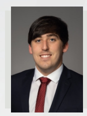
FORVIS

2023 Tax Year Update

Nicholas Schafer

Your Presenters…



Nicholas Schafer, CPA
Senior Associate II / Tax & Outsourced Accounting Services

870-552-5430
Nick.Schafer@forvis.com

FORVIS

2

2023 Year End Tax Update

FORV/S

Included topics…

- Background discussion
- Proposed bills
- Planning opportunities
- Examples and observations

IRS E-filing Threshold
Section 174 & Research and Development (R&D)
Secure 2.0
Private Client

FORV/S

4

IRS E-filing Threshold

FORVIS

Information Return Overview

- Information return
  - Provides IRS “information” for taxpayer returns
  - Over 40 forms
    - General
    - Education
    - Health insurance
    - Transfers of stock
    - Retirement

FORVIS

6

Most Common

- Forms 1094, 1095-B, and 1095-C for ACA compliance
- Forms 1098 and 1099 all types
- Form W-2, Wage and Tax Statement
- Form 1120 and 1120-S, Corporate Income tax return
- Form 1065, Partnership Income tax return

FORV/S

Other Returns

- Form 1042, Annual Withholding Tax Return for US Source Income of Foreign Persons
- Form 5300, Return of Excise Taxes Related to Employee Benefit Plans
- Form 5500 and 5500-SF, Report of Employee Benefit Plan
- Form 8300, Report of Cash Payments over $10,000
- Form 990, Exempt Organization Income Tax Return
- More forms can be found in the final regulation link at the end of this section

FORV/S

IRS – Electronic Filing Requirements

- Current requirement during 2023 year (as of February 23, 2023)
  - Filers of more than 250 returns of the same form type
  - Returns not currently aggregated
    - Return type
    - Separate application to original returns & corrections
  - Failing to file electronically (when required) begins on form 250

FORVIS

IRS – Electronic Filing Requirements

- Applicable for returns required to be filed on / after January 1, 2024
  - Reduced form threshold from 250 to 10
  - Removal of non-aggregation rule
  - Consistent filing methodology for corrections
  - Non-compliance penalty imposed per-form basis

FORVIS

Special Situations

- Partnership with more than 100 partners is required to file electronically, even if it does not exceed the 10-return threshold.
- Religious exemptions will be allowed.
- IRS is aware of issue for non-US filers, but the final regulations do not provide a blanket electronic filing exemption.
- Hardship waiver exemption is allowed to the extent that taxpayer can provide reasonable cause for failure to comply, thus penalty for failure to file will not apply. (Form 8508)
- Extension of Time to File Information Returns – Form 8809

FORVIS

FORVIS

Example #1

Company W must file five Forms 1099-INT, *Interest Income*, and five Forms 1099-DIV, *Dividends and Distributions*, totaling ten returns.

Therefore, Company W must file all its 2023 Forms 1099-INT and 1099-DIV electronically.

FORV/S

Example #2

In 2023, Corporation S, an electing small business corporation, is required to file one 2022 Form 1120-S, *U.S. Income Tax Return for an S Corporation*, two Forms W-2, *Wage and Tax Statement*, two Forms 1099-DIV, *Dividends and Distributions*, one Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, and four Forms 941, *Employer's Quarterly Federal Tax Return*.

Because that totals ten returns during the calendar year 2023, S must file its 2023 Form 1120-S, Forms W-2, and Forms 1099-DIV electronically. Form 940 and Form 941s are not mandated to be filed electronically.

General Reporting (1099-MISC & 1099-NEC) Trade or Business Reporting Only

1099-MISC

- Rents
- Royalties (at least $10)
- Other Income (at least $600)
  - Prizes / Awards
- Gross proceeds paid to attorney
- Medical/healthcare payments

1099-NEC

- Non-employee Compensation
- At least $600
  - Services performed by non-employee
  - Payments to an attorney

FORV/S

1099 Reportable Payments to Corporations

- Cash payments for the purchase of fish for resale
- Medical & health care payments
- Substitute payments in lieu of dividends or tax-exempt interest
- Attorney payments
  - Gross proceeds reported on 1099-MISC
  - Attorney's fees reported on 1099-NEC

FORVIS

Filing Deadlines 1099 Series

Form	Due Date (Paper Filers)	Due Date (Electronic Filers)
1099-MISC	To IRS: February 28, 2024 To Recipient: January 31, 2024	To IRS: April 1, 2024 To Recipient: January 31, 2024
1099-NEC	To IRS: January 31, 2024 To Recipient: January 31, 2024	To IRS: January 31, 2024 To Recipient: January 31, 2024
1099-INT	To IRS: February 28, 2024 To Recipient: January 31, 2024	To IRS: April 1, 2024 To Recipient: January 31, 2024
1099-DIV	To IRS: February 28, 2024 To Recipient: January 31, 2024	To IRS: April 1, 2024 To Recipient: January 31, 2024

FORVIS

Electronic Payroll Tax Reporting

- The following payroll tax reporting forms are not currently mandated under regulation to be filed electronically. However, they are to be included when determining if aggregate forms reach 10, effective for reports with due dates on or after January 1, 2024:
  - Form 940, Employer's Federal Annual Unemployment
  - Form 941, Employer's Quarterly Federal Tax Return
  - Form 943, Employer's Annual Federal Tax Return for Agriculture Employees
  - Form 944, Employer's Annual Federal Tax Return
  - Form 945, Annual Return of Withheld Federal Income Tax

FORVIS

E-file Employment Tax Forms

- Benefits to e-filing
  - Saves you time
  - More secure and accurate than paper filing
  - Acknowledgement received within 24 hours

