Annual Tax Update

December 11, 2024

Qualifying for CPE

Remain in session for **100 minutes**

Respond to **6 polling questions**

Complete post-session **survey**

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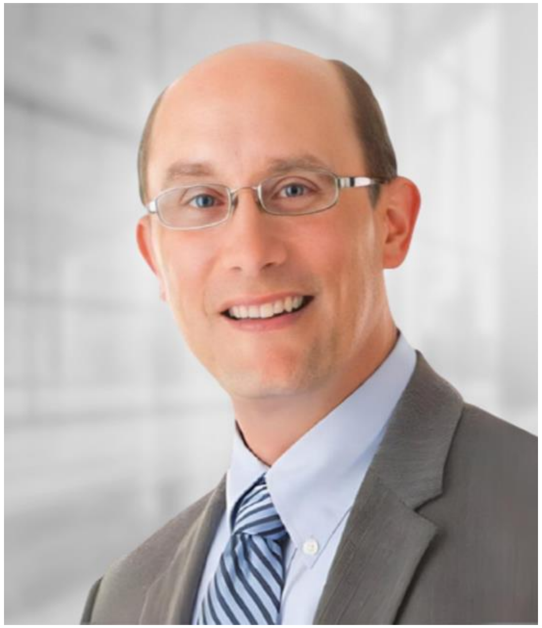

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President-Elect Trump – Tax Issues

President-elect Trump Administration

Impact on Tax Legislation and Administration to Pay Attention to

- How Tariffs will be implemented and the Revenue generated will be utilized
- How will the Department of Government Efficiency (DOGE) impact organizations such as the Internal Revenue Service (IRS)
- How easily President-elect Trump, in conjunction with Republican control of both the House of Representatives and the Senate, will be able to shape the Tax landscape (even with the “reconciliation process” that will be required)
- How President-elect’s nominee to serve as Head of the IRS (Billy Long) will impact the current plan to increase headcount and continue to improve customer service and compliance
- How will the timing of expected Tax Law Changes impact Tax Planning and Tax Compliance for both Federal and State tax purposes?

Polling Question #1

How much time have you spent planning for the potential December 31, 2025, expiration of the TCJA tax provisions?

A. One (1) day

B. Three (3) days

C. One (1) week

D. More than one (1) week

Tax Cuts and Jobs Act – Planning for Expiring Provisions - 2026

Post-Tax Cuts and Jobs Act of 2017 (TCJA) Tax Planning

Expiring or changing after December 31, 2025

- Business Tax Provisions
  - IRC Sec 199A – Qualified Business Income Deduction
    - Current Law – A 20 % Deduction may be taken against "qualified business income" from a Partnership, S Corporation, or Sole Proprietorship (limitations apply).
    - Expires after December 31, 2025
  - Bonus Depreciation
    - Discussed below
    - Eliminated after December 31, 2026 (returns to normal depreciation methodologies, i.e., No Bonus amount)

Business Tax – Expiring Provisions

Expiring or changing after December 31, 2025

- Meals Deduction (IRC Sec. 274(o))
  - Current law – A 50% deduction limitation applies for any food or beverage expense provided by employers as de minimis fringe for meals provided at a restaurant or for the "convenience of an employer" under IRC Sec. 119
  - Law change – Deduction for these types of "Meals" ends for tax years beginning after December 31, 2025

- Global Intangible Low-Taxed Income (GILTI) and Foreign Derived Intangible Income (FDII)
  - Current law – Domestic corporations are allowed a 50% deduction for GILTI amounts (resulting in a 10.5% tax rate) and a 37.5% deduction for income deemed derived from foreign intangibles (FDII), which results in a 13.125% tax rate
  - Law change – Deduction for GILTI is reduced to 37.5%, and the FDII deduction is reduced to 21.87% (resulting in an increased GILTI tax rate of 12.5% and an increased FDII tax rate of 16.4%

Business Tax – Expiring Provisions

Depreciation Planning

- Bonus Depreciation
  - 100% – 2021-2022
  - 80% – 2023
  - 60% – 2024
  - 40% – 2025
  - 20% – 2026

Business Tax – Expiring Provisions

Depreciation Planning (cont.)

- §179 Depreciation
  - Maximum expense election
  - 2023 – $1,160,000
  - 2024 – $1,220,000
  - 2025 – $1,250,000

- Phaseout threshold
  - 2023 – $2,890,000
  - 2024 – $3,050,000
  - 2025 – $3,130,000

Business Tax – Expiring Provisions

Depreciation Planning (cont.)

