible interest paid scheduled to revert to the pre-TCJA limit of $1 million.

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Individual Taxes – What We're Watching

TCJA Provision Cliff - Continued

- Child Tax Credit
  - Expanded credit is schedule to revert to pre-TCJA amounts on January 1, 2026
  - Maximum credit will revert to $1,000 per child.
  - Phase out threshold reduced from $200,000 single/$400,000 MFJ to $75,000 single/$110,000 MFJ.
- Alternative Minimum Tax
  - AMT exemption amounts scheduled to revert to pre-TCJA amounts on January 1, 2026
  - AMT exemption phase out thresholds also schedule to revert to pre-TCJA amounts.

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Other Ways to Reduce Your Taxes

- Max out your 401(k)/403(b) - Limit is $23,500 in 2025, plus catch-up of $7,500 for those 50 and older.
- Hold investments for more than one year before selling – LTCG.
- Sell investments at a loss to offset capital gains.
  - Watch for Wash Sale rules – however, currently no wash sale rules for digital assets

- Accelerate medical expenses to get over 7.5% AGI threshold.
- Contribute to your IRA (deductible under certain circumstances) or consider converting to a Roth IRA.
  - Max contribution is $7,000 in 2025, plus catch-up of $1,000 for those 50 and older
- Don't miss out on common tax credits (Child, Childcare, Education*). **subject to phase-out*

Other Ways to Reduce Business-Related Income

Other Income/Deductions

- Report unreimbursed business expenses related to pass-through activities (partnerships).
- Maximize tax-favored retirement plan contributions for the self-employed/small business owners: IRA, Solo 401(k), SEP IRA, SIMPLE IRA, or a defined benefit plan.
- Maximize elective deferral retirement contributions such as 401(k), 403(b), 457(b) and SIMPLE IRA.
- Take the self-employed health insurance deduction.
- Deduct business mileage for your personal automobile.
- Consider the possibility of the Home Office deduction.
  - Speak with your tax professional to ensure that you qualify

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Polling Question #1

Which area of potential tax legislation are you most closely monitoring in 2025?

A. *Individual tax legislation.*
B. *Business tax legislation.*
C. *Estate and trust tax legislation.*

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Qualified Business Income Deduction

- Taken on your personal return when you have domestic “qualified business income” (QBI).
  - Sole Proprietorship (Schedule C)
  - Partnership income
  - LLC income
  - S-Corp income
  - Rental income
  - Note: All K-1s must provide the required information in order to claim the deduction

Qualified Business Income Deduction

Continued

- Deduction equal to the **lesser** of 20% of QBI or 20% of taxable income (after removing capital gains/losses).
- The Specified Service (defined on the next slide) and Wage limitations phase in on a MFJ return with taxable income from $383,900 – $483,900 and on all other returns with taxable income from $191,950 – $241,950.
- For taxpayers who are not a specified service and have AGI above the phase-out limits their QBID is further limited to the greater of:
  - 50% of W-2 Wages (box 5) or
  - 25% of W-2 Wages (box 5) plus 2.5% of the unadjusted basis of depreciable assets.

Qualified Business Income Deduction

Further Restrictions

- Specified Service Business - defined in §1202(e)(3)(A): "any trade or business involving the performance of services in the fields of:
    - Health
    - Accounting
    - Performing Arts
    - Consulting*
    - Law
    - Actuarial Services
    - Athletes
    - Financial Services and Brokerage
    - Any other trade or business where the principal asset is the reputation or skill of an owner or employee. Defined in the regulations as income from endorsements, licensing and appearance fees.

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Qualified Business Income Deduction

Other Considerations

- S-Corp shareholder compensation -
  - Reduces QBI (is an issue for taxpayers below income thresholds)
  - Reasonable compensation
  - May want to increase if subject to wage limitation
- Guaranteed payments are not QBI.
- REIT Dividends and PTP income qualifies as QBI.
- QBI does not include foreign income.
- QBID is calculated on a per business basis and then aggregated (can elect to aggregate the calculation if over income limits and you meet the criteria to do so).
- Net QBI losses carryover to the next year.

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Depreciation/Cost Recovery

Bonus and Section 179 Deduction

- Bonus Depreciation – 60% for 2024 & 40% for 2025
  - Applies to the cost of new or used property.
  - Applies to property with 3, 5, 7, 10, 15, 20-year life classifications.
  - Can create a loss.
  - Qualified Leasehold Improvement Property eligible for 100% bonus depreciation.

- Section 179 Deduction
  - For 2024, a taxpayer may expense (under IRC §179) up to $1,220,000 of qualified property. However, this is phased out if a business places over $3,050,000 of property in service during the tax year.
  - Section 179 applies to new and used property.
  - Cannot create or increase a loss (balance of deduction carries over).
  - Limits on passenger automobiles.