FORVIS

Filing Deadlines for W-2s

Form	Due Date (Paper Filers)	Due Date (Electronic Filers)
W-2	To IRS: January 31, 2024 To Recipient: January 31, 2024	To IRS: January 31, 2024 To Recipient: January 31, 2024

FORV/S

Options for E-filing Employment Tax Forms

- Option 1: I want to submit the forms myself
  - Purchase IRS-approved software for example
    - Drake Software
    - Thomson Reuters CS Professional Suite
    - QuickBooks
- Option 2: I want a tax professional to file for me
  - Use the Authorized IRS e-file Provider Locator Service
    - https://www.irs.gov/e-file-providers/authorized-irs-e-file-providers-for-individuals

FORV/S

Information Return Reporting Penalties

- Penalties charged on **each** information return & charged separately for
  - Failure to file correct information return on time
  - Failure to provide correct payee statements

FORV/S

Penalties for Failure to File/Furnish Correct Information Returns (2024)

Days Late	Small Business (Gross Receipts <$5m)*	Large Business (Gross Receipts >$5m)*
Not more than 30	$60 per return $220,500 maximum	$60 per return $630,500 maximum
31 days – August 1	$120 per return $630,500 maximum	$120 per return $1,891,500 maximum
After August 1	$310 per return $1,261,000 maximum	$310 per return $3,783,000 maximum
Intentional Disregard	$630 per return No maximum	$630 per return No maximum

* Average annual gross receipts for the most recent three taxable years.

FORV/S

Conclusion

Take action now to prepare for the 2024 tax year.

- Count the number of aggregate information returns that will be filed for 2023 to determine which forms are mandated to be filed electronically
- Below is a link to the IRS regulation:

https://www.federalregister.gov/documents/2023/02/23/2023-03710/electronic-filing-requirements-for-specified-returns-and-other-documents

FORV/S

Polling Question 1

- What is the new electronic filing threshold for information returns?
  - 250
  - 100
  - 50
  - 10

FORV/S

Section 174 & R&D

Why it Matters

- The requirement to capitalize & amortize §174 specified research and experimental (SRE) expenditures is a significant departure from the immediate expensing of these costs that has historically been in place.
- Taxpayers need to establish an approach for identifying SRE activities and quantifying costs incident to development.
- The R&D tax credit continues to provide an incentive to performing R&D activities and can be used to offset some of the liability created from §174.

FORV/S

Section 174 Capitalization – Overview

- For tax years beginning after 12/31/2021, taxpayers are required to capitalize and amortize specified research or experimental expenditures (SREEs). Historically, taxpayers had the ability to immediately expense these SREEs in the year incurred, which is greatly impacting the taxpayer's taxable income and tax liability, in an unfavorable manner.
- Congressional intent of Tax Cuts and Job Act (TCJA) Modification: R&D expenses create intellectual property that the taxpayer will benefit from over a period, so expense recognition should be aligned with that same period.
  - Going from deducting 100% of domestic SREEs in the year incurred to 10% of those costs due to the capitalization and amortization requirement (if domestic).
- §174 defines SREEs as research or experimental expenditures which are paid or incurred by the taxpayer during such taxable year in connection with the taxpayer's trade or business and which represent research and development costs in the experimental or laboratory sense. The term generally includes all such costs incident to the development or improvement of a product.

FORV/S

Section 174 Capitalization – Overview

- Affects US taxpayers regardless of size & industry who perform SRE activities, including software development, manufacturers, and architectural and engineering activities.
- The IRS and Treasury issued notice 2023-63 in September 2023 to announce their intent to issue proposed regulations and provide interim guidance on rules that they intend to address in forthcoming regulations.
- The Build It In America Act (HR 3938) includes a proposal to delay the capitalization and amortization requirements until 2026.
- In any current filings, taxpayers should follow currently implemented law of capitalizing SREEs, while staying up to date on potential changes for upcoming estimated payments, projections, and tax returns.

FORV/S

29

Capitalization & Amortization of SREEs

- Taxpayers are required to capitalize SREEs and amortize such expenditures ratably over the applicable §174 amortization period beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.
- Applicable § 174 amortization periods:
  - Domestic Research – 5 year period (60 months)
  - Foreign Research – 15 year period (180 months)
- Notice 2023-63 provided guidance on definition of foreign research and midpoint and implications of short taxable years

FORV/S

30

SREEs Defined

- The term specified research or experimental expenditures (SREEs), as used in §174, means expenditures incurred in connection with the taxpayer's trade or business which represent research and development costs in the experimental or laboratory sense.
- The term generally includes all such costs incident to the development or improvement of a product. Additionally, under the new rules, software development costs are explicitly required to be treated as SREEs and are subject to the same capitalization and recovery rules and not expensed under Rev Proc 2000-50.
- Expenditures represent research and development costs in the experimental or laboratory sense if they are for activities intended to discover information that would **eliminate uncertainty** concerning the development or improvement of a product.
- Uncertainty exists if the information available to the taxpayer does not establish the capability or method for developing or improving the product or the appropriate design of the product.
- Product - includes any pilot model, process, formula, invention, technique, patent, or similar property, and includes products to be used by the taxpayer in its trade or business as well as products to be held for sale, lease, or license.

