



BUSINESS TAX UPDATES & STRATEGIES SEMINAR

DECEMBER 2024

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INTRODUCTIONS



KYLE R. SPICER, CPA
Tax Principal

Expertise:

- Corporate & Individual Taxation
- Tax Planning
- Business Consulting

Approach to Work:

“I like to listen to my clients and truly help them with their needs and achieve their goals. Working hard to find the best solution to every obstacle, while providing great service along the way.”

INTRODUCTIONS



LAURA GUST, CPA, AEP®, CSEP
Tax Principal

Expertise:

- Individual taxation & compliance
- Estate planning
- Trusts taxation & planning
- Charitable giving & gifting
- Private foundations

Approach to Work:

“I have a zest for helping clients with their tax planning, and compliance needs.”

ABOUT US



Thank you for taking the time to join us today!

Smith Schafer is an award-winning CPA firm in Minnesota. We are mostly known for helping businesses grow with accounting, tax and consulting solutions.

We provide proactive solutions, deep expertise, and personal relationships, allowing our clients more time to work on growing their business.

AGENDA

- **Business Tax Updates and Recent Legislation**
- **Potential Changes After 2025**
- **MN Updates**
- **Beneficial Ownership Information – FinCen/CTA**
- **Estate and Gift Updates**

RECENT MAJOR TAX LEGISLATION

- **Corporate Transparency Act**
 - January 1, 2021
- **Inflation Reduction Act**
 - August 16, 2022
- **Secure Act 2.0**
 - December 23, 2022

INFLATION REDUCTION ACT

- **Qualified Commercial Clean Vehicles – new (\$45W)**
 - Lesser of:
 - 15% of vehicle cost (30% if 100% electric) or
 - Incremental cost of vehicle relative to comparative vehicle.
 - \$7,500 for vehicles weighing less than 14K lbs or \$40,000 for other vehicles
 - Vehicles must be depreciable property.
 - Treasury has list of vehicles that qualify. <https://fueleconomy.gov/feg/tax2023.shtml>
 - T/E entities can receive these payments as well.
 - Income limits do not apply like they do for individuals.

INFLATION REDUCTION ACT (CONT)

- **Alternative Fuel Refueling Property Credit**
 - 6% or 30% (if Prevailing Wage and Apprenticeship met)
 - Up to \$100,000
 - Only eligible if low-income or rural census tract
- **Transfer of Energy Credits**
 - Non-tax exempt entities will be allowed a one-time transfer of credits. Payments received are excluded from income, and amounts paid to obtain transferred credit are non-deductible

SECURE ACT 2.0

- **Automatic Enrollment in 401(k) and 403(b) expanded – effective for plan years beginning after December 31, 2024**
 - At least 3% but not more than 10% auto enrollment.
- **Modification of credit for small employer pensions plan start up costs.**
 - Up to \$5,000 credit
 - Additional \$1,000 per employee for Employer match (excludes highly compensated employees)
- **Application of §1042 to S Corporations starting after December 31, 2027**
- **Ability for household employers to establish a SEP**

SECURE ACT 2.0

- **Increase in age for RMD**
 - Age 73 starting in 2023
 - Age 75 starting 2033
- **IRA Catch-up limit now indexed for inflation**
- **Catch-up Roth Requirement - 2026**
- **Higher catch-up limit for people ages 60-63 starting in 2025**
- **Treatment of student loan payments as elective deferrals for purposes of matching contributions**
 - Plans permitted to test separately employees who receive match on student loan payments starting in 2024

SECURE ACT 2.0

- Small financial incentives now allowed for incentivizing people to contribute
- Withdrawals for certain emergency expenses allowed (up to \$1,000)
- Simple plan employers allowed to make additional contributions starting in 2024 that are above the matching contribution up to \$5,000.
- Starting in 2024 increased contribution limits for 2024 for small employers under 25 employees.
- Long-term part-time workers eligible to participate in 401(k) with 1 year of service or 3 consecutive years of 500 hours each

SECURE ACT 2.0

- **529 to Roth conversions**
 - Up to \$35,000 lifetime.
 - 529 Plan must have been open more than 15 years
 - Annual limit equal to Roth IRA annual contributions limits
 - Example: nana and papa open a 529 account for Mirabelle when she is born. Contribute \$10,000/year for the first 5 years of her life. At age 18 it's worth 125,000, but she gets a full scholarship to college. What are her options?

