## Supplement to J.K. Lasser's Small Business Taxes 2024

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#### THIS SUPPLEMENT REFLECTS CHANGES THROUGH FEBRUARY 1, 2024. IF CONGRESS ENACTS THE TAXPAYER RELIEF FOR AMERICAN FAMILIES AND WORKERS ACT OR OTHER MEASURES IMPACTING 2023 RETURNS, THIS SUPPLEMENT WILL BE UPDATED AND REPOSTED.

This year's book, *J.K. Lasser's Small Business Taxes 2024*, reflects the tax rules as they stood on December 1, 2023. But tax law is not static and new legislation, IRS pronouncements, and court decisions continue to tweak tax rules. They impact reporting on 2023 returns as well as tax planning for 2024 and beyond. This Supplement updates the book with these late-breaking developments.

As of February 1, 2024, Congress had not enacted any tax legislation after publication of this book. However, the House approved the Tax Relief for American Families and Workers Act of 2024, which would make some retroactive changes impacting 2023 returns. The legislation awaits action by the Senate. Will there be a new law? IRS Commissioner Werfel said: "Don't wait on Congress [to file 2023 returns]." The proposed changes are noted in this Supplement, so continue to monitor developments.

The changes covered in this Supplement are listed according to the chapters in which the subject matter appears. I've attempted to include an answer to every notation in the book that said "see the Supplement." Be sure to note which changes listed in this Supplement apply to 2023 returns and which apply for purposes of figuring 2024 estimated taxes. For changes in 2024, only an overview is provided, with more details to come in the next edition of this book.

#### Introduction

*Forms and schedules.* When this edition was published, final versions of forms were not yet available. Find final versions of forms and schedules <u>here</u>.

#### Chapter 1–Business Organization

*Form 2553.* Despite a suggestion from the National Taxpayer Advocate that this form be attached with the return for a new corporation, the election to be taxed as an S corporation must be filed separately, and it must be timely submitted.

*S* corporation shareholder-employees not subject to self-employment tax. Proposals to treat these business owners as if they were partners in a partnership have not been adopted.

*Beneficial ownership information reporting.* The Treasury's FinCEN released a <u>guide</u> for small entity about this reporting. *Reminder:* Businesses subject to this reporting

requirement that existed before 2024 have all of 2024 to comply, while those formed in 2024 have 90 days to comply.

#### Chapter 2–Tax Year and Accounting Method

*Gross receipts test.* For 2024, the gross receipts test used to determine whether C corporations can use the cash method of accounting is \$30 million in average annual gross receipts in the 3 prior years. Businesses that qualify under this test for the first year must file for a change in accounting method; it's an automatic change.

*Change in accounting method.* Form 3115 has been revised. And the IRS extended the option to use digital signatures on Form 3115 through October 31, 2025 (this option had been set to expire on October 31, 2023).

The IRS issued more guidance on making a change in accounting method for amortizing research expenses for tax years beginning after December 31, 2021 (but see the caution for Chapter 14 in this Supplement regarding potential legislation). The change in accounting method does not require filing Form 3115; it can be done with a statement in lieu of the form. The statement must include certain information laid out in <u>Rev. Proc.</u> 2024-9.

#### Chapter 4–Income or Loss from Business Operations

*Payments in digital assets.* Businesses must disclose on 2023 income tax returns whether they engaged in any digital asset transactions as follows:

- Sole proprietors: Page 1 of Form 1040 or 1040-SR
- Partnerships: Line 30, Schedule B of Form 1065
- S corporations: Line 16, Schedule B of Form 1120-S
- C corporations: Line 27 of Schedule K of Form 1120

*Excess business losses.* Noncorporate taxpayers (e.g., owners of pass-through entities) are subject to a limit on the amount of losses claimed on the current return. An excess business loss is the amount by which the total deductions attributable to all of your trades or businesses exceed your total gross income and gains attributable to those trades or businesses plus a threshold amount adjusted for cost of living. For taxable years beginning in 2024, the threshold amounts are \$305,000 (or \$610,000 in the case of a joint return) (up from \$289,000 and \$578,000, respectively, in 2023).

*Income earned abroad.* The earned income exclusion for 2024 is capped at \$126,500 (up from \$120,000 in 2023).

*Merchant income on credit card transactions.* Merchant card and third-party payment providers were supposed to report 2023 transactions on Form 1099-K if they totaled more than \$600, but the IRS provided relief for 2023 transactions. The old threshold of 200 transactions totaling more than \$20,000 applies for 2023 transactions. Under a transition rule created by the IRS, the threshold for 2024 transactions reporting in 2025 will be \$5,000, regardless of the number of transactions. Then, for 2025 transactions reported in 2026, the threshold will be \$600,

regardless of the number of transactions. However, there continues to be pushback on this threshold and Congress could change it at any time.