FORV/S

31

SREEs Defined

- Notice 2023-63 provides IRS perspective on costs incident to development through inclusion of non-exhaustive list of examples of the types of costs that are incident to SRE activities. IRS list includes:
  - **Labor Costs** – associated with performance of SRE activities - basic compensation, stock-based compensation, overtime pay, vacation pay, holiday pay, sick leave pay, payroll taxes, pension costs, employee benefits, and payments to a supplemental unemployment benefit plan
  - **Materials & Supplies** – tools and equipment that are not depreciable which are used or consumed in SRE activities
  - **Cost Recovery Allowances** – depreciation, amortization, or depletion allowance with respect to property used in SRE activities
  - **Patent Costs** – costs of obtaining a patent
  - **Certain Operation and Management Costs** – rent, utilities, insurance, taxes, repair & maintenance costs, security costs, and similar overhead with respect to facilities, equipment, and other assets used in SRE activities
  - **Travel Costs** – travel costs for performance of SRE activities
- Costs excluded from definition of SREEs under Notice include: severance, indirect support from G&A service depts, interest, input of content to website, website hosting, registration costs of internet domain name, and amortization expense associated with R&E expenditures.

FORV/S

32

§174 Software Development

- Any amount paid or incurred in connection with the development of any software shall be treated as a research and experimental expenditure
- Prior to 2022, taxpayers could expense software development costs under Rev Proc 2000-50
- Computer software includes software developed for use by the taxpayer in its trade or business or for sale or licensing to others
- Software development includes upgrades and enhancements to existing computer software that result in additional functionality or materially increase in speed or efficiency of the software

FORVIS

§174 Software Development

- Notice 2023-63 provides the following activities that are treated as software development:
  - Planning the development of the computer software
  - Designing the computer software
  - Building a model of the computer software
  - Writing source code and converting it to machine-readable code
  - Testing the computer software
  - Production of the product master(s)

FORVIS

Research Performed Under Contract

- Guidance for treatment of expenses when taxpayer is research recipient:
  - SREEs include expenditures paid or incurred for research or experimentation carried out on behalf of the taxpayer by another person or organization (such as a research institute, foundation, engineering company, or similar contractor).
  - If expenditures for research or experimentation are incurred in connection with the construction or manufacture of depreciable property by another, they are includable under IRC §174 only if made upon the taxpayer's order and at his risk.

FORVIS

Research Performed Under Contract

- Guidance for treatment of expenses when taxpayer is research provider (from Notice 2023-63):
  - If research provider bears financial risk under the contract, then R&E expenditures incurred under contract are SREEs
  - If research provider has right to use or otherwise exploit the product, then R&E expenditures incurred under contract are SREEs

FORVIS

Research Performed Under Contract

- Terms defined under Notice 2023-63 related to research performed under contract:
  - The term financial risk means the risk that the research provider may suffer a financial loss related to the failure of the research to produce the desired SRE product.
  - The term SRE product means any pilot model, process, formula, invention, technique, patent, computer software, or similar property (or a component thereof) that is subject to protection under applicable domestic or foreign law.

FORV/S

Method Change Related to §174

- §174 requires a method change, but Rev Proc 2023-24 provides that an attached statement in lieu of Form 3115 to the return for the first taxable year beginning after 12/31/2021 will suffice for change in accounting method.
- Changing an accounting method for §174 costs in a year subsequent to the year after 12/31/2021 (i.e. 2023 for a calendar year taxpayer), a taxpayer must file an automatic Form 3115 with a modified §481(a) adjustment taking into account SREEs incurred in taxable years beginning after 12/31/2021.
- A taxpayer does not receive audit protection for costs incurred in years prior to the year of change, (i.e. costs incurred in 2022 for a method change filed for 2023).

FORV/S

R&D Tax Credit

- Taxpayers can claim an R&D tax credit to offset federal – and potentially certain states – tax liabilities:
  - Startup taxpayers can offset up to $500K of payroll taxes starting 1/1/2023;
  - The federal research credit is approximately 7-10% of the total QREs - QREs include wages (direct and supporting), supplies, contract research, and cloud costs;
  - Unused federal research credits can be carried back one year or forward 20 years.
- IRS recently released proposed changes to Form 6765 for tax year 2024:
  - Will require additional information to be gathered to complete the Form and claim research credits;
  - Reporting quantitative and qualitative information by business component;
  - Section seeking miscellaneous information.

FORVIS

Secure 2.0

FORVIS

Secure 2.0- Why it Matters

- Much of SECURE 2.0 addresses changes to topics related to retirement savings.
- If you are an employer, you may be required to act in accordance with implemented changes.
- If you are an employee, there may be opportunities to adjust savings strategies based on Secure 2.0.

FORV/S

SECURE 2.0

- Signed into law on 12/29/22, it is passed as part of the Consolidated Appropriations Act of 2023
- Over 90 provisions total, original SECURE Act in 2019 had 29
- Major push towards the utilization of Roth savings options
- Lots of changes for employer sponsored plans

FORV/S

Required Minimum Distributions (RMDs)

- RMD age pushed back again:
  - Born 1951 through 1959: now age 73
  - Born 1960+: age 75
  - No retirement account owners will start RMDs in 2033 or 2034
  - Qualified Charitable Distributions (QCDs) – no changes to age requirement (age 70.5)
- Provides some planning opportunities:
  - Proactive tax planning
  - Just because an individual can delay their RMD longer, it doesn't always mean they should.

FORVIS

SECURE 2.0-Other

- Reduced penalties for missed RMD
  - Reduced to 25% from 50%
  - Further reduced to 10% if corrected in a "timely manner"
    - Two-year correction window unless notice is sent by IRS
- Roth contribution option for SEP and SIMPLE IRAs
  - Early stages and custodians are working on updated forms
- Early Withdrawal due to Terminal Illness:
  - 10% premature distribution penalty waived if:
    - Physician certifies individual has an illness/condition that is reasonably expected to result in death in 84 months or less

FORVIS

529 to Roth IRA Transfers

- Effective in 2024
- Roth IRA receiving the funds must be in name of 529 plan beneficiary
- Funds must be **moved directly** from the 529 to beneficiary's Roth IRA
- Beneficiary must have compensation and subject to annual IRA contribution limit
- 529 account must have been open and maintained for at least 15 years
    - Planning tip: establish 529 plan early to start 15-year clock
- Any contributions (and its earnings) within last 5 years are ineligible
- Maximum lifetime transfer is $35,000 per beneficiary
    - Can you change 529 plan beneficiary once lifetime transfer is reached?