- Consider Cost Segregation Study
  - New Construction
  - Building purchase
  - Remodel
- Consider elections to slow down depreciation
  - Manage tax rates
  - Manage Excess Business Losses
  - Manage Net Operating Losses

Polling Question #2

Are you more focused on planning for the expiring TCJA provisions, that are effective after December 31, 2025, that relate to the Individual/Trust/Estate Tax provisions or the Business Tax provisions?

A. Individual/Trust/Estate Tax

B. Business Tax

Tax Developments – 2024

Tax Developments

Small Business Taxpayer Exception

- Taxpayers with average gross receipts of less than:
  - $29,000,000 for 2023
  - $30,000,000 for 2024
  - $31,000,000 for 2025
- May make an accounting method change to elect:
  - To use the cash method of accounting
  - To be exempt from the requirement to maintain inventories
    - However, the taxpayer must:
    - Treat raw materials inventory as “non-incidental materials and supplies, **or;**
    - Follow “applicable financial statement treatment”
- To be exempt from the requirement to use percentage-of-completion accounting for long-term contracts to be completed in two years

Tax Developments

Research & Development Expenses

- Effective for amounts paid or incurred in tax years beginning after December 31, 2021, taxpayers may no longer deduct research & development expenditures (IRC §174)
- These expenditures must be capitalized and amortized

	Amortization Period
Domestic R&D	5 Years
Foreign R&D	15 Years

- Software Development – Amounts paid in connection with software development shall be treated as a research & development expenditure
- Notice 2024-12 (December 22, 2023) – IRS Issued Guidance on Application of IRC §174
- State Non-Conformity (California, Georgia, Indiana, Mississippi, Tennessee, Texas and Wisconsin)

Tax Developments

Internal Revenue Service (IRS) – Large Business and International Pass-through Compliance Unit

- IRS News Release - IR-2024-276 and IR-2024-284 – October 22nd and 29th, 2024, respectively.
- New Pass-through field operations unit
- Devoted to ensuring compliance of pass-throughs of "every size and form," including Partnerships, S-Corporations, and Trusts
- Assistant Chief Counsel Jeffrey Erickson to join the IRS unit in January 2025
  – Form Principal in Ernst & Young's National Tax Passthroughs Transaction Group

Tax Developments

Corporate Transparency Act

- CTA was established to assist the government in its anti-money laundering efforts.
- CTA requires many U.S. entities to disclose personal information about individuals that own or control an entity (although many exemptions exist for entities to report their Beneficial Ownership Information (BOI)).
- Texas Top Cop Shop, Inc., et al. v. Garland, et al., Case No. 4:24-cv-478 (E.D. Tex)
  - The Federal District Court has placed a preliminary nationwide injunction on the CTA, stating that "reporting companies need not comply with the CTA's January 1, 2025, BOI reporting deadline pending further order of the Court."
  - The court determined that the CTA and Reporting Rule are likely unconstitutional
  - However, the Court has not made an affirmative finding that the CTA and Reporting Rule are contrary to law or violate the Constitution, hence the "preliminary injunction."
  - *NOTE: This note is NOT intended to provide any legal advice, and UHY does not provide services related to CTA or the CTA's BOI reporting requirements. We strongly encourage you to contact your legal counsel to ascertain the impact of the preliminary injunction on your company's BOI reporting requirements.*

Tax Developments

IRC Section 83(b) elections

- When substantially "non-vested" property is transferred in connection with the performance of services, the person who performs the services may elect under IRC Section 83(b) to currently include in his or her gross income the excess (if any) of the property's Fair Market Value (FMV) at the time of the transfer over the amount (if any) paid for the property at the time of the transfer, rather than when the property later becomes substantially vested.

- New IRS Form 15620 – Section 83(b) Election (next slide)

- Election must be filed no later than 30 days after the date the property was transferred

Tax Developments

Section 83(b) Election (cont.)

- Form 15620 – Section 83(b) Election (October 2024)

Form **15620** (October 2024)	Department of the Treasury - Internal Revenue Service **Section 83(b) Election**	OMB Number 1545-0074

The undersigned taxpayer hereby elects, pursuant to § 83(b) of the Internal Revenue Code of 1986, as amended, to include in gross income as compensation for services the excess (if any) of the fair market value of the property described below over the amount paid for the property.

