END-OF-YEAR TAX STRATEGIES FOR INDIVIDUALS

As the year-end approaches, it's time to for strategic tax planning. From assessing your current tax situation and understanding deductions to maximizing retirement contributions and managing investment gains, this guide offers valuable insights to help minimize your tax burden.

BENEFICIAL OWNERSHIP INFORMATION (BOI)

What is a BOI Report?

The Beneficial Ownership Information (BOI) report is required by the U.S. federal government to disclose the owners of a business. Most businesses are required to file the BOI report with the Financial Crimes Enforcement Network (FinCEN) between January 1, 2024, and January 1, 2025. This report was created to help increase transparency of businesses and help fight illicit activity using business structures. There are civil penalties if the BOI report is filed late and criminal penalties for willfully failing to file. BOI reports must be updated within 30 days if any information changes such as address, or the addition or reduction of owners.

While our accounting team can provide general guidance on this matter, specific questions on beneficial ownership and your potential requirement to file the BOI report should be referred to your legal counsel as our team does not file beneficial ownership information on a client's behalf with the Financial Crimes Enforcement Network.

Do I need to file a BOI report for my business?

The general rule is, if you filed documents with the secretary of state — or any similar office under the law of a state or Indian tribe — when establishing your business, you may need to file the BOI report. There are a limited number of entities exempt from filing. Here are some examples where you may not need to file a report:

- Sole proprietors doing business under their own name (no corporation or LLC)
- General partnerships (no filing done with secretary of state)
- Larger businesses and non-profit organizations*
- Highly regulated industries
- Publicly traded businesses, governmental authorities created by federal, state, or tribal governments, banks and credit unions, money transmitters, securities brokers and dealers, investment companies and advisors, venture capital fund advisers, insurance companies or producers, commodities brokers and dealers, public accounting firms, public utility companies, pooled investment vehicles, and inactive businesses.

*For large businesses, you must meet all of the following criteria: over $5 million in gross revenue reported on the previous year's tax return and without any foreign-source revenue, business employs over twenty full-time employees in the United States and have a physical office location in the United States. For non-profit organizations, you must meet one or more of the following criteria: an organization that received IRS approval for tax-exempt status under Internal Revenue Code section 501(c), a political organization that is tax-exempt under section 527(a), or an organization that is a trust under section 4947(a).

What is the timeline for filing the BOI report?

See the attached table for a timeline on filing your initial report and an updated report if changes occur. BOI Timeline

What needs to be reported on the BOI report?

You must identify the company's beneficial owners. A beneficial owner is any individual who, directly or indirectly, exercises substantial control over the reporting company and/or owns/controls at least 25% of the

ownership interests of the reporting company. See the attached table for information required on each company and each beneficial owner. BOI Timeline

What if I fail to file my BOI report on time?

Failing to file the required information through FinCEN by the required date of January 1, 2025, could have significant consequences. There are two levels of penalties that you could face, civil and criminal.

Failing to file can result in civil penalties starting at $591 per day after the January 1, 2025, due date.

Someone who willfully fails to file is subject to a maximum civil penalty of $10,000 and could face criminal penalties of up to two years in prison.

How do I prepare for BOI filing?

While our accounting team can provide general guidance on this matter, specific questions on beneficial ownership and your potential requirement to file the BOI report should be referred to your legal counsel as our team cannot file beneficial ownership information on a client's behalf with FinCEN.

Here are some recommended "to-dos" in preparation for filing:

- Review your list of business owners and key employees.
- Collect the Beneficial Owner personal information and make sure it is up to date.
- Consult with your attorney for additional support in your filing requirements.

A reporting company can file online through the FinCEN BOI website at BOI E-FILING () Reporting at

Additional information can be found on the FINCEN website or by clicking on this link to our original news update on December 6, 2023.

If you have any questions, or need further information, please contact your trusted TBC advisor.

THE HOME OFFICE DEDUCTION: MYTHS AND MUST-KNOWS

The home office deduction offers a valuable tax break for the self-employed, freelancers, and independent contractors. Learn about the deduction and how it may reduce your tax liability.

SUMMERTIME TAX AND FINANCIAL TIPS

Although your taxes and finances may be the furthest thing from your mind during the summer, it's good to know how certain things you do this summer may affect them. Here are a few financial tips to help you make the most of your summer.

1 | **Hire your child.**
If you own a business, hiring your child for the summer may make good tax sense. That's because the amount you pay your child is deductible as a business expense. Plus, it's not subject to Social Security and Medicare taxes if your child is under age 18 and your business is a sole proprietorship or a partnership where the child's parents are the only partners.

2 | **Consider helping your teen set up and fund an IRA.**
If your child earns taxable compensation from working this summer, you can help them get a head start on saving for retirement by helping them set up and fund an IRA. The maximum amount your child can contribute for 2024 is $7,000 or their taxable compensation for 2024, whichever is less. If your child hasn't reached the age of majority, you can set up and manage a custodial IRA for them until they do.

3 | **Claim a tax credit for day camp expenses.**
You may be able to claim a federal tax credit for part of the cost of day camp if your child is under age 13 and attends the camp so that you (and your spouse if you file a joint tax return) can work or look for work. The credit is called the Child and Dependent Care Credit and may be used for other childcare expenses also.

4 | **Keep your home improvement receipts.**
If you will be making improvements to your home this summer, be sure to keep the receipts. They may help you avoid taxes when you sell your home. Amounts you spend on certain home improvements, such as a kitchen remodel or an addition, increase your home's basis, which may help you minimize or avoid tax on the increase in your home's value when you sell it.

