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To: Clients and Friends

From: Neil S. Kahn, CPA  
Ashley BK Grubbs, CPA

Date: December 9, 2024

Subject: Highlights of tax code changes that affect the planning  
and filing of your 2024 and 2025 Income Tax Returns.

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While 2024 has been a quiet year with respect to tax legislation, there are still plenty of new tax laws and guidance resulting from prior years' regulations. As a result, a sound tax plan will be essential for continued financial growth and security. As we are near the end of 2024, there are still opportunities to maximize tax savings for 2024 and into the future. This will allow us to use our tried-and-true year-end tax planning strategies as well as explore any new strategies that will help you achieve your goals.

As we strive to remain flexible for our clients, we are continuing to offer in-person and virtual appointments, mail-in, drop-off, facsimile and internet options. You may choose whichever method of information delivery you are most comfortable with. For those who plan on visiting our office, Rugar and Barney will be available most mornings before 11:00 a.m.

2024

TAX RATES

Single Taxpayers:

10	percent	\$	.00	to	\$11,600.00
12	percent		11,600.00	to	47,150.00
22	percent		47,150.00	to	100,525.00
24	percent		100,525.00	to	191,950.00
32	percent		191,950.00	to	243,725.00
35	percent		242,725.00	to	609,350.00
37	percent		609,350.00	and over	

Joint Filers:

10	percent	\$	.00	to	\$23,200.00
12	percent		23,200.00	to	94,300.00
22	percent		94,300.00	to	201,050.00
24	percent		201,050.00	to	383,900.00
32	percent		383,900.00	to	487,450.00
35	percent		487,450.00	to	731,200.00
37	percent		731,200.00	and over	

## KIDDIE TAX

Applies to children under age 18 and children over 18 but under age 24 who are full-time students that have unearned income. There are exceptions to this rule.

Unearned income of children is taxed at the top marginal rate of their parents.

## CAPITAL GAINS

The top capital gains rate has remained at 20% for single filers with taxable income over \$518,900.00 and for joint filers with taxable income over \$583,750.00. For single filers whose taxable income is between \$47,026.00 and \$518,900.00 and joint filers whose taxable income is between \$94,051.00 and \$583,750.00, the capital gains rate will remain at 15%. For single filers whose taxable income does not exceed \$47,025.00 and joint filers whose taxable income does not exceed \$94,050.00, the rate remains at 0%.

Capital assets held less than one year will continue to be taxed at the individual's tax rate.

Capital losses can be used to offset capital gains. If the losses are greater than the gains, you can deduct \$3,000.00 against other income. If you cannot utilize all your capital losses in the current year, you can carry over the unused loss to future years.

## DIVIDEND INCOME

Certain dividends received by a shareholder will be taxed at the same capital gains rates. For single filers with taxable income over \$518,900.00 and for joint filers with taxable income over \$583,750.00, the dividend rate remains at 20%. For single filers whose taxable income is between \$47,026.00 and \$518,900.00 and joint filers whose taxable income is between \$94,051.00 and \$583,750.00, the dividend rate remains at 15%. For single filers whose taxable income does not exceed \$47,025.00 and joint filers whose taxable income does not exceed \$94,050.00, the rate remains at 0%.

## PASS-THROUGH INCOME

This deduction allows individuals, estates and trusts to take a deduction of up to 20% of "qualified business income" (QBI) against the taxpayer's taxable income. Generally speaking, QBI is income from a partnership, S corporation or sole proprietorship.

#### PASS-THROUGH INCOME (concluded)

There are a number of complex special rules, thresholds and phase-outs related to this deduction.

One special requirement to qualify for the QBI deduction is that you will be treated as a trade or business. As a trade or business, you must issue Form 1099-MISC and/or Form 1099-NEC to certain individuals or companies.

#### INDIVIDUAL RETIREMENT ACCOUNTS (IRA)

If you have earned income, you are now able to make a Traditional IRA contribution.

Annual limit has increased to \$7,000.00 from \$6,500.00, subject to income limitations.