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Depreciation Details

- The 100% write-off of eligible property expired on December 31, 2022. Unless the law changes, the bonus percentage will decrease by 20 points each year for property placed in service after December 31, 2022 and before January 1, 2027.
- The phase-out schedule is as follows:
  - 2022: 100%
  - 2023: 80%
  - 2024: 60%
  - 2025: 40%
  - 2026: 20%
  - 2027 0%

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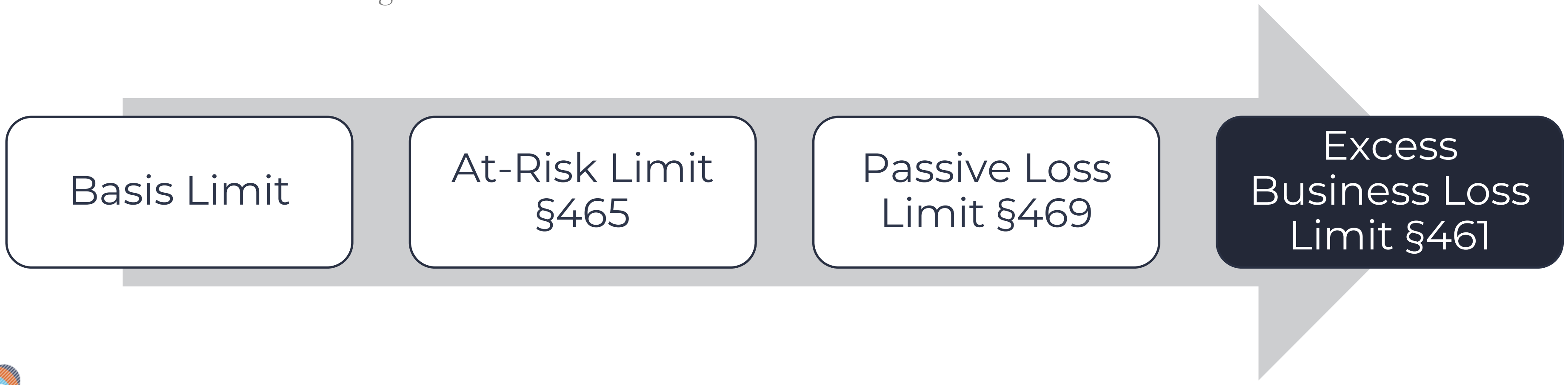
461(l) Excess Business Loss Limitation Rules

- Suspended for tax years 2018 – 2020. If limitation was applied, an amended return is required.
- Overview of the law:
  - Active business loss limited to $610,000 MFJ and $305,000 for all other returns in 2024, subject to inflation adjustments.
  - Applied on taxpayer level (rather than business level).
  - Excess can only be carried forward.
  - Limitation extended through 2028.



Section 174 and R&D Credit

- TCJA of 2017 eliminated the immediate expensing of research and experimental costs under Section 174.
    - Domestic R&E expenditures are capitalized and amortized over 60 months.
    - Foreign R&E expenditures are capitalized and amortized over 180 months.
    - Conduct a comprehensive review of your research and experimental activities to determine required capitalization.
- Various legislative proposals to address required capitalization of R&E costs.
    - Proposals range from retroactive immediate expensing of all costs to immediate expensing of future domestic costs only.
- Section 41 continues to offer a tax credit for Research and Development costs.

State Pass-Through Entity Taxes

- Election to be taxed at the entity level to circumvent the $10,000 SALT limit
  - 36 states and NYC enacted legislation for PTET
- Deduction at the entity level
- Credit for business owner
- Not applicable to C Corporations

State Pass-Through Entity Taxes

- Maryland (new in 2020)
  - Allows tax to be assessed and therefore deducted at the entity level (on MD sourced income) - 8%.
  - Applies to both residents & nonresident partners, members, and shareholders. Nonresidents should still file a state return to report their income & tax credit.
  - Credit can be taken on MD resident/nonresident return.
  - For tax years beginning after December 31, 2022, PTE must decide to elect or not to elect with the first filing or payment of the tax year. Each annual elections is irrevocable once made.