1. The taxpayer's name, taxpayer identification number (TIN), and address:

Taxpayer's name			Taxpayer's TIN
Address *(number and street)*			
City	State or province	ZIP or postal code	Country

2. The property which is the subject of this election is *(describe property and quantity below)*

3. The date the property was transferred

4. Taxable year for which the election is being made *(taxable year that includes the date the property was transferred as reported in Box 3)*

5. The property is subject to the following restrictions *(describe applicable restrictions below)*

6. The total fair market value of the property at the time of transfer is

a. Value per item		b. Quantity		c. Total fair market value
	x		=	

7. For the property transferred, the taxpayer paid a total of

a. Price paid per item		b. Quantity		c. Total price paid
	x		=	

8. The amount to include in gross income for the taxable year is *(the result of the amount reported in Box 6(c) minus the amount reported in Box 7(c))*

9. Name, TIN, and address of the person for whom the taxpayer is providing services in connection with the transfer of property:

Name			TIN
Address *(number and street)*			
City	State or province	ZIP or postal code	Country

The undersigned taxpayer is the person performing the services in connection with which the property was transferred. The taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to (i) the person for whom the services were performed and (ii) the transferee of the property if the taxpayer and the transferee of the property are not the same person. Under penalty of perjury, the undersigned taxpayer declares that, to the best of undersigned taxpayer's knowledge and belief, the information entered on this Form 15620 is true, correct, complete, and made in good faith.

Taxpayer signature	Date signed

Polling Question #3

What is the most important expiring TCJA provision you would like to see extended or made permanent?

A. Bonus Depreciation

B. Estate and Gift Tax Lifetime Exclusion Amount

C. Individual Tax Rates

D. Section 199A – Deduction for Pass-through Business Income

Tax Developments

Form 1099-K (Payment Card and Third-Party Network Transactions

- IRS Notice 2024-85 (November 26, 2024)
  - Updated thresholds
    - $5,000 for payments in 2024
    - $2,500 for payments in 2025
    - $600 for payments in 2026 and beyond (planned)
- If backup withholding is required (i.e., no taxpayer identification number provided), the transaction threshold is $600

Tax Developments

1% Excise Tax on Stock Repurchases – IRC Section 4501

- IR-2024-179 – Final Regulations issued that provide guidance on how to report and pay the 1% excise tax owed on corporate stock repurchases
- The Inflation Reduction Act imposed a new excise tax on stock repurchases equal to 1% of the aggregate Fair Market Value (FMV) of stock repurchased by certain corporations during the taxable year, subject to adjustments
- Tax applies to repurchases after December 31, 2022
- Excise Tax reported on Form 720, Quarterly Federal Excise Tax Return
  - Due for the first full calendar quarter after the end of the corporation's taxable year
- Form 7208, Excise Tax on Repurchase of Corporate Stock
- The Due Date for the 2024 taxable year ending December 31, 2024, is April 30, 2025
  - The Due Date for taxable years ending on or before June 28, 2024, was October 31, 2024

Tax Developments

International Tax – Previously Taxed Earnings and Profits

- Proposed Regulations have been published (December 2, 2024)
- Detailed guidance under IRC Sections 959 and 961.
- Addresses the complexities TCJA introduced (IRC Section 965, Global Intangible Low Tax Income (GILTI), IRC Section 245A's dividend received deduction, etc.)
- Administratively burdensome, many will likely wait to apply these rules until they are finalized
- Beneficial to certain taxpayers
  - Partners in Investment Partnerships
  - Partners in Partnerships that own Controlled Foreign Corporation (CFC) Stock

Tax Developments

IRS Form 6765 – Credit for Increasing Research Activities (REVISED)

- IRS released a revised DRAFT of Form 6765 on June 21, 2024
- Additional details to be required
  - Business Component Details
  - Report 80% of the total Qualified Research Expenses (QREs) in descending order by the amount of total QREs per business component, but no more than 50 business components
  - Special instructions for taxpayers using the ASC 730 directive who can report ASC 730 QREs as a single line item
    - Large Business taxpayers (i.e., $10 million or more in Assets)
    - Follow U.S. GAAP to prepare Certified Financial Statements
    - Separate line or separately noted in Financial Statements
- R&D Study should provide necessary information

State and Local Tax

Trends in State and Local Tax

Lower income tax rates…

- 11 States have reduced their income tax rates
  - Corporate and individual reductions – Arkansas, Colorado, Georgia, Idaho, New Mexico, Utah
  - Individual reductions – Hawaii, Iowa, Kansas, South Carolina, West Virginia

- Louisiana just passed a tax reform package that rolls out a flat tax for both individuals (3% Rate) and corporations (5.5% rate) - Effective January 1, 2025
  - Louisiana also repealed its franchise tax effective in 2026.
  - Louisiana state sales tax rate will increase through 2030 to offset budget gaps.

