SAWTOOTH
TAX & ACCOUNTING
FINANCIAL AND BUSINESS CONSULTING
ESTATE AND TAX PLANNING

December, 2024

Re: Year-end tax and financial planning for individuals

As we wrap up 2024, it's important to take a closer look at your tax and financial plans and discuss steps to reduce taxes and help you save for your future. With a new administration on the horizon and many provisions of the Tax Cuts and Jobs Act (TCJA) set to expire soon, some form of change is likely. We continue to closely monitor any potential tax legislation and update you accordingly.

We are here to clarify tax and financial planning opportunities and assist you in implementing strategies to reduce your tax burden. Please contact us at your earliest convenience to discuss your situation so we can develop a customized plan. In the meantime, here's a look at some issues impacting individuals as we approach year-end.

Upcoming sunset of TCJA provisions

As we approach the end of 2025, it is crucial to be aware of the upcoming changes due to the scheduled sunset of the provisions enacted in 2017 in the TCJA. Unless Congress acts, several key benefits will expire on December 31, 2025, impacting your tax situation starting in 2026.

A major change will impact individual income tax rates. The lower brackets will return to pre-2018 levels, and the nearly doubled standard deduction will drop back to its former amount (adjusted for inflation). Therefore, assessing your income and itemized deductions in 2024 and 2025 could be crucial to capitalizing on existing tax benefits.

Charitable contribution planning

If you are planning to donate to a charity, it's likely better to make your contribution before the end of the year to potentially save on taxes. There are many tax planning strategies we can discuss with you about charitable giving.

- Consider donating appreciated assets that have been held for more than one year, rather than cash. You benefit from a deduction for the FMV of your appreciated stock and avoid taxes on capital gains from the appreciation.

- Opening and funding a donor advised fund (DAF) is appealing to many as it allows for a tax-deductible gift in the current year and the ability to distribute those funds to charities over multiple years.
- Qualified charitable distributions (QCDs) are another beneficial option for those over age 70 1/2 who don’t typically itemize on their tax returns. If you have a required minimum distribution (RMD) from your retirement accounts, this could be a great strategy for you.

It is essential to maintain proper documentation of all donations, including obtaining a letter from the charity confirming that no goods or services were provided in exchange for donations of $250 or more.

Required minimum distributions (RMDs)

You cannot keep retirement funds in your account indefinitely. RMDs are the minimum amount you must annually withdraw from your retirement accounts once you reach a certain age (generally age 73). Failure to do so can result in significant penalties. There are also opportunities to roll retirement funds to a qualified charity to satisfy your RMD without incurring taxes. We can assist you in calculating your RMDs and planning for potential tax exposure. Also, with the anticipated end of the TCJA, now might be a good time to convert some traditional IRA funds into Roth IRAs before higher tax rates are implemented.

Digital assets and virtual currency

Digital assets are defined as any digital representations of value that are recorded on a cryptographically secured distributed ledger or any similar technology. For example, digital assets include non-fungible tokens (NFTs) and virtual currencies, such as cryptocurrencies and stablecoins.

The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services or having such currencies that you hold as an investment, generally have tax impacts — and the IRS continues to increase its scrutiny and reporting requirements in this area. We can help you understand the tax and investment consequences.

If you hold and transact with digital assets, you should be aware of a safe harbor that allows for the allocation of unused basis before the end of the year if you used the universal method to determine the cost of those assets.

Energy tax credits

“Going green” continues to offer significant tax incentives. The Inflation Reduction Act of 2022 included new and expanded tax credits for solar panels, electric vehicles (EVs) and energy-efficient home improvements. While the rules are complex, there is time to benefit from these credits in the current year. It’s important to note that these credits have specific eligibility requirements and limitations.

The tax credits for energy efficient home improvements recently underwent significant changes. This credit now has an annual limit rather than the lifetime limit that was in place previously. This change allows homeowners to benefit from the credits year after year if they continue to make energy-efficient upgrades. The energy efficient home improvements credit covers a wide range of improvements, including installing windows, doors, insulation, and various types of heat pumps.

Beneficial ownership interest (BOI) reporting

The Corporate Transparency Act (CTA), effective January 1, 2024, mandates the disclosure of the beneficial ownership information of certain entities to the Financial Crimes Enforcement Network (FinCEN). Notably, this reporting requirement may also apply to single member LLCs, which are typically disregarded entities for income tax purposes.

It is crucial to understand that this is not a tax filing requirement, but rather an online report submitted directly to FinCEN if applicable. There are severe penalties for businesses who willingly do not comply with the requirements. For entities in existence before January 1, 2024, the report must be filed by January 1, 2025. There are other deadlines related to entities created during 2024 and those with changes to reported information.

The reporting is made directly through FinCEN's website at www.fincen.gov/boi. It is important to note that this is a one-time filing requirement unless there are changes to the reported information.

Additional tax and financial planning considerations

We recommend you review your retirement plans at least annually. That includes making the most of tax-advantaged retirement saving options, such as traditional individual retirement accounts (IRAs), Roth IRAs and company retirement plans. It is also advisable to take advantage of health savings accounts (HSAs) that can help you reduce your taxes and save for medical-related expenses.

Here are a few more important tax and financial planning items to consider and discuss with us:

- **Life changes** — Let us know about any major changes in your life such as marriages or divorces, births or deaths in the family, job or employment changes, starting a business and significant expenditures (real estate purchases, college tuition payments, etc.).
- **Capital gains** and loss harvesting— Consider tax benefits related to using capital losses to offset realized gains. Think about selling portfolio investments that are underperforming before the end of the year. Net capital losses can offset up to $3,000 of the current year's ordinary income. The unused excess net capital loss can be carried forward to use in subsequent years.
- **Estate and gift tax planning** — Be sure you are appropriately planning for estate and gift taxes. There is an annual exclusion for gifts ($18,000 per donee in 2024, $36,000 for married couples) to help save on potential future estate taxes. Review lifetime gift and generation skipping transfer (GST) opportunities to use additional exclusions and exemption amounts.
- **State and local taxes** — Remote working arrangements or moving your residency could potentially have tax implications to consider. We can help you with your state income, sales and use tax questions.
- **Education planning** — Save for education with Sec. 529 plans. There can be income tax benefits to do so, and there have been changes in the way these funds can be used. We can help you with any questions.
- **Updates to financial records** — Determine whether any updates are needed to your insurance policies or beneficiary designations.
- **Roth IRA conversions** — Evaluate the benefits of converting your traditional IRA to a Roth IRA to lock in lower tax rates on some of your pre-tax retirement accounts.
- **Estimated tax payments** — With underpayment interest rates currently at 5% for federal, it is a good idea to review withholding and estimated tax payments and assess any liquidity needs. If you have income flowing through from a business, you may benefit from a state's Pass-Through Entity (PTE) provisions.

Year-end planning equals fewer surprises

Whether it's working toward a tax-optimized retirement or getting answers to your tax and financial planning questions, we're here for you. Please contact our office today to set up your year-end review. As always, planning ahead can help you minimize your tax bill, avoid surprises, and position you for greater success.