2024 Year-End Tax Seminar

November 7, 2024

Kreischer Miller

Today's Presenters

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Get Ready for Sunsetting Tax Provisions

November 7, 2024

Rich Nelson, Director, Tax Strategies

Kreischer Miller

Agenda

1. What are tax sunset provisions?
2. Key sunset provisions in the Tax Cuts and Jobs Act (TCJA)
3. Planning considerations
4. Potential future scenarios

What is the TCJA Sunset Provisions?

- In 2017, the Tax Cuts and Jobs Act (TCJA) was enacted into law and was effectively the largest piece of tax legislation since the Tax Reform Act of 1986.
- Without adequate support from across the aisle, the Republican-controlled Congress was forced to pass the Act under the process of reconciliation, which caps the projected deficit created by the legislation.
- As a result, certain provisions of the Act—namely those pertaining to individuals—**are set to expire on 12/31/25**. While many taxpayers implemented strategies, including changing business structures, to take advantage of the new tax regime, taxpayers need to recognize that certain TCJA provisions for individuals and pass-through entities may be ending.

Key TCJA Business Provisions

Corporate tax rate

- TCJA permanently changed the corporate rate tax rate structure to a flat 21%
- This provision will not expire at the end of 2025

Qualified business income ("QBI") 20% deduction

- Owners of pass-through businesses, such as partnership and S corporations as well as sole proprietorships may currently claim a deduction of up to 20% of QBI
- Beginning in 2026, the 20% deduction will no longer be available
- Income from pass-through businesses could see a 10% increase in taxes

Tax Planning Considerations

- Evaluate accelerating income into 2025 and deferring deductions into 2026
- Rethink business structure - C corporation vs S corporation
- Be flexible and prepare contingency plans for the possible sunsetting

Key TCJA Business Provisions

Bonus depreciation on qualified property

- Allowable percentage scales down until the provision sunsets
  - 60% for property placed in service after Dec. 31, 2023, and before Jan. 1, 2025;
  - 40% for property placed in service after Dec. 31, 2024, and before Jan. 1, 2026;
  - 20% for property placed in service after Dec. 31, 2025, and before Jan. 1, 2027; and
  - 0% (bonus expires) for property placed in service after Dec. 31, 2026.

Tax Planning Considerations

- Look to accelerate fixed asset purchases into 2025
- Consider this when modeling the ROI on major equipment and building purchases
- Deferred Liability on prior year asset purchases will accelerate quicker

Key TCJA Individual Provisions

Individual Tax Rates

- Top Rate is set to increase from 37% to 39.6% beginning January 1, 2026
- Stronger Marriage penalty is back
- Higher earners will see entry into the top bracket at a lower threshold in addition to increased tax rates
- Capital Gains rates are scheduled to be tied to the ordinary rates. The 20% rate will now start at the 39.6% bracket

2023 Brackets under Current Law		
Rate	Single Bracket	MFJ Bracket
10%	$0–$11,000	$0–$22,000
12%	$11,001–$44,725	$22,001–$89,450
22%	$44,726–$95,375	$89,451–$190,750
24%	$95,376–$182,100	$190,751–$364,200
32%	$182,101–$231,250	$364,201–$462,500
35%	$231,251–$578,125	$462,501–$693,750
37%	$578,125 <	$693,750 <

Hypothetical 2023 Brackets under Pre-TCJA Law*		
Rate	Single Bracket	MFJ Bracket
10%	$0–$11,000	$0–$22,000
15%	$11,001–$44,725	$22,001–$89,450
25%	$44,726–*$108,400*	$89,451–*$180,600*
28%	*$108,401–$226,100*	*$180,601–$275,250*
33%	*$226,101–$491,500*	*$275,251–$491,500*
35%	*$491,501–$493,500*	*$491,501–$554,400*
39.6%	*$493,500 <*	*$554,400 <*

Key TCJA Individual Provisions

Reduction of Standard Deduction

- Under the current TCJA, the standard deduction was increased to $13,850 for Single and $27,700 for MFJ
- The standard deduction will decrease to $7,500 for single and 15,000 for MFJ beginning January 1, 2026
- Impact – more taxpayers will look to itemize their deduction in the future

Tax Planning Considerations

- Bunching Deductions will no longer be beneficial
- For those taking the standard deduction under current law, consider deferring deductible expenses and charity contributions to 2026 to receive possible greater benefit by itemizing

Key TCJA Individual Provisions

Schedule A Limitations are Removed and Miscellaneous Deductions are Back in Play

- The $10,000 state and local limitation will be lifted ("SALT CAP")
  - Includes real estate taxes and state and local income taxes
- Mortgage interest limitation will increase from $750,000 to $1.1 million threshold
- Miscellaneous deductions subject to the 2% of AGI floor. A few of the popular deductions are:
  - Unreimbursed employment expenses
  - Investment expenses
  - Theft and Casualty losses

Tax Planning Considerations

- Continue to maximize the benefits of the PTE tax for 2025
- Timing of non-PTE State/Local Tax payments – considering deferring payments to 2026 if possible, when they could be fully deductible without the cap

Key TCJA Individual Provisions

Reduction in the Alternative Minimum Tax (AMT) Exemption

- Per the Tax Foundation's research – the TCJA reduced the number of taxpayers paying AMT from approximately 5 million to around 200,000 by increasing the AMT exemption and phaseout thresholds.
- Beginning January 1, 2026, the number of taxpayers subject to AMT is expected to increase to approximately 7 million.
- Typical Taxpayer profile subject to AMT:
  - Majority of income being taxed is at the lower long-term capital gains rates
  - Taxpayers who pay high amounts of state and local income taxes
  - Taxpayers that own Incentive Stock Options

Tax Planning Considerations

- Run Multi year projections to determine impact of AMT on state and local tax deductions, capital gain income and Incentive Stock Options

Key TCJA Estate Tax Provisions

Reduction of the Estate Tax Exemption

- The Lifetime gift and estate tax exemption for 2024 is $13.6 million per individual and 27.22 million for married couples.
- At the end 2025, this tax provision will sunset, cutting the exclusion roughly in half to approximately 6.3 million per individual.

Planning Considerations

- Taxpayers that have business interest, real estate, or other assets that may appreciate in future years and create potential taxable estates, consider how to transfer the interest out of the individual's taxable estate by accelerating ownership transfers to their heirs outright or via trust before 2026

Potential Future Scenarios

1. Congress could extend some or all provisions
2. Provision could expire as scheduled
3. New tax legislation could alter the landscape
4. Be flexible in the decisions you make

Summary of Planning Decisions

1. Consult with a Kreischer Miller Tax advisor to stay informed and carefully plan.
2. Evaluate accelerate income into 2024 and 2025 to take advantage of lower tax rates and the 20% deduction.
3. Evaluate deferring deductions into 2026 to offset income taxed at higher rates.
4. Fully utilize increased estate tax exemption before 2026.

Contact the Presenter

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Rich is a Director in Kreischer Miller's Tax Strategies group. He has extensive experience providing domestic and international tax strategies, planning and services to a variety of middle market companies and entrepreneurial businesses in a number of industries including manufacturing, distribution, real estate, financial, and professional services.

Rich has significant experience and expertise with high-net-worth individuals, investment companies and pass-through entities and has been involved in federal, state, and local tax audits, settlements, and appeals.

Tax Updates For Businesses

November 7, 2024

Brad Runyen, Director, Tax Strategies
Mary-Ann Schaller, Director, Tax Strategies

Kreischer Miller

Agenda

1. Tax depreciation planning considerations
2. Section 174 R&D revisit and expanded Form 6765 reporting
3. Political influences on business tax planning
4. Hodgepodge of other topics

Bonus Depreciation

- Current Law :
  - – the bonus depreciation percentages phase out as follows:
    - 60% for property PIS after December 31, 2023 and before January 1, 2025
    - 40% for property PIS after December 31, 2024 and before January 1, 2026
    - 20% for property PIS after December 31, 2025 and before January 1, 2027
    - 0% thereafter
- What is the future?

