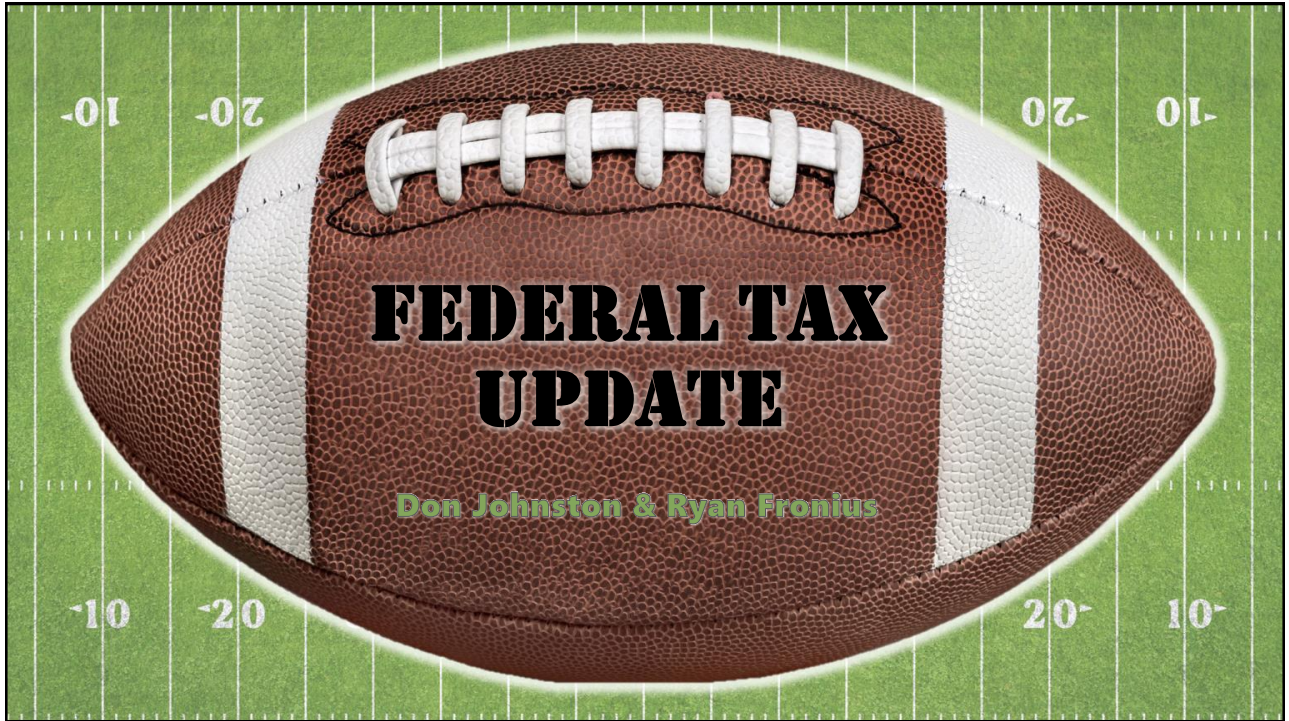


# Unnecessary Roughness – Federal Tax Update



**SPEAKERS**

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## FEDERAL TAX UPDATE

### **Introduction**

- Recent issues and developments
- Proposed and expiring tax provisions
- Tax policy outlook under the new administration
- Other miscellaneous tax topics
- Federal Corporate Transparency Act



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## FEDERAL TAX UPDATE

### **Recent Compliance and Audit Trends**

- Tax notices
  - *Federal*
  - *Pennsylvania*
- Issues contacting/dealing with the IRS and PA DOR
  - *Wait times, response times, mailing issues*
- IRS audit trends and enforcement
- PPP and ERC scrutiny – will IRS spend time auditing these receipts?



