Spring & Co.
CERTIFIED PUBLIC ACCOUNTANTS

2024 Year-End Tax Planning for Businesses

Dear Client,

Although 2024 (as of now) has not seen any major legislation, we might expect tax law changes following the election. In addition, taxpayers should be alert to the impending expiration of numerous Tax Cuts and Jobs Act (TCJA) of 2017 provisions at the end of 2025. A new administration and the sunset of tax relief for many businesses will put pressure toward significant tax reform in 2025. These factors create challenges and instability in developing a tax plan when there are multiple strategies to consider. However, the usual tactics of deferring income and increasing current deductions still apply for 2024. Taxpayers should consider the unique challenges and opportunities that this year presents.

Deadline for Corporate Transparency Act Registration

Beginning on January 1, 2024, many companies in the United States are required to report information about their beneficial owners (i.e., the individuals who own or control the company). Companies must report the information to the Financial Crimes Enforcement Network (FinCEN), which is a bureau of the Treasury Department, through an electronic filing system. Companies should review and determine their reporting entities and filing obligations for the beneficial ownership information (BOI) report. In general, an entity that exists before that date will not be required to file its initial report until January 1, 2025.

Generally, any corporation, limited liability company, or any other entity that is created by filing a document with a secretary of state or similar office under state or tribal laws, or is formed under foreign law and registered to do business in the United States by filing a document with a secretary of state or similar office under state or tribal laws, is a reporting company that must disclose information regarding its beneficial owners and its company applicants to FinCEN under the Corporate Transparency Act.

YEAR-END BUSINESS STRATEGIES

Retirement Plans

The SECURE 2.0 Act of 2022 expands provisions for retirement plans to benefit both employers and plan participants. Although some benefits were available in 2023, several of the provisions became effective in 2024 and beyond.

Credit for startup costs. In 2023, the credit to start a retirement plan for employees was increased to 100% of startup costs for employers with 50 or fewer employees, and an additional credit for contributions is added for the first five years of a plan's existence.

Starter 401(k) plans for employers with no retirement plan. An employer that does not sponsor a retirement plan can offer a starter 401(k) plan (or safe harbor 403(b) plan). A starter 401(k) plan (or safe harbor 403(b) plan) would generally require that all employees be enrolled in the plan at 3% to 15% of compensation deferral rate by default. The maximum contribution to the plan per employee is $6,000 (for 2024) and $7,000 for employees aged 50 and older, as adjusted for inflation. This provision is effective for plan years beginning after December 31, 2023.

Amendments to increase benefit accruals under plan for previous plan year allowed until employer tax return due date. The SECURE Act 2.0 allows an employer to adopt a new retirement plan by the due date of the employer's tax return for the fiscal year in which the plan is effective. Current law, however, provides that plan amendments to an existing plan must generally be adopted by the last day of the plan year in which the amendment is effective. This precludes an employer from adding plan provisions that may be beneficial to participants. The SECURE Act 2.0 amends these provisions to allow discretionary amendments that increase participants' benefits to be adopted by the due date of the employer's tax return. This provision is effective for plan years beginning after December 31, 2023.

Expanding automatic enrollment in retirement plans. In plan years beginning after 2024, 401(k) and 403(b) sponsors must automatically enroll employees in plans once they become eligible to participate in the plan. Under the requirement, the amount at which employees are automatically enrolled cannot be any less than 3% of salary, and no more than 10%. The amount of employee contributions is increased by 1% every year after automatic enrollment, until it reaches at least 10%, up to a maximum contribution of 15%.

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Employees can opt out of the automatic enrollment if they choose. Exceptions to the automatic enrollment requirement are available for businesses with ten or fewer employees, businesses that have been in existence for less than 3-years, church plans, and government plans.

Improving coverage for part-time workers. The SECURE Act 2.0 requires employers to allow long-term, part-time workers to participate in their 401(k) plans. The SECURE Act 2.0 provision provides that except in the case of collectively bargained plans, employers maintaining a 401(k) plan must have a dual eligibility requirement under which an employee must complete either a 1-year of service requirement (with the 1,000 hour rule) or 3 consecutive years of service where the employee completes at least 500 hours of service. The SECURE Act 2.0 reduces the 3-year rule to 2-years, effective for plan years beginning after December 31, 2024. This provision also extends the long-term part-time coverage rules to 403(b) plans that are subject to ERISA.

Depreciation and expensing

The TCJA provided very generous depreciation and expensing limitations. Code Sec. 179 expensing has an investment limitation of $3,050,000 for 2024, with a dollar limitation of $ 1,220,000.

Taxpayers may also claim an additional first-year depreciation allowance of 60% for property placed in service in 2024. It may be the best policy to take advantage of this benefit in the current year. The allowance generally decreases by 20% per year and expires January 1, 2027.

Clean commercial vehicles

Taxpayers may qualify for a credit if they buy a new, qualified plug-in electric vehicle or fuel cell electric vehicle. Businesses and tax-exempt organizations that buy a qualified commercial clean vehicle may qualify for a clean vehicle tax credit of up to $40,000. The credit equals the lesser of:

- 15% of the vehicle purchase price for plug-in hybrid electric vehicles
- 30% of the vehicle purchase price for EVs and FCEVs
- The incremental cost of the vehicle compared to an equivalent internal combustion engine vehicle

Maximum tax credits may not exceed $7,500 for vehicles under 14,000 lbs. and $40,000 for vehicles above 14,000 lbs.

General Year-End Tax Planning Strategies

- Time the deduction of employee bonuses and executive compensation,
- Prepay rent and suppliers under the cash system; commit to contracts under the accrual method,
- Consider inventory write-offs, and
- Invest in clean energy property for eligible credits.

Looking Ahead

Several provisions of the TCJA expire or revert to their pre-TCJA limits at the end of 2025. They include:

- Research and development (R&D) expensing (section 174),
- Less stringent business interest limitations (section 163(j)),
- Reduction of 100% bonus depreciation allowance,
- Modifications to depreciation limits for passenger vehicles,
- Expiration of the qualified business income (QBI) deduction,
- State and local tax deduction (SALT) limitation removed,
- Bonus depreciation available for certain step-up transactions,
- Passive loss and net investment income tax planning,
- Excess business loss limitation,

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- Carried interest legislation, and
- Pass-through basis reporting requirements.

These changes as well as changes to rules regarding conversions from an S corporation to a C corporation, S corporations and shareholder compensation, and the self-employment tax considerations for owners may prompt some taxpayers to reevaluate their choice of entity within this changing tax landscape.

Contact Us

In addition to these year-end planning issues unique to 2024, the usual year-end planning strategies also still apply, such as managing gains and losses from taxable investments and considering postponing income and accelerating deductions. There is no one size fits all for tax planning and any strategy may have unintended consequences if the taxpayer's situation is not evaluated holistically considering the changing landscape. Please call our office to discuss all your options.

Sincerely,

Spring & Co., CPAs

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