Alternatives to Bonus Depreciation

Section 179	• For 2024 maximum deduction $1.22M; investment limit $3.05M • Includes roofs, HVAC, fire protection and alarms systems, security systems
De Minimus Safe Harbor Election	• Accounting policy - Book/tax conformity • Up to $5,000 per invoice or item if the business has an applicable financial statement; $2,500, if not
Deductible Repairs	• Expenditures that better, restore or adapt cannot be expensed • Facts and circumstances analysis

Research and Development - Update

- **Section 174**
  - Governs the income tax treatment of R&D expenses
  - No changes to current law – required for tax years beginning 1/1/2022 and forward to capitalize R&D expenses for tax purposes and amortize:
    - **5 years for expenses incurred within U.S.** (mid-year convention – 10%,20%,20%,20%,20%,10%)
    - 15 years for expenses incurred outside U.S.
  - Broadly speaking, Section 174 includes all costs incidental to R&D activities, including software development costs
  - Cash flow hit on taxes for “phantom” income – 2024 tax year roughly mid point in starting to “normalize” cash flow for taxes
  - R&D credit still available – but generally need increasing research expenses to maintain benefit level

Research and Development - Update

Amortization "Phantom Income" Spread

	2022	2023	2024	2025	2026	2027
R&D Expense - Books	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**
Tax Amortization Expense						
2022	100,000	200,000	200,000	200,000	200,000	100,000
2023		100,000	200,000	200,000	200,000	200,000
2024			100,000	200,000	200,000	200,000
2025				100,000	200,000	200,000
2026					100,000	200,000
2027						100,000
Total Tax Expense	**100,000**	**300,000**	**500,000**	**700,000**	**900,000**	**1,000,000**
Unfavorable Adjustment	**900,000**	**700,000**	**500,000**	**300,000**	**100,000**	**-**

Research and Development - Update

- <u>**Section 41 – Form 6765**</u>
  - Governs the R&D Credit
  - Credit calculation includes applicable R&D Wages, Supplies, and Contract Research to compute R&D expenses eligible for credit calculation (reported on Form 6765)
  - **Amended R&D claims** currently have expanded reporting requirements to substantiate R&D expenses for the year being amended
    - Identify all business components to which R&D claim relates
    - Describe research activities performed for each **Business Component**
    - Name individuals who performed the R&D activity
    - List information each individual sought to discover in R&D
    - Provide the total R&D wage, supplies, and contract research expenses for the year

Research and Development - Update

- **<u>Section 41 – Form 6765</u>**
  - Form 6765 REVISED for tax year 2024
  - Expanded reporting of Business Components to report 80% of total Qualified Research Expenses (“QREs”) (broken down by each Business Component) – new Section G of Form 6765
  - If taxpayer has less than $1.5M of QREs AND less than $50M of aggregate gross receipts (3 year average) – the expanded Business Component reporting is optional
  - IRS made Section G reporting optional for Tax Year 2024, but will be effective for Tax Year 2025

Form 6765 (Rev. 12-2024) Page **4**

Section G—Business Component Information *(continued)*. Complete lines 50 through 56 for each business component. If you have more than fifteen business components, see instructions.

BC	**50** Direct research wages for qualified services	**51** Direct supervision wages for qualified services	**52** Direct support wages for qualified services	**53** Total qualified wages (add line 50, line 51, and line 52)

Business Provisions – Presidential Proposals

	Current Law	Harris Proposal	Trump Proposal
Corporate Tax Rate	21% Flat Rate, no expiration	Increase to 28%	Anywhere from 20% down to 15% (domestic production corps)
Section 199A – 20% Deduction	Expires end of 2025	Let expire – only extend TCJA tax rates to <$400K income	Wants to make Section 199A permanent
Section 163(j) – Interest Limitation	30% limitation on adjusted taxable income (EBIT) – no depr or amort. addback	None noted	Permanent adjustment but based on EBITDA

* Trump plans advertise expanded tariffs on imports up to 10-20%, with higher rates on imports from China (possibly up to 60%)
* Executive branch implementation of tariffs at this scale without Congress approval - debatable

Business Provisions – President & Congress Control

	Compromise – Divided Congress	Harris – Democrat Control	Trump – Republican Control
Corporate Tax Rate	Possible increase to rate	Increase to 28%	Remains at 21% or decrease (bulk of TCJA would likely be extended)
Section 199A – 20% Deduction	Possibly extend, with income limitations	Let expire – only extend TCJA tax rates to <$400K income	Section 199A permanent

* TCJA expiration takes highest individual tax bracket back up to 39.6% in 2026, up from 37% current (absent law changes)
* Harris proposed increased Long-Term Cap. Gains Rate – impacts qualified dividends from Domestic Corps

Consideration should be given to tax structure – C vs S corporation comparison may be relevant

*Note - numerous considerations in switching between C and S corporation

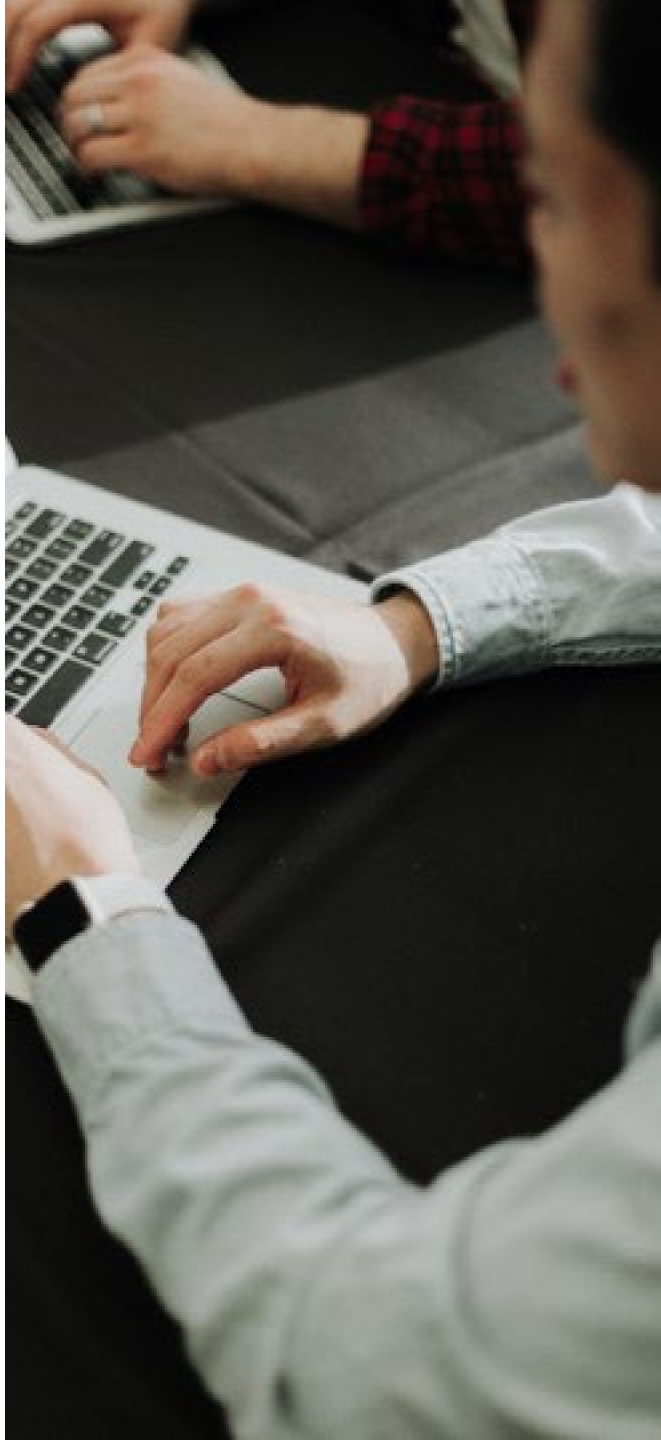
Entity Classification – C vs. S Corp

		S-Corp Current Law	S-Corp 2026 - TCJA Allowed to Expire	C Corporation (Trump - Split Congress)	C Corporation (Trump & Repub. Congress)
	Business Income	1,000,000	1,000,000	1,000,000	1,000,000
	Section 199A Deduction	(200,000)			
	Taxable Income	800,000	1,000,000	1,000,000	1,000,000
	Federal Tax Rate	37.00%	39.60%	21.00%	20.00%
	State Tax Rate (Pennsylvania for Illustration)	3.07%	3.07%	8.49%	8.49%
	Federal Tax	296,000	396,000	210,000	200,000
	State Tax (a)	30,700	18,543	67,071	67,920
[A]	Total Taxes Before Distribution/Dividend	326,700	414,543	277,071	267,920
	Cash Available for C-Corp Dividend			722,929	732,080
	Shareholder Tax on Dividend				
	Federal Qualified Dividend Tax (plus NIIT) - 23.8%	-	-	172,057	174,235
	State Tax on Dividend (b) (c)	-	-	13,405	22,475
[B]	Total Shareholder Dividend Tax	-	-	185,462	196,710
	Effective Rate for [A] - Income Taxes	**32.67%**	**41.45%**	**27.71%**	**26.79%**
	Combined Effective Rate of [A] + [B]	**32.67%**	**41.45%**	**46.25%**	**46.46%**

(a) S-Corp State Tax netted with 39.6% itemized deduction benefit (assume no SALT cap), C-Corp state tax netted with offsetting federal expense benefit
(b) State tax netted with 39.6% itemized deduction benefit for Split Congress (assume no SALT cap)
(c) State tax not netted with any federal itemized deduction benefit for Trump/Repub. Congress (assumes SALT cap under TCJA remains in effect)