FORVIS

45

Employer Plan Catch-Up Contributions

- Originally, to be effective in 2024; Notice 2023-62 delayed effective date until Jan. 1, 2026
- Catch up contributions (except SIMPLE IRA) must be made into Roth portion of retirement plan if prior year's wages from plan sponsor exceeded $145k
- Options to help avoid Roth requirement
    - Keep wages below $145k
    - Change jobs?

FORVIS

46

Expanded Retirement Plan Catch-Up Contributions

- Begins in 2025
- Applies to participants turning ages 60-63 during that calendar year
- Catch up amount for these individuals is greater of:
  - $10,000 or
  - 150% of the regular catch-up amount for 2025
- For SIMPLE Plans: greater of $5,000 or 150% of 2025 regular catch-up amount

FORV/S

47

2024 Changes

- Elimination of RMDs from employer sponsored Roth plans
- Annual QCD amount indexed for inflation
- IRA catch-up contribution indexed for inflation ($100 increments)
- Early Withdrawal Penalty Exceptions:
  - Domestic Abuse:
    - Applies to IRAs and employer plans
    - Lesser of $10,000 or 50% vested balance
    - Taken within 1-year of incident and repayable for up to three years
  - Emergency Expense:
    - Limited to $1,000/calendar year
    - Only one withdrawal per 3-year period unless previous withdrawal has been repaid

FORV/S

48

Polling Question 2

- What is the updated missed RMD penalty?
  - 5%
  - 20%
  - 25%
  - 50%

FORVIS

FORVIS

2024 Changes

Topic	New Rule	Effective Date	Who is affected?
Indexing of IRA catch-up	A cost-of-living adjustment applies to catch-up amount	Tax Years beginning after 2023	Individuals at or near age 50, with IRAs
Employer matching contributions for student loan payments	Employers can make matching contributions under certain plans with respect to "qualified student loan payments"	Contributions made for plan years beginning after 2023	Individuals with outstanding student loans, and employers with certain plans
No early withdrawal penalty for emergency personal expenses	Withdrawal penalty does not apply, $1,000 dollar cap applies, and must be recontributed within 3 years	Distributions after 2023	Individuals under age 59 ½ who participate in certain plans
Additional nonelective contributions to SIMPLE plans	Contributions up to 10% of comp possible, capped at $5k/EE	Tax Years beginning after 2023	ER/EE with SIMPLE, 401(k), or SIMPLE IRA plans

Source: https://checkpoint.riag.com/app/view/frameBlob?DocID=I94cbe24becd9422ba4b18d990312dceb&feature=tnews&id=I94cbe24becd9422ba4b18d990312dceb&lastCpReqId=75402&nlEmailId=Art-RIA-230911&origResReq=%2Fapp%2Fdoc%3Ffeature%3Dtnews%26id%3DI94cbe24becd9422ba4b18d990312dceb%26nlEmailId%3DArt-RIA-230911&tabPg=4210&action=validateBlob&BLOBID=%2Fresource%2FTX%2FQGSECURE2024

FORV/S

2024 Changes

Topic	New Rule	Effective Date	Who is affected?
Deadline extended for adoption of discretionary amendments that increase benefits	Discretionary plan amendments can be adopted by ER's tax return	Plan years beginning after 2023	ERs with retirement plans
Designated Roths exempt from pre-death RMD rules	RMDs not required while account holder alive	Tax years beginning after 2023	Older individual participants w/ retirement plans and designated Roth accounts
Surviving spouse can elect to use deceased spouse's Uniform Lifetime Table for RMDs	Allows avoidance of rolling inherited benefits into an IRA for benefits	Calendar years beginning after 2023	Married individuals who are EE plan participants (typically, when deceased spouse is younger than surviving spouse)

Source: https://checkpoint.riag.com/app/view/frameBlob?DocID=I94cbe24becd9422ba4b18d990312dceb&feature=tnews&id=I94cbe24becd9422ba4b18d990312dceb&lastCpReqId=75402&nlEmailId=Art-RIA-230911&origResReq=%2Fapp%2Fdoc%3Ffeature%3Dtnews%26id%3DI94cbe24becd9422ba4b18d990312dceb%26nlEmailId%3DArt-RIA-230911&tabPg=4210&action=validateBlob&BLOBID=%2Fresource%2FTX%2FQGSECURE2024

FORV/S

FORVIS is a trademark of FORVIS, LLP, registered with the U.S. Patent and Trademark Office.