Trends in State and Local Tax

Expectations for 2025…

- State tax audits
  - Increases in number of audits.
  - State audits increase revenue without raising tax rates.
  - Increased sampling in audits to identify areas of exposure.

- States are leveraging technology to close the tax gap
  - For example – New York is using AI to target remote, high-salaried workers that “moved but kept their apartments”.
  - States will be embracing more technology to offset staffing issues.
  - Technology will enable states to target more specific issues.

State and Local Tax

Planning

- Review compliance regularly
  - Changes in business
  - Employees
- State tax laws always change to stay competitive in the business marketplace.
  - Many states must determine how they will react to the federal tax law changes in 2025.
- If you discover issues with state tax compliance, there are viable solutions
  - Voluntary Disclosure Programs

State and Local Tax

Credits and Incentives

Most all states offer tax incentives to encourage business expansion. States offer these incentives to attract and retain business, foster economic growth, and enhance certain sectors of the economy.

Credits and incentives are most common for investment in:

- Technology
- Infrastructure
- New Jobs

To be eligible, states generally require businesses to pre-qualify for these incentives.

Polling Question #4

From an overall TAX PERSPECTIVE (Federal/State/Local) do you expect to be BETTER or WORSE off in 2026 and beyond?

A. Better

B. Worse

Individual Tax and Estate Tax

Individual Provisions Set to Expire under TCJA

Effective January 1, 2026, the following key individual provisions would change by reverting to the pre-TCJA rules (not a complete list) –

- Increase – Individual Income tax rates
- Decrease – Standard deduction
- Restore – Personal exemptions for dependents
- Restore – State income tax deductions (unlimited)
- Increase – Deductible Mtge Interest Debt Limit
- Increase – Taxpayers subject to AMT
- Decrease – Child tax credits
- Remove – Qualified Business Income Deduction

President-Elect Donald Trump’s Individual Tax Platform

Key items for Individuals

- Make the expiring TCJA individual income tax cuts permanent.
- Reinstate unlimited state and local tax deductions.
- Exempt Social Security benefits from taxation.
- Exempt tip income from taxation (hospitality and service workers)
- Exempt overtime pay from taxation.
- Eliminate double taxation for Americans who are overseas.
- Create a deduction for auto loan interest.
- Create a tax credit for family caregivers.
- Expand child tax credit to $5,000 per child.

Excess Business Loss (EBL) Limitation

An excess business loss is defined as the amount by which the total deductions from all your trades or businesses exceed the total gross income or gains from those trades or businesses, plus a threshold amount.

The EBL rules are currently in effect through 12/31/2028

Losses in excess of the limitation carry forward as a Net Operating Loss.

Tax Year	MFJ	Single
2024	$610,000	$305,000
2025	$626,000	$313,000

Polling Question #5

What is most important to you when creating your estate plan?

A. Control the distribution of assets

B. Minimize estate tax

C. Avoid Probate

Estate Planning

Trump Administration will most likely attempt to extend the lifetime exclusion provisions under TCJA for 4-5 more years or make the current rules permanent.

- Estate & gift tax lifetime exclusion:
  - 2024 - $13,610,000
  - 2025 - $13,990,000
  - 2026 – IF TCJA Provisions Sunset @ 12/31/2025 - $7,000,000 (projected)

- Annual exclusion amount for gifting
  - 2024 - $18,000
  - 2025 - $19,000

Estate Planning

Estate planning is important for most everyone.

- Control over Asset Distributions
- Avoiding Probate
- Providing for Minor Children
- Healthcare Decisions
- Protecting Beneficiaries (credit protection)
- Business Continuity
- Charitable Giving
- Minimize Family Disputes
- Minimize Taxes
- Plan before you need to…

Polling Question #6

Have you reviewed your estate plan within the last 2 years?

A. Yes, all good

B. No, I do not have a plan in place

C. No, waiting to see what happens with the estate tax laws in 2025

Estate Planning

Transfers during your lifetime can create additional value.

- Leverage Valuation Discounts
  - Lack of Marketability
  - Lack of Control
- Transfer by Gift
- Transfer by Sale
- Asset value grows outside of your Estate
- Maintain control of your business
  - Gift/sell non-voting stock in company
  - Utilize trusts to hold stock

Polling Question #7

Will you be attending a holiday celebration with family and/or friends?

A. Yes

B. No

Happy Holiday Season to Everyone!

QUESTIONS?

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