Other Topics

- Employee Retention Credit update
- Corporate Transparency Act filing deadline approaching – January 1, 2025
- Carryforward reminders
  - Pre-2018 NOLs – carried back 2 years and forward 20 years
  - Post-2017 NOLs – carried forward indefinitely, except CARES Act
  - NOL deduction for NOLs arising in taxable years beginning after December 31, 2017, is limited to 80% of taxable income
  - Corporate capital losses – carried back 3 years and carried forward 5 years
- Work Opportunity Credit – expires December 31, 2025, if not extended
- Energy tax savings
- New pass-through compliance unit launched



Year-End and Beyond – Planning Considerations

Considerations	
Accounts Receivable aging (Bad Debt Write-offs – reserves not deductible)	Capital Expenditures (Section 179/Bonus)
Any expenses to prepay	Overall and specific accounting methods
Inventory Spoilage/Reserves	Compensation planning (bonuses, incentive plans)
International activity expanding/planning	State tax payments timing

NOTE: TAX PLANNING FOR 2024 AND 2025 WILL BE A FLUID, ONGOING CONVERSATION DEPENDING ON ELECTION SEASON, LAME DUCK SESSION, AND NEW GOVERNMENT TRENDS

Supplemental Information

- Energy Savings Information – 179D and Solar
- Work Opportunity Tax Credit – expanded information

Business Energy Savings

	Deduction or Credit	Amount	Summary & Considerations
Section 179D (no current expiration) – expanded under IRA 2022	Deduction to taxable income	Up to $5.00 per square foot (inflation adjusted)	• Energy efficient buildings or improvements (lighting/electrical, HVAC) • Efficiency measured against set energy standards • Increased deduction when prevailing wage and apprenticeship requirements met • Building owner or designer (allocate deduction in the case of not-for-profits or gov't entities) • No lifetime limitation
Section 48 - Investment Tax Credit (Solar Property) – through 2033	Credit against tax liability	30% of the basis in the property installed (+10% possibly)	• 30% contingent on meeting prevailing wage and apprenticeship requirements • Additional 10% bonus credit for domestic content or installed in certain geographic community locations (energy community)

Work Opportunity Tax Credits (WOTC)

- Available through December 31, 2025
- In general, WOTC is 40% of the first-year wages of a targeted group of employees who worked 400 hours or more
  - For an employee who worked between 120 and 400 hours, credit is 25 percent of first-year wages paid
- The tax credit can range from $2,400 to $9,600 per employee depending on a worker’s qualifications
- No limit applies to the number of individuals that can qualify
- Tax credit is reported on the company’s federal income tax return and distributed through K-1’s or claimed on corp return
- Strict compliance with reporting timeline is necessary

Work Opportunity Tax Credits (WOTC)

- Targeted Group Employees:
  - SNAP (food stamps) recipients,
  - Welfare recipients,
  - Designated community residents who are between the ages of 18 and 40 at their date of hire and reside within particular geographic areas,
  - Supplemental Security Income (SSI) or disability recipients,
  - Long-term unemployment recipients,
  - Veterans, which include a few sub-categories of qualified individuals,
  - Ex-felons,
  - Vocational rehabilitation referral employees, and
  - Summer youth employees who are between the ages of 16 and 18 at their hiring date and reside within particular geographic areas.

Contact the Presenter

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Brad is a Director in Kreischer Miller's Tax Strategies group. Brad provides tax services including compliance, planning, and research for multi-state corporations, partnerships, trusts, and high-net-worth individuals. He has assisted companies with business transactions, including acquisitions, sales, and reorganization transactions.

Brad has a diversified range of experience providing services to a variety of companies in the construction, manufacturing, real estate, distribution, and service industries.

Contact the Presenter

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Mary-Ann is a Director in Kreischer Miller's Tax Strategies group. Mary-Ann has experience providing tax planning and compliance services to a variety of privately-held businesses, including manufacturers and distributors. She also advises businesses and individuals on various transactions, represents clients undergoing federal and state audits, and consults on the design of long-term incentives.

Mary-Ann assists with the development and instruction of in-house professional trainings and external presentations on various tax topics.

State and Local Tax Update

November 7, 2024

Tom Frascella, Director, Tax Strategies, State and Local Tax Group Leader
Reed Brown, Director, State and Local Tax

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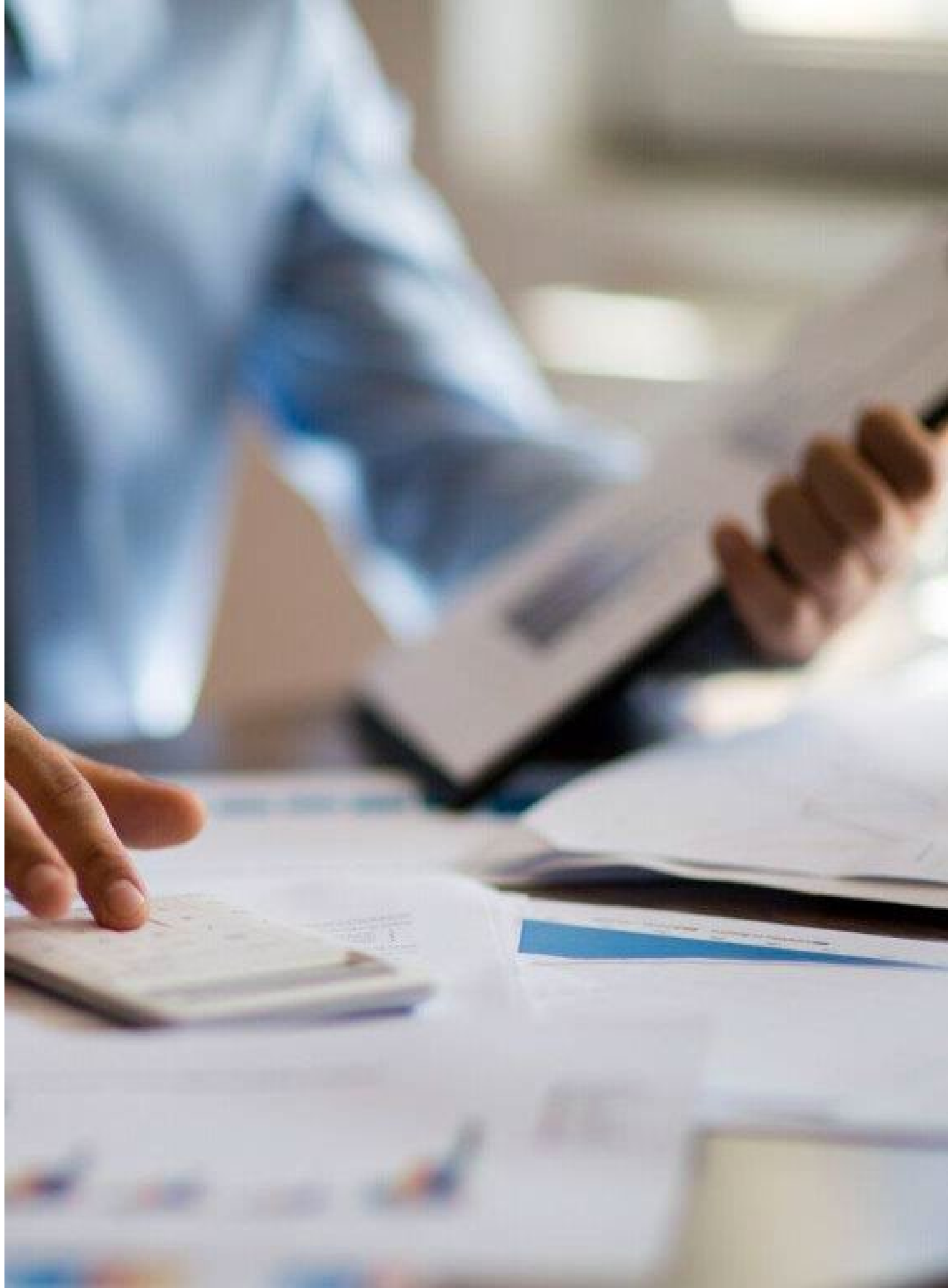


Agenda

1. State of the States
    - General Overview
    - Legislative Trends
2. Notable SALT Cases
3. SALT Developments Affecting Your Business
    - Pennsylvania Updates and Changes
    - Sales Tax
    - Conformity
4. SALT Considerations for Your Business

State of the States

State of the States – General Overview

- Where are states fiscally as we close out 2024?
  - Surplus?
  - Deficit?
- Most states that were operating with a surplus had federal funding left over from pandemic support
  - Costs have gone up and those reserves have gone down
- Higher inflation affecting spending, creating unpredictable tax revenue collections
  - Consumer spending vs. sales tax
  - On average, sales tax revenue makes up 32% of state budgets
- Migration! Shift in population post-pandemic
  - Shifts in population changes tax landscape and affects the ability to estimate revenue from individual and corporate income tax

State of the States – General Overview

Tax Foundation's 2025 State Tax Competitiveness Index – analyzes how each state compares to others using the below tax categories:

1. Individual Income Taxes
2. Sales, Use, and Excise Taxes
3. Corporate Taxes
4. Property and Wealth Taxes
5. Unemployment Insurance Taxes