2024 Changes

Topic	New Rule	Effective Date	Who is affected?
Increased SIMPLE contribution limits	Catch-up limit 110% of the year's catch-up amount. Qualifications apply	Tax Years beginning after 2023	ER/EE with SIMPLE, 401(k), or SIMPLE IRA plans
New "Starter 401(k)s" and "Safe Harbor Deferral-Only 403(b)s"	Now available to ERs without a current plan. Automatic enrollment, no ER contributions, EE contributions dependent on annual IRA limit	Plan years beginning after 2023	ERs with no 401(k) or 403(b) plans
Tax-free rollovers from qualified tuition plans (529s) to Roth IRAs	15 year maintained 529 plans, distribution not in income if certain transfer to Roth of beneficiary	Distributions after 2023	Individuals with 529 plans and/or Roth IRAs

Source: https://checkpoint.riag.com/app/view/frameBlob?DocID=I94cbe24becd9422ba4b18d990312dceb&feature=tnews&id=I94cbe24becd9422ba4b18d990312dceb&lastCpReqId=75402&nlEmailId=Art-RIA-230911&origResReq=%2Fapp%2Fdoc%3Ffeature%3Dtnews%26id%3DI94cbe24becd9422ba4b18d990312dceb%26nlEmailId%3DArt-RIA-230911&tabPg=4210&action=validateBlob&BLOBID=%2Fresource%2FTX%2FQGSECURE2024

FORVIS

Other 2025 Changes

- Auto enrollment in retirement plans
  - 3% to 10% default rate with employee opt out option
  - Does not apply to plans established before 2023
  - Some exceptions to this: existing plans, business with < 10 employees, new business < 3 years old
- Retirement savings lost and found
  - Online database being established by DOL

FORVIS

Other Tax Related Changes

- Roth plan distribution rules
  - Eliminates pre-death distributions to owner of Roth designated account in an employer retirement plan
- Excess contribution distributions
  - Repeal previously 10% additional tax on distributions (and related earnings) from IRA if taxpayers overcontribute
- IRA prohibited transactions
  - Previously, if prohibited transactions occur with IRA, it was not entirely clear if all the Participant's IRAs are disqualified
  - Secure 2.0: Only IRA with respect to the prohibited transaction occurred will be disqualified

FORV/S

Planning

- When should my business consider student loan matching?
  - Consider the following questions…
    - Is the business interested in offering a student loan-related benefit?
    - Does the business currently have a retirement plan and offer a match?
    - Does the business have a high population of employees with student loans who are not currently contributing to the plan?
    - Is the business actively hoping to attract more employees that may fall into that category?
- When can I make an early distribution from an IRA or employer-sponsored retirement account without penalty?
  - Qualified distributions for birth or adoptions
  - Qualified disaster distributions
  - Withdrawals for emergency expenses
  - Provisions for domestic abuse & terminal illness

FORV/S

Activity in the Year

- Notice 2023-23: IRS provided guidance to financial institutions for reporting required minimum distributions (RMDs) due to change in RMD rules with Secure 2.0
- Notice 2023-30: Providing safe harbor deed language for extinguishment and boundary line adjustment clauses as required by the SECURE 2.0 Act of 2022. This is relevant to conservation easement donors.
- Notice 2023-43: Guidance on the expansion of the Employee Plans Compliance Resolution System under the SECURE 2.0 Act
- Notice 2023-54: Extends penalty relief in a variety of situations, and for individuals with 1951 birth dates implements a rollover rule
- Notice 2023-62: Delays effective date of employer plan catch-up contribution requirement.
  - Catch-up contributions of higher-paid EEs must be designated Roth
  - If wages over $145k, catch-up contributions must be designated Roth made under EE election (after-tax)
  - Applies to ER/EE with 401(k), 403(b), or 457(b) plans, EEs of ERs

FORVIS

Private Client

FORVIS

Private Client– Why it Matters

- Annually key rates, thresholds, phaseouts, etc. change with inflation or legislative priorities. These changes could affect estimates and general tax planning for individuals and their families.
- There are major tax changes coming into play in 2025– building these changes into goals, gifting strategies, and timing of life transitions is important.
- Inflation Reduction Act clean energy credits are also available to individuals. Accompanying state and local incentives may also be obtained.

FORVIS

2024 Projected Individual Rates

Projected 2024 Tax Rates– Single Filers	
Tax Brackets	**Rate**
Not over $11,600	10%
$11,601-$47,150	12%
$47,151-$100,525	22%
$100,526-$191,950	24%
$191,951-$243,725	32%
$243,726-$609,350	35%
Over $609,350	37%

Example: $250,000 taxable income= $55,678.5 + (35% * ($250,000 - $243,725))= $57,874.75
Effective Tax Rate= $57,874.75/$250,000= 23.15%

FORVIS

Increased Standard Deduction

Basic Standard Deduction			
	2022	2023	Projected 2024
Married-Joint or Surviving Spouse	$25,900	$27,700	$29,200
Head of Household	$19,400	$20,800	$21,900
Single	$12,950	$13,850	$14,600
Married-Separate	$12,950	$13,850	$14,600
Dependent of Another	$1,150	$1,250	$1,300

An additional standard deduction amount is available for eligible individuals who have attained age 65 or are blind. For 2022, the additional standard deduction amounts are $1,750 for an unmarried individual & $1,400 for a married person filing jointly or separately, or a surviving spouse. For 2023, those amounts are increased to $1,850 & $1,500, respectively. For 2024, those amounts are projected to increase to $1,950 & $1,550 respectively.

FORV/S

Estate and Gift Tax Limitations

Estate Tax Limit			
	2022	2023	Projected 2024
A filing is required for estates with combined gross assets & prior taxable gifts exceeding	$12,060,000	$12,920,000	$13,610,000

Although estates falling below the filing threshold are not required to file, a return still could help the estate take advantage of portability, e.g., transferring unused estate exemption amounts between spouses

Annual Gift Tax Exclusion			
	2022	2023	Projected 2024
Exclusion per Donee	$16,000	$17,000	$18,000

FORV/S

FORVIS is a trademark of FORVIS, LLP, registered with the U.S. Patent and Trademark Office.