5 | **Claim a tax credit for adding a clean energy system.**
Planning to add a solar, geothermal, wind, or fuel cell system to your home this summer? You may be able to claim a federal tax credit for 30% of what you spend on the qualifying equipment and the labor to install it. Additional limits may apply. The equipment must meet specific energy requirements.

6 | **Claim a tax credit for making your home energy efficient.**
The Energy Efficient Home Improvement Credit has the potential to put some cash back in your pocket for installing qualified energy-efficient equipment and materials in your existing home. So if a new central air conditioner, water heater, furnace, windows, or similar items are in your future, you may want to check out this credit first for the details.

7 | **Earn tax-free income by renting out your home.**
As long as your residence is rented for 14 days or less per year, you can pocket the rental income without having to pay tax on it. If it's rented for more than 14 days, the rental income is taxable, but you may be able to help offset it by deducting your rental expenses.

8 | **Notify SSA if you change your name.**
If you get married this summer and take your spouse's last name, be sure to let the Social Security Administration (SSA) know before you file your next federal tax return. The name on your return should match the name on file with the SSA. If they don't match, there may be a delay in processing your tax return.

9 | **Review your tax withholding if you get married.**
Getting married can change your tax situation and result in too much or too little federal income tax being withheld from your paycheck. The tax withholding estimator on the IRS website can help you estimate how much tax you may want your employer to withhold from your paycheck now that you are married.

10 | **Self-employed? Extend a business trip into a vacation.**
If you will be traveling for business this summer, consider extending your stay for a few days of fun. As long as the trip is primarily for business, you can generally deduct your business-related travel expenses, including the cost of getting to and from your business destination. Additional rules and limits may apply.

For additional questions, please consult with your trusted TBC Advisor.

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IRS FORM 1099-MISC & FORM 1099-NEC

If, as part of your trade or business, you **made** any of the following types of payments, you are required by law to report certain payments of income it made during the calendar year to the IRS and to the recipient by filing Form 1099-MISC or Form 1099-NEC.

The following types of payments made in the course of business when paid to individuals, partnerships, single member limited liability companies, and limited liability companies taxed as partnerships must be reported on Form 1099-MISC if they aggregate to $600 or more ($10 or more for royalties) during the calendar year:

Rents (Box 1)
Examples:

- Equipment and machines rentals
- Office rent unless paid to a real estate agent or property manager that is not the property owner
- Renting booths or tables
- Renting parking spaces
- Renting boats, cars, buses, etc.

Royalties (Box 2)
Examples:

- Industrial, Literary, Patents

Other income (Box 3)
Examples:

- Prizes and awards that are not for services performed. (Include the fair market value of merchandise won if given in
  lieu of a cash award.)
- Research subject payments
- Certain litigation settlements (not paid to attorneys/law firms which are reportable in Box 10)

Fishing Boat Proceeds (Box 5)
Medical and health care payments (Box 6)
IMPORTANT NOTE! Payments of medical and healthcare payments must also be reported ***if paid to*** **C and S corporations**.

- Hospital (Private) fees and charges
- Doctor or Physician Assistant Fees
- Payments for Examinations
- Payments for Medical tests
- Payments to dentists/dental assistants

Crop Insurance Proceeds (Box 9)
Gross Proceeds Paid to an Attorney (Box 10) – Only report on Form 1099-MISC, the payments made to an attorney or law firm for a legal settlement but do not include payments for attorney services which are reportable in Box 1 of Form 1099-NEC.

Example, Company A agrees to pay punitive damages of $10,000 to a law firm representing the claimant. Company A hired an attorney from a local law form to present Company A during the mediation of this case. The lawyer's fee for her legal representation services was $1,000. The total punitive damages of $10,000 would be reported in Box 10 of Form 1099-MISC and the lawyer's fee for services of $1,000 would be reported in Box 1 of Form 1099-NEC.

IMPORTANT NOTE! Gross proceeds paid to an attorney or law firm must also be reported ***if paid to*** **C and S Corporations**.

Section 409A deferrals (Box 12)
Nonqualified deferred compensation (Box 15)

The following types of payments for SERVICES rendered by non-employees in the course of business must be reported on Form 1099-NEC if they aggregate to $600 or more during the calendar year and are paid to individuals, partnerships, single member limited liability companies, and limited liability companies taxed as partnerships:

Non-employee compensation (Box 1):

o Includes payments for services performed in the course of business by individuals or entities that are not employed by your company.

o Non-employee expense reimbursements for service providers are only includible in the reportable payment if the expense is not reimbursed in accordance with your companies accountable plan. For example, if your company agrees to pay a fixed amount for expected travel expenses but does not require the service provider to substantiate the travel expenses incurred with actual receipts, then the travel allowance will be includible in the reportable payment.

Examples of reportable non-employee compensation payments:

- Professional service fees paid to attorneys (reporting includes C and S Corporations)
- Professional fees paid to accountants, architects, business consultants, etc.
- Payments made to customize merchandise or awards. This is deemed as a purchase of a *service*.
- Payment for services, including the cost of incidental parts or materials used to perform those services.
- Payments to non-employee entertainers or performers.
- Honorariums or payments to guest lecturers.
- Maintenance and repairs to office machines, buildings, and equipment.
- Maintenance to lawn or vehicle.
- Notary fees for a notary to notarize a document or payment for an employee to become a notary.
- Payments to instructors, teachers, trainers, training groups, choir directors, minister service, piano players, entertainers, speakers, legal adjudicators, and witness fees. This includes companies who administer tests.
- Privately owned colleges and privately owned universities.
- Note: Go to website to determine if a college or university is public or private.