## Chapter 5–Capital Gains and Losses

*Taxable income breakpoints for capital gain rates in 2024.* Owners of pass-through entities who are individuals pay tax on their share of capital gains. The following table (an update to Table 5.1 in the book) shows the break points for capital gain rates for 2024; this Table does *not* apply to 2023 returns.

Rate	Married filing jointly (and surviving spouse)	Head of household	Single	Married filing separately
0%	Up to \$94,050	Up to \$63,000	Up to \$47,025	Up to \$47,025
15%	\$94,050 - \$583,750	\$63,000 - \$551,350	\$47,025-\$518,900	\$47,025-\$291,850
20%	Over \$583,750	Over \$551,350	Over \$518,900	Over \$291,850

#### Chapter 6—Gains and Losses from Sales of Business Property

*Like-kind exchanges.* The IRS said that land development rights are "real property" for purposes of like-kind exchange rules.

**QOZBs.** There have been no developments on whether cannabis businesses can be Qualified Opportunity Zone Businesses (QOZBs).

### Chapter 7–Employee Compensation

*Adoption assistance.* For planning purposes, the dollar limit on the exclusion for employer assistance for adoption costs is \$16,810 for 2024 (up from \$15,950 in 2023).

*Flexible spending accounts (FSAs) for medical expenses and dependent care expenses.* For planning purposes, the maximum elective deferral for health FSAs in 2024 is \$3,200 (up from \$3,050 in 2023). The maximum carryover permitted from unused 2023 health FSAs to 2023 is capped at \$610; the carryover applies only if the plan adopts it and does not use a grace period. Dependent care FSAs can allow a grace period but cannot have a carryover for unused 2024 amounts to 2025. For health FSAs or dependent care FSAs with a grace period, unused expenses from 2024 must be spent by March 15, 2025 (or within 2<sup>1</sup>/<sub>2</sub> months after the end of the 2024 plan year if a fiscal-year plan).

*Employee use of company car.* For planning purposes, in valuing employee use of a company car in 2024 or for purposes of reimbursements under accountable plans, the IRS standard mileage rate is 67¢ per mile (up from 65.5¢ per mile in 2023).

The fixed and variable rate allowance (FAVR) in 2024 is limited to vehicles with a fair market value not exceeding \$62,000 for cars, trucks, and vans. The limit in 2023 was \$60,800.

Car and truck values taken into account by employers using the cents-per-mile valuation rule or the fleet valuation rule for valuing personal use of a company vehicle in 2024 are capped at \$62,000.

*Qualified transportation fringe benefits.* Employers cannot deduct these fringe benefits, but if they choose to provide the benefits or arrange for employees to pay for these costs on a pre-tax basis, employees can exclude up to \$300 per month for free parking, transit passes, and van pooling for 2024 (up from \$280 per month in 2023).

*Leave-based donation programs.* If an employer has a leave-based donation program that allows for contributions intended to benefit victims of the Hawaii wildfires in August 2023, employees are not taxed on their contributions of unused vacation, sick, and personal days, provided the employer donated by December 31, 2023, a cash equivalent to a charity benefiting the victims. Employees cannot claim a charitable contribution deduction; the employer can.

*Frequent flyer miles.* The IRS has not made changes to the rule that allows the personal use of frequent flyer miles generated by business flights to be a tax-free fringe benefit.

*Employment-related tax credits.* There have been several developments concerning the employee retention credit (ERC).

- The IRS suspended processing of ERC credit claims through December 31, 2023.
- An ERC refund claim can be withdrawn to avoid repayment of taxes, plus interest and penalties, if the IRS determines the claim is invalid. In effect, the withdrawn claim is treated as if it had never been made. This option was scheduled to run at least through December 31, 2023 (see <u>FS-2023-24</u>). As of February 1, 2024, IRS had not announced its end.
- Those who erroneously claimed the ERC and received a credit or refund can avoid an audit, plus interest and penalties, if they use a new program: Employee Retention Credit Voluntary Disclosure Program. Form 15424, *Application for Employee Retention Credit Voluntary Disclosure Program* (prepared under penalty of perjury) must be submitted by March 22, 2024. Also remit 80% of the credit or refund that was received through EFTPS.gov (select the category "Advanced Payment"). No interest is being charged. But there are eligibility requirements. Those unable to remit full payment may be able to get an installment plan, but interest is charged in this case. Find more details about the program in <u>Announcement 2024-3</u>.
- The IRS has an additional 5 years to assess taxes with respect to erroneous ERC claims for the third quarter of 2021 (i.e., until 2027).