State of the States – General Overview

Tax Foundation’s 2025 Top 10 Competitive States

1. Wyoming
2. South Dakota
3. Alaska
4. Florida
5. Montana
6. New Hampshire
7. Texas
8. Tennessee
9. North Dakota
10. Indiana

State of the States – General Overview

Tax Foundation's 2025 Least Competitive States

41. Massachusetts
42. Hawaii
43. Vermont
44. Minnesota
45. Washington
46. Maryland
47. Connecticut
48. California
49. New Jersey
50. New York

State of the States – General Overview

Tax Foundation’s 2025 State Tax Competitiveness Index – Takeaways:

- **Top-Ranked States and Tax Absence**: Many top-ranked states lack one or more major taxes, such as corporate income, individual income, or sales taxes, boosting their tax competitiveness.
- **Examples of No-Major-Tax States:** South Dakota and Wyoming have no corporate or individual income tax; Alaska lacks an individual income or state sales tax; Texas and Florida have no individual income tax.
- **High-Ranking States with All Major Taxes:** States like Indiana, Idaho, North Carolina, and Utah rank well despite levying corporate, individual income, and sales taxes, showing competitiveness isn’t solely dependent on tax absence.
- **Challenges for Bottom-Ranked States:** Bottom 10 states suffer from high tax rates and complex, nonneutral tax structures, which hinder their business environment.
- **New Jersey's Burdened Tax System:** New Jersey has one of the highest property, corporate, and individual income tax rates, an inheritance tax, and stringent international income policies, contributing to its low ranking.

State of the States – Legislative Trends

- MTC Digital Tax Project
- NCSL (National Conference of State Legislators) is launching its own project to analyze the taxation of digital products
    - Key initiative is to develop a primer on the state taxation of digital goods
        - The project will seek to define a digital good
        - Sourcing
        - Parity with digital goods/services
        - Bundling
- Taxation of retail delivery fees
- Watch list

Notable State – Developments

- Interesting State Developments
  - Apple tax sharing settlement with CA localities achieves parity, but leaves Cupertino holding the bill for the settlement
- Texas overreaches in data processing tax plan and also treats credit card processing fees as taxable
- Minnesota DOR urges state high court to bless a $9 million tax bill to DuPont for foreign currency hedging transactions
- Tennessee issues new sourcing rules shifting away from cost of performance standard and progressively moves towards single sales factor
- Ellingson Drainage, Inc. vs South Dakota – they did what?!
- What is the relevance to you?

Current Developments Affecting Your Business – Pennsylvania

- No significant legislative changes have been introduced/enacted
- Significant guidance issues surrounding the taxation of computer services
- Guidance was issued very quietly and without the opportunity for public comment
- Reason for the quietly issued guidance is because the DOR now considers virtually every service rendered in connection with computer software to be taxable
- In 2016, the definition of TPP was broadened to encompass digital goods
- Gradually over time the definition of TPP has expanded even further to encompass separately stated charges such as call center support and help desk support
- Items such as data retrieval, programming needed to make canned software functional are now taxable

Current Developments Affecting Your Business – Pennsylvania

- Custom software has been almost entirely eliminated in Pennsylvania – just calling something custom does not make it non-taxable
  - Modifying source code to canned software to make it functional for a customer's needs is now taxable
  - Creation of an interface to work within an ERP is now taxable
- Project management is now taxable if sold in conjunction with canned software
  - Only consulting services that are still non-taxable are limited to providing a recommendation as to what the company needs without doing anything else
- Website design is now considered to be taxable unless the developer retains control of the website
- Still remaining is the carve-out for licenses used outside the state. However, unallocated licenses are thrown back to PA if billing address is PA

Current Developments Affecting Your Business – Pennsylvania

- Significant administrative changes
  - Appeal period extended to 90 days from the current 60 days
  - To relieve the backlog for the Attorney General's Tax Lit section, cases are being referred back to DOR to handle
  - According to a representative from the Attorney General's office, it is only cases where the basis for the appeal/dispute is missing data
    - Significant uncertainty surrounding this referral process

Current Developments Affecting Your Business - Sales Tax

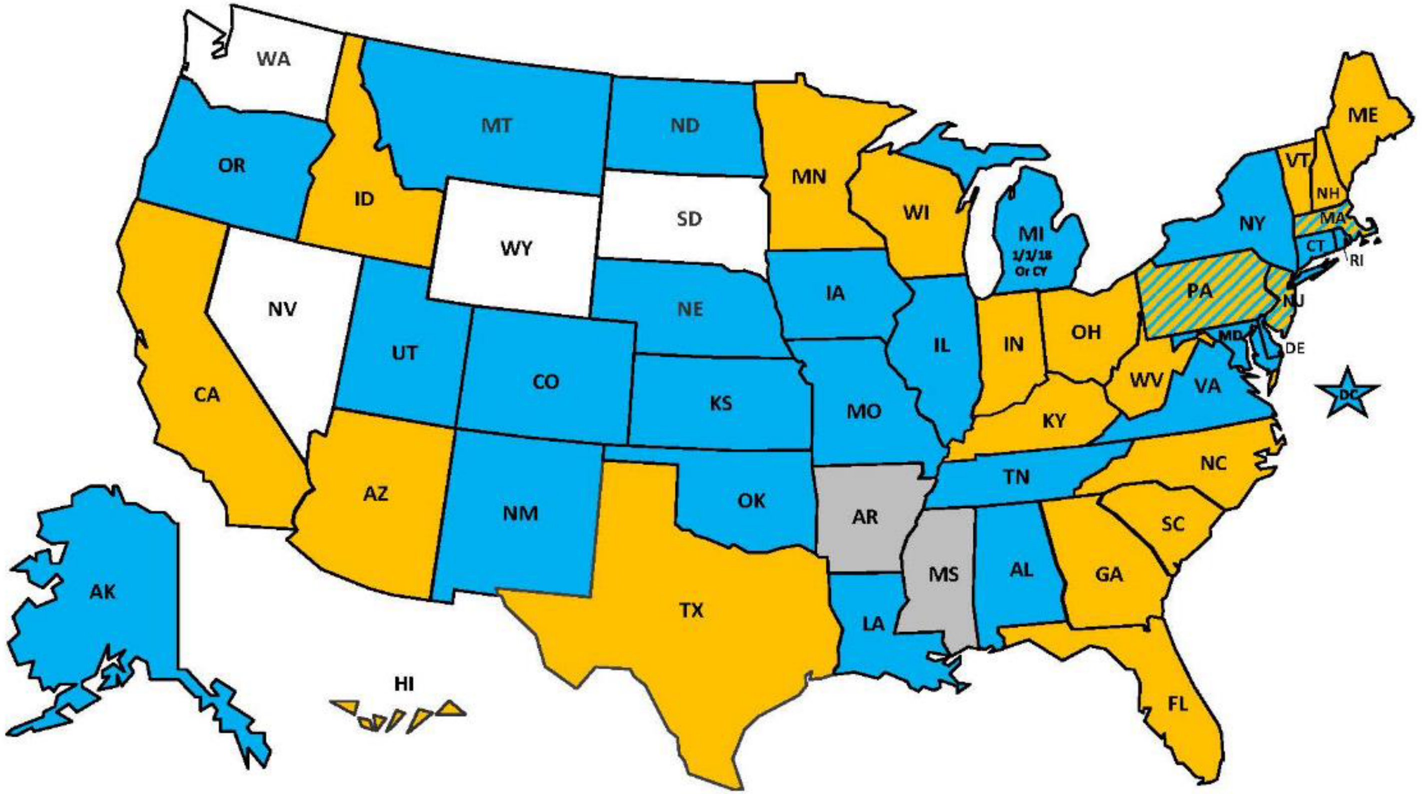
- Have you heard of the Wayfair Decision?!
- Do you know what you're selling?
    - Services? Goods?
- How are you selling? Direct to customers? Through marketplaces?
    - How are you billing?
- It matters!
- Emphasis on remote seller audits.
    - Increase in out of state audits for businesses that do not have a physical presence in a state but have customers.
    - How?
    - States have reduced personal and corporate income tax rates – where will the tax revenue come from?
    - Expanding tax base – digital goods and services are being pulled into the tax base
- Drop shipping – the new administrative headache!
    - Have you received valid exemption certificates from your customers?
    - Are you able to provide a valid exemption certificate to your suppliers?