Common payments that are NOT required to be reported on either Form 1099-MISC or Form 1099-NEC:

o Payments to C and S Corporations including LLCs that are taxed as C or S Corporations (with the exception of medical/health care payments, legal fees and proceeds paid to an attorney)

o Payments to tax-exempt organizations including: tax-exempt trusts, U.S. government, a U.S. state or U.S. possession

o Payments to foreign individuals, entities, and foreign governments (see Form 1042-S reporting requirements)

o Payments for freight, inventory, merchandise, storage, or utilities

o Wages, expense reimbursements or allowances paid to employees including back-pay (report on form W-2)

o Scholarships or fellowships made to U.S. tax residents are not reportable on Form 1099-MISC but they may still be taxable to recipients. Note: Scholarships or fellowships that are given in exchange for services to be rendered to the University should be reported as wages on Form W-2.

Do not report the following if any of the payments below apply.

- Credit or travel card payments. Effective tax year 2011 – local banks issue IRS forms 1099-K for credit card and travel card payments.
- Merchandise, products, or goods.

- Reimbursements to federal or military employees such as uniform allowance and firefighting gear.
- Permanent Change of Station (PCS) damage claims.
- Bank fees.
- Stamps, Postage.
- Federal tax-exempt organizations/agencies such as the Boy Scouts or Red Cross. To verify an organization's exempt status use the IRS Exempt Organization Select Check at or ask them to provide a copy of their IRS ruling or determination letter (tax-exempt status letter) they received from the IRS and what states they have been approved to be federal tax exempt. If they cannot provide the IRS ruling or determination letter, then report.
- Government agencies (federal, state, city, county, parish).
- State owned (funded) State colleges, community colleges, universities, high schools, and grade schools.
- Hospitals owned and operated by the United States, State, or the District of Columbia and any of their subdivisions.
- Utilities such as electric, gas, water, fuel oil, coal, bottled gas, and other fuels. Telephone and cell phone services and cable.
- Delivery services such as Federal Express, UPS, DHL, and all related small package transportation services.
- Safety deposit box – considered storage.
- Moving and Warehouse Storage – considered storage.
- Magazine or newspaper subscriptions.
- Attorney License.
- Internet/computer renewal license.
- Payment to a company to be bonded **or insurance premiums**
- Federal tax-exempt organization memberships to clubs, organizations and societies such as ASMC or AGA.
- Informer payments for information about criminal activity.

A best practice during the year is to have a new vendor complete Form W-9 at the time an invoice is received and before payment is made to be sure you have the proper information on file to prepare the 1099 forms at the end of that year!

If you have any questions, or need further information, please contact your trusted TBC advisor or someone in our Partnered Accounting Solutions department.

BUSINESS YEAR END PLANNING

Tax Planning for Businesses

With tax year 2023 ending, we need to consider what can be done to help lower your tax bill for this year and next. With the uncertainty of pending legislation, here are some tax planning ideas for businesses.

Review your accounting method

Businesses typically use either an accrual method of accounting or the cash basis. Under an accrual method, income and expense is recognized when: 1) All events have occurred to deduct the cost or recognize the income and 2) the amount can be determined with reasonable accuracy. Under the cash basis, income is recognized when it is actually or constructively received, and expenses are generally deducted in the year they are paid. Many businesses were prohibited from using the cash basis of accounting due to restrictions on gross income levels or the required use of inventories. The Tax Cuts and Jobs Act of 2017 (TCJA) expanded the definition of who qualifies to use the cash basis of accounting. Businesses with average annual gross receipts (3-year average) under $29 million can now qualify to use the cash basis of accounting.

Cost segregation analysis

A cost segregation analysis is a commonly used strategic tax planning tool that allows companies and individuals who have constructed, purchased, expanded or remodeled any kind of real estate to accelerate depreciation deductions. When a property is purchased, not only does it include a building structure, but it also includes all its interior and exterior components. Many of those components fall into tax categories that can be written off faster than the building structure. A cost segregation analysis dissects the construction cost or purchase price of the property that would otherwise be depreciated over 27 ½ or 39 years. The primary goal of a cost segregation analysis is to identify all property-related costs that can be depreciated over 5, 7 and 15 years.

Bonus depreciation

Bonus depreciation allows for the accelerated depreciation of capitalized assets with depreciable lives of 20 years or less. The allowable bonus depreciation is typically 80% (tax year 2023) of the cost of the property, except for certain passenger automobiles that are subject to dollar limits on a per vehicle basis. Placing bonus depreciation-eligible assets in service before year end can be an effective way to reduce your federal tax liability.

Caution: New York, and many other states, don't accept bonus depreciation. Bonus depreciation claimed on the Federal return must be added back in full to NY taxable income, and the bonus depreciation-eligible property is depreciated over the normal recovery period.

Expensing business property (Section 179)

For 2023, the expensing limit is $1,160,000 and is generally available for most depreciable property (other than buildings) and off the shelf computer software.

The Section 179 phaseout limit for 2023 starts at $ million.

Planning with year-end bonuses

If a business is having a successful year, consider making bonuses to employees. An accrual basis taxpayer can accrue bonuses and get a deduction in 2023 as long as bonuses are paid by March 15, 2024. Please note that bonuses accrued to owners do not qualify.

