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Dear Clients and Friends:

YEAR-END TAX PLANNING

As the year draws to a close, you should make a final review of your 2024 tax situation to determine if you can take advantage of year-end tax planning. This letter and other useful accounting and tax information is available on my website at www.solakco.com.

TAX HORIZON

The tax outlook is uncertain at this time because President Biden and Congress are continuing to spend vast amounts that are creating massive deficits. If this continues Congress will most certainly increase both individual and business taxes. Many Democrats have stated they intend to *repeal the 2017 Tax Cuts and Jobs Act* which would also have the effect of significantly increasing tax rates and taxes. In addition, there is uncertainty for the tax outlook until after the Presidential elections. While there is uncertainty, the tax outlook for the balance of 2024 and through 2025 should be stable, although if the Democrats win in November, you should brace yourself for some major tax increases as early as 2025.

Most of the tax planning strategies discussed below involve timing of income and deductions. If tax rates rise in 2025, it may be better to accelerate income into 2024 rather than deferring it into 2025.

TAX RATES

For 2024, there are seven tax brackets ranging from **10% to 37%** for federal income tax purposes. The following table shows the tax brackets at the various levels of taxable income:

Bracket	Joint Return	Single Return
10%	To \$ 23,200	To \$ 11,600
12%	To \$ 94,300	To \$ 47,150
22%	To \$201,050	To \$100,525
24%	To \$383,900	To \$191,950
32%	To \$487,450	To \$243,725
35%	To \$731,200	To \$609,350
37%	Over \$731,200	Over \$609,350

Net long-term capital gains and qualifying dividends are subject to a maximum tax rate of 15% (**Zero if taxable income does not exceed \$94,050 joint and \$47,025 single**) up to taxable income of \$583,750 joint or \$518,900 single. If taxable income exceeds \$583,750 joint or \$518,900 single, the tax on net long-term capital gains and qualifying dividends is 20%.

QUALIFIED BUSINESS INCOME DEDUCTION

The 2017 *Tax Cuts and Jobs Act* provides for a 20% deduction for noncorporate taxpayers of qualified business income for sole proprietorships, partnerships, and S Corporations. Several restrictions and limitations apply but the intent of this deduction is to provide small businesses with a tax reduction in lieu of the regular corporation tax reduction from 35% to 21%.

ALTERNATIVE MINIMUM TAX

Federal income tax rules require a separate computation to be made to determine if the Alternative Minimum Tax (AMT) applies for a given year. The effect of the AMT is to *eliminate the benefit of certain tax deductions*.

With the passage of the *Tax Cuts and Jobs Act*, most taxpayers will not be subject to the alternative minimum tax (AMT) for tax years through 2025 since tax preferential deductions have either been eliminated or greatly reduced.

It is important to note that the AMT still exists but will only apply to very high-income groups. The AMT exemption amounts for 2024 are \$133,300 for joint returns and \$85,700 for single returns and will not be phased out until AMTI exceeds \$1,218,700 joint or \$609,350 single.

The following tabulation shows which common itemized (Schedule A) deductions are deductible under the respective tax computation:

	<u>Regular Tax Computation</u>	<u>AMT Computation</u>
Interest		
Qualified Housing Interest	Yes	Yes
Home Equity Interest, other than Qualified Housing Interest on debt up to \$100,000 (any excess)	No No	No No
Investment Interest to the extent of Investment Income (any excess)	Yes No	Yes No
Personal Interest	No	No
Contributions	Yes	Yes
Taxes – All Types (Up to \$10,000)	Yes	No
Misc. Deductions – Subject to 2% floor	No	No

In addition to the above, several other items are used to compute regular and alternative minimum taxable incomes. Therefore, careful tax planning is necessary to make sure tax motivated transactions will provide the intended result.

If the *Tax Cuts and Jobs Act* is repealed, most taxpayers will again be subject to the AMT.

PASSIVE ACTIVITY LOSSES

Generally, losses incurred from passive activities are deductible only to the extent of passive income. Losses not deductible in a given year will be labeled “suspended losses” and carried over to future years to offset future passive income. Rental properties are classified as passive activities and therefore are subject to the passive loss rules on deductibility. An exception is provided to taxpayers who actively participate and own a 10% or more interest in real estate rental properties in that a maximum amount of \$25,000 of losses may be deducted without regard to the passive loss rules. The \$25,000 maximum amount is reduced by 50% of the amount of adjusted gross income (AGI) over \$100,000 and is completely phased out after the AGI exceeds \$150,000.

TIMING OF INCOME – SALARIES, BONUSES AND FEES

The acceleration of income items may be appropriate if it appears deductions may exceed income or the AMT applies, thereby reducing or eliminating the tax benefit for deductions. The deceleration of income may be appropriate if your 2025 income will be substantially less than your 2024 income.

TIMING OF DEDUCTIONS

Deductions – General Itemized deduction rules have been changed significantly including the almost doubling of the standard deduction and elimination or reduction of certain deductions. The 2024 standard deduction is \$14,600 single and \$29,200 for a married couple. An additional standard deduction is available if over age 65 on December 31, 2024 of \$1,550 each or \$32,300 for a married couple both over age 65.

If you will be at or near the standard deduction amount, you could defer or accelerate certain deductions so that in a tax year (2024 or 2025) you can exceed the standard deduction. For example, you should consider “*deferring deductions*” if you fall short of the standard deduction in 2024 and then claim them in 2025 when you may be above the standard deduction.