How States Adopt and Adapt to Federal Tax Changes

States' Conformity to the Internal Revenue Code (IRC)

(as it relates to the computation of taxable income)

As of March 8, 2024



24 states that automatically conform to the IRC as the IRC is amended. (Rolling Conformity):

AK, AL, CO, CT, DC, DE, IA, IL, KS, LA, MD, MI, MO, MT, ND, NE, NM, NY, OK, OR, RI, TN, UT, VA

18 states that conform to the IRC as of a specific date (Static or Fixed Conformity):
AZ, CA, FL, GA, HI, ID, IN, KY, ME, MN, NC, NH, OH, SC, TX, VT, WI, WV

3 states with rolling conformity rules for corporate and fixed conformity on some or all items for non-corporate taxpayers (MA, NJ, PA)

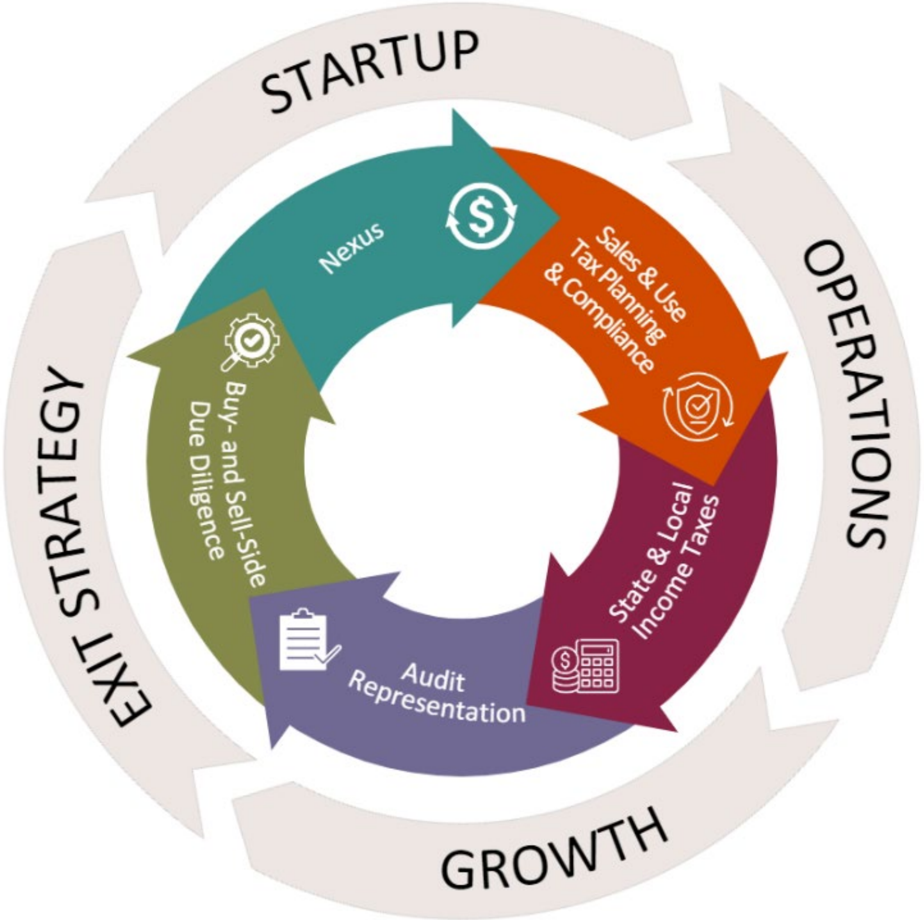
2 states lacking general conformity to the IRC (Specific Conformity) (AR, MS)

4 states with no personal or corporate income tax and conformity not applicable (NV, SD, WA, WY)

State and Local Tax Considerations

No matter where you are in your journey, state and local taxes can affect your business along the way.

We help identify potential risks and work with you to develop a reasonable approach to address these risks and avoid costly issues in the future.



Manage Your State and Local Tax Matters Before They Manage You

- **States are becoming more aggressive** in identifying non-compliant, remote businesses
- Ignoring state taxes can **cost your business money and lost productivity** due to the imposition of estimated assessments that need to be defended by your internal team or outsourced to a third party
- Your business may be **ill prepared for a state audit**, which can cost you money due to missing documentation or misclassified sales. You want to avoid states resolving any doubts in their favor
- Due diligence sell-side transactions are more complicated and could result in **large escrows or purchase price adjustments** due to the uncertainty of state tax exposures

Contact the Presenter

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Tom has a wide range of experience providing state and local tax strategies & services in the areas of income/franchise, sales and use, realty transfer, and unclaimed property taxes to a variety of businesses, including multi-state and multi-national businesses in the light and heavy manufacturing, distribution, life sciences, not-for-profit and professional services industries. He helps businesses address their multi-state tax needs.

As an experienced multi-state tax professional, Tom has developed a solid understanding of the issues and concerns of growing middle market companies and large publicly-traded enterprises and has been proactive in anticipating their issues and developing solutions to minimize administrative burdens and tax exposures.

Contact the Presenter

Reed Brown, CMI

DIRECTOR, STATE AND LOCAL TAX

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Reed is a Director in Kreischer Miller's State and Local Tax group. As an experienced multi-state tax professional, Reed has developed a solid understanding of state and local tax concerns and he assists businesses in anticipating issues and developing solutions to minimize administrative burdens and exposures. He has a wide range of experience providing services in the areas of multi-state income/franchise tax and sales and use tax, as well as audit defense, tax planning, and state tax controversies in the manufacturing, construction, distribution, and professional services industries.

Reed is committed to serving as an advisor to his clients, and particularly enjoys helping them understand and navigate the often complex, and at times daunting, state and local tax environment. Working alongside his clients, he provides them the knowledge and support to fix the issue at hand as well as apply that information to future situations.

Tax Considerations for Business Transitions

November 7, 2024

Katrina Samarin, Director, Tax Strategies

Kreischer Miller

Agenda

1. Gift and sale tax considerations
2. Stock sales v. asset sales
3. Capital gain rates
4. Opportunities for tax deferral and exclusions
5. Prepare for upcoming transactions

Business Transfer Spectrum

Business Transfer Spectrum

Transfer Channels

Estate/ Gift → Liquidation → Sale to Employees → Sale to Current Owners → Retain as Investment → Family Transition → ESOP → Sale to Third Party → Going Public

Lower ← Liquidity and Valuation → Higher

Gift Considerations

- Estate and gift tax exemption
- Need for liquidity
- Valuation

Sale Considerations

- Valuation
- Timing & liquidity
- **Tax efficiency**
- Leadership transition within business
- Legacy
- Employees

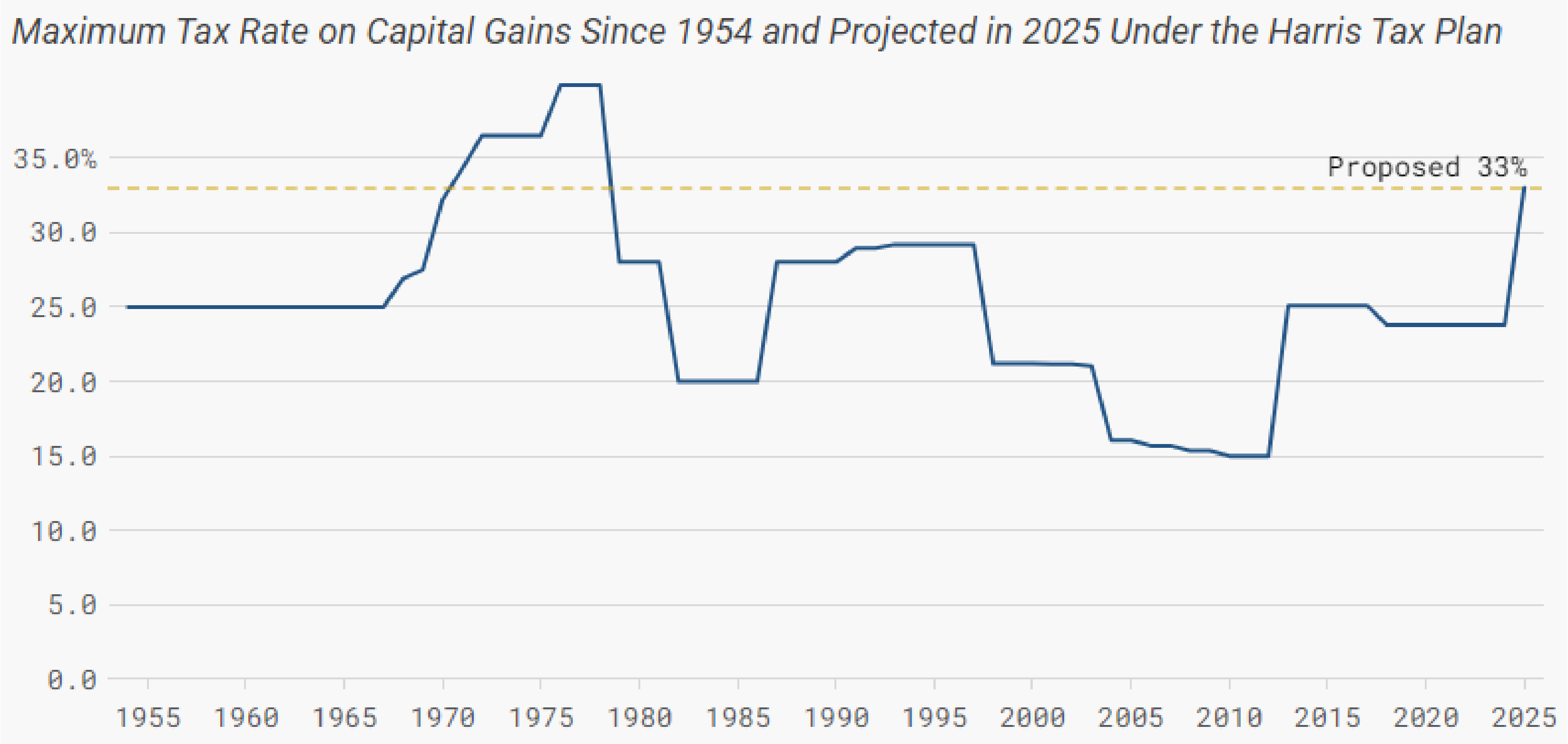
Stock Sale v. Asset Sale

Asset Sale	Stock Sale	Section 338(h)(10) Election
• Combination of ordinary income and capital gain rates • Itemized purchase of Company's assets	• Preferred Capital gain tax rates • Qualified Small Business Stock may be eligible for exclusion from tax (up to 100% of gain) • Sale to ESOP may be tax deferred	• Stock sale treated as asset sale for tax purposes