DEPRECIATION

- **Bonus now at 60% and going to 40% for 2025.**
- **Additional considerations between expense/capitalize under tangible property regs.**
- **Additional considerations between bonus/179.**

TANGIBLE PROPERTY REGULATIONS – COMMON EXAMPLES

	Expense	Capitalize
Parking Lot Expansion		✓
Parking Lot Re-surface	✓	
Roof – complete removal and replacement		✓
Roof – reseal, re shingle, repair	✓	
HVAC – units 2 of 5 (no plan of replacement)	✓	
HVAC – units 5 of 5		✓
Windows – 10 of 50	✓	
Refurbish 10 of 150 units in apartment complex	✓	
Painting (not new property)	✓	

§179 COMPARED TO BONUS

	§179	Bonus
Available to operating business	✓	✓
Available to rental or non-trade/business	✗	✓
Qualified Improvement Property – 15 Year	✓	✓
Land Improvements – 15 year	✗	✓
Deduction Amount – Year 1	100%	60%
MN Add-Back	No Add-back	Add-Back 80% of bonus deduction
Income Limitation	>0	N/A
Dollar Limit/Placed In Service Limit	\$1,220,000/\$3,050,000	N/A

VEHICLES

	MACRS	§179	Bonus
Luxury Auto – 1 st year	\$12,400	\$12,400*	\$20,400
Vehicles >6,000 lbs GVWR	20% of cost	\$30,500	60% of cost
Specialty Vehicles- lessor, cargo van, etc	20% of cost	Cost of vehicle	60% of cost

PASS THROUGH ENTITY TAX (PTE)

- **Minnesota SALT Cap Workaround**
 - Currently: federal limit on State and Local Tax (SALT) deduction of \$10,000
 - No benefit for itemized deduction of state tax once tax is over \$10,000
 - Option for S Corp and Partnership to pay MN state tax at the entity level and deduct the tax.
 - New in 2023, At least one qualifying owner must own at least 50% interest
 - A majority of states that have income tax now qualify

PASS THROUGH ENTITY (PTE) INCOME TAX PAYMENTS

- **Notice 2020-75:** announced that IRS intends to issue proposed regulations to clarify the SALT tax deduction.
- **Definition of Specified Income Tax Payment:** any amount paid by a partnership or S Corporation to a State, political subdivision of a state, or DC to satisfy its liability for income taxes imposed by that jurisdiction on the partnership or S Corporation.
- **Regulations have not been issued, leaving several items questionable:**
 - Sale of business
 - Taxes related to investment income
 - State tax refund attributable to PTE

EXPIRING PROVISIONS FROM TCJA

- **Expiring After 2025?**
 - Work Opportunity Tax Credit
 - Small employer credit for paid FML
 - Ability to deduct 50% of de minimis meals (no deduction allowed after 2025)
 - 199A Qualified Business Income Deduction
 - Bonus depreciation (2023 – 80%, 2024 – 60%, 2025 – 40%, 2026 -20%)
 - Personal exemptions come back
 - Standard Deduction goes back to pre TCJA

OTHER THINGS TO CONSIDER

- **Accounting Methods:**
 - Accrual/Cash/Completed Contract/Percent Complete
 - Deductible prepaids
 - Accounting for inventory
- **Research and Experimental Expenses**
- **State and Local issues**
 - Economic nexus
 - Physical nexus
 - PTE elections

MINNESOTA UPDATE

- **“General” conformity bills passed in 2023**
- **Minnesota Secure Choice Retirement Program – Mid 2025**
- **“Millionaire Tax” (2024)**
 - 1% Net Investment Income Tax for investment income over \$1 million

MINNESOTA UPDATE

- The payroll tax for **Minnesota's Paid Family and Medical Leave (PFML) program** is 0.88%:
- **Employer contribution:** Employers pay at least half of the annual premium, with the option to deduct the remaining half from employee wages.
- **Employee contribution:** Employees may contribute up to 0.44% of their wages.
- The **payroll tax rate was increased from the original 0.7%** due to an actuarial analysis that showed the lower rate would not be enough to fund the program. The premium is based on several factors, including the economy, how many people take leave, and the state's average wage.
- **Small employers with 30 or fewer employees** may qualify for a reduced rate if their average worker's wage is equal to or less than 150% of Minnesota's average wage. They may also apply for assistance grants from the Department of Employment and Economic Development (DEED).
- The **PFML program** is scheduled to go into effect on January 1, 2026