If an owner believes they are underpaid for estimated taxes, a year-end bonus paid by December 31, 2023 can be used to withhold additional federal and state taxes.

Another bonus strategy relates to an existing C corporation that is making an election to be treated as an S corporation. An existing C corporation that makes this election is subject to built-in-gains (BIG) tax for a 60-month period after electing S status. Any asset sold during the 60-month period that has a BIG attached is subject to C corporation tax rates. An accrued bonus to an owner that is paid in the following year is considered a built- in-loss that can be used to reduce BIG tax in the future.

Student loan payments benefit

Beginning in 2024, employers can match their employees' student loan payments toward their retirement accounts (401(k), 403(b), SIMPLE IRA). For example, if an employee is putting 5% of their salary toward their student loans, an employer can match the 5% paid to student loans toward the employee's retirement account. The employee does not have to contribute anything to their retirement account. Employees must have a retirement account set up with their employer and be making payments on their student loans to qualify for the benefit. Employees also must certify that they are making their student loan payments. The certification process may vary from company to company.

State Tax Issues

If your company sells products online, you will need to consider that states have the right to require online businesses with no physical presence in the state to register as a vendor and therefore collect sales tax. This was an additional tax revenue source for the states.

Each state has its own rules for establishing nexus.

Therefore, if your business has a physical presence or “nexus” in a state, you are typically required to collect applicable sales taxes from online customers in that state.

Other miscellaneous items

Consider moving income into 2023 from 2024 if you anticipate a small net operating loss this year. By creating a small amount of net income, a C corporation can base their 2024 estimated tax payments on the 2023 safe-harbor tax rather than calculating estimates on a quarterly basis.

If you have a passive activity with suspended losses, consider disposing of the activity to free up those losses.

These are just a few planning ideas to consider for 2023 or 2024 and are general in nature. If you have any questions or need further information, please contact your TBC advisor.

INDIVIDUAL YEAR END PLANNING

Tax Planning for Individuals

Annual gift exclusion and estate tax exemption

The annual gift exclusion for 2023 is $17,000 per person and will increase to $18,000 in 2024. Married couples who elect to gift split can give $34,000 per person in 2023 and $36,000 in 2024. There are no limits on how many donees can receive gifts in a calendar year, and there are no gift tax filing requirements if the annual cash gift exclusion per person limit is not exceeded.

There is also an unlimited gift exclusion for payments made on behalf of a donee as medical payments or tuition paid to an educational institution, if the payment is made directly to the medical care provider or educational institution.

For 2023, the unified gift and estate tax exemption is $12,920,000 per individual. For 2024, the exemption will increase to $13,610,000.

The estate exemption though is expected to be cut in half as of January 1, 2026. Given impending changes, high net worth individuals and families should revisit their estate planning.

Unused 529 account balances to Roth IRA conversion

Starting in 2024, individuals with outstanding balances in their 529 college savings accounts can roll over their savings to a Roth IRA under the SECURE Act 2.0. To qualify for this provision, the 529 plan must be open for at least 15 years and the contributions made to the 529 plan must be at least 5 years old. Any 529 contributions made by the taxpayer in the last 5 years cannot be transferred to a Roth IRA account. There is a lifetime limit of $35,000 per beneficiary that can be rolled into the new Roth IRA account. Transfers must be made from plan to plan or trustee to trustee. The taxpayer cannot touch the monies by writing a check from the 529 plan into the Roth IRA account. The Roth IRA account must also be in the name of the 529 plan beneficiary.

Charitable contributions

Cash or property can be donated to charity with a deduction for the property’s fair market value. However, in some instances, your deduction may be limited to the property’s cost basis. If an individual’s charitable contributions exceed the applicable percentage limits, any excess contributions can be carried forward and deducted over the following five tax years.

Percentage limits for Tax Year 2023 are as follows:

- 60 percent of an individual’s contribution base for cash contributions made to public charities in 2018 through

2025.

- Contributions of capital gain property to public charities are generally limited to 30% of the individual donor's contribution base.
- Contributions of capital gain property to semi-public charities and to private charities are limited to 20% of the contribution base.
- Contributions of cash and non-appreciated property "for the use of" a charitable organization are subject to the 30% limitation on the charitable contributions deduction.

Individuals ages 70 ½ and up can direct up to $100,000 per year from their traditional IRAs to operating charities through qualified charitable deductions (QCDs). The QCDs can be used to satisfy all or part of the donor's required minimum distribution (RMD) for 2023 and is not considered income for the donor.

Teacher expenses

For 2023, educators that buy books, supplies, COVID – 19 protective items and other classroom materials can deduct up to $300 for these out-of-pocket expenses per individual or the maximum of $600 for married couples who are both eligible educators.

Bonus depreciation

Tax year 2022 was the last year to take 100% bonus depreciation. In 2023, businesses can write off up to 80% of the purchase price of an asset placed into service in the calendar year, and then depreciate the remaining 20% cost of the property over the course of several years.

To qualify for bonus depreciation, the property must have a useful life of 20 years or less and not be real property.

First year bonus depreciation decreases as follows:

- 80% for property placed in service after December 31, 2022 and before January 1, 2024.
- 60% for property placed in service after December 31, 2023 and before January 1, 2025.
- 40% for property placed in service after December 31, 2024 and before January 1, 2026.
- 20% for property placed in service after December 31, 2025 and before January 1, 2027.