*Caution:* There is still time to file legitimate ERC refund claims for certain quarters; the deadlines end during 2024 and 2025. However, the Tax Relief for American Families and Workers Act of 2024, if enacted, would have ended the period for claiming a refund on January 31, 2024.

#### Chapter 8–Travel, Meals, and Gift Expenses

**Business travel per diem rates.** The standard federal per diem rate set by the General Services Administration (GSA) for travel starting October 1, 2023, through September 30, 2024, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is \$166 per day (\$107 for lodging and \$59 for M&IE). There are 302 locations that have a per diem rate exceeding the standard rate for all or part of the year. These rates can be found at the <u>GSA</u>.

The high-low substantiation rates set by the IRS for areas within CONUS for the period October 1, 2023, through September 30, 2024, are \$309 for travel to high-cost localities and \$214 for travel to all other areas within CONUS. Of these rates, the meal portion is \$74 for high-cost areas and \$64 for all other areas within CONUS. The list of high-cost areas has been changed (see <u>Notice 2022-68</u> for details).

#### Chapter 9–Car Expenses

*Section 179 deduction and bonus depreciation.* For 2024, the first-year expense allowance (Section 179 deduction) applies to equipment purchases (e.g., new vehicles) up to \$1,220,000 (up from \$1,160,000 in 2023). However, this dollar limit phases out dollar for dollar when purchases of Section 179 property for the year exceed \$3,050,000. Thus, no expensing deduction can be claimed if equipment purchases for the year are \$4,270,000 million or more.

*Caution:* The Tax Relief for American Families and Workers Act of 2024 would increase the limit for 2024 to \$1,290,000 and the start of the phase-out to \$3,220,000 beginning in 2023, with the dollar amounts indexed for inflation for 2024 (i.e., the dollar amounts likely would be higher in 2024).

Heavy SUVs are not subject to the annual dollar limits on depreciation, but the first-year expense deduction is limited to \$30,500 in 2024 (up from \$28,900 in 2023).

*Standard mileage rate.* The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving; for 2024 it is  $67\phi$  per mile (up from  $65.5\phi$  per mile for 2023).

Those who own their vehicles and use the standard mileage rate for 2024 must reduce the vehicle's basis by  $30\phi$  per mile (up from  $28\phi$ ).

**Dollar limits on depreciation.** The dollar limits on the deduction for depreciation of business vehicles placed in service in 2024 is:

- First year: \$20,400 (or \$12,400 if bonus depreciation is not used)
- Second year: \$19,800
- Third year: \$11,900
- Fourth and succeeding years: \$7,160

If business use is more than 50% but not 100%, allocate the basis of the vehicle to apply the applicable depreciation rate and then apply the dollar limit.

*Inclusion amounts.* If the actual expense method is used to deduct the cost of business driving and the vehicle is leased, the total annual lease payment is deductible. But if the vehicle is first leased in 2023 and its value is more than \$62,000, you must reduce the deduction for lease payments by an inclusion amount. The IRS announced these inclusion

amounts in Rev. Proc. 2024-13. The inclusion amounts are very modest and do not seriously reduce the deduction for lease payments until you're dealing with pricey vehicles valued at \$100,000 and up. Inclusion amounts for vehicles first leased in 2023 are in the book and apply to vehicles with a value over \$60,000. Inclusion amounts for vehicles first leased in years prior to 2023 may be found in IRS Publication 463.

*Credit for clean vehicles.* The credit can be transferred to a dealer that has registered with the IRS for this purpose. Transferring the credit effectively lowers the purchase price. The IRS has made it clear that if a buyer eligible for the credit does not have sufficient taxable income to have fully used it if he or she waited to claim the credit when filing the return, there is no clawback—not from the taxpayer and not from the dealer.

*Credit for previously-owned clean vehicles.* The credit can be transferred to a dealer that has registered with the IRS for this purpose. Transferring the credit effectively lowers the purchase price. The IRS has made it clear that if a buyer eligible for the credit does not have sufficient taxable income to have fully used it if he or she waited to claim the credit when filing the return, there is no clawback—not from the taxpayer and not from the dealer.