Entity Type

S Corporation/ Partnership	C Corporation
• Stock Sale or Asset Sale is Subject to one level of tax • Added benefit of basis build-up from pass-through earnings	• Stock sale subject to one level of tax • Asset sale subject to double taxation

Capital Gain Rates



2024 = 20% LTCG + 3.8% Net Investment Income Tax "NIIT"

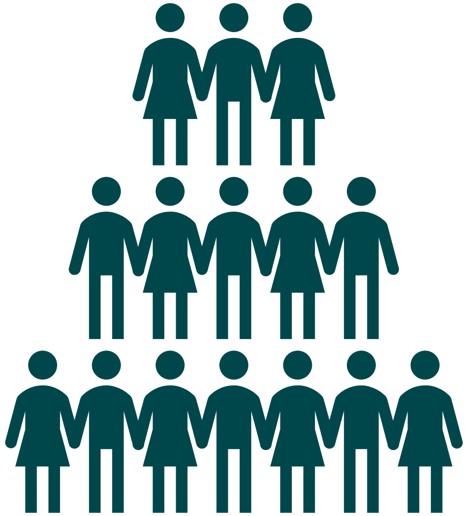
Note: The maximum rate includes provisions that alter effective rates, such as exclusions and alternative tax rates. Source: U.S. Department of Treasury, Office of Tax Analysis, "Taxes Paid on Capital Gains for Returns with Positive Net Capital Gains, 1954-2014"; Tax Foundation calculations.
Credit: TaxFoundation.org

Qualified Small Business Stock "QSBS"

- Excludes **up to 100%** of taxable gain (up to $10 million)
- Only available for C Corp stock (not S Corporations and LLCs)
- Corporation must meet specific assets test and operational tests
- Must be original issue stock
- Holding period requirements

Sale to an ESOP

- Sale of certain C Corp stock is eligible for tax deferral (as of 2024)
- ESOP must own at least 30% of the Company post-transaction
- Must reinvest the proceeds in “Qualified Replacement Property”
    - Generally, stocks and bonds of U.S. operating companies
- Opportunity for **permanent** tax deferral under current tax law
- Businesses that may be a good fit for an ESOP:
    - Strong, stable cash flows
    - Ownership group interested in remaining involved
    - Patient with sale – not seeking immediate cash payment up front



Due Diligence

- Plan ahead for upcoming transaction(s)
- All tax compliance will be scrutinized
    - Payroll tax
    - Income tax (all jurisdictions)
    - Sales tax and use tax
    - Property tax (real property and personal property)
    - Unclaimed property
- Evaluate state income tax and sales tax **nexus**

Takeaways

- Start early, and plan ahead
- Some tax savings strategies may take years to implement
- Prepare company for upcoming transaction / due diligence process

Contact the Presenter

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DIRECTOR, TAX STRATEGIES

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Katrina is a Director in Kreischer Miller’s Tax Strategies group. Katrina serves as a proactive and responsive tax advisor to her clients’ needs including tax compliance, tax planning, and tax research for corporations, partnerships, trusts, and high-net-worth individuals. She is forward-looking to keep her clients compliant and well informed on the changing tax landscape.

Katrina works with a broad range of privately-held businesses including those in the manufacturing, distribution, construction, real estate, and service industries.

Individual Tax Planning

November 7, 2024

Brian Kitchen, Director, Tax Strategies

Kreischer Miller

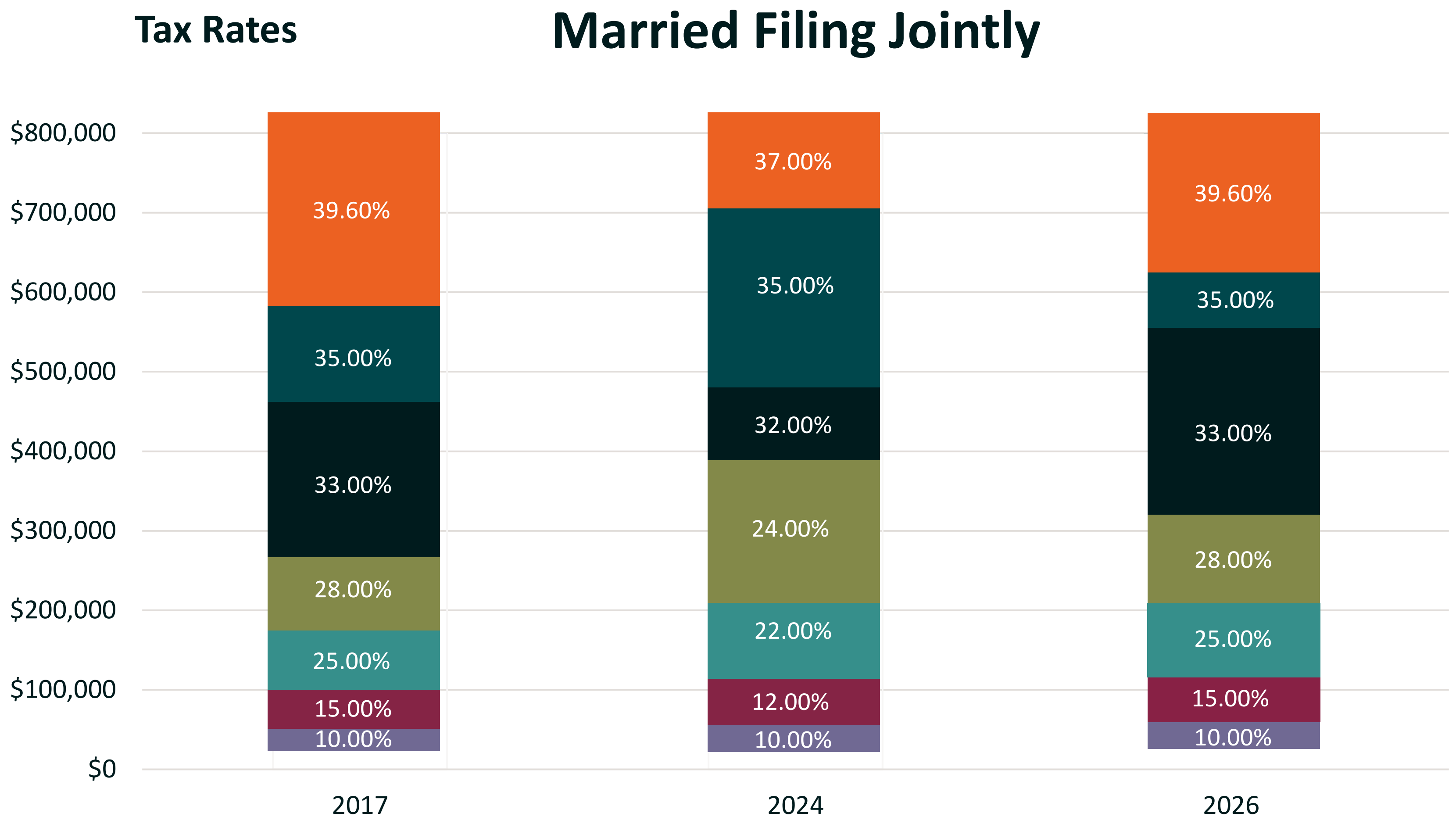
Agenda

1. General Planning Checklist
2. TCJA Sunsets
3. Retirement Accounts & Secure 2.0
4. Education Savings – Overview
5. Year-End Timing Items (capital gains/losses, itemized deductions)
6. Post-Election Considerations

2024 Year-End Planning – Checklist

- Itemized Deduction Bunching
  - Medical expenses
  - Charitable contributions
- Gain & Loss Harvesting
  - Current rate > Future rate
  - Future capital gain
- Retirement Planning
  - Funding IRAs, 401Ks, pension plans
  - Consider Roth conversion
  - Back-Door ROTH Conversions
  - Required Minimum Distributions
- Education Planning
  - 529 plans
  - 5-Year Super-funding
- Charitable Planning
  - Qualified Charitable Distribution (QCD)
  - Donor Advised Fund (DAF)
  - Appreciated stock
- Estimated Taxes
  - Review payments and estimated taxable income
  - Underpayment penalty
  - Additional W-2 withholding

