

Tax Planning for 2024 and 2025

Southern California Veterinary Medical Association
Webinar
December 18, 2024

Tom A. McFerson, CPA, ABV
tom@gattomcferson.com

GattoMcFerson

1

Tom A. McFerson, CPA, ABV



- Mr. McFerson is the primary shareholder at Gatto McFerson, CPAs, a veterinary-focused financial and consulting firm located in Los Angeles, California.
- He is accredited in business valuations by the American Institute of Certified Public Accountants, and is a former director and active member of Vet Partners.
- Grew up in Fresno, California.
- Graduated from Loyola Marymount University in Los Angeles, California.
- Outside of work, Tom plays a lot of tennis, is an active dad with his three kids, and loves to travel with his wife and family, which includes two lovable labs.

GattoMcFerson

2



GattoMcFerson

3

Before we get into taxes...

- Due Dates Back to Normal
- Employee Retention Credits
- Beneficial Ownership Information Reporting
- Pass-Through Entity Credit
- State of the Veterinary Economy

GattoMcFerson

4

Due Dates

- 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

GattoMcFerson

5

Due Dates

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

GattoMcFerson

6

Due Dates

- 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

GattoMcFerson

7

Employee Retention Credits

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;

GattoMcFerson

8

Employee Retention Credits

The IRS has also:

- Begun examining the remaining claims that are considered “in between.”
- Begun gearing up for ERC audits.

GattoMcFerson

9

Beneficial Ownership Information

On hold for now, pending court rulings, but be aware...

GattoMcFerson

10

Beneficial Ownership Information

- Starting in 2024, closely held entities that have filed formation papers with their state’s Secretary of State office (or the equivalent) must file a report with the U.S. Treasury Department’s Financial Crimes Enforcement Network (FinCEN), providing specified information regarding the entity’s “beneficial owners.”
- Entities in existence prior to January 1, 2024, have until December 31, 2024 to file their initial Beneficial Ownership Information report.
- This is part of the federal government’s anti-money laundering and anti-tax evasion efforts, and failure to comply can result in significant penalties imposed against the entity itself and the beneficial owners (shareholders/partners).
- Beneficial owners are broadly defined as owners who directly or indirectly own at least 25% of the entity’s ownership interests or exercise substantial control over the reporting company.

GattoMcFerson

11

Beneficial Ownership Information

Entities that are required to file

- S Corporations
- C Corporations
- Limited Liability Companies (even single member)
- Limited Partnerships
- Limited Liability Partnerships

GattoMcFerson

12

Beneficial Ownership Information

Entities that are NOT required to file

- Sole Proprietorships
- General Partnerships
- Trusts
- Tax Exempt Organizations
- Entities dissolved prior to January 1, 2024

GattoMcFerson

13

Beneficial Ownership Information

Information required from reporting company

- Full legal name
- Company's trade or "doing business as" name
- Complete current address
- State where the company was formed
- Company's taxpayer identification number (EIN). If a disregarded entity or single-member limited liability company (SMLLC), then the individual's SSN.

GattoMcFerson

14

Beneficial Ownership Information

Information required from beneficial owners

- Individual's full legal name
- Date of birth
- Complete current residential address
- Unique identifying number and the issuing jurisdiction from one of the following nonexpired documents issued to the individual:
 - State driver's license
 - U.S. Passport
- An image from the driver's license or passport.

GattoMcFerson

15

Pass-Through Entity Credit

Several states, including California, have recently 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.

GattoMcFerson

16

Pass-Through Entity Credit

To be eligible to take credit for 2024 tax year, you would need to have made a payment by June 15, 2024.

This payment would have been the greater of:

\$1,000 or

50% of your 2023 PTE credit

GattoMcFerson

17

2024 General Economy in a Nutshell

- Unemployment is Down
- Interest Rates are Coming Down
- Consumer Spending is Mixed
- Home Values are Flat
- Stock Market is Up
- Inflation is Steady

GattoMcFerson

18

2025 General Economy?

- Election?
- Inflation?
- Russia/Israel Impact?
- Tax Plan Passed?
- Labor Shortage?
- Stock Market?