2023 AMT Exemption & Phase-Out

- TCJA temporarily increased individual alternative minimum tax (AMT) exemption
- AMT Triggers
  - Having a high household income
  - Realizing a large capital gain
  - Exercising stock options
- Phase-out thresholds:
  - Single Filers & MFS: 2023= $578,150, Projected 2024=$ 609,400
  - Joint Filers: 2023= $1,156,300, Projected 2024= $1,218,700

Filing Status	2023	Projected 2024
Single filers	$81,300	$85,700
Joint filers or surviving spouse	$126,500	$133,300
Married filing separate	$63,250	$66,650
Estates & trusts	$28,400	$29,900

FORVIS

Qualified Business Income Deduction

	2022		2023		Projected 2024
	Threshold Amount	Full Phase-In Amount	Threshold Amount	Full Phase-In Amount	Threshold Amount
Married-Joint or Surviving Spouse	$340,100	$440,100	$364,200	$464,200	$383,850
Married-Separate	$170,050	$220,050	$182,100	$232,100	$191,925
All Other Taxpayers	$170,050	$220,050	$182,100	$232,100	$191,900

Amounts based on taxable income. Expiring 12.31.25.

When taxable income exceeds the threshold amount, the W-2 wage & qualified property limitations are partially applied until taxable income reaches the full phase-in amount. For specified service trades or businesses, a reduction of actual qualified business income also is phased in over this range

FORVIS

Standard Mileage Rates

	2022	2023
Business	58.5 Cents Per Mile (January 1 – June 30) 62.5 Cents Per Mile (July 1 – December 31)	65.5 Cents Per Mile
Charitable	14 Cents Per Mile	14 Cents Per Mile
Medical & Moving	18 Cents Per Mile (January 1- June 30) 22 Cents Per Mile (July 1- December 31)	22 Cents Per Mile

FORV/S

Polling Question 3

- What is the new standard business milage rate?
  - 56.5 cents/mile
  - 60 cents/mile
  - 65 cents/mile
  - 65.5 cents/mile

FORV/S

Retirement Plan Limits

Catch-Up Contributions		
	2022	2023
401(k), 403(b), 457, & SAR-SEP Plans – Younger than Age 50	$20,500	$22,500
401(k), 403(b), 457, & SAR-SEP Plans – Age 50 & Older	$27,000	$30,000
Traditional & Roth IRAs – Younger than Age 50	$6,000	$6,500
Traditional & Roth IRAs – Age 50 & Older	$7,000	$7,500
SIMPLE Plans – Younger than Age 50	$14,000	$15,500
SIMPLE Plans – Age 50 & Older	$17,000	$19,000

2023 Wealth Transfer Strategies

- Gifting your business
- Family investment partnerships / Discount planning
- Self-canceling installment notes
- Grantor retained annuity trust (GRAT)
- Charitable trusts (CLAT / CRUT)
- Intentionally defective grantor trust (IDGT / SLAT)
- Other intra-family transfers

FORV/S

69

529 Savings Plans

- Two significant federal income tax advantages
  - Tax-deferred growth
  - Tax-free withdrawals if used for qualified education expenses
  - Can be used for private grade schools, not just college
- Other advantages
  - Income tax credits or deductions for certain states
  - Low maintenance
  - Favorable financial aid treatment
  - Owner control
  - Secure Act 2.0 allows for 529s meeting certain requirements to be rolled into a Roth IRA ($35,000 lifetime max) – See previous slides
- Disadvantages
  - Limited investment choices
  - Fees

FORV/S

70

Upward Gifting Strategy

- General framework of strategy:
  - The younger generation is expected to have a taxable estate and holds highly appreciated assets that they could gift
  - The younger generation gifts highly appreciated assets to an older generation family member, not to exceed the older generation's basic exclusion amount (BEA)
  - The older generation updates their estate planning documents to bequest these assets to individuals who are not the original donors (typically children of original donors, but not required to be)
  - At the death of the older generation family member, the assets receive a step-up in tax basis and are distributed to the named beneficiary
  - If executed correctly, the family can potentially reduce income tax

FORV/S

Upward Gifting Strategy

- Basic Exclusion Amount (BEA)
  - Lifetime estate tax exemption - cumulative asset value that can be transferred by an individual during their lifetime or at death without being subject to gift or estate tax
  - 2023- $12.92 million per person ($25.84 million for a married couple)
  - Federal gift and estate tax rate is 40% on the value transferred over the BEA. At the current level of the BEA, it is estimated that less than 1% of the U.S. population is subject to gift or estate taxes.
  - The BEA is indexed annually for inflation but was only temporarily increased for tax years 2018 through 2025. If Congress does not act, the BEA will be significantly reduced in 2026. Therefore, individuals should consider taking action before 2026.

FORV/S

Upward Gifting Strategy

- A step-up in tax basis is generally obtained on assets owned by a decedent at death; however, IRC §1014(e) disallows a step-up in tax basis on assets that were gifted to the decedent within one year of death unless the appreciated property is distributed to someone other than the original donor or their spouse. If this occurs, the assets will not receive a step-up in tax basis.
- The two primary ways to avoid IRC §1014(e) and receive a step-up in tax basis through upward gifting are:
  - The older generation family member lives beyond one year from the gift date
  - The older generation family member bequeaths the appreciated asset to someone other than the original donor or their spouse

FORVIS

Preparing for 2025 Sunsets

- Individual tax rates are set to revert to their 2017 amounts. Income brackets will also return to their previous ranges, indexed for inflation.
  - If you expect your income to be low in the years before 2026, perhaps because of retirement, plans to retire, or other changes, there's an opportunity to take advantage of the lower rates by accelerating income with actions such as ROTH conversions.
- Estate Tax Exemption
  - The exemption amount will be cut in half for each taxpayer and is estimated to be around $6.2 million in 2026 after adjusting for inflation. This change will not only affect estates over the current exemption amount of $12.92 million but also those in the $6-$12 million range, as these estates will suddenly find themselves subject to taxation.

