DECEMBER 2024 NEWSLETTER

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Happy Holidays!

2023 & 24 were crazy years for politics, inflation, interest rates and the US dollar, but thankfully tax law changes were relatively quiet on Capitol Hill. As this is written, Congress is looking at budget reconciliation, but there are no new tax bills proposed at this time. We continue to be ready to help you navigate the changes as they come, but for now we wanted to provide updates and information around several items that may affect your tax situation. Please continue to reach out to us as tax/financial decisions come up throughout the year. We are happy to help.

In Cypress office news, our beloved office manager, Ann Clark, after 15 years of devoted service, decided to retire effective April 16, 2024, to spend more time with her grandchildren and pursue other interests. Ann has been critical to the success of our practice and has been the point person for much of our client contact. She will be sorely missed by all of us as well as by many clients. Allie Smith, David's middle daughter, has stepped in full-time for Ann. Please feel free to reach out to Allie with questions as you would have with Ann. Allie's email is allie@cypresstax.com. Please join us in wishing Ann well in the future! If you would like to send any cards or well-wishes along, feel free to send them to our office and we will make sure she receives them.

Cypress Tax Secure Online Portal – TaxDome and New Phone App

Most of you have already logged in and are utilizing our new secure tax portal, TaxDome, to receive and view tax returns, upload tax documents, sign your returns via E-Signature, and even pay your Cypress invoice via electronic ACH. If you have any questions with portal usage please let us know. We are happy to help you through the upload process or navigating the system if needed. You can log into the portal at any time by navigating to www.cypresstax.com/login

There is also an iPhone/Android App available for use once your login is established online. To download the app to your phone go to your Google play or Apple App store and search for "TaxDome Client Portal" and click "install". You can then open and sign in using your email and password. The app has a built in scanner to upload documents, text messaging/chat feature to send us secure messages, a payment processor, and it even allows you to fill out your organizer easily on your phone!

Tax Payment Processing

We continued to see many issues this year with the IRS/States not opening/depositing mailed checks, applying check payments to the wrong accounts, and charging high penalties for bounced checks or lost payments. For these reasons, we continue to recommend tax payments be made online, if possible, directly to the IRS or your state revenue agency. The IRS DirectPay website is easy to use and does not require log in www.irs.gov/payments/direct-pay. Most income taxing states also have a direct pay website you can find through the various state revenue websites. For example, PA estimates and tax payments can be made at www.mypath.pa.gov. Please save the confirmation page and number of each payment in case of future questions.

Timing of tax payments has also become more important due to higher interest rates and continually rising inflation. We recommend you stick to the quarterly deadlines for payments at a bare minimum, and adjust your withholdings to cover as much of the tax payments as possible automatically. A new W-4 may be necessary in some cases. Bonuses are typically underwithheld for many employees, so it is best to send us paystubs to review as soon as you receive large bonus income. The current interest rate for underpayments to the IRS was just reduced Dec 1st to 7% from 8% per year. This is much higher than the 3% rate we had in 2021.

Corporate Transparency Act – New Legal Requirement

Starting in 2024, US entities are subject to a few Federal law called the Corporate Transparency Act. This effort is meant to establish a national database of companies in the US and register the humans behind the entities as reporting agents, direct owners, beneficial owners, or control persons in order to better protect our country and citizens against financial crimes. In early December, a legal injunction was filed which has postponed the filing requirement, and congress extended the official deadline. No further action is required by year-end.

Environmental Initiative and Credits

Credits for solar energy improvements to your home and purchases of certain electric vehicles remain available and were recently adjusted under new tax laws. The Residential Clean Energy Credit was increased to 30% retroactively for 2022 and for tax years through 2032 for qualified expenses, including electric panels and related equipment. Home energy audits, exterior doors, exterior windows, water heaters, oil furnaces, hot water boilers, and heat pumps may also qualify for limited credits depending on their efficiency and source of power.

The electric vehicle credits were significantly modified for tax years starting in 2023. For purchases of NEW electric vehicles, credits will not be allowed for taxpayers with taxable income above $150k (Single) or $300k (MFJ), and no credits will be allowed on “luxury vehicles” costing more than $55k (cars) and $80k for trucks/SUVs/vans. The other large caveat is that the vehicle battery must be made in North America and must be a certain size in order to qualify for the max $7,500 credit.