GattoMcFerson

19

Veterinary Economy in a Nutshell

- Pet Ownership is Steady
- Demand for Service is Drifting Down
- Consumer Spending is Sideways
- Profitability is Flat/Down
- Practice Value is Flat
- Availability of Labor is Down
- Increase in Start-Ups

GattoMcFerson

20

Veterinary Labor Market

- Incredibly High Demand
- Shortage of Candidates
- Salaries Rising
- Benefits Increasing
- Consolidators Tipping Scales
- Flexible Schedules
- Competitive

GattoMcFerson

21

Veterinary Consolidation Market

- Contraction
- Higher Interest Rates Impacting
- Big Players Backing Off/Slowing Down
- Multiples Shrinking
- Less Cash Up Front
- Last Minute Reversals
- Doctor Shortages Taking Toll
- Practice Closures

GattoMcFerson

22

Taxes!!

GattoMcFerson

23

Tax Law

2024
Single taxpayers

Taxable income over	But not over	Is taxed at
\$0	\$11,600	10%
\$11,601	\$47,150	12%
\$47,151	\$100,525	22%
\$100,526	\$191,950	24%
\$191,951	\$243,725	32%
\$243,726	\$609,350	35%
\$609,351		37%

GattoMcFerson

24

Tax Law

2024
Married filing jointly

Taxable income over	But not over	Is taxed at
\$0	\$23,200	10%
\$23,201	\$94,300	12%
\$94,301	\$201,050	22%
\$201,051	\$388,900	24%
\$388,901	\$487,450	32%
\$487,451	\$731,200	35%
\$731,201		37%

GattoMcFerson

25

Taxes

Keep in Mind...

These taxable income thresholds aren't all or nothing. You only pay tax at the higher rate on the income that exceeds the corresponding threshold. Marginal.

GattoMcFerson

26

Taxes

Year-End

Given that it now appears rates will remain the same next year, consider pushing income into 2025 and/or accelerating expenses into 2024.

GattoMcFerson

27

Taxes

No Changes to Long-Term Capital Gains/Qualified Dividends

- It appears long-term capital gain rates will remain the same.

GattoMcFerson

28

Taxes

No Changes to Long-Term Capital Gains/Qualified Dividends

- Given that the stock market has been up, consider pushing gains into 2025 and/or realizing losses in 2024.
- Also, the rush to close a business sale by the end of the year has been greatly diminished. In fact, if capital gain rates do remain unchanged, then pushing a sale off to early 2025 might be the better play.

GattoMcFerson

29

Underground Economy

In an attempt by the IRS to crack down on the underground economy, taxpayers should plan on possibly receiving more 1099s for the 2025 tax year.

Third-party payment processors (Venmo, PayPal, eBay, Crypto-related) are now required to provide 1099-Ks to individuals who have more than \$5,000 worth of transactions with the processor for the year. Will drop to \$600 in 2025.

The processor will likely not know whether a transaction is personal or taxable, so the burden to clarify will fall on the taxpayer.

GattoMcFerson

www.gattomcferson.com

30

Taxes

E-Filing and Direct Deposits Highly Recommended

According to the IRS, tax returns that are paper filed, and/or refunds using paper checks will take much longer to process this year. Filing electronically and opting to receive refunds via direct deposit will significantly decrease the processing time. It also reduce possibility of fraud.

GattoMcFerson

31

Student Loan Payment Exclusion

One piece of legislation that doesn't get much attention is Section 2206 of the CARES Act, which allows employers to make up to \$5,250 in tax-free annual payments directly to their employees or their employees' federal student loans.

These payments represent the best of both worlds. Employees don't pay tax on this added "income," and employers can still deduct these payments while not paying additional payroll taxes on these funds.

The provision has been extended until December 31, 2025.

Nice recruiting tool for attracting and retaining employees.

GattoMcFerson

32

Section 179/Bonus Depreciation – New Equipment/Assets

- Still one of the best tax planning tools for small businesses.
- Veterinary practices can write-off the cost of qualifying new equipment (digital x-ray or computers, for example) placed in service, up to \$1,160,000 in a given year.
- Bonus Depreciation allows practice owners to also write-off longer term assets such as improvements and furnishings.

