GattoMcFerson
Certified Public Accountants

October 31, 2024

Dear Friends, Colleagues and Dodger Fans,

As the election season comes to a close, future tax changes have generally been low on the list as far as talking points for the two candidates. Still, with two months to go before the end of the year, there have been some recent tax and financial developments that you should be aware of:

Tax Deadlines

Looking forward, here is a list of the upcoming tax deadlines**:**

Form 1040 Due Date: April 15, 2025. Extended Due Date: October 15, 2025

Form 1120S (S Corporation) Due Date: March 15, 2025. Extended Due Date: September 15, 2025

Form 1065 (Partnership/LLC) Due Date: March 15, 2025. Extended Due Date: September 15, 2025

Form 1041 (Estates and Trusts) Due Date: April 15, 2025. Extended Due Date: September 30, 2025

Form 1120 (C Corporation) Due Date: April 15, 2025. Extended Due Date: October 15, 2025

2024 Individual Quarterly Estimated Tax Due Dates:
    Fourth Quarter – January 15, 2025

2025 Individual Quarterly Estimated Tax Due Dates:
    First Quarter – April 15, 2025
    Second Quarter – June 15, 2025
    Third Quarter – September 15, 2025
    Fourth Quarter – January 15, 2026

Pass-Through Entity Tax Balance – No late than December 31, 2024

No Changes to Income Tax Rates

For 2024, tax rates have remained the same for single and married individuals. The taxable income thresholds, however, have been adjusted for inflation.

Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$11,600	10%
$11,600	$47,150	12%
$47,150	$100,525	22%
$100,525	$191,950	24%
$191,950	$243,725	32%
$243,725	$609,350	35%
$609,350		37%

Married filing jointly

Taxable income over	But not over	Is taxed at
$0	$23,200	10%
$23,200	$94,300	12%
$94,300	$201,050	22%
$201,050	$383,900	24%
$383,900	$487,450	32%
$487,450	$731,200	35%
$731,200		37%

Always remember, the taxable income rates and thresholds aren't all or nothing. You only pay tax at the higher rate on the income that exceeds the corresponding threshold.

More than likely, one party will not control the entire government heading into 2025, meaning that radical changes to the tax law next year are unlikely. However, if you believe that tax rates will increase in 2025, better to accelerate income into 2024 and push expenses into 2025. If you believe that tax rates will decrease or remain stable in 2025, consider pushing income into 2025 and/or accelerating expenses into 2024.

The same theory applies to long-term capital gains. If you believe that long-term capital gain rates will increase in 2025, better to accelerate gains into 2024 and push losses into 2025. If you believe that long-term capital gain rates will decrease or remain stable in 2025, consider pushing gains into 2025 and/or accelerating losses into 2024.

Pass-Through Entity Tax Payments

As we have discussed before, 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.

To take advantage of the PTE Credit for 2024, California required a "down-payment" on this credit.

This amount was calculated one of two ways:

1. If you did not take advantage of the PTE credit for the 2023 tax year, then you were required to pay $1,000 to California before June 15, 2024, 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 were required to pay at least 50% of the 2023 credit before June 15, 2024, with the remaining balance of the 2024 credit payable by December 31, 2024.

To be eligible for the 2024 PTE credit, you had to have already paid the greater of these two amounts. There are no exceptions to this requirement.

Expiring Tax Provisions

Back in 2017, the Tax Cuts and Jobs Act was passed, resulting in some significant individual and business tax law changes. Many of these changes are set to expire after 2025.

Individual tax rates: The 2017 Tax Act lowered tax rates across the board. The top rate decreased from 39.6% to 37%. These tax rates are set to sunset Dec. 31, 2025, with the top tax rate reverting back to 39.6%.

Standard deduction: This amount was almost doubled for all filers, making it more beneficial for many taxpayers to not itemize. Beginning in 2026, this increase will go away.

Itemized Deductions – SALT: The state and local tax (SALT) deduction was capped at $10,000, which for taxpayers in states like California and New York, was devastating. After 2025, this limitation will expire. Also, as a side note, if this change disappears, so too will the Pass-Through Entity Tax credit, which was implemented by high-tax-rate states as a work-around to this provision.

Itemized Deductions - Mortgage Interest: The 2017 Act limited the home mortgage interest deduction to the first $750,000 of debt for any debt borrowed after December 2017. Beginning in 2026, the mortgage interest deduction will revert back to the first $1 million in home mortgage debt and $100,000 in a home equity loan.

Itemized Deductions – Miscellaneous: The 2017 Act eliminated most miscellaneous itemized deductions that exceeded 2% of the taxpayer's Adjusted Gross Income, such as investment/ advisory fees and unreimbursed employee expenses. These deductions will once again be allowed, assuming they exceed the 2% floor.

Child tax credit: The 2017 Act increased the child tax credit from $1,000 to $2,000 per qualifying child.

Personal exemptions: The 2017 Act suspended the personal exemption, which, at the time, was $2,000 per dependent.

Alternative Minimum Tax: The 2017 Act increased the exemption amounts, essentially eliminating this extra tax for most taxpayers.

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Sec. 199A - Qualified Business Income (QBI): Shareholders and owners of passthrough businesses (S Corporations, LLCs) and sole proprietorships, can now claim a deduction of up to 20% of their QBI. Beginning in 2026, this will no longer be available.

Bonus depreciation on qualified business property: The 2017 Act allowed for a large increase in the amount of qualified property (equipment, fixtures, improvements) that could be written off by a business in the year of purchase. This increase will be eliminated.

Estate and Gift Tax: The 2017 Act almost doubled the estate tax exclusion amount from $5,490,000 in 2017 to $11,180,000. The current exclusion amount, after inflation, is nearly $13 million per person ($26 million for married couples). At the end of 2025, this increased exclusion will sunset, decreasing to about half of its current level.

Employee Retention Credit Claims

The IRS recently announced that they are processing 400,000 Employee Retention Credit (ERC) claims submitted prior to February 1, 2024. These represent about $10 billion in potential refunds.

The IRS has also:

- Prioritized the outstanding "low-risk" claims and prepared them for payment. They have approved approximately 50,000 "low-risk" ERC claims submitted prior to September 14, 2023, and will begin issuing payments starting in September 2024;
- Denied 28,000 "high-risk" claims totaling over $5 billion in refund requests;
- Begun examining the remaining claims that are considered "in between."

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.

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,

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