Starting in 2024, buyers can take the credit as a discount at the time of purchase which then must be reconciled on their tax return. Dealers are marketing these as “cash incentives”, and they must issue you a tax form upon purchase. Keep in mind, if you exceed the income limits, you may be required to pay back the incentive with your tax return.

For USED electric vehicle purchases starting in 2023, a new credit of up to $4,000 is allowed if the vehicle costs $25,000 or less and is more than two years old. These cars do not have to comply with the made in North America requirements. The vehicle must be purchased at an authorized dealer in order to qualify for this credit.

Remote Working and Moving Between States

In response to COVID, remote working and the number of people moving out of cities and taxable states has increased dramatically. This can create extremely complex (and sometimes contentious) state and local tax issues if more than two states or cities are involved. A critical factor to keep your state and local tax at a minimum and avoid notices is to notify your employer immediately of your new address once it becomes your primary residence or remote work location, and have them adjust your withholding accordingly. Each situation is unique and please do your best to keep us informed as well, since we will need all of the facts to properly prepare your tax return.

It is important to establish your residency in any new state that you officially move into and release your residency from the previous state to avoid potential double taxation in the case of two states claiming you as a resident. Driver's licenses are required by law to be updated within 14 days of any change in address by most states, but this is not actively enforced by the DMVs. Along with driver's license updates, you should also update voter's registrations, workplace HR registries, bank/investment account addresses, and partnership interest addresses as soon as possible after your move. This may affect your K-1 reporting (if any) and 1099-supplemental state info (if any) that we will need to file your tax returns properly. Your BOI report must also be updated within 30 days of move.

Nannies & Other Household Employees

As there has been significantly more scrutiny in the last few years over online payment processing and reporting, we advise you to ensure you are paying your household employees properly and withholding tax as needed. Any person (non-business) you paid over $2,700 in 2024 to work in your home or care for your children qualifies as your household employee and you must remit and pay social security, medicare, and unemployment taxes on their wages. Please reach out to discuss more if needed.

Starting in 2024, SEP retirement accounts can be opened for household employees. This could be a great benefit to add to your current loyal employee's compensation package.

Online Wagering & Sports Betting

We have seen a large increase in online gambling from clients over the last few years and unfortunately, the tax reporting of these transactions is significantly lacking. In order to report this income/loss correctly on your tax forms, we need a report that shows your "total winnings" for the year and total "losses" or wagers, along with any 1099-G forms that may have been issued to you. Many of the online apps can provide this report easily on a phone application and you can upload screenshots to us as needed through our TaxDome portal showcasing the needed amounts. Also, keep in mind that losses are only allowed as itemized deductions and cannot generally be directly netted against winnings. Therefore, even if you breakeven or lose money overall, taxes may still be due.

New 1099-K Reporting Threshold Decreasing in 2025

There is a new provision for 2025 (postponed from '22), requiring payment processors such as Paypal, Stripe, and Venmo to report any payments processed for you totaling $600 in the calendar year to the IRS. The threshold in 2024 was $5,000 or 200 total transactions. If you cross the threshold using a payment processor app they will issue you a 1099-K and then we will need an explanation of what the payments were processed for, in order to report it somewhere on your tax return. These are requirements for "commercial transactions" only (goods/services) and not for payments between friends and family. Paypal and Venmo both have a way to tag your transaction as either friends/family or goods/services.

Zelle, however, does not claim to be a payment processor and is not planning to issue 1099-Ks. It is your responsibility as the taxpayer to identify any Zelle payment that is taxable, (the same way you would do that with cash) as the default for Zelle payments is nontaxable treatment. Please keep this in mind if you are processing any business income through Zelle, since you will be unlikely to receive any tax report.

Cryptocurrency Transactions

Many of you have invested in cryptocurrencies over the last few years, and official 1099-B forms will be issued to you for sales starting in 2023 by the various cryptocurrency platforms. Even without this official reporting, like other sales, recognized gains and losses from sales of cryptocurrency must be reported on your tax return. Therefore, if you sold cryptocurrency, please request a gain/loss report from your investment platform of the sales so we can include them in your tax return.