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Business Taxes – What We’re Watching

Pass Through Entity Tax

- State and local tax (SALT) deduction limitation is scheduled to be phased out as of January 1, 2026
- Uncertainty and inconsistency among states related to the future of the PTET
  - Most states will offer the PTET indefinity
  - 10 states legislation to follow Federal provisions (including CA and VA) and would also expire.
- Must Monitor state legislative developments.
- Revaluate the benefits vs administrative burden
- Keep an eye on Irrevocable elections

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Business Taxes – What We're Watching

TCJA Provision Cliff

- Bonus depreciation and business expensing election
  - Phase out of bonus depreciation continues through 2026
  - 60% on 2024 assets, 40% on 2025 assets and 20% on 2026 assets
- QBI Deduction
  - Scheduled to lapse after 2025.
- Business loss limitation rules set to expire on January 1, 2029.
- GILTI, FDII and BEAT rate changes scheduled to be effective January 1, 2026:
  - GILTI rate increases to 12.5% from 10.5%.
  - FDII rate increases to 16.4% from 13.12%
  - BEAT rate increases to 12.5% from 10%.

Business Taxes – What We’re Watching

Other Business Developments

- Section 174 capitalization and R&D credit
  - NOT scheduled to lapse as part of the TCJA expirations.
  - Various proposals to restore some, or all, immediate expensing opportunities.
  - Monitor proposals and potentially manage timing and location of projects and spend.
- Statutory corporate tax rate changes.
  - Reduced corporate tax rate from TCJA legislation was a permanent reduction.
  - Various proposals to reduce the statutory corporate tax rate further.
  - Monitor proposals for planning, estimate and tax provision impacts.
- Tariffs
  - Monitor tariff proposals for impacts to international activity and imports.

Polling Question #2

Do you plan to take advantage of the state Pass-Through Entity Tax regime(s)?

A. *Yes, it would save me a lot of federal tax.*
B. *No, I do not have any PTE income or see much benefit.*
C. *Not sure, I need to look into this further.*

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Other 2024 Tax Law Reminders

- Net Operating Losses for 2024 must be carried forward and subject to 80% limit (Losses for 2018-2020 could be carried back 5 years).
- Business meals expense spent in restaurants have reverted back to 50% deducible in 2024.
- Switch to 5-year amortization of R&D expenditures starting January 2022 (15-year amortization period for foreign R&D).

Other 2024 Tax Law Reminders

Continued

- Max Child Tax Credit is $2,000 per dependent child under age 17 (subject to phase outs).
- Max Dependent Care Credit is $3,000 for one child, $6,000 for two or more children (subject to phase outs).
- Max Dependent Care FSA contribution limit is $5,000.
- The RMD was raised from 72 to 73.

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Selected 2024 COLA adjustments

- Retirement Plans -
  - 401(k)/403(b) limits - $23,000 plus $7,500 for age 50 and over.
  - Defined contribution plan limit $69,000 (while limitation on annual benefit under defined benefits plans are now $275,000)
  - SIMPLE Plan contribution limit – $16,000
  - IRA Contribution Limit - $6,500 (catch-up is still $1,000)
- SSA benefits will increase 2.5% in 2025.
- Social Security wage limit $176,100 – 2025 wage base.
- QBID income phaseout starting point $383,900 & $191,950.
- Foreign Earned income Exclusion - $126,500 per person (combined maximum of $253,000 for Married couples)
- Lifetime Estate/Gift Exclusion - $13,610,000; Annual Gift Exclusion - $18,000; NRA Spouse - $190,000.

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Estate and Trust Taxes

- Federal estate, gift and GST exclusion amounts increased for 2024 & 2025:
  - 2024: $13,610,000
  - 2025: $13,990,000
- Lifetime exclusion amounts set to sunset as of January 1, 2026. Absent legislation the lifetime limits will reduce by approximately half of 2025 amounts.
- Annual gift tax exclusion:
  - 2024: $18,000
  - 2025: $19,000

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Estate and Trust Taxes

Continued

- Monitor developments to the Corporate Transparency Act and its implications on estates and trusts.
- Consider state estate tax implications. MD and DC both have estate taxes and MD has an inheritance tax.
- SECURE Act implemented delayed RMD rules. Required age for RMDs is now 73. Review inherited IRAs to determine tax implications to beneficiaries.
- Elimination of the "Stretch IRA". Most inherited IRAs must be fully paid out within 10 years of the death of the original account holder.

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2025 Federal Taxable Estate Tax Brackets

Tax Rate	Taxable Amount (Exceeding Exemption)
18%	$0 to $10,000
20%	$10,001 to $20,000
22%	$20,001 to $40,000
24%	$40,001 to $60,000
26%	$60,001 to $80,000
28%	$80,001 to $100,000
30%	$100,001 to $150,000
32%	$150,001 to $250,000
34%	$250,001 to $500,000
37%	$500,001 to $750,000
39%	$750,001 to $1 million
40%	More than $1 million

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Polling Question #3

What aspect of tax filing do you find most challenging?

A. *Understanding new tax laws and regulations.*
B. *Accurately documenting deductions and credits.*
C. *Meeting filing deadlines.*

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301-951-9090 | www.grfcpa.com

Julie Hulem, CPA

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Senior Manager, Tax

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