GattoMcFerson

33

Section 179/Bonus Depreciation – New Equipment/Assets

- This provision provides financial assistance to veterinarian looking to improve or expand her/his practice.
- Can finance equipment, get full write-off with very little money spent up front.
- As long as the equipment is signed for and in service by the end of the year, this deduction can be taken.
- Equipment acquired through a capital lease also qualifies.

GattoMcFerson

34

Retirement Plans - 2024

Change in Required Minimum Distributions:

There has been an increase in the beginning age for mandatory Required Minimum Distributions, from age 72 to age 73 starting in 2023, and then to age 75 starting in 2033.

GattoMcFerson

35

Retirement Plans - 2024

The IRS has significantly increased the contribution limits for 2024 retirement plans, as follows:

IRA contributions have been increased to \$7,000 (up from \$6,500 for 2023). The \$1,000 IRA catch-up contribution limit for those over 50 years old remains.

401(k) employee contribution limits have been increased to \$23,000 (up from \$22,500 for 2023) and the catch-up contribution limit for taxpayers above aged 50 remains at \$7,500. The total 401(k) contribution for taxpayers age 50 and over will now be \$30,500 for 2024 (\$23,000 regular contribution + \$7,500 catch-up contribution).

SIMPLE IRA contribution limit have been increased to \$16,000 (up from \$15,500)

SEP contribution limits have been increased to \$69,000 (up from \$63,000).

GattoMcFerson

36

ROTH Conversions

Is now the time to convert a traditional IRA to a Roth IRA? You pay tax on the converted amount, but future earnings are tax-free.

Factors to consider:

- Current income/tax rate in 2024. If a low-income year, may be the time to take advantage
- Value of your IRA has gone down
- Current age
- No RMDs for Roth
- Can convert in pieces

GattoMcFerson

37

Pass-Through Entity Credit

Several states, including California, have recently 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.

GattoMcFerson

38

Pass-Through Entity Credit

- 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.

GattoMcFerson

39

Pass-Through Entity Credit

Questions about the Pass-Through Entity Credit

- Can you walk us through a simple calculation?

McFerson Enterprises, Inc. is taxed as an S Corporation, has one shareholder, and has qualified net income of \$200,000 for the year. Using the required 9.3% tax rate, the corporation makes a payment of \$18,600 to the FTB. The corporation then reports \$181,400 (\$200,000 - \$18,600) of net income on the Federal Form 1120s. The California returns filed will report \$200,000 of net income, and a credit of \$18,600 will be available for use against the sole shareholder's individual California income tax.

The shareholder then reports this credit on his/her personal California tax return

GattoMcFerson

40

Inherited IRA

The IRS has finally clarified the regulations surrounding the distribution rules for inherited IRAs. In the Secure Act of 2019, beneficiaries were told that they had to withdraw the funds from inherited accounts within 10 years. New wrinkles to this rule change have now been published:

This does not apply to designated beneficiaries, which include spouses, minor children, and disabled or chronically ill individuals.

GattoMcFerson

41

Inherited IRA

Individuals who have inherited an account from a deceased individual who had been taking required minimum distributions must continue taking annual withdrawals. The inherited IRA must be fully disbursed by the end of 10 years.

Individuals who have inherited an account from a deceased individual who had not been required to take minimum distributions have the flexibility to take as much or as little in annual withdrawals, as long as the inherited IRA is fully disbursed by the end of the 10 years.

2025 You will be required to get on track.

GattoMcFerson

42

Sunsetting Tax Laws

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.

GattoMcFerson

43

Sunsetting Tax Laws

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%.

GattoMcFerson

44

Sunsetting Tax Laws

The standard deduction was increased from \$6,350 to \$12,000 for single taxpayers (now at \$14,600), and from \$12,700 to \$24,000 for married filing jointly (now at \$29,200). Head of Household now has a \$21,900 standard deduction.

Before, the personal exemption deduction was \$4,050 per person. This has been eliminated.