Standard mileage rates

The 2023 Standard mileage figures are as follows:

- 5 cents per mile for business purposes.
- 22 cents per mile for medical and moving purposes (only for qualified active-duty members of the Armed Forces).
- 14 cents per mile for charitable purposes.

Child tax credit

The 2023 child tax credit is worth up to $2,000 per qualifying dependent under the age of 17. The credit is nonrefundable, but some taxpayers may be eligible for a partial refund of up to $1,600 through the additional child tax credit when they file in 2024.

In addition, children who are 17 years old do not qualify for the credit.

Retirement savings

The 2023 contribution limit for traditional IRA's and Roth IRA's is $6,500 plus $1,000 as an additional catch-up contribution for individuals ages 50 and up, subject to income limitations.

For Roth IRA's, contribution phase out in 2023 is at adjusted gross income (AGI) of $218,000 to $228,000 for married filing jointly filers, $138,000 to $153,000 for single and head of household filers, and $0 to $10,000 for married filing separately filers.

The deduction phase out for traditional IRA's is $116,000 to $136,000 for married filing jointly filers, $73,000 to $83,000 for single filers, and $0 to $10,000 for married filing separately filers. If only one spouse is covered by a plan, the phaseout for deducting a contribution for the uncovered spouse starts at $218,000 of AGI and ends at $224,000.

Required minimum distributions (RMD)

A required minimum distribution (RMD) is an IRS-mandated amount of money that you must withdraw from a tax-deferred retirement account which includes traditional IRA's, rollover IRA's, SIMPLE IRA's, SEP IRA's and most 401(k) and 403(b) plans or an employer sponsored retirement account each year, starting at age 73.

You must start taking RMDs when you turn 73 or continue to take RMDs if you reached the previous RMD age before 2023 (i.e. 70 ½ prior to January 1, 2020, or 72, prior to January 1, 2023). There is one exception: people still working after age 73 usually may delay taking RMDs from their employer sponsored plan until they retire.

You can delay taking your first RMD until April 1st of the year after you turn the RMD age. For example, if your 73rd birthday is in 2024, you must take your first RMD out of your retirement account(s) by April 1, 2025. This exception **only** applies to an employer sponsored retirement plan, **NOT** IRAs and does **not** apply to business owners with more than 5% of an ownership interest.

Any retirement distribution made by an individual before he or she is 59 ½ years old may be subject to a 10% penalty on the distribution unless the following exceptions apply:

1. Death of the retirement account owner
2. Disability of the retirement account owner
3. The retirement account owner is an active-duty member of the US Armed Forces.
4. The retirement account owner rolls his or her monies over to a separate retirement plan or IRA within 60 days.

Inherited IRA's by a non-spouse

Non-spouse beneficiaries who inherit IRA assets after January 1, 2020 are required to withdraw the full balance of the IRA account within 10 years of the original account owner's death. The beneficiary of the inherited IRA would need to continue RMD's if the deceased owner had already reached the required beginning date of their RMD, with total account being depleted within 10 years.

Inherited Roth IRA's

Under the SECURE Act rules, most non-spouse beneficiaries must deplete an inherited Roth IRA within 10 years of the original owner's death, if the death occurred in 2020 or later. If you inherit a Roth IRA from a spouse, you can treat the account as your own or stretch distributions over your lifetime.

Energy efficient home improvement credit

For 2023, a $3,200 annual tax credit limit will replace the old $500 lifetime limit. The nonrefundable credit equals 30% of the costs of all eligible home improvements made during the year. Eligible home improvements include home energy audits, residential energy property expenses, and qualified energy efficiency improvements installed during the year. Aside from the above in terms of the 30% credit limit and annual limit, there are specific limits per year on components such as windows ($600 per year) and exterior doors ($250 per door and $500 for all doors). $2,000 of the total $3,200 maximum credit must be applied toward qualified heat pumps, biomass stoves, and biomass boilers. Taxpayers can claim up to $3,200 each year they make eligible home improvements until 2033.

Clean vehicle credit

Individuals may be eligible for a credit upon the purchase of an electric vehicle in the 2023 tax year. A motor vehicle is defined as a vehicle that is used on public streets, roads, highways and has at least four wheels. Off road vehicles such as golf carts do not qualify for the credit.

Highlights of the credit:

- All electric, or clean, vehicles purchased after January 1st are subject to the clean vehicle credit rules. The maximum amount of clean vehicle credit a taxpayer can qualify for is $7,500. The amount of the credit is subject to restrictions related to the vehicle battery components and the critical minerals requirement.
- Clean vehicles purchased by the taxpayer must be **new** vehicles placed into service on or after January 1st, 2023.
- Taxpayers are eligible for the clean vehicle credit if their modified adjusted gross income does not exceed $300,000 (married filing jointly), $225,000 (head of household), and $150,000 (all other filing statuses) in 2023.
- The credit is disallowed for vans, sport utility vehicles (SUVs), and pickup trucks with a manufacturer's suggested retail price (MSRP) greater than $80,000 and all other vehicles with an MSRP greater than $55,000.
- Taxpayers can only claim the clean vehicle credit for one vehicle each year.
- A taxpayer that purchased a used clean vehicle in 2023 is eligible for the clean vehicle credit. The credit for used clean vehicles is limited to $4,000. For the taxpayer to use this credit, their modified adjusted gross income cannot exceed $150,000 (married filing joint), $112,500 (head of household), and $75,000 (all other filing statuses). Used clean vehicles that are eligible for the credit must have a model year at least two years preceding its year of sale to the taxpayer and cannot have a sale price greater than $25,000.

