

May 24, 2024

Dear Friends and Colleagues,

As the school year ends and summer approaches, here are some tax and financial issues you should be aware of:

2024 Pass-Through Entity Tax Credit

As a reminder, California requires a “down-payment” on the Pass-Through Entity Tax Credit (PTE) for 2024, due June 17, 2024.

This amount is calculated one of two ways:

1. If you did not take advantage of the PTE credit for the 2023 tax year, then you are required to pay \$1,000 to California, with the remaining balance of the 2024 credit payable by December 31, 2024.
2. If you did take advantage of the PTE credit for the 2023 tax year, then you are required to pay 50% of the 2023 credit, with the remaining balance of the 2024 credit payable by December 31, 2024.

Taxpayers must pay the greater of these two amounts. There are no exceptions to this requirement. Taxpayers who don't pay the correct amount by June 17, 2024 will not be able to take advantage of the PTE credit for 2024.

As a review, several states, including California, enacted legislation that allows S-Corporations and partnerships to pay state income taxes at the business level via their Pass-Through Entity (PTE) tax return - Form 1120S or Form 1065. This treatment allows state taxes paid at the entity level to be deductible by the shareholder/partner for Federal income tax purposes. This “work-around” was designed to avoid the current \$10,000 limitation on the deductibility of state and local taxes for Federal tax purposes.

The shareholder/partner will report their share of the corporate or partnership net income to the Internal Revenue Service, but this net will be reduced by the amount of the state tax paid at the entity level. For California, the state tax deducted on the federal return will be added back into net income on the California K-1, but the owners will receive a California tax credit for the tax paid.

Page 2

Boiling it down, this allows the K-1 recipient to reduce their federal AGI by the state tax paid, rather than having a state tax deduction on Schedule A. As you know, the state taxes deduction is subject to the \$10,000 state and local tax (SALT) limit.

Tax Deadlines

After several years of turmoil, our upcoming tax deadlines have reverted back to usual form:

Form 1040 Extended Due Date: October 15, 2024

Form 1120S (S Corporation) Extended Due Date: September 16, 2024

Form 1065 (Partnership/LLC) Extended Due Date: September 16, 2024

Form 1041 (Estates and Trusts) Extended Due Date: September 30, 2024

Form 1120 (C Corporation) Extended Due Date: October 15, 2024

2024 Individual Quarterly Estimated Tax Due Dates:

Second Quarter – June 17, 2024

Third Quarter – September 16, 2024

Fourth Quarter – January 15, 2025

Possible Tax Legislation Still in Limbo

Tax leaders in Congress have agreed in principle to some changes/extensions to the current tax code, but with elections looming, it is likely that no progress will be made. Here are the highlights:

- Increasing the maximum refundable Child Tax Credit over the next three years;
- Pushing back the reduction of the 100% bonus depreciation deduction to 2026 (originally scheduled to drop to 80% for property placed in service in 2023);
- Increasing the maximum amount of the IRC §179 (Section 179) current expense deduction to \$1.29 million;
- Barring new Employee Retention Credit (ERC) claims after January 31, 2024; and,
- Increasing the reporting threshold for filing Form 1099-NEC and 1099-MISC from \$600 to \$1,000, applicable to payments made after 2023.

Page 3

Beneficial Ownership Information Report Requirements

Effective January 1, 2024, the Financial Crimes Enforcement Network (FinCEN) has issued reporting requirements for anyone who has an ownership interest in or controls a Closely Held Entity.

For the purposes of these reporting requirements, a Closely Held Entity is a corporation, a limited liability company, or any other entity created by the filing of a document with a Secretary of State. It does not include sole proprietors.

A reporting company created or registered to do business before January 1, 2024, will have until December 31, 2024 to file its initial Beneficial Ownership Information report.

A reporting company created or registered in 2024 will have 90 calendar days to file after receiving actual or public notice that its creation or registration is effective.

A beneficial owner is an individual who either directly or indirectly: (1) exercises substantial control over the reporting company, or (2) owns or controls at least 25% of the reporting company's ownership interests.

Again, any Closely Held Entity that was in existence prior to January 1, 2024 has until December 31, 2024 to file this report.

We are waiting for the FinCEN website to work out some online kinks. Once that is done, we will then pass along filing instructions.

Should you have any questions about the above information, or any other tax planning issues, please feel free to reach out by phone or email.

Sincerely,



Tom A. McFerson, CPA, ABV
Gatto McFerson, CPAs