Historic, Current, & Future Tax Rates



TCJA Sunsets – December 31, 2025

Tax Provision	Current Law	2026
Highest marginal tax bracket	37%	39.6%
Qualified Business Income "QBI" Deduction	Eligible Taxpayers receive up to 20% deduction of business income	20% deduction eliminated
Alternative Minimum Tax (AMT)	Applies to relatively few taxpayers given high exemption amounts	AMT would apply to more taxpayers due to lower exemption and income phaseout amounts
State and Local Income Tax Deduction	Limited to $10,000 Cap	No limit
Limitation on Itemized Deductions "Pease Limitation"	Repealed 2018 through 2025	Reinstated; cap on total allowable itemized deductions
Limitation on cash charitable contributions	Limited to 60% of AGI	Limited to 50% of AGI
Miscellaneous itemized deductions	Not available	Available in excess of 2% of AGI, including investment fees, un-reimbursed work-related expenses

Required Minimum Distributions RMDs

Required Beginning Date

IRA owners must take their first RMD by April 1 of the year after they reach age 73

2019 & earlier	2020	2024	2033
Age 70 1/2	Age 72	Age 73	Age 75

- Example: You turn 73 years old in 2024
    - First RMD will be for 2024 (the year you turn 73)
    - Can be taken as late as April 1, 2026, but then the 2nd payment must be taken by December 31, 2026.

Inherited IRAs – Non-Spousal Beneficiaries

- Current regulations
    - 10-year distribution rule
- Notice Relief for failed RMDs
    - 2021, 2022, 2023 and 2024
- **Starting in 2025….**
    - If the original account holder reached the age in which RMDs were compulsory, their heir will have to continue the yearly withdrawals in a way that the account will empty in 10 years.
    - If you miss a required RMD or don't withdraw enough, **there will be a 25% penalty** on the amount you should have taken out.

Inherited IRAs – Spousal Beneficiary

- Treated as a beneficiary of the IRA or elect to be treated as its owner
- The owner dies before required beginning date RMDs to the surviving spouse can be postponed until the later of:
    - The year following the owner’s death, or
    - The year of the owner’s required beginning date for RMDs

Inherited IRAs –Spousal Beneficiary

Original owner	Beneficiary
• RMDs based on the spouse’s life expectancy • Distributions begin when spouse reaches the required beginning date • Special rules apply when more than 10 years younger than IRA owner	• When spouse is older than owner of the IRA • Must take RMDs • No RMD taken rolled over into own IRA

Charity – Qualified Charitable Distributions (QCD)

- Taxpayer must be age 70½ or older
- Distribution must be direct to charity
- Limited to $105,000
    - Spouse can make QCD from own IRA up to $105,000
- Counts towards RMD (excludes inherited IRAs)
- Distributions to donor advised funds & private foundations – **do not qualify**
- Not included in income and not an itemized charitable deduction

Education – Savings

- **529 Savings Plans**
  - Treated as a completed gift for gift tax purposes – annual exclusion up to $18,000 per recipient in 2024
  - "Superfund" opportunity to contribute 5 years at once ($90K in 2024) **per donor**
  - Investment growth in 529 Savings Plan tax free if used for qualified education purposes
  - Most states have some mechanism (subject to limitations) of deduction for 529 type contributions

Education – Savings

- **529 Savings Plans, cont'd**
    - Distributions can be used for qualified education expenses
        - Includes trade schools
    - Up to $10K/year for K-12 education tuition
    - Secure 2.0 opened option to rollover 529 to ROTH IRA
        - Up to $35K aggregate lifetime limit
        - Restrictions based on duration of 529 plan and timing of contributions

Capital Gains (Losses)

Capital Gain Planning

- Maximize gains at lower current tax rates (tax bracket management and/or future rate increases)
- Immediate repurchase of assets sold to increase basis at lower tax rate (as applicable)
- Tax Savings vs. Return on Investment

Capital Loss Planning

- Harvest loss positions – Focus on current year tax savings
- Consider digital/crypto wash losses
- Planning of short/long losses interplay for appropriate benefit

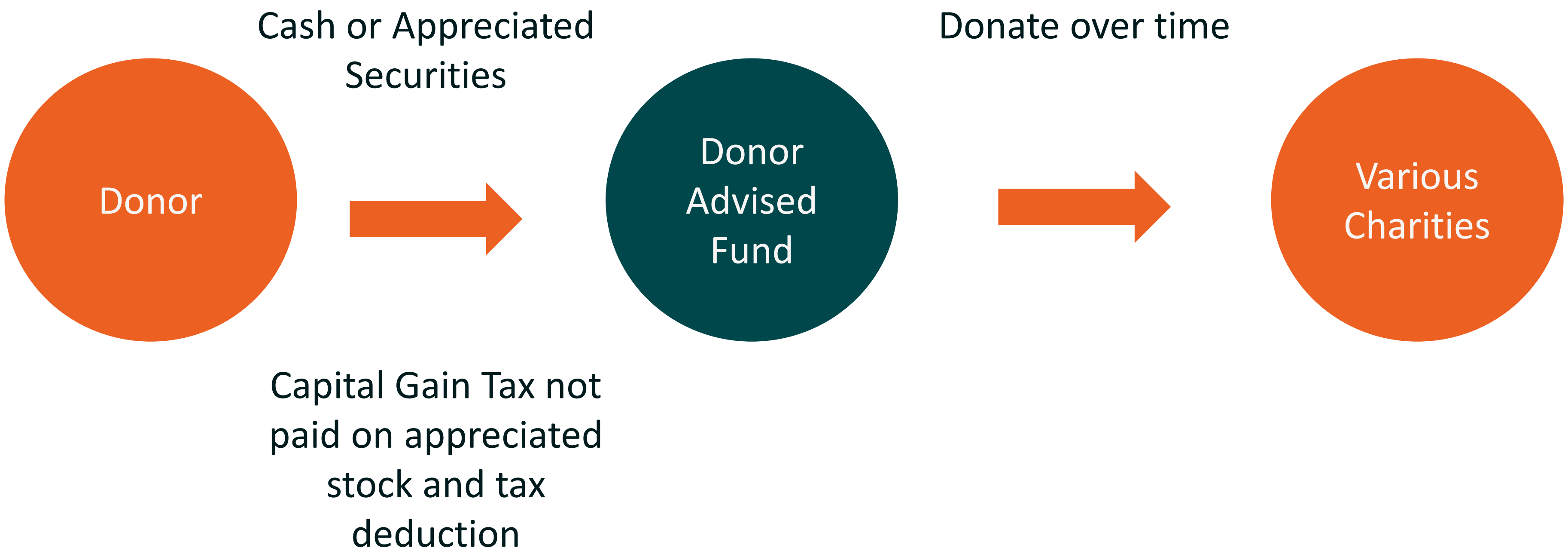
Itemized Deductions

- **Healthcare Expenses**
  - If exceeding 7.5% of AGI, maximize (as applicable) into current year to increase benefit
  - Health insurance premiums payment timing
  - Considerations for the elderly
- **Charitable Contributions**
  - Timing of contributions based on income tax bracket (value of deduction)
  - Bunch/maximize if value in 2024 greater than 2025
  - Interplay with Qualified Charitable Distribution (not an itemized deduction)

Charity – Donor Advised Fund (DAF)

- Fund with cash – deductible up to 60% of adjusted gross income
  - Example – AGI $500,000. Can fund DAF with $300,000
- Fund with appreciated assets – deductible up to 30% of adjusted gross income
  - Example – AGI $500,000. Can fund DAF with $150,000
- Long-term appreciated assets
  - Receive deduction for the fair market value
  - Do not have to pay capital gain or net investment income tax on the appreciation
  - Example – Basis in stock $100,000 and now worth $500,000. $400,000 gain is not taxable if move the stock to DAF

Charity – Donor Advised Fund (DAF)



Election Considerations – Themes

Personal Income Tax	Business	Other Items
• Personal Tax Brackets – Same as current or increase for high-income earners • Child Tax Credit Increased/Expanded • Estate and Wealth Tax Considerations • Taxes on Tips – TBD	• Corporate Tax Rates range from 20% - 28% • 20% Pass-through Deduction • Other tax credits or tax incentives for certain US based industries • Accelerated depreciation	• State and Local Tax Deduction • First-time home buyer credits revitalized • Capital Gains Taxes