Cryptocurrency

Sales of cryptocurrencies and the resulting capital gain(s) or loss(es) must be reported on Schedule D of an individual's personal tax return. Wash sale rules do not apply to cryptocurrency. An individual can choose to sell his or her cryptocurrency, recognize the capital loss from the sale, and then buy the same cryptocurrency within a few days of the sale. If an individual is paid with cryptocurrency, he or she must report the value of the cryptocurrency as wage income in the current year. If an independent contractor is paid with cryptocurrency, his or her income must be reported on Schedule C.

Gambling winnings/losses

Any individual who wins money from gambling activities must report his or her fully taxable income on his or her tax return. The fair market value of prizes (i.e. cars, vacations, consumer goods) must also be reported as income in addition to cash winnings. Gambling losses can only be reported on an individual's return if he or she itemizes deductions and are limited to the amount of gambling winnings. A taxpayer who takes the standard deduction on his or her return can't net gambling losses with gambling winnings.

These are just some planning ideas to consider for 2023 and 2024 and are general in nature. If you have any questions or need further information, please contact your TBC advisor.

THE CORPORATE TRANSPARENCY ACT

The Corporate Transparency Act

In an era marked by increasing economic interconnectivity, transparency in corporate practices has become a critical aspect of ensuring fair and ethical business conduct. Signed into law on January 1, 2021 as part of the National Defense Authorization Act, the Corporate Transparency Act (CTA) seeks to enhance corporate transparency by addressing issues related to anonymous ownership and potential misuse of corporate structures. The CTA, which will be overseen by the US Department of Treasury's Financial Crimes Enforcement Network (FinCEN), is aimed at combating money laundering, terrorist financing, and other illicit activities facilitated by anonymous corporate entities. By mandating increased disclosure, the legislation aims to create a more accountable and transparent business environment.

Preliminary estimates by FinCEN estimate roughly 32 million companies will initially be required to comply and a

further 5 million newly created companies each year thereafter. Given the widespread applicability of the CTA, it is crucial that businesses become familiar with the various terms and reporting requirements to ensure timely compliance. We have outlined the key concepts under the CTA below, but strongly encourage all businesses who may be impacted by the CTA to consult legal counsel to discuss their potential filing requirements in more detail.

Reporting Company

Reporting companies are those companies that are required to disclose ownership and other information under the CTA, as discussed later in this article. A reporting company is broadly defined as a corporation, limited liability company (LLC), or other similar entity that was created through the filing of a document with a State, Local, or Tribal office. For Foreign entities, a reporting company is defined as any entity that filed a registration document to conduct business in the US with a secretary of state or similar office.

There is a list of 23 types of companies that are exempt from the CTA and therefore not considered reporting entities. These include, among others, banks, governmental agencies, Tax-exempt entities, Public utility companies, Accounting Firms, and Large Operating Companies.

The large operating company exemption is predicated on a company having at least 5 million in gross receipts from US sources on its prior year federal income tax return, at least 20 full-time equivalent employees, and a physical operating presence in the U.S.

Beneficial Owner

Among other items, reporting companies must report information regarding their beneficial owners. A beneficial owner is an individual who, directly or indirectly, owns or controls 25% or more of the ownership interests in a reporting company. In addition, a beneficial owner may be any individual with significant control over a reporting entity, regardless of ownership.

The CTA casts a wide net when defining beneficial ownership to recognize that even individuals with substantial influence over a reporting company should be disclosed. Therefore, beneficial owners include not only those with direct ownership, but also those who exercise control through other means, such as having voting rights or having the authority to appoint or remove directors (e.g. C-Suite executives, General Counsel), and potentially those who have indirect influence through convertible debt rights, contracts, and other arrangements. Due to the broad nature of the definition of beneficial owners, reporting entities should carefully consider all relationships that may give an individual any level of control over the entity.

Company Applicant

A company applicant is an individual or entity that files an application to create a reporting company. This person or entity is responsible for providing accurate and complete beneficial ownership information at the time of formation. This could be a company President, external/internal attorney, secretary, or any other person involved in an entity’s formation.

The CTA places the burden of disclosure on the company applicant, emphasizing the importance of transparency from the very inception of a reporting company. It is crucial for company applicants to conduct due diligence and gather the necessary information about the beneficial owners who will be disclosed to FinCEN. A company applicant must be disclosed in the reporting to FinCEN for companies that are created on or after January 1, 2024.

Information to be Provided

Once a reporting entity has established that they must report under CTA and has identified the beneficial owners, they will need to gather the following information for submission:

Reporting Company:

1. Full legal name and any DBA name
2. Address of principal place of business
3. Jurisdiction of formation
4. IRS TIN (e.g. EIN)

    1. If Foreign company then IRS TIN or Foreign tax ID number and jurisdiction

Beneficial Owner/Company Applicant:

1. Full legal name
2. Date of birth
3. Residential address – must be your current home
    1. Company Applicant may use business address if performing service in ordinary course of business
4. Identification number from non-expired US government document (e.g. passport, driver's license)
    1. If Foreign, then non-expired foreign government document
5. Image of the document from which the reported ID number was obtained

Key Timelines and Compliance Requirements

The CTA establishes clear timelines for compliance, ensuring that reporting companies adhere to the disclosure requirements in a timely manner. The key timelines associated with the CTA include:

1. Initial Reporting: For reporting companies in existence prior to January 1, 2024, the initial report must be submitted to FinCEN no later than January 1, 2025.
2. New Reporting Companies: For entities formed on or after January 1, 2024, the disclosure of beneficial ownership information must be made within 90 days of formation. Effective January 1, 2025 that time period is reduced to 30 days.
3. Updates for Changes: Reporting companies must update their beneficial ownership information within 30 days of any change in the reported information. This includes changes in beneficial ownership percentages, the addition or departure of a beneficial owner, or any other relevant modifications or corrections of errors.