#### Credit for commercial clean vehicles. This credit is not transferable.

The credit for a vehicle weighing less than 14,000 pounds is the lesser of 15% of the vehicle's basis (or 30% if not powered by gas or diesel) or the incremental cost of the vehicle, for a top credit of \$7,500. For vehicles placed in service in 2024, the IRS says the incremental cost is treated as \$7,500, so in effect this amount is the maximum credit.

#### Chapter 10—Repairs, Maintenance, and Energy Improvements

*Energy-efficient commercial buildings deduction.* In 2024, the deduction is \$0.57 increased (but not above \$1.13) by \$0.02 for each percentage point by which the total annual energy and power costs for the buildings are certified to be reduced by a percentage greater than 25%. The applicable dollar value used to determine the increased deduction amount for property is \$2.83 increased (but not above \$5.65) by \$0.11 for each percentage point by which the total annual energy and power costs for the building are certified to be reduced by a percentage greater than 25%. In both instances, the higher dollar limit applies when wage and apprenticeship rules are met.

*Clean vehicles, used clean vehicles, and commercial clean vehicles.* See changes in Chapter 9.

#### Chapter 13-Taxes and Interest

*State and local income taxes.* While there were various proposals in Congress to eliminate, raise, or otherwise alter SALT cap, nothing has been enacted as yet. Monitor developments.

Check for state Pass-Through Entity Tax (PTET) options; rules differ by location. For example, Connecticut's PTET is effective for 2024. New York's PTET election must be made on an annual basis.

*Self-employment tax.* The Social Security wage base limit, which applies for selfemployment taxes, is \$168,600 in 2024 (up from \$160,200 in 2023). The tax rate for the Social Security portion of self-employment tax is 12.4% on net earnings up to this dollar limit. The tax rate for the Medicare portion of self-employment tax is 2.9% on all net earnings. The tax deduction is limited to one-half of the self-employment tax.

For those with net earnings over the applicable threshold amount of \$200,000 for singles and \$250,000 for joint filers (these dollar limits are not adjusted annually for inflation), there is also a Medicare surtax of 0.9% on excess earnings. This applies only to the so-called employee portion, so it is *not* deductible.

The Tax Court can use a functional analysis to determine whether limited partners were exempt from self-employment tax on their distributive share of income from the partnership's calculation of net earnings from self-employment. The limited partner exception does not apply to partner who is limited in name only.

*Employment taxes—FICA.* The wage base limit for the Social Security portion of FICA in 2024 is \$168,600 (up from \$160,299 in 2023). The rate for the employee's Social Security portion of FICA is unchanged at 6.2%.

*Employment taxes—FUTA tax.* For purposes of FUTA in 2023 (credit reduction states for 2024 are not announced until November 2024), the following are "credit reduction states":

State	FUTA credit reduction
California	0.6%
New York	0.6%

*Interest expense payments.* "Small businesses" are automatically exempt from the net interest expense limit. For 2024, these are businesses with average annual gross receipts for the 3 prior years not exceeding \$30 million (up from \$29 million in 2023).

*Caution:* The Tax Relief for American Families and Workers Act of 2024, if enacted, would apply the limitation without regard to any deduction allowable for depreciation, amortization, or depletion for 2024 through 2026, for businesses that do not automatically qualify as "small businesses," or farming and real estate businesses that do not elect to be exempt from the limitation.

#### Chapter 14—First-Year Expensing, Depreciation, Amortization, and Depletion

*First-year expensing.* The expensing limit for 2024 is \$1,220,000 (up from \$1,160,000 in 2023). The limit phases out when purchases for the year exceed \$3,050,000. Thus, no expensing can be used in 2024 if purchases for the year \$4,270,000 million or more.

*Caution:* The Tax Relief for American Families and Workers Act of 2024, if enacted, would increase the limit for 2024 to \$1,290,000 and the start of the phase-out to

\$3,220,000, with the dollar amounts indexed for inflation for 2024 (i.e., the dollar amounts likely would be higher in 2024).

*Bonus depreciation.* Bonus depreciation, which was 80% in 2023, declines to 60% in 2024, 40% in 2025, and 20% in 2026. (There is an additional year for property with long production periods.)

*Caution:* The Tax Relief for American Families and Workers Act of 2024, if enacted, would allow 100% bonus depreciation for 2023 through 2025.

*Research and experimentation costs.* The deduction for R&E costs after 2021 must be amortized over 5 years.

*Caution:* The Tax Relief for American Families and Workers Act of 2024, if enacted, would allow for full expensing of R&E costs through 2025. If enacted and this break is applicable to you, an amended return for 2022 can be filed.