FORVIS

Preparing for 2025 Sunsets

- **Itemized Deductions –**
  - The standard deduction will lower by almost half, adjusted for inflation. This greatly increases likelihood of itemizing.
  - The $10k limitation on state and local taxes (state income taxes, real estate taxes, personal property taxes, etc.) will be removed.
  - Mortgage interest will be deductible on debt up to $1 million, up from $750k, and expands to include up to $100k in home equity debt.
  - Miscellaneous itemized deductions, most notably unreimbursed employee expenses, will be allowed.
  - The Pease limitation will be reinstated at certain income levels, which puts a cap on total deductible itemized deductions.
- **Other –**
  - Personal and dependent exemptions will be reinstated (this was previously $4,150 per qualifying taxpayer and dependent).
  - Sec 199A, the 20% qualified business income deduction (QBI) for pass-through entities will be eliminated.
  - Alternative minimum tax (AMT) exemption amounts will be reduced.
  - Bonus depreciation allowance reduction

FORVIS

Corporate & Individual Net Operating Loss (NOL)

- **NOL deduction limitations on utilization**
  - 80% of taxable income
  - Applies to losses generated in tax years beginning after December 31, 2017, & not utilized prior to 2021
- **No carryback**
  - Applies to losses arising in tax years beginning after December 31, 2020
  - Property/casualty insurance companies & certain farm losses have special carryback rules
- **Carried forward indefinitely**
  - Applies to losses arising in tax years beginning after December 31, 2017
- **NOL limitations for pre-2018 losses**
  - Rules remained the same, losses can be carried back two years & forward 20 years
  - No taxable income limit, can offset 100% of taxable income if NOL is large enough

FORVIS

Real Estate Professional Rules

- Advantages of Real Estate Professional (REP):
  - May not be subject to Passive Activity Loss limitations
  - May avoid the 3.8% Net Investment Income Tax
- Rental activities are by default passive.
- Passive Activity Losses (PALs) can only offset Passive Income.
- Excess PALs are carried forward.

FORV/S

77

Real Estate Professional Rules

- Real Estate Professional Qualification

  - Perform more than 50% of services in real property trades or businesses; and
  - More than 750 hours in real property trades or businesses

For the activity to be non-passive, the REP generally must establish that they materially participate in each rental activity (or elect to aggregate all rental activities).

FORV/S

78

Real Estate Professional Rules

- 7 Tests of Material Participation:

  1. 500-hour Test
  2. Regular, Continuous and Substantial Test
  3. Maximum Participation Test
  4. Significant Participation Activity Test
  5. Historical Participation Test
  6. Personal Service Activity Test
  7. Facts and Circumstances Test

FORV/S

Real Estate Professional Rules

- Election to aggregate Rental Activities
  - Allows the rental activities to be treated as one activity for purposes of meeting the material participation tests.
  - Statement filed with the Real Estate Professional's tax return.
  - Election is binding in the year made, and all future years that the taxpayer meets the definition of a Real Estate Professional.

FORV/S

Excess Business Loss Limitation

- IRC Section 461(l) limits the amount of trade or business losses noncorporate taxpayers can utilize to offset nonbusiness income.
- Originally, effective for tax years 2018 – 2025.
- CARES Act retroactively delayed until 2021. Led to amended 2018 and 2019 Returns.
- Inflation Reduction Act (IRA) – in effect through 2028

FORV/S

Excess Business Loss Limitation

- EBLs = aggregate T or B deductions or losses exceed gross T or B income or gain.
- Deductibility Thresholds
  - 2022 – $270,000 ($540,000 MFJ)
  - 2023 – $289,000 ($578,000 MFJ)
- Limitation applies after the outside basis, at-risk, and passive activity loss limitations.
- EBLs carried forward as NOLs, subject to NOL rules.

FORV/S

Section 25C Credit

- 25C- Energy Efficient Home Improvement Credit
  - The nonbusiness energy efficient home improvement credit provides homeowners with a tax credit for investments in certain high-efficiency heating, cooling, and water-heating appliances, as well as tax credits for energy efficient windows and doors
  - No longer lifetime limit, now it is annual maximum of $2,000
  - Qualifying property: any insulation material or system, exterior windows (including skylights), exterior doors, or residential energy property expenditures (e.g. heat pumps and central air conditioner)
  - Subject to limitations (differs by property type), base credit: 30% sum of
    - amounts incurred for qualified energy efficiency improvements,
    - the amount incurred for residential energy property expenditures, and
    - amounts paid for home energy audits

FORV/S

Section 25C

For Tax years after 2022:

Property Type	Credit Limitation per Item	Aggregate Credit by Property Type	Annual or Lifetime Limitation
Biomass stoves or water heaters and/or heat pumps powered by electricity or natural gas	$600	$2,000	Annual
Windows	$600	$600	Annual
Exterior Doors	$250	$500	Annual
Other single energy property item	$600	$1,200	Annual
Home energy audits	N/A	$150	Annual

FORV/S

Section 25D Credit

- 25D- Residential Clean Energy Credit
  - Investment credit applies to qualified energy property
    - Solar electric property
    - Solar water heating property
    - Fuel cell property
    - Small wind energy property
    - Geothermal heat pump property
    - After 12/31/22, qualified battery storage property

FORV/S

Section 25D Credit

25D- Residential Clean Energy Credit

- Applicable % dependent on year:
  - Tax years 2022 to 2032 —30%
  - Tax year 2033 —26%
  - Tax year 2034 —22%
  - Tax years 2035 and later —no credit is available
- Credit= cost of energy property x applicable percentage
- Cooperative and condominium dwellers can claim the credit by splitting the cost of installing equipment with other unit owners
- If in a newly constructed home, credit can be claimed when owner moves in