Methodology for Submission

Reporting entities must submit the required information as outlined above via a secure filing system on the FinCEN website (). We anticipate that the portal will become available on January 1, 2024 but at this time we have limited information regarding the details of the system.

Access to Information

FinCEN will establish a secure, non-public database that will house the disclosed beneficial ownership information. FinCEN will be allowed, upon written request, to share the reported information for official purposes with any Federal government agency as well as state and local law enforcement agencies, financial institutions, and other authorized entities. Foreign law enforcement agencies (when requested through a US Federal agency) may also have indirect access to this information.

The IRS is allowed to access this information without a written request for "tax administration purposes." This term is deemed by the Internal Revenue Code section 6103(b)(4) to include assessment, collection, enforcement, litigation, or publication and statistical gathering.

FinCEN Unique Identifier

In order to streamline the process FinCEN has the ability to provide Beneficial Owners and Company Applicants a unique identifying number. The beneficial owner and/or company applicant must apply to FinCEN for this number by providing all of the required "Information to be Provided" as outlined above. The beneficial owner or company applicant may then provide their FinCEN unique identifier to any reporting entity that must include them in their report rather than providing the detailed information outlined above. It is the responsibility of the beneficial owner or company applicant to update their information with FinCEN within 30 days should anything change (i.e. change of address, updated driver's license, etc). This number may be useful to those who may have to report their information to numerous reporting entities.

Penalties

Penalties may be assessed for willful failure to comply with the CTA or for the provision of false or misleading

information. These penalties may be up to $500 per day until the violation has been remedied and/or a fine up to $10,000 and up to 2 years imprisonment.

Conclusion

The impact of the CTA will be far-reaching and may require significant changes and increased diligence when it comes to the record keeping of U.S. businesses. Please consult your attorney and CPA to ensure you are well informed and equipped to prepare, file, and update your required reports in an accurate and timely manner.

For more information you may visit the FinCEN website for Beneficial Ownership Information Reporting at

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SOLAR SAVINGS: HOW BEING ENVIRONMENTALLY FRIENDLY PAYS

The federal government offers an Investment Tax credit (ITC) for commercial solar photovoltaics (PV). For businesses, this credit is filed on IRS form 3468. The solar energy credit is a tax credit that can be claimed on federal income for a percentage of the cost of a solar PV system paid for by the taxpayer.

The solar ITC is a tax credit that can be claimed for 30% of the cost of a solar PC system that is placed in service during the tax year for projects commencing construction between January 1, 2006 and December 31, 2019, but placed in service before 2026 (before 2024 for projects commencing construction in 2019 and which use the IRS continuity safe harbor).

In December 2020, Congress passed an extension of the ITC, however the credit begins to phase out. The credit becomes 26% for systems commencing construction in 2020-2022, 22% for systems commencing construction in 2023 and 10% for systems commencing construction in 2024 or thereafter. Any system placed in service after 2025, regardless of when it commenced construction, can receive a maximum credit or 10%

To be eligible for the business ITC, the solar PV system must be:

- Located in the United States or U.S. territories.
- Systems must be new and limited previously used equipment
- Not used to generate energy for heating a swimming pool.

The ITC is calculated by multiplying the applicable tax credit percentage by the tax basis. The tax basis is the amount invested in eligible property.

Eligible property includes the following:

- Solar PV panels, inverters, racking, balance-of-system equipment, and sales and use taxes on the equipment
- Installation costs and indirect costs
- Step-up transformers, circuit breakers, and surge arrestors
- Energy storage devices (if charged by a renewable energy system more than 75% of the time)

There are also several rules on accelerated and bonus depreciation when it comes to the tax basis and amount of depreciation that is allowed on the solar PV systems when taking the credit.

Please consult your TBC Advisor to better discuss your situation.

By: Chris Rizzo, CPA, Accountant

TAX UPDATES AND PLANNING FOR INDIVIDUALS

With tax year 2022 coming to a close, we need to consider what can be done to help lower your tax bill for this year and next. With the uncertainty of pending legislation, here are some tax planning ideas for Individuals:

Annual gift exclusion and Estate Tax Exemption

The annual gift exclusion for 2022 is $16,000 per person, but will increase to $17,000 in 2023. Married couples who elect to gift split can give $32,000 per person in 2022 and $34,000 in 2023. There is no limit on how many donees can receive gifts in a calendar year, and there are no gift tax filing requirement as long as the annual gift exclusion per person limit isn't exceeded.

There is also an unlimited gift exclusion for payments made on behalf of a donee as medical payments or tuition paid to an educational institution, as long as the payment is made directly to the medical care provider or educational institution

For 2022, the Unified Gift and Estate Tax Exemption is $12,060,000 per individual. For 2023, the exemption will be $12,920,000.

Charitable contributions

Cash or property can be donated to charity with a deduction for the property's fair market value. Some cases though you may be limited to your cost basis.

Note: The "above the line" deduction for up to $300 of charitable cash contributions ($600 for married couple filing a joint return) expired the end of 2021. Keep in mind that you must itemize for 2022 (unlike 2020 and 2021) to take advantage of charitable deductions.