*Scope of R&E costs.* A research service provider is subject to the amortization rule when it bears the financial risk on the contract or can exploit the research project without any approval. More details are in IRS Notice 2023-63 and Notice 2024-12.

#### **Chapter 16—Retirement Plans**

*Starter 401(k)s.* Starting 2024, small businesses can adopt a starter 401(k) in which employees agree to make salary deferral contributions up to 6,000 (7,000 for those age 50 and older by the end of 2024). There are no employer contributions.

Employers without retirement plans that had been in state-run retirement plans may use the starter 401(k) and cease transfers of employee contributions to the state plan. But check on rules in the state regarding notice for making this changeover.

*Contribution limits.* Various limits have been increased for 2024. The following apply to 2024 (not to 2023 returns):

- 401(k) plan elective deferrals: \$23,000, plus \$7,500 for those who are age 50 and older by December 31, 2024 (the limits are \$22,500 and \$6,500 respectively in 2023).
- Savings incentive match plan for employees (SIMPLE) elective deferrals: \$16,000, plus \$3,500 for those who are age 50 and older by December 31, 2024 (the limits were \$25,500 and \$3,500 respectively in 2023).
- Defined contribution plans (profit-sharing plans and simplified employee pension plans [SEPs]): the limit is \$69,000 (up from \$66,000 in 2023).
- Defined benefit (pension) plans: the limit is \$275,000 (up from \$265,000 in 2023).
- Compensation taken into account in figuring contributions and benefits: the limit is \$345,000 (up from \$330,000 in 2023).
- IRAs: the contribution limits for 2024 are \$7,000 (up from \$6,500 in 2023), plus \$1,000 for those age 50 or older by December 31, 2024. The adjusted gross income limits for making deductible contributions for those who are active participants in qualified retirement plans have been increased slightly.

*Incentives to employees for their plan participation.* An employer may offer small (de minimis) financial incentives to employees so they'll make elective deferrals to the company's qualified retirement plan. The incentives may not exceed \$250 and are usually treated as taxable compensation to employees. Employee matching contributions are not treated as financial incentives.

Distributions and plan loans. There are a number of changes effective in 2024:

- Starter 401(k).
- Plan can offer emergency savings accounts to non-highly compensated employees; Roth contributions up to \$2,500 balance.
- Personal emergency expense distribution up to \$1,000 per year; no penalty; 3-year repayment period.
- Employer matching contributions based on student loan repayments.
- Cash out limit for inactive participant accounts increased to \$7,000.

*Note*: The mandate that catch-up contributions for those earning more than \$145,000 be made to a designated Roth account has been delayed until 2026 (Notice 2023-62).

*EARN Act.* A proposed law to enable enhanced retirement savings for sole proprietors and one-member LLCs with solo 401(k)s was not enacted. Will it be reintroduced in 2024?

*State-sponsored plans.* New Mexico's plan is effective on July 1, 2024. The effective dates for plans in New Jersey and Vermont have yet to be announced. But see the information on starter 401(k)s above.

**PBGC premiums.** For planning purposes, in 2024 the flat-rate premium for each participant is \$101 (up from \$96 in 2023). The variable rate premium for underfunded plans is \$52 per \$1,000 of unfunded benefits per employee (the same as in 2023 \$52), with a cap of \$686 per participant (up from \$652).

*Plan amendments.* The IRS intends to publish a list each year of required amendments for individually-designed retirement plans. The list for 2023 includes updates to pre-approved defined benefit plans (see Notice 2024-3). Check the cumulative list of required amendments (<u>https://www.irs.gov/pub/irs-drop/n-24-03.pdf</u>), which are referred to as Cycle 4. The deadline for Cycle 4, which began on February 1, 2023, must be submitted by January 31, 2025. If you use a prototype plan, which is one provided to you from the financial firm with which you maintain your plan, you will automatically receive documents reflecting plan amendments; you do not have to do anything other than retain the revised documents in your records.

*Form 5500-EZ.* For plan years beginning in 2023 for which Form 5500-EZ must be filed in 2024 (July 31, 2024, for 2023 calendar year plans), electronic filing is mandatory if a business files 10 or more returns in the year. However, there is an exception to e-filing if undue hardship can be shown. The procedure of seeking an undue economic hardship from the electronic filing requirement is explained in the <u>instructions</u> to Form 5500-EZ.

### Chapter 17–Casualty and Theft Losses

*Disaster losses.* Find a list of all federal disaster areas for 2023 from <u>FEMA</u>. Designated disasters in 2024 will also be listed by FEMA.