In 2023, the IRS established that crypto staking rewards are not interest, and they are currently looking into the tax treatment of Non-Fungible Tokens (NFTs) to see if they should be treated as collectibles moving forward. It is crucial to loop us into any cryptocurrency discussions and planning to ensure the ideal tax planning is followed. Also, keep in mind wash sale rules regarding loss transactions still do not apply to cryptocurrency at this time, but proposed changes may end this opportunity.

TAX PLANNING OPPORTUNITIES

Required Minimum Distributions (RMDs)
Effective for 2023 and 2024, the age for required minimum distributions (RMDs) on IRA accounts was increased to 73. The RMD age remains at 72 for those born prior to 1/1/51. An additional increase to age 75 will take effect in 2033 for those born after 1/1/60.

New rules apply for inherited IRAs for deaths that occurred after 2020. For non-spousal Traditional IRAs, if the decedent was required to take an RMD in the year of their death, the beneficiaries are required to take an RMD from the inherited IRA each year, and the account must be depleted by the end of year 10. Conversely, if the decedent was not yet eligible to take an RMD in the year of their death, no yearly RMD is required for the beneficiaries, and the account balance just needs to be depleted by the end of year 10 following the death of the decedent.

For inherited Roth IRAs inherited after 2020, the account balance just needs to be depleted by the end of year 10 following the death of the decedent. There are different rules for beneficiaries who are spouses of the decedent or children. Please contact us to clarify these rules for your specific situation.

Early Distributions from Retirement Accounts
Early distributions from retirement accounts are subject to a 10% penalty to discourage premature withdrawals before age 59½. However, several exceptions exist, including distributions for medical expenses, higher education costs, first-time home purchases, and more. The SECURE 2.0 Act of 2022 introduced new exceptions, such as distributions for terminal illness, qualified disaster recovery, emergency personal expenses, and domestic abuse, further expanding the circumstances under which early withdrawals can be made without incurring the penalty. These provisions aim to provide greater flexibility for individuals facing specific hardships or emergencies, allowing them to access their retirement funds without additional financial penalties.

If you need early access to retirement funds, we recommend that you reach out to us first to discuss your potential tax liability and so we can ensure you are meeting the requirements to avoid the 10% penalty.

Charitable Donations
Cash charitable donation deductions are limited to 60% of your adjusted gross income (AGI) in 2024. In-kind charitable donation deductions of appreciated assets are limited to 30% of AGI. Since many taxpayers are no longer itemizing their deductions on Schedule A because of high standard deductions, we recommend bunching your charitable donations into one tax year to maximize deductibility. For example, if you are married and

typically donated $10k to charity every December, you could wait until January this time to make your donations, and then donate another $10k in December 2025. This would give you $20k of deductible donations in 2025, likely allowing you to itemize, and you could do this in alternating years. Otherwise, that $10k each year would likely not be deductible to you at all.

If you have a larger charitable intent, donor advised funds (DAFs) should be considered to allow even further bunching of deduction resulting in larger tax savings. DAFs are also very effective to take advantage of deductions in years where your marginal tax rate may be higher. Gifts of appreciated stock also work quite well for contributions to DAFs.

Qualified Charitable Deductions (QCDs)

Taxpayers age 70½ and older can make up to $105,000 (2024 limit) per year of contributions directly to charity from their IRAs. This technique allows a direct offset of the charitable contribution against the taxable distribution from the IRA. Effective for 2023 and beyond, up to $50,000 of QCDs can be made to Charitable Remainder Trusts or Gift Annuities. QCDs cannot be made to donor advised funds. For itemizers, because no IRA distribution is reported as income or charitable deduction taken as a deduction, there is generally no impact on taxable income from a QCD other than indirect benefits from a reduction in adjusted gross income, which can impact the taxable portion of Social Security, the Medicare IRMAA adjustment, and many other phase-out provisions based on AGI. For non-itemizers, in addition to the indirect benefits of reduced AGI, there is also effectively a full deduction for the charitable contribution via offset against the IRA distribution. QCDs also count toward required minimum distribution (RMD) requirements, which is an additional benefit.