GattoMcFerson

45

Sunsetting Tax Laws

Keep in Mind...

This change was part of the tax simplification goal. Close to 29 million taxpayers will no longer have to file itemized deductions because of this increase to the standard deduction.

GattoMcFerson

46

Sunsetting Tax Laws

Mortgage Interest – For newly purchased homes (after December 15, 2017), the limit on indebtedness was reduced to \$750,000, from prior \$1.1 million.

Example:

Mortgage Loan Limitation	\$ 750,000
Actual Taxpayer Mortgage	\$ <u>1,200,000</u>
% Deductible	62.50%

Total Interest Paid	\$ 48,000
Amount Deductible	\$ 30,000
Amount Lost	\$ 18,000

GattoMcFerson

47

Sunsetting Tax Laws

Keep in Mind...

Taxpayers with a home mortgage in place prior to December 14, 2017 will still be allowed to deduct the interest paid, assuming the loan balance is \$1,100,000 or less. For taxpayers with mortgages initiated after this date, the deduction was limited to interest paid on the first \$750,000 in loan amount only. Paying down your mortgage in excess of \$750,000 should be a priority, if possible.

GattoMcFerson

48

Sunsetting Tax Laws

SALT

- State and Local Taxes/Property Taxes – Annual deduction limited to \$10,000;
- This is a very low number for most taxpayers, but especially those who live in states with high tax rates and/or high property values;
- Pressure to remove entirely...or increase the deduction limit (from \$10,000 to \$25,000, for instance).
- If SALT went away, likely so too would PTE.

GattoMcFerson

49

Sunsetting Tax Laws

SALT

Example:

State Income Taxes	\$ 28,000
Real Estate Taxes	<u>\$ 12,000</u>
Total	\$ 40,000

Amount Deductible	\$ 10,000
Amount Lost	\$ 30,000

GattoMcFerson

50

Sunsetting Tax Laws

Keep in Mind...

A popular tax planning tool used to be prepaying some of these state income or property taxes to get the deduction in the current year. Now, it's doubtful this maneuver makes sense.

The limitation on property taxes only relates to your personal residence. It does not apply to any rental property you might own. If you happen to own the commercial building where your veterinary practice operates, there is no limitation on the property taxes that can be paid in a given year.

GattoMcFerson

51

Sunsetting Tax Laws

Alternative Minimum Tax (AMT) was not repealed, but the exemption amounts were increased, causing fewer taxpayers to be snared;

State taxes paid (income and property) used to be the main "preference" item that would pull people into AMT. Now that the state tax deduction has been limited to \$10,000, AMT is less of a factor.

GattoMcFerson

52

Sunsetting Tax Laws

Estate Tax was not repealed, but the estate and gift tax exclusion amounts were significantly increased.

Estates north of \$13.6 million will still have tax implications. Before, it was \$5.5 million;

Prior estate planning (children's trusts, planned gift giving) now being reconsidered?

GattoMcFerson

53

Sunsetting Tax Laws

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.

GattoMcFerson

54

What exactly is EBITDA?

Earnings
Before
Interest
Taxes
Depreciation
Amortization

Figures shown as taxable income or net income may be dramatically different from real operating profit

GattoMcFerson

55

What exactly is EBITDA?

- Financial/Taxable Income
 - Trying to keep low as possible
 - Includes all expenses, including quasi-business
 - May include excessive depreciation/179
 - May include excessive owner compensation
 - May include excessive owner rent
- EBITDA
 - Good to know for financing purposes
 - Valuation purposes
 - Make adjustments for perks, other non-cash items
 - Good in comparing to rest of industry

GattoMcFerson

56

What exactly is EBITDA?

	<u>Taxable Income</u>	<u>EBITDA</u>
Revenue	2,000,000	2,000,000
Less:		
Cost of Prof. Services	410,000	410,000
Payroll	960,000	910,000
Occupancy	170,000	120,000
Administrative Expenses	140,000	140,000
Loan Interest Expense	15,000	-0-
Owner Perks	35,000	-0-
Depreciation Expense	16,000	-0-
Net	\$ 254,000	\$ 420,000

Questions?