#### **Chapter 18–Home Office Deduction**

*Simplified method.* The IRS has not made any change to the dollar amount of the simplified method for the home office deduction. For 2023 (and for 2024 unless this changes), it is \$5 per square foot up to 300 square feet for a home office (maximum deduction of \$1,500).

*Hobby activity in a home office?* The home office deduction is limited to a business, and not a hobby activity. If space is used to conduct both a business and a hobby, no home office deduction can be claimed.

#### Chapter 19–Medical Expenses

*Small employer health care credit.* Small employers can take this tax credit only if average annual payroll is below a set amount. This amount has been adjusted for inflation so that the full credit applies if the average annual payroll in 2024 is \$32,400 (up from \$30,700 in 2023).

*Qualified small employer health reimbursement arrangements (QSEHRAs).* These reimbursement plans are a way for small employers to help employees pay for the cost of health coverage. For 2024, reimbursements to employees are capped at \$6,150 for self-only coverage and \$12,450 for family coverage (up from \$5,850 and \$11,800, respectively, in 2023).

*Health savings accounts.* The contribution limit for 2024 increases to \$4,150 for selfonly coverage; the limit for family coverage increases to \$8,300 (up from \$3,850 and \$7,750, respectively, in 2023). Those who are age 55 or older by the end of 2024 and not on Medicare can add another \$1,000 for the year (this additional contribution limit is unchanged and married persons must have separate accounts to each use the additional limit).

To contribute to a health savings account, the person must be covered by a highdeductible health plan. For 2024, this means that the plan has a minimum deductible of \$1,600 for self-only coverage and \$3,200 for family coverage. The cap on annual out-ofpocket expenses (deductibles, co-payments, and other amounts but not premiums) cannot exceed \$8,050 for self-only coverage and \$16,100 for family coverage.

*Flexible spending arrangements (FSAs).* The maximum amount that employees can add to a medical FSA in 2024 is \$3,200 (up from \$3,050 in 2023). The carryover from 2024 to 2025 is limited to \$640 (up from \$610 in 2023).

#### Chapter 20–Deductions for Farmers

*Cannabis businesses.* Federal law has not changed the treatment of cannabis businesses for tax purposes. This is so even though more states have legalized the use of pot for medical and/or recreational purposes.

#### Chapter 21–Qualified Business Income Deduction

*Taxable income.* Just to be clear, taxable income means taxable income figured the usual way on Form 1040 or 1040-SR reduced by net capital gains.

*Taxable income threshold for 2024.* The taxable income thresholds for the QBI deduction are:

Filing status	Threshold amount	Phase-in range amount
Married filing jointly	\$383,900	\$483,900
All other filers	\$191,950	\$241,950

### Chapter 22—Miscellaneous Business Deductions

*Charitable contribution deductions.* A charitable contribution deduction for a conservation easement is disallowed for partnerships and S corporations if the contribution amount exceeds 2.5 times the sum of each partner's or S corporation's shareholder's relevant basis. Proposed regulations would require reporting for partners and S corporation shareholders receiving a distributive share or pro rata share of a noncash charitable contribution made by partnership or S corporation, without regard to whether the contribution is a qualified conservation easement; this would be done on Form 8283. Check to see if final regulations are issued and when they become effective.

*Personal education incentives for 2024: Student loan interest.* The 2024 modified adjusted gross income range over which the deduction limit up to \$2,500 of interest is phased out is \$165,000 to \$175,000 on a joint return; for singles it is \$80,000 to \$95,000.

Cancellation of student loan debt by most lenders is not taxable income. This rule applies through 2025. However, different tax treatment applies in certain states for state income tax purposes.

*Legal and professional fees.* If you win a dispute with the IRS in which the government was not substantially justified, you may be able to recover costs up to a set dollar amount. For 2024, the dollar amount is \$240 per hour (up from \$230 in 2023).

*Meal costs for day care providers.* For 2024, the rates for standard meals and snack rates in all localities have increased. They are: Breakfast:

- States other than Alaska and Hawaii: \$1.65
- Alaska: \$2.63
- Hawaii: \$2.12

Lunch and dinner:

• States other than Alaska and Hawaii: \$3.12

- Alaska: \$5.05
- Hawaii: \$4.05

Snacks:

- States other than Alaska and Hawaii: \$0.93
- Alaska: \$1.50
- Hawaii: \$1.20

#### Chapter 23–Roundup of Tax Credits

*Employer credit for FICA on tips.* A legislative proposal to extend the credit to industries other than the food and beverage industry, such as beauty and nail salons, has not been enacted. Will it be reconsidered in 2024?