Dependent Care Credit

The credit ranges from 20% to 35% of eligible expenses up to $3,000 for one child and $6,000 for two or more for a maximum credit of $2,100. W-2 employees can also exclude up to $5,000 of their wages through a dependent care reimbursement plan in 2024 and 2025, which we highly recommend as it saves tax at your top marginal tax rate. It is important to note that the credit only applies to children under 13 for days when all parents are working, and does not cover expenses for sports or overnight camps.

Gain Exclusion on Qualified Small Business Stock

An exclusion of cumulative gain of up to the greater of $10 million or 10 times the cost basis of the stock continues to be allowed on sales of Qualified Small Business Stock (QSBS) held more than five years. The 100% exclusion applies to gains on purchases after 9/27/10, 75% on purchases from 2/17/09-9/27/10, and 50% on purchases before 2/17/09. Gifting strategies can be utilized to maximize the exclusion further if the gain exceeds the limitations.

Year-Round Tax Loss Harvesting

Many brokers contact clients at year-end to consider sale of positions which have an unrecognized loss to reduce taxes. Keep in mind, this can be done at any time during the year and is an excellent way to increase the return on your investments by reducing taxes. Net capital losses of only $3,000 can be used against current year ordinary income, but all capital gains can be offset and any excess can be carried forward indefinitely. Keep in mind, wash sale provisions prevent repurchase of positions sold at a loss within 30 days or less.

State Tax Credits for Educational Programs
Many states offer substantial credits against state income tax for contributions to qualified educational programs. Pennsylvania, for example, allows a 75% credit for a one year commitment and 90% credit for two years up to 100% of total state tax liability. South Carolina offers a similar 100% credit for up to 75% of total state tax liability and Virginia a 65% credit. The balance of the contribution beyond the credit is allowed as a Federal charitable deduction as well offering additional tax benefits for itemizers. This is an excellent way to leverage your charitable contributions with tax incentives.

Adding Children to Payroll
Self-employed taxpayers can realize substantial tax savings by hiring their children. Adding children to the payroll can take advantage of lower income tax brackets, better utilize education credits, save FICA taxes, and allow for Roth contributions, which can compound for many years. If you are self-employed and have dependent working age children, consideration should be given to this planning strategy.

529 Education Savings Accounts
Section 529 education savings accounts remain a tax effective way to save for college and graduate school, but the funds are now also available to be used for up to $10,000 per year for private school tuition and books in primary and secondary school without incurring federal income tax on the transaction. 529 accounts allow tax-free growth as long as the funds are eventually used for education related expenses, and can even be transferred person to person for future generational education spending. Many states including PA, NY, and SC also allow a state income tax deduction for 529 contributions. Also, tax-free distributions from 529 accounts of up to $10,000 per lifetime can now be made for student loan payments (including principal and interest) for the taxpayer or their siblings, and contributions can be removed tax-free (may still be taxable to the state) if the student received qualified scholarship money.

Ability to Roll 529 Dollars to Roth IRA Accounts
Starting in 2024, Section 529 Education Savings Accounts maintained for more than 15 years can be rolled over to a Roth IRA for the beneficiary. The annual amount that can be rolled over is capped at the annual Roth contribution limit ($7,000 for 2024) and is subject to a lifetime limit of $35,000 per individual. There is no income limitation on this rollover provision.

Roth IRAs
We continue to recommend planning to maximize savings in Roth IRAs. Roth IRAs are particularly tax efficient, as all growth is completely tax-free if distributions are taken more than five years after the contribution date and after age 59½. Roth contributions are allowed for 2024 until 4/15/25, up to the lesser of earned income or the amounts below if modified AGI is below $146,000 Single or $230,000 Joint. Maximum contributions to other common retirement vehicles are also listed in the table below.

Starting in 2024, employer contributions to retirement accounts, including 401(k), 403(b), 457(b), SIMPLE IRA and SEPs, can optionally be made to a Roth IRA account. These amounts would be included as earned income by the taxpayer, but would then remain in the tax advantaged Roth IRA account. SIMPLE IRAs also are now allowed a Roth option for employee deferrals.

Larger Roth contributions can be made through conversions from existing Traditional IRAs or qualified plans. There is currently no income limit on conversions, but ordinary income tax is due on all pre-tax dollars converted to Roth, so your current marginal bracket and expected marginal bracket in retirement should be considered. After-tax contributions from qualified plans can also be converted without additional tax, but careful planning is needed due to several limitations in this alternative.