The payment of a deduction by December 31, 2024 will be valid if a check is mailed on or before December 31, 2024 with adequate postage and if you have sufficient funds in your account to cover the check.

Deductions – Interest Home mortgage interest is usually paid in the month following its accrual (your January mortgage payment usually pays December’s interest). Therefore, payment of your January 2025 mortgage payment by December 31, 2024 allows the December interest to be deducted in 2024. Mortgage companies are required to report to the IRS interest paid during the year.

Deductions – Home Equity Interest Beginning in 2018, home equity interest is *no longer tax deductible*.

Personal interest, i.e., auto loans and credit cards are not tax deductible. You should therefore attempt to liquidate personal debts as soon as practicable.

Deductions – State and Local Taxes Beginning in 2018, state and local taxes, (including income and property taxes) are limited to a maximum of \$10,000.

Deductions – Charitable Contributions You should maintain adequate receipts for all charitable contributions. If the contribution is \$250 or more, you must have a written receipt from the charity with the date and amount along with a statement to the effect that *“no goods or services were provided in exchange for the gift”*.

CAPITAL ASSET TRANSACTIONS

The holding period for long-term capital assets is *“more than twelve months.”* If you have realized capital losses in 2024 or have a capital loss carryover from 2023, you should consider realizing capital gains to offset the capital losses. In addition, if you have “paper losses” in your stock portfolio, you may wish to realize such losses by selling the security. A net capital loss for the year can be used to offset other income up to \$3,000 per year with the balance being carried over to future years. The trade date rather than settlement date controls the tax reporting of a stock transaction. Therefore, if you desire to realize stock transactions in 2024, make sure the *trade date* is on or before December 31, 2024.

PERSONAL RESIDENCE

Federal and State tax laws afford special tax benefits to personal residence ownership, i.e., tax-free gains *up to \$500,000* and deduction for qualified housing interest. Interest on certain refinancing may not be deductible. Loan fees should be paid by a separate payment versus adding the amount to the loan. The determination of what interest is or is not qualified housing interest generally refers to the original purchase price plus the cost of improvements. *You should be maintaining adequate records (updated at least annually) to substantiate your total cost basis of the residence including improvements.*

ESTIMATED TAX PENALTIES AND WITHHOLDINGS

If your 2024 withholdings and estimated tax payments are less than 90% of your 2024 tax liabilities, you could be subject to the nondeductible penalty for underpayment of estimated tax. You may be able to avoid this penalty by having paid in an amount equal to the prior year’s (2023) total tax liability, or in some cases 110% of your prior year’s (2023) total tax liability. You should review your 2024 withholdings and estimated tax payments to see if you meet one of the exceptions noted above. You can authorize your employer to increase your December 2024 income tax withholdings to reduce or eliminate your exposure to the penalty.

INDIVIDUAL RETIREMENT ACCOUNT (IRA)

A \$7,000 IRA contribution can be made by individuals that are not covered by an employer sponsored retirement plan. If you are 50 or over by December 31, 2024, you can make an additional “catch-up” contribution of \$1,000 for 2024. Contributions to an IRA for 2024 must be made by April 15, 2025.

ROTH IRA CONVERSIONS

You should note that most IRA and Qualified plan retirement accounts are eligible for rollover conversion to a Roth IRA. A Roth IRA conversion is subject to tax at the time of conversion. However, *qualified distributions* from a Roth IRA are tax free. Roth IRA conversions are complex and should only be done after careful analysis.

SELF-EMPLOYED RETIREMENT PLANS

If you are self-employed, you may establish a Self-employed 401(k) Retirement Plan (Keogh) or a Simplified Employee Plan (SEP) for 2024. To be eligible for a 401(k) Keogh for 2024, the plan must be established by **December 31, 2024**. A SEP can be established by the due date of your return. The maximum contribution to a 401(k) Keogh or a SEP for 2024 is \$69,000. If you are 50 or over by December 31, 2024, you can make an *additional “catch-up” contribution to a 401(k) Keogh of \$7,500 for 2024*. Contributions to Keoghs and SEPs for 2024 need not be made until the due date of your tax returns, April 15, 2025. However, if you file a valid extension application to October 15, 2025, your 2024 contribution can be deferred to the extended due date.

ANNUAL GIFT TAX EXCLUSIONS

Certain gifts are subject to gift taxes. If you are contemplating making a gift, you should note that you may gift, in general, \$18,000 in cash or value to each donee in a calendar year without being subject to gift taxes. For 2025, the gift tax exclusion amount will increase to \$19,000.

REVIEW OF TAX REPORTING INFORMATION

Banks, stockbrokers, and others are required to report to the IRS certain amounts paid during the year on Forms 1099. You should periodically review all your account information and received Forms 1099 to determine if the paying agency has your correct reporting (social security) number. Incorrect reporting of numbers or income usually results in communications from the tax authorities that could easily be avoided.

EMPLOYEE WITHHOLDING CERTIFICATE (FORM W-4)

Employees should submit updated withholding allowance information to their employer each year. As part of my tax preparation service, I provide my clients with appropriate withholding allowance information for the upcoming year.

In conclusion, November and December are the months to make a final review of your 2024 tax status. I am available to advise you on these or any other tax planning opportunities should you so desire.

Very truly yours,
Charles E. Solak