*Low-income housing credit.* The Tax Relief for American Families and Workers Act of 2024, if enacted, would increase the credit ceiling for 2023 through 2025.

#### Chapter 29–Alternative Minimum Tax

*Exemption amounts.* The AMT exemption amounts for 2024 are:

Filing status	2024 exemption
Married filing jointly/surviving spouse	\$133,300
Single/head of household	\$85,700
Married filing separately	\$66,650

*Exemption phase-out*. The exemption amounts for 2024 start to phase out when alternative minimum taxable income (AMTI) exceeds \$1,218,700 for married filing jointly and surviving spouses and \$609,350 for other filers.

### Chapter 30–Other Taxes

*State income taxes.* There have been some tax changes for businesses at the state and local levels. For example, effective January 1, 2024, 6 states—Arkansas, Iowa, Kansas, Nebraska, New Jersey, and Pennsylvania—reduced their corporate tax rates. Check with state tax departments in all locations in which you do business to learn if there have been any tax changes impacting your business.

*Employment and self-employment taxes.* The 2024 wage base limit for the Social Security tax portion of FICA and self-employment tax is \$168,600 (up from \$160,200 in 2023).

*Special rules for tips.* The proposed Service Industry Tip Compliance Agreement (SITCA) program, which the IRS proposed in 2023 to replace TRDA, TRAC, and EmTRAC (other tip reporting programs), has not yet been implemented. If your business is in an industry where tipping is usual (other than gaming), continue to monitor developments on this proposed program.

*Sales taxes.* A number of states have changes in sales tax rules for 2024. Check with your state finance/revenue/tax division. Congress did not enact proposals that would simplify sales taxes for online sellers on sales to out-of-state customers.

*Excise taxes.* The patient-centered outreach institute (PCORI) fee, which applies to certain health policies and self-insured health plans, is \$3.22 per covered life beginning October 1, 2023.

#### Chapter 31—Filing Tax Returns, Paying Taxes, and Making Refund Claims

*Credit card charges.* As yet, the IRS does not accept credit card payments for taxes. Taxpayers must use an IRS-authorized credit card processor to pay taxes by credit card; there's a convenience free charged by the processor.

*Business tax accounts.* The IRS lets sole proprietors, partners (including limited partners), and S corporation shareholders set up a <u>Business Tax Account</u> that can be used to see the business balance due, view business tax transcripts, and more. You must register and create an account.

#### Chapter 32–Retirement and Succession Planning

2024 limits on earnings for those working while receiving Social Security benefits. There is no limit on those who have attained full retirement age. For those who receive benefits and are under full retirement age, the earnings limit in 2024 is \$1,860 per month (\$22,320 for the year).

If earnings exceed this limit, then benefits are reduced by \$1 for each \$2 of excess earnings. For the year in which you reach full retirement age, the earnings limit is \$4,960 per month (\$59,520 for the year). If earnings for the months prior to attaining full retirement age exceed the limit, benefits are reduced by \$1 for each \$3 of excess earnings.

#### Chapter 33—Working with CPAs and Other Tax Professionals

**PTINs.** The fee charged by the IRS for a tax preparer to obtain a PTIN for the 2024 tax season is \$19.75 (down from \$30.75 in the 2023 filing season). It is nonrefundable.

### Chapter 34–Handling Audits with the IRS

*Pre-audits.* There has been no further information about the IRS pilot program to conduct "pre-audits" of qualified retirement plans. The program started in 2022.

**PTINs.** The fee charged by the IRS for a tax preparer to obtain a PTIN for the 2024 tax season is \$19.75 (down from \$30.75 in the 2023 filing season). It is nonrefundable.

#### Appendix A-Information Returns

*Electronic filing threshold for 2024.* Businesses filing 10 or more returns must do so electronically for returns due in 2024. For example, if a business files 6 W-2s and 4 1099-NECs in 2024, it must do this electronically.

The electronic filing requirement applies to businesses that receive cash payments over \$10,000 and must file Form 8300, *Report of Cash Payments Over \$10,000*. If a business files fewer than 10 information returns, it can still choose to e-file any or all of its returns.

A business may request a waiver from mandatory e-filing if there are undue economic hardship or religious grounds. This is done on Form 8508, *Application for a Waiver from Electronic Filing of Information Returns*.

*Reporting payments for independent contractors. Caution:* The Tax Relief for American Families and Workers Act of 2024, if enacted, would increase the threshold for issuing Form 1099-NEC and Form 1099-MISC from the current \$600 to \$1,000 for payments made on or after January 1, 2024.

