Taxland Newsletter
2024

JULY ISSUE

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UPCOMING DEADLINES:

3rd QTR ESTIMATED TAX PAYMENTS DUE: 09-16-24

2023 Tax Deadline for those on Extension: 10-15-24

Required Minimum Distributions:

This is a friendly reminder that retirement funds cannot stay in your account indefinitely. You generally have to start taking withdrawals from your IRA, SIMPLE IRA, SEP IRA, or retirement plan accounts when you reach a certain age. As of 2023 that age is 73 years old.

Roth IRAs are generally an exception and do not require withdrawals until after the death of the owner; however, beneficiaries of a Roth IRA are subject to the RMD rules. Designated Roth accounts in a 401(k) or 403(b) plan are subject to the RMD rules for 2022 and 2023. However, for 2024 and later years, RMDs are no longer required from designated Roth accounts. 2023 RMDs due by April 1, 2024, are still required.

Your required minimum distribution, commonly known as an RMD, is the minimum amount you must withdraw from your account each year by December 31st.

- You can withdraw more than the minimum required amount.
- Your withdrawals will be included in your taxable income except for any part that was taxed before (your basis) or that can be received tax-free (such as qualified distributions from designated Roth accounts).

Do These Rules Apply to my Retirement Plan?

The required minimum distribution rules apply to original account holders and their beneficiaries in these types of plans:

- Traditional IRAs
- SEP IRAs
- SIMPLE IRAs
- 401(k) plans
- 403(b) plans
- 457(b) plans
- Profit sharing plans
- Other defined contribution plans

- Roth IRA beneficiaries (prior to 2024)

Tax Changes for 2024:

Retirement:

- Funds in 529 education accounts can be rolled over tax-free to a Roth IRA
- The 2024 contribution cap for traditional IRAs and Roth IRAs is $7,000, plus $1,000 as an additional catch-up contribution for individuals age 50 and older.
- The income ceilings on Roth IRA payins are higher. Contributions phase out at AGIs of $230,000 to $240,000 for couples and $146,000 to $161,000 for singles.
- 2024 deduction phaseouts for traditional IRAs range from AGIs of $123,000 to $143,000 for couples covered by 401(k)s and $77,000 to $87,000 for singles and household heads. If only one spouse is covered by the plan, the phaseout range for deducting payins for the uncovered spouse is $230,000 to $240,000

Standard Deductions:
Married couples can take a standard deduction of $29,200, plus $1,550 for each spouse 65 or older. Singles can claim $14,600 or $16,550 if age 65 or up. Heads of household get $21,900 plus $1,950 once they reach 65.

Capital Gains:
Tax rates on long- term capital gains and qualified dividends do not change. But the income thresholds to qualify for the various rates go up for 2024. The 0% rate applies at taxable incomes up to $94,050 for joint filers, $63,000 for household heads and $47,025 for singles. The 20% rate starts at $583,751 for joint filers, $551,351 for household heads and $518,901 for single filers. The 15% rate is for the filers with taxable incomes between the 0% and 20% breakpoints.

Electric Vehicles:
Eligible buyers of qualifying EVs can opt to monetize the up-to- $7,500 credit, starting in 2024, by transferring it to the dealer at the time of purchase, thus lowering the amount the buyer pays for the car.

Adoption:
The adoption credit is taken on up to $16,810 of qualified expenses in 2024

Healthcare:
The annual cap on deductible contributions to HSAs rises in 2024 to $4,150 for account owners with self- only coverage and $8,300 for those with family coverage.

Estate and Gift Tax:
The lifetime estate and gift tax exemption for 2024 is $13,610,000. More estate tax liability qualifies for an installment payment tax break.

Form 1099-K:
The revenue service delays the lower dollar threshold for 1099-K reporting. 2024 forms 1099-K sent out in 2025 will have a $5,000 reporting threshold.

Business Taxes:

- First-year bonus depreciation isn't as valuable in 2024. Last year, businesses could deduct 80% of the cost of new and used qualifying business assets with lives of 20 years or less. This year, the 80% write-off will decrease to 60%.

- Self-employed individuals and owners of LLCs, S corporations and other pass-throughs can deduct 20% of their qualified business income, subject to limitations for individuals with taxable incomes greater than $383,900 for joint filers and $191,950 for all others.
- The 2024 standard mileage rate for business driving is 67 cents per mile.

Notice of Underpayment of Estimated Tax:

Clients who had a balance due on their tax returns are starting to receive notices with a penalty assessed for failure to pay estimated taxes. This is not to be confused with a penalty for a late filing of your tax return. The IRS states "The Underpayment of Estimated Tax by Individuals Penalty applies to individuals, estates and trusts if you don't pay enough estimated tax on your income or you pay it late. The penalty may apply even if we owe you a refund."

"The penalty is calculated based on the tax shown on your original return or on a more recent return that was filed on or before the deadline. The tax on your return is your total tax minus your refundable credits." The IRS calculates the penalty based on:

- The amount of the underpayment
- The Period when the underpayment was due and underpaid
- The interest rate for underpayments that the IRS publishes quarterly

Avoid a Penalty-

The only way to avoid a penalty is to make your estimated tax payments throughout the year or have additional withholdings from your earned income or distributions. **There is however an exemption <u>if you meet all three</u> of the following criteria, you had no tax liability for the prior year, you were a U.S. citizen or resident alien for the whole year and your prior tax year covered a 12-month period.**

As explained here by the IRS "Taxes must be paid as you earn or receive income during the year, either through withholding or estimated tax payments. If the amount of income tax withheld from your salary or pension is not enough, or if you receive income such as interest, dividends, alimony, self-employment income, capital gains, prizes and awards, you may have to make estimated tax payments. If you are in business for yourself, you generally need to make estimated tax payments.

If you don't pay enough tax through withholding and estimated tax payments, you may have to pay a penalty. You also may have to pay a penalty if your estimated tax payments are late, even if you are due a refund when you file your tax return."

If you are someone who consistently owes on your tax return and you are looking to avoid this penalty we urge you to make estimated tax payments. If you are a W-2 employee you could also consider adjusting your withholdings to prevent yourself from having a balance due altogether.

IF YOU ARE INTERESTED IN LEARNING MORE, CONTACT OUR OFFICE TO SCHEDULE A TELEPHONE CALL OR MEETING. WE ARE HERE TO HELP YOU.

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