For taxpayers with no traditional IRA and income exceeding Roth contribution limits, a ”back door” Roth IRA technique should be considered each year. This involves contribution to a Traditional IRA and immediate conversion to a Roth account.

MAXIMUM DEDUCTIBLE RETIREMENT CONTRIBUTIONS

	2024	Catch-up	2025	Catch-up
Traditional IRA	$7,000	+$1,000 over 50	$7,000	+$1,000 over 50
Roth IRA	$7,000	+$1,000 over 50	$7,000	+$1,000 over 50
401(k)	$23,000	+$7,500 over 50	$23,500	+$7,500 over 50
SIMPLE IRA	$16,000	+$7,500 over 50	$17,600	+$3,500 over 50
SEP IRA / Solo 401(k)	$69,000		$70,000	

> Starting in 2025, taxpayers age 60-63 who are still working have an increased catch-up contribution limit to workplace retirement plans (including 401(k)s) of up to $11,250, in addition to the normal limits and catch-up amounts.
>
> Starting in 2024, for SIMPLE IRAs or SIMPLE 401(k) plans, employers can make up to an additional $5,000 of non-elective contributions above the normal 2-3% matching contribution.

Estate & Gift Tax
Annual exclusion for gifts is $18,000 per individual donee for tax year 2024 and $19,000 for 2025. For non-citizen spouses, the annual exclusion is $180,000 for 2024 and $190,000 for 2025. Gifts over these amounts will require filing of a gift tax information return. Contributions to 529 plans count as gifts to the beneficiary in addition to direct gifts. Direct payment of qualified tuition or medical expenses do not count as gifts.

The lifetime exclusion for estate and gift taxes is $13.61 million per person in 2024 and $13.99 million in 2025. Without Congressional action, the lifetime exclusion is projected to drop to roughly $7 million for 2026.

Standard Deduction
The standard deduction for 2024 is $14,600 Single and $29,200 Joint. For 2025, it increases to $15,000 Single and $30,000 Joint. Taxpayers 65 and older get an additional $1,950 Single and $1,550 each Joint for 2024 and $2,000 Single and $1,600 each Joint for 2025.

2024 Mileage Deduction Rates
Business Mileage: $0.67
Medical Mileage: $0.21
Charitable Mileage: $0.14

2025 Mileage Deduction Rates
Business Mileage: $0.70
Medical Mileage: $0.21
Charitable Mileage: $0.14

Tax Rates – Ordinary Income

	Single Filers				Joint Filers			
	2024		2025		2024		2025	
Rate	Starts	Ends	Starts	Ends	Starts	Ends	Starts	Ends
10%	$0	$11,600	$0	$11,925	$0	$20,550	$0	$23,850
12%	$11,601	$47,150	$11,926	$48,475	$23,201	$94,300	$23,851	$96,950
22%	$47,151	$100,525	$48,476	$103,350	$94,301	$201,050	$96,951	$206,700
24%	$100,526	$191,950	$103,351	$197,300	$201,051	$383,900	$206,701	$394,600
32%	$191,951	$243,725	$197,301	$250,525	$383,901	$487,450	$394,601	$501,050
35%	$243,726	$609,350	$250,526	$626,350	$487,451	$731,300	$501,051	$751,600
37%	$609,351	and over	$626,351	and over	$731,301	and over	$751,601	and over

Tax Rates – Capital Gains and Qualified Dividends

	Single Filers				Joint Filers			
	2024		2025		2024		2025	
Rate	Starts	Ends	Starts	Ends	Starts	Ends	Starts	Ends
0%	$0	$47,025	$0	$48,350	$0	$94,050	$0	$96,700
15%	$47,026	$518,900	$48,351	$533,400	$94,051	$583,750	$96,701	$600,050
20%	$518,901	and over	$533,401	and over	$583,751	and over	$600,051	and over

Keep in mind, an additional tax of 3.8% applies to net investment income for adjusted gross income (AGI) over $200,000 Single and $250,000 Joint. Net investment income generally includes interest, dividends, capital gains, royalties, and rental income.