*Merchant transactions.* For purposes of Form 1099-K, the threshold for processors to report merchant transactions by credit card, debit card, or electronic transfer made in 2023 is still more than 200 transactions totaling more than \$20,000; Congress did not change this threshold. However, the IRS designated reporting for 2024 transactions made 2024 as a "transition year," requiring reporting when transactions exceed \$5,000 without regard to the number of transactions. The threshold for transactions in 2025 and later will be \$600 without regard to the number of transactions unless Congress makes a change.

#### Appendix B—Tax Penalties

Penalties on 2023 returns required to be filed in 2024 are listed in Appendix A on page 571 of this book. The following penalties apply to 2024 returns required to be filed in 2025:

*Failure to file a tax return.* The penalty is the lesser of \$510 or 100% of the amount required to be shown on the return.

*Failure of a partnership to file a return.* The penalty is \$245. The penalty is per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of partners during any part of the year.

The penalty for a failure to furnish a Schedule K-1 is \$330 for each failure, up to a maximum of \$3,987,000 (\$1,329,000 for businesses with average annual gross receipts in the 3 most recent years of \$5 million or less). The penalty is increased to \$660, or, if greater, 10% of the aggregate amount of items required to be reported, if the failure is due to intentional disregard of the reporting requirement; there is no maximum annual limit.

*Failure of an S corporation to file a return.* The penalty is \$245. The penalty is per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of shareholders during any part of the year.

The penalty for a failure to furnish a Schedule K-1 is \$330 for each failure, up to a maximum of \$3,987,000 (\$1,329,000 for businesses with average annual gross receipts in the 3 most recent years of \$5 million or less). The penalty is increased to \$630, or, if greater, 10% of the aggregate amount of items required to be reported, if the failure is due to intentional disregard; there is no annual cap.

*Waiver of failure-to-pay penalty.* The IRS waived about \$1 billion in penalties for tax years 2020 and 2021 for eligible taxpayers (individuals and corporations). Details of the waiver on in Fact Sheet 2023-28.

# Appendix C—Dollar Limits and Amounts Adjusted for Inflation

**Items Adjusted Annually for Inflation.** The following adjustments apply for 2024 (and do not factor into the preparation of 2023 returns).

*Adoption assistance*—excludable employer-provided adoption assistance for employees (\$16,810 for 2024).

*Cash method of accounting*—the gross receipts test for eligibility of C corporations and partnerships with C corporation partners to use the cash method of accounting is average annual gross receipts in the 3 prior years not exceeding a set amount (\$30 million in 2024).

*Energy-efficient commercial buildings.* The deduction for 2024 is up to \$5.65 per square foot, depending on energy reduction and whether the wage and apprenticeship requirements are met.

*Excess business losses for noncorporate taxpayers*—the threshold used in determining whether an owner of a pass-through entity has such losses is capped on their personal returns at a set amount (\$610,000 for joint filers and \$305,000 for other filers in 2024).

*First-year expensing (Sec. 179 deduction)*—the dollar limit on the deduction, as well as the phase-out threshold on property placed in service for 2024 are \$1,220,000 and \$3,050,000, respectively.

*Foreign earned income exclusion*—the amount of wages or self-employment income earned abroad eligible for the exclusion is limited (\$126,500 in 2024).

*Medical flexible spending accounts (FSAs)*—the most that employees can add annually on a pretax basis is capped at \$3,200 for 2024.

**Qualified business income deduction**—the taxable income limit for the 20% deduction before application of a formula is required (and a phase-out for owners in specified service trades or businesses) is \$383,900 on joint returns and \$191,950 for other filers in 2024.

*Small employer health insurance credit*—the amount of average compensation, originally fixed at \$25,000, is \$32,400 for 2024.

*Social Security wage base*—the amount that is used to figure the Social Security portion of FICA and self-employment tax (\$168,600 for 2024).

*Transportation fringe benefits*—the amount excludable for free parking, and the aggregate amount excludable for transit passes or van pooling, is \$315 per month in 2024.

**Items set by the IRS.** The following adjustments apply for 2024 (and do not factor into the preparation of 2025 returns):

**Deemed depreciation for business vehicles**—if the deduction for expenses for business use of a personal vehicle owned by the taxpayer is figured using the IRS's standard mileage allowance, then the basis of the vehicle is reduced by a set amount per mile (e.g., 30¢ per mile in 2024).

*Mileage allowance*—the rate per mile used to determine the deduction for business use of a personal vehicle instead of deducting the actual costs is 67¢ per mile in 2024.