FORV/S

EV Credits

EV Related Credits

- Section 30C: Alternative fuel vehicle refueling property
  - Charging stations included
  - 30% of the cost, limit of $1,000
- Vehicle related credits
  - Section 25E: Previously-owned clean vehicle credit
    - Lesser of: $4,000 or 30% of sale price
    - MAGI limitations-- $150,000 married filing jointly
  - Section 30D: New qualified plug-in electric drive motor vehicles
    - Critical mineral and battery components must apply
    - MAGI limitations-- $300,000 married filing jointly

FORVIS

87

Other Tax Credits for Individuals

- Foreign tax credit
- Adoption Credit
- Clean energy credits (see previous slides)
- Premium tax credit
- Credit for tax on undistributed capital gain
- Earned Income Tax Credit (EITC)
- Child Tax Credit (CTC)
- American Opportunity Tax Credit (AOTC)
- Saver's Credit (Retirement Savings Contribution Credit)

FORVIS

88

Related Bills

Name of Bill	Topic	Description
Child Care Investment Act	Childcare	Expand three existing tax incentives "to support childcare affordability and reflect the realities of childcare today
The Casualty Loss Deduction Restoration Act	Casualty losses	Repeal the temporary limitation on personal casualty losses
Simplify Automatic Filing Extensions (SAFE) Act of 2023	Extension	Allow taxpayers to automatically qualify for a filing extension by paying 125% of the prior year's tax liability
Adoption Tax Credit Refundability Act of 2023	ATC	Make the current Adoption Tax Credit fully refundable
Health Care Fairness for All Act	Credit-Healthcare	Create a new insurance tax credit and allow taxpayers to pay for healthcare with tax-advantaged Roth Health Savings Accounts

FORV/S

Related Bills

Name of Bill	Topic	Description
Working Families Tax Cut Act	Standard deduction	Rename the standard deduction the guaranteed deduction, and add a bonus amount of $4,000 for working families and $2,000 for single filers on 2024 and 2025 returns are adjusted for inflation
Permanent Tax Cuts for American Families Act of 2023	Standard deduction	Remake permanent the enhanced standard deduction established by the Tax Cuts and Jobs Act (set to expire in 2025)
Charitable Act	Charitable deduction	Proposing to allow taxpayers who do not itemize on their tax returns a below-the-line deduction for charitable giving of up to one-third of the standard deduction, e.g., approximately $4,500 for individual filers and $9,000 for married joint filers for 2023.
Capital Loss Inflation Fairness Act	Capital loss limit	Increase the capital loss limit against ordinary income from $3,000 to $13,000 for individuals and married taxpayers filing jointly, and includes an annual adjustment for inflation
SALT Relief Act	SALT limit	Increase the limitation on the deduction for state and local taxes, which is currently capped at $10,000, to $50,000 for individual taxpayers.
SALT Marriage Penalty Elimination Act	SALT limit	Increase the amount a married couple filing a joint tax return may deduct as state and local taxes from $10,000 to $20,000

FORV/S

Related Bills

Name of Bill	Topics	Description
Worker Relief and Credit Reform Act	EITC	Reform the Earned Income Tax Credit (EITC) by expanding eligibility criteria, increasing credit amounts, and creating an advance payment regime where the IRS would send out the credit in monthly payments. The bill also would make the EITC available to unpaid caregivers and students
Mortgage Insurance Tax Deduction Act of 2023 and the Mortgage Debt Forgiveness Act of 2023	Mortgage deduction	Make permanent the deduction for mortgage insurance premiums and permanently allow taxpayers to exclude income from the discharge of debt on their personal residence
More Homes on the Market Act	Gain exclusion-Homes	Incentivize more homeowners to sell their houses and increase the market supply by increasing the sales gain tax exclusion to $500,000 for single filers and $1 million for joint filers (currently, these limits are $250,000 and $500,000, respectively).
Uplifting First-Time Homebuyers Act	IRA: First-time homes	Proposes to adjust the IRA tax exception withdrawal limit. In 1997, Congress allowed a tax exception for first-time homebuyers to withdraw up to $10,000 from their IRA. This bill would increase that amount to $30,000 in order to keep up with rising house prices.

FORVIS

Related Bills

Name of Bill		Description
Personalized Care Act	HSA	Detach health savings accounts from high-deductible insurance plans, increase HSA contribution limits from $3,550 to $10,800 for individuals, and reduce penalties for nonqualified distributions to 10 percent.
Health Savings Act (reintroduced)	HSA	Proposes to simplify and expand health savings accounts and flexible spending accounts by allowing both spouses to make catch-up contributions to the same account and allowing workout equipment and nutritional supplements to be treated as medical care.
Death Tax Repeal Act	Estate tax	Permanently repeal the federal estate tax. This is the third time this bill has been introduced in the Senate
American Family Act	CTC	Proposing to make the expanded Child Tax Credit permanent.
Working Families Tax Relief Act	CTC	Permanently expand the Earned Income Tax Credit (EITC) and reestablish the Child Tax Credit (CTC)

FORVIS

Arkansas

2023 Arkansas Items

- Top Tax Rate Reductions
  - Falls to 4.7% in 2023
  - Falls to 4.4% in 2023
- Additional $150 tax credit
  - Phases out from $89,601-$103,601 per taxpayer
- Pass Through Entity Tax Still in Play
- Section 179

Polling Question 4

- What is the top individual tax rate in Arkansas in 2023?
  - 5.1%
  - 4.9%
  - 4.7%
  - 4.4%

FORVIS

FORVIS

Questions?

FORVIS

Thank you!

forvis.com

FORVIS

Assurance / Tax / Consulting