For taxpayers aged 50 or older, a "catch-up" contribution is available. The amount is \$1,000.00. If you qualify for an Individual Retirement contribution, you qualify for this "catch-up" contribution.

#### REQUIRED MINIMUM DISTRIBUTION (RMD)

RMDs are required once you have reached 73 years of age.

Once you reach the age of 73, you have until April 15<sup>th</sup> of the following year to take your first RMD.

There are certain exceptions to this rule.

#### QUALIFIED CHARITABLE DISTRIBUTIONS (QCD)

Any individual retirement arrangement (IRA) owner age 70½ or over can transfer up to \$105,000 to a charitable organization tax-free each year. This offers eligible older Americans a great way to easily give to charity before the end of the year. For those individuals who are at least 73 years old, these distributions count toward the IRA owner's required minimum distribution (RMD) for the year.

Normally, distributions from a traditional IRA are taxable when received. With QCDs, however, the distributions become tax-free if they're paid directly from the IRA to an eligible charitable organization.

Each year, an IRA owner who is age 70½ or over when the distribution is made, can exclude from gross income up to \$105,000 of these QCDs. For a married couple, if both spouses are age 70½ or over when the distributions are made and both have IRAs, the total exclusion is up to \$210,000 per year.

#### QUALIFIED CHARITABLE DISTRIBUTIONS (QCD) (concluded)

When planning on using a QCD as your RMD, you must be careful that it is made with the RMD funds. RMDs come out first. Any distribution after your RMD cannot be considered a QCD.

#### STRETCH DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS (IRA) AND QUALIFIED PLANS

Upon the death of an IRA owner or qualified plan participant, distributions to spouses have not changed.

Distributions to non-spouse beneficiaries must now be completed by the end of the tenth calendar year following the account owner's death.

There are certain exceptions to this rule.

#### QUALIFIED BIRTH OR ADOPTION EXPENSES

For taxpayers who have not reached the age of 59 1/2, the 10% penalty will not apply on distributions or withdrawals of up to \$5,000.00 out of an IRA or a qualified retirement plan.

In order to qualify for this exception, the distribution must be made during the one year period beginning on the date on which the child is born or the adoption is finalized.

#### HEALTH SAVINGS ACCOUNTS

Annual limit increased to \$4,150.00 from \$3,850.00 for individual health coverage and to \$8,300.00 from \$7,750.00 if you have a family health plan.

For taxpayers aged 55 or older, a "catch-up" contribution of \$1,000.00 is available.

#### FORGIVENESS OF STUDENT LOANS

We are closely watching the news to see if President Biden will be able to pass a student loan forgiveness plan which would forgive a certain portion of student loans for borrowers. As we prepare this memo, the President's plans have been thwarted by a federal appeals court.

There have been some individuals who have been lucky enough to have some or all their student loans cancelled or discharged already. These individuals may exclude from income the amount of qualified student loans cancelled or discharged in 2024 and through December 31, 2025.

## FORGIVENESS OF STUDENT LOANS (concluded)

Qualified student loans include loans for post-secondary education provided by the government or educational institutions, private education loans and certain loans from tax-exempt organizations.

## STUDENT LOAN INTEREST DEDUCTION

The maximum deduction remains at \$2,500.00. This deduction is "above the line", (you do not have to itemize your deductions to get this deduction). Phased out if your adjusted gross income, with certain modifications, exceeds \$170,000.00 for joint filers and \$85,000.00 for single taxpayers.

## MEDICAL EXPENSE DEDUCTION

The threshold for deducting medical expenses has remained at 7.5% of adjusted gross income for all taxpayers.

## REAL & PERSONAL PROPERTY TAX, STATE AND LOCAL INCOME & SALES TAX

Taxpayers may only deduct up to \$10,000.00 of combined real and personal property taxes, and state and local income or sales taxes.

## MORTGAGE INTEREST

Taxpayers may only deduct mortgage interest on qualified acquisition debt up to \$750,000.00.

Taxpayers may no longer deduct interest on home equity loans.

## CHARITABLE CONTRIBUTIONS

For all charitable contributions of money, regardless of the amount, you must maintain a bank record of the contribution (a cancelled check, charge card receipts, or a paystub) in addition to a written record from the charity.

