

A Tax-Smart Way to Give to Charity for Traditional IRA Owners

If you are 70 ½ or older you can make charitable contributions directly from your traditional IRA to a charity of your choice. These contributions are Qualified Charitable Distributions (QCD).

There are three main tax benefits of QCDs:

- 1) The distributions from your IRA are **not** taxable to you.
- 2) They are not added to your adjusted gross income, which helps to avoid possibly paying increased Medicare premiums.
- 3) QCDs can count toward your annual required minimum distributions.

Other important QCD rules to remember:

- 1) Only transfers of money from your IRA directly to charity qualify as QCDs. Most IRA custodians will require you to complete a form requesting the charitable payout. The custodian will then either send a check directly to the charity or make the check payable to the charity and send it to you. Make sure to get a receipt from the charity.
- 2) You must be 70 ½ on the QCD date. If you turn 70 ½ on November 1, for example, you must wait until that day or later to make the transfer.
- 3) If you are continuing to work after 70 ½ and making IRA contributions, these post 70 ½ IRA contribution will reduce your allowable tax-free QCD amount.

Exception to the 10% Penalty on Early IRA Distributions Now Exists

Prior to 2024, there was no hardship exception to the 10% penalty on early retirement distributions. There is limited relief for post-2023 early withdrawals used for emergencies. If you are under 59 ½ you can take one annual distribution **each year** of up to \$1,000 from IRAs **or** 401(k)s for an emergency personal expense without paying the 10% penalty. The emergency distribution must be unforeseeable or immediate financial needs relating to the taxpayer's necessary personal or family emergency expenses. The distribution is subject to tax, but not the 10% penalty.

Health Savings Account Contribution Limits for 2024

For 2024, individuals under a high deductible health plan (HDHP) have an HSA annual contribution limit of \$4,650. The limit for family coverage is \$8,300. If you are 55 or older each limit is increased by \$1,000.

IRA Contribution Limits for 2024

The limit on annual contributions to an Individual Retirement Account (IRA) (traditional or Roth) is \$7,000 (\$8,000 if age 50 or older). You must have at least \$7,000 or \$8,000 earned income to make the maximum contribution. Spousal IRA rules allow a spouse with low or no annual earned income to contribute to an IRA.

Beware if you or your spouse are an active participant in an employer-sponsored retirement plan then you may be further limited on the **deductibility** of your contribution to a traditional IRA.

While contributions to Roth IRAs are never deductible, the only limitation is your 2024 income must be less than \$161,000 if single and \$240,000 if married.

Your Employer May Match Student Loan Payments You Make

Beginning in 2024, employers have the option to match student loan payments as an employer match to your employer-sponsored retirement plan. In other words, you make payments in 2024 on your student loans, your employer then treats these payments as if you deferred those amounts from your wages even you put no money into the retirement plan. Your employer makes the employer match as if you did defer those amounts. Be sure to check with your employer to make sure they opted in on this.

What if You as a Nonspouse Inherit an IRA?

There has been confusion on this since 2019. Generally, you must remove all the funds from the IRA within 10 years of the owner's death. There are important exceptions for surviving spouses, minor children (until age 21), chronically ill individuals, and other beneficiaries not more than 10 years younger than the deceased IRA owner.

Assuming you do not fall under one of the above exceptions then you are subject to the 10-year clean-out rule. Can you wait and take it all out in 10 years or must

you take distributions each year? Under proposed IRS regulations this will depend on whether the original IRA owner dies before or after his or her beginning date for taking required minimum distributions (RMDs).

If he or she dies before that date, then the beneficiaries need not take distributions from the inherited IRA each year and can instead skip years or even wait until year 10 to withdraw all the money.

However, if the deceased IRA owner dies on or after the start date for taking RMDs then annual distributions must be paid to the beneficiary in years 1 through 9, with the balance of the account taken in year 10. In this situation, the beneficiary would compute annual RMDs based on his or her life expectancy.

Keep in mind, you as the beneficiary will pay tax on the amount of distributions you take each year. Also, you can always withdraw larger amounts if you choose.