Supplements

Supplement – 2024 Federal Income Brackets

Tax Rate	Married Filing Joint & Surviving Spouse	Single	Head of Household	Married Filing Separately
10%	$0 – $23,200	$0 – $11,600	$0 – $16,550	$0 – $11,600
12%	$23,201 — $94,300	$11,601 – $47,150	$16,551 – $63,100	$11,601 – $47,150
22%	$94,301 — $201,050	$47,151 – $100,525	$63,101 – $100,500	$47,151 – $100,525
24%	$201,051 — $383,900	$100,526 – $191,950	$100,501 – $191,950	$100,526– $191,950
32%	$383,901 — $487,450	$191,951 – $243,725	$191,951– $243,700	$191,951 – $243,725
35%	$487,450 - $731,200	$243,726 – $609,350	$243,700 – $609,350	$243,726 – $365,600
37%	Over $731,200	Over $609,350	Over $609,350	Over $365,600

Supplement – 2024 Retirement and Medical Savings Plans

401(k) Plans	IRA Contributions	ROTH IRA Contributions	FSA and HSA Contributions

• $23,000/year
• $30,500/year for age 50 or older with catch-up of $7,500
• Maximum eligible compensation base is not available as of 11/6/2034
	• Deductible contributions up to $6,500 ($7,500 for age > 50)
	• AGI max phase-outs for deductible contributions
	  • Single: $87,000
	  • MFJ: $143,000 if covered by workplace plan
	  • MFJ: $240,000 if spouse covered by workplace plan
		• $7,000 contribution ($8,000 for age > 50)
		• AGI max phase-outs for contributions
		  • Single: $161,000
		  • MFJ: $240,000
		• Back-door ROTH still available for non-deductible contributions
			• FSA Max Deferral: $3,050
			• FSA Rollover to 2024: maximum of $610
			• HSA Max Deferral
			  • Single: $4,150
			  • Family: $8,300
			  • HSA Catch-up contributions $1,000
			• Dependent Care FSA
			  • $5,000 per yr per household

Supplement – 2025 Federal Income Brackets

Tax Rate	Married Filing Joint & Surviving Spouse	Single	Head of Household	Married Filing Separately
10%	$0 – $23,850	$0 – $11,925	$0 – $17,000	$0 – $11,925
12%	$23,851 — $96,950	$11,926 – $48,475	$17,001 – $64,850	$11,926 – $48,475
22%	$96,951 — $206,700	$48,476 – $103,350	$64,851 – $103,350	$48,476 – $103,350
24%	$206,701 — $394,600	$103,351 – $197,300	$103,351 – $197,300	$103,351 – $197,300
32%	$394,601— $501,050	$197,301 – $250,525	$197,301– $250,500	$197,301 – $250,525
35%	$501,051 - $751,600	$250,526 – $626,350	$250,526 – $626,350	$243,726 – $375,800
37%	Over $751,600	Over $626,350	Over $626,350	Over $375,800

Supplement – 2025 Retirement and Medical Savings Plans

401(k) Plans	IRA Contributions	ROTH IRA Contributions	FSA and HSA Contributions

• $23,500/year
• $30,500/year for age 50 or older with catch-up of $7,500 (catch-up ages 60-63: $11,250)
 	
• Maximum eligible compensation base is not available as of 11/1/2024
	• Deductible contributions up to $7,000 ($8,000 for age > 50)
	• AGI max phase-outs for deductible cont. (est.– unknown as of 11/1/2024)
	  • Single: $90,000
	  • MFJ: $145,000 if covered by workplace plan
	  • MFJ: $245,000 if spouse covered by workplace plan
		• $7,000 contribution ($8,000 for age > 50)
		• AGI max phase-outs for contributions (estimated – unknown as of 11/1/2024)
		  • Single: $162,000
		  • MFJ: $245,000
		• Back-door ROTH still available for non-deductible contributions
			• FSA Max Deferral: $3,300
			• FSA Rollover to 2025: maximum of $640
			• HSA Max Deferral
			  • Single: $4,300
			  • Family: $8,550
			  • HSA Catch-up contributions $1,000
			• Dependent Care FSA
			  • $5,000 per yr per household

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Brian is a Director in Kreischer Miller's Tax Strategies group. He has a wide range of experience providing domestic and international tax planning and compliance services to a variety of middle market companies and entrepreneurial businesses. Brian has also assisted companies with business transactions, including mergers, acquisitions and transition planning. He has significant experience in federal, state, and local tax audits, settlements, and appeals.

Brian provides tax services to companies in the manufacturing, distribution, media, real estate, investment, financial, and professional services industries.

Estate Planning and Gifting Strategies

November 7, 2024

Rich Nelson, Director, Tax Strategies

Kreischer Miller

Agenda

1. Current state of the estate, gift and GST tax
2. Uses of trusts revocable and irrevocable
3. Gifting strategies

Estate and Gift Tax

Effect of Election On Estate and Gift

Estate & Gift Tax

Current estate, gift and generation-skipping transfer tax exemptions:

	2017	2018	2019	2020	2021	2022	2023	2024-2025	2026
Lifetime gift/ estate Tax Exemption	$5.49 M	$11.18 M	$11.4 M	$11.58 M	$11.7 M	$12.06 M	$12.92 M	$13.61 M	$7 M
GST Exemption	$5.49 M	$11.18 M	$11.4 M	$11.58 M	$11.7 M	$12.06 M	$12.92 M	$13.61 M	$7 M

Estate & Gift Tax

Time is running out

14 months or 420 days

Need to start NOW!

Estate & Gift Tax

Planning can take a significant amount of time:	Potential pitfalls of rushing:
• Modeling • Asset choices • Choosing the right trust • Trustees/ Executor • Obtaining valuations • Many significant decisions	• Waiting too long • Gifting away too much • Gifting the wrong assets • Not taking into consideration the step-up in basis rules • Not getting a qualified appraisal • Not filing a complete gift tax return

Benefits of a Trust

- Minimize gift and estate taxes
- Protect beneficiaries from themselves by providing financial oversight and spendthrift protection
- Provide for post-death contingencies
- Extend control of the grantor over beneficiaries even after grantor’s death
- Asset protection from creditors
- Properly structured can be protected from spouses of children in divorce
- Provide for surviving spouse while protecting the remainder for children of a prior marriage
- Ensuring that beneficiaries with special needs will be taken care of
- Ensuring pets will be taken care of
- Certain trusts to benefit charities and not-for-profit organizations

Four Main Types of Trusts

LIVING **Created when grantor is alive**	**TESTAMENTARY** **Created after grantor's death**
REVOCABLE Terms of trust can be altered during grantor's lifetime	IRREVOCABLE Terms cannot be altered during grantor's lifetime

Revocable Trusts

Benefits of Revocable Trust

- Assets held in trust at death avoid probate
- Trust remains private. Insures financial privacy after death
- Allows trustee to manage assets if the grantor becomes incapacitated
- Allows grantor to control how and when beneficiaries receive their inheritance
- Less costly to create

Non benefits of Revocable Trust

- Does not provide asset protection. Assets remain available to creditors
- Assets will be included in estate

Irrevocable Trusts

Benefits of an Irrevocable Trust

- Reduces and can eliminate gift and estate taxes
- Assets in trust avoid probate. Financial secrecy
- Assets unreachable by grantor, unreachable to the grantor’s creditors
- Grantor through document controls when the beneficiaries receive their inheritance

Non benefits of an Irrevocable Trust

- Grantor cannot change the terms of the trust once it is implemented
- Grantor cannot access trust assets if they need them

Gifting Annual Exclusion

- Annual exclusion is $18,000 per person. Can gift up to $18,000 per person with no effect on your estate exemption.
- Example 1: Married couple wish to give money to child. Each can give $18,000 for a total of $36,000.
- Example 2: Same facts except child is married. Each parent can give $18,000 to the child and their spouse for a total of $72,000.
- Example 3: Same facts as 2 except child and their spouse have a child. Each parent can give $18,000 each to child, spouse and their child for a total of $108,000.
- Example 4: Same facts as 3. Married couple can give $108,000 to child’s family in December 2024 and another $108,000 in January of 2025.

Gifting Gifts Having No Effect

General rule gifts are taxable except for the following:

- Gifts that are not more than the annual exclusion for the calendar year
- A gift to cover someone's education tuition, if paid directly to the educational institution (does not cover room and board, books or supplies)
- Gifts to cover someone's medical expenses, if paid directly to the medical facility
- Gifts to your spouse. If they're a U.S. citizen
- Gifts to a political organization for its use

Gifting Business Interest

Common Reasons Business Interest is Gifted

- Valuation discounts
- Maximize gift/estate exemption
- Spousal support
- Legacy

Contact the Presenter

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Rich has significant experience and expertise with high-net-worth individuals, investment companies and pass-through entities and has been involved in federal, state, and local tax audits, settlements, and appeals.

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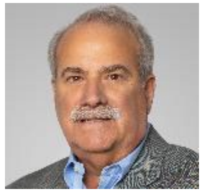

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About
Kreischer Miller

Kreischer Miller is an advisory, audit and accounting, and tax firm serving the Greater Philadelphia and Lehigh Valley areas. We take an advisory approach in everything we do, working diligently to understand what your business needs to move ahead and providing the tools and guidance to help you get there.

Learn more at **www.kmco.com**

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