For all charitable gifts over \$250.00, you must have a letter detailing the amount of the donation and affirming that either no goods or services were provided in connection with the gift, or if goods or services were received, a description and a value of the item(s) received. This letter must be in your possession when your tax return is filed.

For those taxpayers that itemize their deductions, charitable contributions are limited to 60% of their adjusted gross income.

## NON-CASH CHARITABLE CONTRIBUTIONS

Clothing and household items must be in good used condition or better. This rule does not apply to the contribution of any single item for which a deduction of \$5,000.00 or more is claimed.

For any single item donated with a value of \$5,000.00 or greater, a qualified appraisal must be made as part of your tax return.

For contributions of clothing and household items being valued at less than \$5,000.00 per item, photos of the items being donated will be best to prove the items were in good used condition or better.

## STANDARD DEDUCTION

This has increased to \$29,200.00 from \$27,700.00 for joint filers and to \$14,600.00 from \$13,850.00 for single filers. An additional standard deduction of \$1,500.00 is allowed for joint filers and \$1,850.00 is allowed for single filers who are blind and/or over the age of 65.

## DEPENDENTS STANDARD DEDUCTION

Cannot exceed the greater of \$1,300.00 or the sum of \$400.00 and the individual's earned income.

## BUSINESS USE OF PERSONAL VEHICLE

The standard mileage rate for business use of your personal vehicle has increased to 67.0 cents per mile from 65.5 cents per mile.

## BUSINESS DEDUCTION OF MEDICARE PREMIUMS

Sole proprietors are allowed a deduction for medical insurance paid during the tax year for the taxpayer, their spouse and their dependents. This deduction includes Medicare premiums. To receive this deduction, the sole proprietor must pay the Medicare premiums directly.

The same deduction is permitted for greater than 2% shareholder of an S-Corporation. The S-Corporation must pay the premiums directly or reimburse the shareholder for premiums paid by the end of the year.

## EMPLOYER-SPONSORED RETIREMENT PLANS

Taxpayers who are participants in 401(K) plans, 403(b) annuities, and salary reduction SEP plans can contribute up to \$23,000.00. For taxpayers aged 50 or older, the "catch-up" contribution remained at \$7,500.00.

For self-employed taxpayers who have no employees, 401(K) plans have become very attractive and affordable. This can be used alone or with other retirement plans.

For employers with 50 or fewer employees who are looking into setting up a retirement plan, there is a credit for 100% of startup costs and an additional credit for contribution is added for the first five years of a plan's existence.

The compensation cap to determine contributions to retirement plans has increased to \$345,000.00 from \$330,000.00.

The maximum amount a plan participant can put into a defined contribution plan increased to \$69,000.00 from \$66,000.00.

For profit sharing plans, the amount of your contribution, per participant, has remained at 25% of compensation.

## MEDICARE TAXES

A 0.9% Medicare tax applies to wages and self-employment income of individuals with earnings exceeding \$250,000.00 for joint filers and \$200,000.00 for single filers.

In addition, there is a 3.8% "net investment income tax" on unearned income of individuals with earnings exceeding \$250,000.00 for joint filers and \$200,000.00 for single filers. This additional tax does not apply to qualified plan distributions or "active" LLC's, partnerships, and S corporations.

## DEPRECIATION

For equipment, furniture and fixtures, and off-the-shelf computer software that qualify for a Code Section 179 expensing deduction, the deduction has increased to \$1,220,000.00 from \$1,160,000.00. This deduction is eliminated if your total qualified property purchases exceed \$3,050,000.00 during the year.

Taxpayers may take 60% bonus depreciation on new and used property. This rate will decrease by 20% each year.

For acquisitions of sports utility vehicles with a gross vehicle weight of more than 6,000 pounds, Code Section 179 limited has increased to \$30,500.00 from \$28,900.00.

## DEPRECIATION (concluded)

For acquisitions of vehicles under 6,000 pounds, the first year depreciation increased to \$12,400.00 from \$12,200.00. The second and third years increased to \$19,800.00 from \$19,500.00 and to \$11,900.00 from \$11,700.00 respectively. Succeeding years has increased to \$7,160.00 from \$6,960.00. The additional first-year depreciation remained at \$8,000.00.