The 2022 deduction limits for gifts to public charities, including donor-advised funds are 30% of adjusted gross income (AGI) for contributions of non-cash assets, if the assets were held more than one year, and 60% of AGI for contributions of cash.

Individuals age 70 ½ and older can direct up to $100,000 per year from their traditional IRAs to operating charities through QCDs (Qualified Charitable deductions). The QCD can be used to satisfy all or part of the donor's RMD for 2022 and is not considered income for the donor.

Teacher expenses

For 2022, teachers and educators that buy books, supplies, COVID – 19 protective items and other materials used in a classroom can deduct up to $300 for these out of pocket expenses per individual or max of $600 for married couples who are both eligible educators.

Bonus Depreciation

Tax year 2022 will be last year to take 100% bonus depreciation. Going forward, bonus amounts will drop each year by 20%. For 2023 bonus depreciation will be at 80%.

Standard Mileage Rates

The Standard mileage rate from January 1 to June 30, 2022 is now 58.5 cents per mile and from July 1 to December 31, 2022 the rate is 62.5 cents per mile.

Child Tax Credit

For 2022, the credit tax credit reverts back to $2000 per child, with the credit being phased out for families with modified adjusted gross income above $200,000 for single filers and $400,000 for joint filers. In addition, children who are 17 years old do not qualify for the credit as they had in prior year.

Retirement Savings

The 2022 contribution limit for traditional IRA's and ROTH IRA's is $6,000 plus $1,000 as an additional catch up

contribution for individuals age 50 and up, subject to income limitations.

For ROTH IRA's contribution phase out in 2022 is at adjusted gross income of $204,000 to $214,000 for couples and $129,000 to $144,000 for singles.

Deduction phase out for traditional IRA's is $109,000 to $129,000 for couples and $68,000 to $78,000 for single filers. If only one spouse is covered by a plan, the phaseout for deducting a contribution for the uncovered spouse starts at $204,000 of AGI and ends at $214,000.

Required Minimum Distributions (RMD)

A required minimum distribution (RMD) is an IRS-mandated amount of money that you must withdraw from a tax-deferred retirement account which include: traditional IRA's, rollover IRA's, SIMPLE IRA's, SEP IRA's and most 401(K) and 403(b) plans or an employer sponsored retirement account each year, starting at age 72.

> **When must you take RMDs**: If you reach age 72 in 2022, you must take your first RMD, by April 1, 2023, with subsequent RMDs by December 31 annually thereafter. Keep in mind, if you delay your initial RMD until April 1, 2023 you'll be responsible for 2 withdrawals that year (one by April 1 and one by December 31), which could result in a larger tax liability.

Inherited IRA's by a Non-Spouse

Non-spouse beneficiaries who inherit IRA assets after January 1, 2020 are required to withdraw the full balance of the account within 10 years.

Inherited Roth IRA's

Under the SECURE Act rules, most non-spouse beneficiaries must deplete an inherited Roth IRA within 10 years of the original owner's death, if that occurred in 2020 or later. If you inherit a Roth IRA from a spouse, you can treat the account as your own or stretch distributions over your lifetime.

Energy Efficient Home Improvement Credit

The old credit worth 10% of the costs of installing insulation, windows, doors, roofing and other energy saving improvements along with the $500 lifetime limitation still applies through 2022.

For 2023, a $1,200 annual tax credit limit will replace the old $500 lifetime limit. The credit is equal to 30% of the costs of all eligible home improvements made during the year. Note that aside from the above in terms of 30% credit limits and annual limits, there are specific limits per year on components such as windows ($600 per year) and exterior doors ($250 per door and $500 for all doors)

Clean Vehicle Credit

Individuals may be eligible for a credit upon the purchase of an electric vehicle in the 2022 tax year. A motor vehicle is defined as a vehicle that is used on public streets, roads, and highways. Off road vehicles such as golf carts do not qualify for the credit.

Highlights of the credit:

- An individual who purchased an electric vehicle prior to August 16, 2022 may qualify for the new qualified plug-in electric drive motor vehicle credit. The maximum amount of credit a taxpayer can qualify for is $7,500.
- All electric, or clean, vehicles purchased after August 16, 2022 are subject to the clean vehicle credit rules. The maximum amount of the credit a taxpayer can qualify for remains at $7,500, but is subject to restrictions related to the vehicle battery components and where manufactured/ assembled.
- Taxpayers are eligible for the clean vehicle credit if their modified adjusted gross income does not exceed $300,000 (married filing jointly), $225,000 (head of household), and $150,000 (all other filing statuses) in 2023.
- The credit is disallowed for vans, sport utility vehicles (SUVs), and pickup trucks with a manufacturer's suggested retail price (MSRP) greater than $80,000 and all other vehicles with an MSRP greater than $55,000.
- Taxpayers can only claim the clean vehicle credit for one vehicle each year.
- A credit for used clean vehicles is limited to $4,000 or thirty percent of the vehicle's sale price, whichever is

lower. In order for the taxpayer to use this credit, their modified adjusted gross income cannot exceed $150,000 (married filing joint), $112,500 (head of household), and $75,000 (all other filing statuses). Used clean vehicles that are eligible for the credit must have a model year at least two years preceding its year of sale to the taxpayer and cannot have a sale price greater than $25,000.

These are just some planning ideas to consider for 2022 and 2023 and are general in nature. If you have any questions or need further information please contact your TBC advisor.