IRS has not yet finalized these proposed regulations. In that light, IRS has given relief for years 2021 through 2024. IRS will not assess penalties for not taking distributions in these years.

Buyers of Electric Cars are Taking the Tax Credit at the Point-of-Sale as Rebates

Using the electric vehicle (EV) tax credit as a rebate against the purchase of an EV has proven popular among EV buyers. Buyers who opt in for this advance credit to lower the cost of the EV will have to repay it when filing Form 1040 if their income exceeds the limit for taking the credit. The income limits on new EVs are \$330,000 for joint filers, \$225,000 for heads of household and \$150,000 for singles (\$150,000, \$112,000 and \$75,000, respectively, for buyers of used EVs).

While you get no tax credit if you lease the EV, the tax credit goes to the manufacturer or the dealer. Many dealers will reduce the price of the EV if you raise this issue in your negotiations.

Standard Mileage Rates for 2024

For 2024 the standard mileage rate per mile for business is 67 cents, medical 21 cents, and charity 14 cents.

Roth Conversions can Benefit You at the Right Time

If you have a balance in a traditional IRA and you find yourself in a lower income year, you may find it advantageous to convert some of your balance in the traditional IRA to a Roth IRA. The amount you convert is taxable, but then the money moves into a nontaxable account with no required minimum distributions (RMD) rule. Our lowest tax rate is 12%, which if you can make a Roth conversion and stay in the 12% bracket, you are doing well.

A typical example where Roth conversions work well is let's say you and your spouse retires at age 65. Both of you earned decent wages but neither receive a monthly pension. Both have healthy balances in their 401K plans and roll these balances to individual retirement accounts (IRAs). Because of Social Security benefits and investments, the two of you take minimal to no distributions from their IRAs. During these years will tend to be the best time to start converting monies in those IRAs to Roth IRAs. Since you will pay tax on the amount you convert it is usually best if you convert just enough to stay in the 12% tax bracket. This is where your friendly, local accountant comes in or you can call me (lol). I can help you determine the maximum to convert.

Keep in mind that on each Roth conversion there is a five-year waiting period. While you can make withdrawals at any time after conversion, you will pay tax on some of the earnings if you make a withdrawal in the first five years. After five years, no distribution is taxable.

Taxes will be Center Stage in 2025 and 2026

Much of the 2017 tax law expires after 2025. Most provisions impacting individuals and estates end after 2025 including:

- Lower tax rates
- A bigger child tax credit
- Higher standard deductions
- Larger lifetime estate and gift tax exemptions

Whatever happens depends in large part on who controls Congress and the presidency. Your vote matters!

The Beneficial Ownership Information (BOI) is on Hold

In my previous mailing I had advised you of the new BOI filing as described in the paragraph below. A federal court in March found this new rule unconstitutional. The government is appealing. I am waiting till October/November to see if this filing is necessary. The exception is for any new entities formed where the filing requirement is 30 days. If you do form a new LLC or corporation, I advise you to make this filing within 30 days in case the rule is held to be constitutional.

In a broad effort to tighten money laundering laws, a new filing requirement for businesses has been created. This requirement **applies** to businesses with **less than** \$5 million in sales and **fewer than** 20 employees. The filing at this point is called the **Beneficial Ownership Information (BOI)** and will be filed with the Financial Crimes Enforcement Network (FINCEN). The Form is due in 2024. Of course, the Form nor the specific instructions have been released yet. A bit worrisome since the fines for non-compliance are up to \$10,000 and two years of jail time.

Ohio CAT Tax is Going Away for Some Businesses

If your business has less than \$3 million in sales, then your business will no longer need to file or pay Ohio Commercial Activities Tax (CAT) for 2024. There will be a final filing in 2024 for 2023. This is a good thing!

Hire Your Children to Work in your Business

A great way to shift income to a lower bracket is to hire your children in your business. There is no age limit if they can perform their assigned duties. Compensation must be reasonable. Your children can offset the earned income you pay them up to the full standard deduction, which is \$14,600 in 2024.

Ohio Tax Credit for Training Employees to Obtain a CDL

Ohio has a new tax credit for employers who pay for training for their employees to obtain a CDL. A certificate must be obtained to take this credit.