CORPORATE TRANSPARENCY ACT - BOI

- **Beneficial Ownership Information Reporting Requirements**
 - Every “domestic reporting company” is required to file
 - Every corporation, LLC, or other entity created by the filing of a document with a Secretary of State or similar office under state law.
- **Company information**
 - Name or DBA, address, legal jurisdiction, taxpayer ID number
- **More than 25% owners must also file identical information**
- **Tiered ownership structures**
- **Effective January 2024, first filing deadline December 2024**

CORPORATE TRANSPARENCY ACT

- **Delayed** – A Texas based federal court issued an injunction prohibiting the federal government from enforcing the Corporate Transparency Act anywhere in the country. Prior court decisions that ruled on the unconstitutionality of the CTA were limited to the parties named in the case. This case explicitly ruled that the enforcement of the CTA nationwide was unconstitutional. *Texas Top Cop Shop, Inc., et al. v. Garland, et al.*, Case No. 4:24-cv-478 (E.D. Tex.)
- The injunction issued temporarily halts the enforcement of the CTA. It is likely that the case will be appealed.

CORPORATE TRANSPARENCY ACT

Businesses That Have Not Filed their BOI Report:

- **Delay Filing:** The nationwide injunction means that no business is currently required to comply with the BOI reporting. However, additional guidance from the federal government or appeals court decisions could reinstate the act's requirements to report.
- **Consult Legal Counsel:** Consider working with your attorney to evaluate your exposure if the injunction is lifted or enforcement resumes. As accountants, we can help you comply with the BOI reporting requirement, but we cannot give legal advice as it pertains to BOI.
- **Prepare for Potential Compliance:** If the injunction is overturned on appeal, businesses may need to act quickly to meet reporting deadlines. Prepare for the potential that the injunction could be overturned and be ready to file if needed.
- **Please note that this development is recent, and more information is unlikely to be available until FinCEN shares an update or files the appeal.**

CORPORATE TRANSPARENCY ACT

- **FinCEN said that while the preliminary injunction remains in effect, "reporting companies are not currently required to file their beneficial ownership information with FinCEN and will not be subject to liability if they fail to do so while the preliminary injunction remains in effect. Nevertheless, reporting companies may continue to voluntarily submit beneficial ownership information reports."**

ESTATE AND GIFT TAX UPDATES FOR 2025

- **Estate Tax Exemption (What a person can give away during life and/or at death without paying transfer tax)**

2024	2025
\$13,610,000	\$13,990,000

- **Minnesota Estate Tax Exemption - no change \$3,000,000**
 - (Small Family Business or Family Farm additional \$2,000,000 exemption
 - must meet specific qualifications)

ESTATE AND GIFT TAX UPDATES FOR 2025 (CONTINUED)

- **Gift Tax Limits** – The amount each person can give away each year exempt from filing a gift tax return. (This includes Cash, Real Estate, Securities etc.) the amount is adjusted annually for inflation.

2024	2025
\$18,000	\$19,000

- **If over this limit a gift tax return may be required.**

OTHER POTENTIAL CHANGES UNDER THE TCJA

- **Under current tax law, the estate exemption will sunset at the end of 2025 and the exemption will drop back to \$5,000,000 (as indexed for inflation - approximately \$7,000,000 as indexed, January 1, 2026)**

– Will this actually happen? Should I do something now?

Even if Congress extends the higher exemption limits, planning

will help ensure you remove assets from your estate tax free and any future appreciation on those assets.

OTHER ESTATE PLANNING

- **Remember to have your will and/or trusts reviewed every few years to see if it still meets your life goals.** Life changes and may affect how you want your assets distributed now when you are gone.
- **If you do not have a will – you need one.** Talk to an attorney who specializes in Estate Planning
- **No estate plan - is a plan!**
 - Minnesota will decide for you how your assets will pass on
- The best gift you can leave to your family/heirs is a well-planned out estate and consolidated accounts.
- Just having beneficiary designations on your accounts is not always appropriate to achieve your goals.

Q & A

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