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## FEDERAL TAX UPDATE

### *Recent, Proposed and Expiring Tax Provisions*

#### ▪ SECURE Act 2.0 (PASSED)

- *Enacted 12/29/22 as part of the Consolidated Appropriations Act, 2023*
- *Requires automatic enrollment of eligible employees by 401(k)/403(b) plan sponsors, effective for plan years beginning after 2024*
- *Changes to catch-up contributions*
  - Increased contribution limits
  - Higher income earners – catch-up contributions must be made to a designated Roth account (no pre-tax allowed) for tax years beginning after December 31, 2023



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## FEDERAL TAX UPDATE

### *Recent, Proposed and Expiring Tax Provisions*

#### ▪ SECURE Act 2.0

- *Increase to Required Minimum Distribution (RMD) Age*
- *Student loan matching*
  - Permits matching contributions with respect to “qualified student loan payments”
  - Effective for plan years beginning after December 31, 2023



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## FEDERAL TAX UPDATE

### ***Recent, Proposed and Expiring Tax Provisions***

- Tax Relief for American Family and Workers Act of 2024 (PROPOSED)
  - *Passed House on January 31, 2024*
  - *Notable provisions related to:*
    - Bonus depreciation – increase to 100%
    - Section 174 capitalization of R&D costs
    - Changes to Section 163(j) business interest expense limitation
    - Expand access to child tax credit through 2025
    - Lame-duck passage?



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## FEDERAL TAX UPDATE

### ***Recent, Proposed and Expiring Tax Provisions***

- Impact of Expiring 2017 TCJA Tax Cuts (SUNSETTING PROVISIONS)
  - *More than 20 provisions set to automatically expire by the end of 2025*
  - *Trump proposal – make TCJA changes permanent*



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## FEDERAL TAX UPDATE

### Recent, Proposed and Expiring Tax Provisions

#### ▪ Impact of Expiring 2017 TCJA Tax Cuts – Business Provisions

- *199A 20% deduction – permanent difference*
- *Bonus depreciation deduction – amounts phase out incrementally*

Sep. 28, 2017 - Dec. 31, 2022	2023	2024	2025	2026	Post-2026
100%	80%	60%	40%	20%	0%

- Proposed TRAFWA would have increased bonus depreciation to 100% for assets placed into service after December 31, 2022 and before January 1, 2026
- Sec. 179 expense still available, subject to limitations



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## FEDERAL TAX UPDATE

### Recent, Proposed and Expiring Tax Provisions

#### ▪ Impact of Expiring 2017 TCJA Tax Cuts – Business Provisions

- *Excess business loss limitation*
  - Set to expire at end of 2025, but extended through 2028 by Inflation Reduction Act
- *Foreign companies*
  - GILTI effective tax rate to increase from 10.5% to 12.5%
  - FDII effective tax rate to increase from 13.12% to 16.4%
  - BEAT effective tax rate to increase from 10% to 12.5%



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## FEDERAL TAX UPDATE

### *Recent, Proposed and Expiring Tax Provisions*

- Impact of Expiring 2017 TCJA Tax Cuts – Individual Provisions
  - *Increase to individual tax brackets*
  - *Standard deduction reverts to pre-TCJA amounts (doubled by TCJA)*
    - Approximately 10% of taxpayers itemize their deductions
  - *Child tax credit*
    - Return to \$1K/child compared to TCJA \$2K/child
    - Decreased AGI phase out
  - *Elimination of \$10,000 SALT itemized deduction limitation*



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## FEDERAL TAX UPDATE

### *Recent, Proposed and Expiring Tax Provisions*

- Impact of Expiring 2017 TCJA Tax Cuts – Estate Taxes
  - *Lifetime estate and gift tax exemption*
    - Current 2024 exemption = \$13,610,000 (married, \$27.2M)
    - January 1, 2026 – Projected ≈ \$7M



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## FEDERAL TAX UPDATE

### **Recent, Proposed and Expiring Tax Provisions**

- Other Important TCJA Provisions (**DO NOT SUNSET**)
  - *21% corporate tax rate*
  - *80% NOL limitation with no carryback allowed*
  - *Requirement to capitalize and amortize R&D costs (Section 174)*
    - Historically deductible as paid/ incurred
    - TCJA – Capitalize and amortize over 60 months (domestic R&D activities)
      - Capitalize and amortize over 180 months (non-domestic R&D activities)
    - TRAFWA – Allows for immediate deduction of R&D costs for tax year beginning after December 31, 2021 and before January 1, 2026 (domestic activities only)



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## FEDERAL TAX UPDATE

### **Tax Policy Outlook (post-election)**

- “Permanent” extension of TCJA provisions
- Proposed business-related provisions
  - *Lower corporate rate from 21% to 20% (or 15%)*
  - *6% decrease in corporate tax rates to companies moving production onshore (reduced from 21% to 15%)*
  - *Make 199A deduction permanent*