## ENTERTAINMENT EXPENSES

Business meals, meals for out-of-town travel and meals during business discussions with clients are 50% deductible if not lavish or extravagant and purchased from a qualifying restaurant.

Business entertainment expenses, including tickets to sporting events, and membership dues for any club organized for business, pleasure, recreation, and other social purposes are not deductible.

## SOCIAL SECURITY TAX

The wage base increased to \$168,600.00 from \$160,200.00. The rate remained at 6.20% for wage earners and 12.40% for self-employed individuals.

## ALTERNATIVE MINIMUM TAX

For 2024, the AMT exemption increased to \$133,300.00 from \$126,500.00 for joint filers and to \$85,700.00 from \$81,300.00 for single filers.

In addition, the phase out threshold has been increased to \$1,218,700.00 for joint filers and \$609,350.00 for single filers.

The alternative minimum tax (AMT) is a separate method of determining income tax devised to ensure that at least a minimum amount of tax is paid by taxpayers who reap large tax savings by making use of certain tax deductions, exemptions, losses, and credits. Without the AMT, some of these taxpayers might be able to escape income taxation entirely. In essence, the AMT functions as a recapture mechanism, reclaiming some of the tax breaks to taxpayers.



#### CHILD TAX CREDIT

The credit remains at \$2,000.00 for each qualifying child under age 17. The credit is reduced per qualifying child if your adjusted gross income, with certain modifications, exceeds \$400,000.00 for joint filers and \$200,000.00 for single filers.

#### CHILD AND DEPENDENT CARE CREDIT

Allowable expenses have remained at \$3,000.00 for one child and \$6,000.00 for two or more children. The maximum credit is 35% of qualifying expenses. For income levels in excess of \$43,000.00, the credit is a flat 20%. If you earn between \$125,000.00 and \$185,000.00, the credit is gradually reduced.

#### HOPE/AMERICAN OPPORTUNITY TAX CREDIT

The credit has remained at \$2,500.00 per eligible student per year and is available for the first 4 years of post-secondary education. 40% of the credit is refundable. Costs include course materials (e.g. books).

Phased out if your adjusted gross income exceeds \$180,000.00 for joint filers and \$90,000.00 for single filers.

#### ELECTRIC VEHICLE CREDIT

The "Clean Vehicle Credit" provides taxpayers a credit of up to \$7,500.00 for the purchase of a new electric vehicle. The manufacturer's suggested retail price must be under \$80,000.00 for vans, SUVs, and pickups and under \$55,000.00 for any other types of vehicles. The dealership is required to furnish a report containing all the required information to you and to the IRS.

For the purchase of a used electric vehicle, there is a credit equal to the lesser of \$4,000.00 or 30% of the vehicles selling price.

Both credits are subject to income limitations.

#### ENERGY EFFICIENT HOME IMPROVEMENT CREDIT

Available to individuals for the installation of residential exterior doors and windows, insulation, heat pumps, furnaces, central air conditioners and water heaters on their principal and second residences. These improvements must be new, can be expected to remain in use for at least 5 years and meet certain requirements for energy efficiency.

#### ENERGY EFFICIENT HOME IMPROVEMENT CREDIT (concluded)

The credit is 30% of the costs paid or incurred. The credit is limited to \$1,200.00 per taxpayer per year, which only \$600.00 may be used for windows.

#### AFFORDABLE CARE ACT

Individuals are required to have minimum health insurance coverage, the penalty for individuals failing to maintain minimum essential coverage is now zero.

Minimum essential coverage is employer-sponsored coverage, coverage through a state or federal Marketplace, Medicare, Medicaid, and other plans.

#### FORM 1099-K REPORTING

The \$600.00 1099-K reporting threshold for third party settlement organizations has been delayed. As a result, reporting will not be required unless a taxpayer receives over \$5,000.00 and has more than 200 transactions in 2024.

Form 1099-K will be used by third party settlement organizations, including popular payment apps and online marketplaces, to report payments for the sale of goods and services. This requirement does not apply to personal transactions, however, the casual sale of goods and services, including selling used personal items like clothing, furniture, and household items, could generate a Form 1099-K.

#### GIFT TAX EXEMPTION

All taxpayers are allowed to gift monies to anybody they choose. This amount has increased to \$18,000.00.

#### FOREIGN BANK (BROKERAGE) ACCOUNTS

All U.S. Taxpayers with offshore accounts totaling more than \$10,000.00 at any time during a calendar year must file form TD F 90-22.1. The requirement applies to taxpayers with a signature authority or a "financial interest" - often ownership or control - in foreign bank or brokerage accounts. The penalty for failure to file this form is \$10,000.00.

If you had a signature authority or a "financial interest" in a foreign bank or brokerage account, no matter the amount in the account, it must be disclosed on Schedule B of your Form 1040.

## BENEFICIAL OWNERSHIP INFORMATION REPORT (BOI REPORT)

Effective January 1, 2024, privately owned businesses are required to complete a BOI Report. Each report will include detailed information on the privately owned business, as well as detailed personal identifying information on all individuals with "substantial control" over the business or with 25% or more of the equity ownership.

For any business formed after January 1, 2024, personal identifying information will also be required for the person who files or directs the filing of the formation documentation. This filing is required within 90 days of incorporation or organization. For 2025, the filing is due within 30 days of incorporation or organization.

Any updates to the BOI Report are required within 30 days. An update is required when there is a change in company name, ownership, business structure, control, business address, owner address or identification number.

Failure to file this report can result in fines of \$591.00 per day that the report is late, up to \$10,000.00 and imprisonment for up to two years. Please note that these penalties are imposed by the Financial Crimes Enforcement Network and not the Internal Revenue Service. We have very little experience in getting these penalties waived.

## MICHIGAN USE TAX

When you purchase items for personal use outside the state and do not pay Michigan sales tax, and this purchase would have been subject to sales tax if purchased in the state, then you are required to pay use tax. The rate of tax is 6% of the total price (including shipping and handling charges). Simply put: If you purchased an item that you should have paid sales tax, but you did not, then you owe use tax.

## MICHIGAN INDIVIDUAL INCOME TAX

The tax rate increased from 4.05% to 4.25%.

The Personal Exemption Amount has increased to \$5,600.00 from \$5,400.00.

## MICHIGAN RETIREMENT INCOME

The State of Michigan has enacted legislation that phases out taxes on retirement income. The phase-in subtraction began in 2023 and is fully phased in for the 2026 tax year and beyond.

A special subtraction is available to fire, police and corrections retirees.

**EMPLOYEES WHO RESIDE IN A CITY DIFFERENT THAN THEIR EMPLOYER**

Many cities, including the City of Detroit, require non-resident taxpayers who are employees that allocate less than 100% of their income to their city of employment to provide the following documentation:

Letter from their employer to verify actual number of days paid, days not worked, and days worked in the city of employment. The letter should also include the name, title, and phone number of the person signing the letter and should be on the official letterhead of the employer.

Documentation or a work-log showing days/time worked in/out of the city of employment is required.

2025

**TAX RATES**

**Single Taxpayers:**

10	percent	\$	.00	to	\$11,925.00
12	percent		11,925.00	to	48,475.00
22	percent		48,475.00	to	103,350.00
24	percent		103,350.00	to	197,300.00
32	percent		197,300.00	to	250,525.00
35	percent		250,525.00	to	626,350.00
37	percent		626,350.00	and over	

**Joint Filers:**

10	percent	\$	.00	to	\$23,850.00
12	percent		23,850.00	to	96,950.00
22	percent		96,950.00	to	205,700.00
24	percent		205,700.00	to	394,600.00
32	percent		394,600.00	to	501,050.00
35	percent		501,050.00	to	751,600.00
37	percent		751,600.00	and over	

**STANDARD DEDUCTION**

This has increased to \$30,000.00 from \$29,200.00 for joint filers and to \$15,000.00 from \$14,600.00 for single filers. An additional standard deduction of \$1,550.00 is allowed for joint filers and \$1,850.00 is allowed for single filers who are blind and/or over the age of 65.