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## FEDERAL TAX UPDATE

### **Tax Policy Outlook (post-election)**

- Proposed individual-related provisions
  - *No tax on tip income*
  - *No tax on OT income*
  - *No tax on SS benefits*
  - *Increased child tax credit*
  - *Elimination of SALT limit*
  - *Keep capital gains tax rate*
  
- Tariffs

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## FEDERAL TAX UPDATE

### **Other Tax Considerations (Transaction-specific)**

- Structuring and planning for the deal is critical to avoid surprises
  - *Stock sale versus asset sales*
  - *Getting “whipsawed” on the final liquidation*
  - *Different tax treatment for federal and state purposes*
  - *State tax withholding requirements*
  - *Different state tax issues at the owner level*

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## FEDERAL TAX UPDATE

### **Other Tax Considerations (Transaction-specific)**

- Structuring and planning for the deal is critical to avoid surprises
  - *How do you treat that earn-out (that you won't get)?*
  - *Should you accelerate that gain into 2024?*
  - *What if the company gets audited two years after the sale?*
    - Do you have the records?
    - Do you have cash left to pay for the audit defense?
    - Do you have cash left if tax is assessed?



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## FEDERAL TAX UPDATE

### **Other Tax Considerations (Transaction-specific)**

- Sale of "Qualified Small Business Stock" (Section 1202)
  - *C-corporation stock only*
  - *Not allowed for S-corporations or partnerships, but certain restructuring techniques may help to qualify a future sale*



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## FEDERAL TAX UPDATE

### ***Other Tax Considerations (Transaction-specific)***

- Sale of “Qualified Small Business Stock” (Section 1202)
  - *Gains on qualified small business stock (Section 1202)*
    - Exclusion = greater of \$10M or 10x stock basis (per-issuer basis)
    - Stock must be acquired at its original issue or in a tax-free transaction
    - 5 year holding period



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## FEDERAL TAX UPDATE

### ***Other Tax Considerations (Transaction-specific)***

- Losses on certain small business stock (Section 1244)
  - *Treated as ordinary loss vs. a capital loss*
  - *Deductible ordinary loss limited to \$50,000 (\$100,000 MFJ)*



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## FEDERAL TAX UPDATE

### **Other Tax Considerations (IRS focus)**

- IRS increasing attention on pass-through entities
  - *New IRS pass-through field operations focused on partnerships and S-corporations*



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## FEDERAL TAX UPDATE

### **Other Tax Considerations (Individual taxpayers)**

- Dealing with those pesky tax notices
- Planning for significant events (avoiding the “whipsaw” on pass-through investments)
- Keeping your tax team engaged with your long-term plans
- Paying attention to state tax consequences (don’t die in Pennsylvania)
- IRS and myPATH online free tax filings – W-2, retirement income, certain deductions/ credits



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## FEDERAL TAX UPDATE

### Federal Corporate Transparency Act (CTA)

- Enacted in 2021, with intent to:
  - *Prevent illicit activity (including money laundering, financial corruption, terrorism financing, and foreign espionage) by requiring reporting of beneficial ownership (BOI) reports to the Financial Crimes Enforcement Network (FinCEN)*
- Effective dates:
  - *Companies formed prior to 1/1/2024: initial report due 1/1/2025*
  - *Companies formed after 1/1/2024: initial report due 90 days after formation*
  - *Companies formed on or after 1/1/2025: initial report due 30 days after formation*



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## FEDERAL TAX UPDATE

### Federal Corporate Transparency Act (CTA)

- Who Is Exempt?
  - *23 exemptions from the definition of a reporting company*
  - *Governmental authority*
  - *Investment company or investment advisor*
  - *Venture capital fund adviser*
  - *Bank*
  - *Insurance company*
  - *Accounting firm*
  - *Public utility*
  - *Tax-exempt entity*
  - *Large operating company*



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## QUESTIONS?

***Thank you for your attention!***

- Please contact the presenters directly if you need assistance:
  - *Don Johnston, Partner – 412-338-9309 – [djohnston@gyf.com](mailto:djohnston@gyf.com)*
  - *Ryan Fronius, Sr. Manager – 412-714-5314 – [fronius@gyf.com](mailto:fronius@gyf.com)*



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