## HEALTH SAVINGS ACCOUNTS

Annual limit increased to \$4,300.00 from \$4,150.00 for individual health coverage and to \$8,550.00 from \$8,300.00 if you have a family health plan.

For taxpayers aged 55 or older, a "catch-up" contribution of \$1,000.00 is available.

## DEPRECIATION

For equipment and furniture and fixtures that qualify for a Code Section 179 expensing deduction, the deduction will increase to \$1,250,000.00 from \$1,220,000.00. This deduction is eliminated if your total qualified property purchases exceed \$3,130,000.00 during the year.

Taxpayers may take 40% bonus depreciation on new and used property. This rate will decrease by 20% each year.

## BUSINESS USE OF PERSONAL VEHICLE

The standard mileage rate for business use of your personal vehicle increased to 70 cents per mile.

## SOCIAL SECURITY TAX

The wage base has increased to \$176,100.00 from \$168,600.00.

## EMPLOYER-SPONSORED RETIREMENT PLANS

Taxpayers who are participants in 401(K) plans, 403(b) annuities, and salary reduction SEP plans can contribute up to \$23,500.00.

For taxpayers aged 50 or older, a "catch-up" contribution has remained at \$7,500.00.

Taxpayers aged 60, 61, 62 and 63, are entitled to an additional "catch-up" contribution of \$3,500.00. This is in addition to the \$7,500.00 discussed above

For years beginning after December 31, 2020, taxpayers who accumulate 500 or more hours of service in 3 consecutive years will be able to participate in 401(K) plans.

## STRETCH DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS (IRA) AND QUALIFIED PLANS

Starting in 2025, certain heirs with inherited IRAs must take yearly required withdrawals or face a penalty. The rule applies to most non-spousal beneficiaries if the original account owner had reached their required minimum distribution age before death.

## MICHIGAN INDIVIDUAL INCOME TAX

The tax rate remains at 4.25%.

## IDENTITY PROTECTION PERSONAL IDENTIFICATION NUMBER (IP PIN)

The IRS is encouraging taxpayers to register for an IP PIN to strengthen their defenses against tax-related identity theft. Enrollment will secure a taxpayer with a personalized six-digit code that helps prevent fraudulent filings. Once enrolled, this six-digit code will be required to be entered prior to any future federal tax filings.

Taxpayers can obtain their IP PIN by creating or logging into an IRS Online Account on the [www.irs.gov](http://www.irs.gov) website.

This IP PIN must be shared with us in order to electronically file your tax returns.

## A MESSAGE REGARDING IRS SCAMS

Unfortunately, we live in an environment where we must be very cautious and skeptical of certain communications we receive. Please note that the Internal Revenue Service will never ever contact you via telephone or email without your initial request. Should you receive any communications that you find to be questionable, please contact us.

## GOOGLE

When researching tax law as it pertains to filing a tax return in 2024 or 2025, please make sure that the article you are reading is current. There are many articles out there that have been written that do not incorporate the latest changes in the Internal Revenue Service Tax Code.

## FINAL THOUGHTS

While we strive to highlight the most important issues that face our clients, we cannot address everything. In addition to tax law changes, there are also court cases, rulings and interpretations that affect the way tax returns are prepared.

Our goal is to provide our clients with a resource of useful tax-related information. By doing this, we are better able to work together to make the best decisions in our planning. Better, more informed decisions can mean lower tax obligations now and, in the years, to come.

If you have children, grandchildren, or are saving for your retirement, there are provisions that become very important to you. If you are contemplating a financial transaction and are not sure of the tax implications or want to know more about a particular tax law change, please contact us.

Material discussed in this memo is meant to provide general information and should not be acted on without obtaining professional advice appropriately tailored to your individual needs.

In order to comply with requirements imposed by Treasury Department regulations, we inform you that any tax advice contained in this communication (including any attachments) is not intended to be used, and cannot be used, for the purpose of (i) avoiding penalties under Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or any tax-related matters addressed herein.

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