



SENIORS: A TAXWISE ALTERNATIVE TO SELLING YOUR APPRECIATED HOME

In recent years, the residential real estate market has surged in many areas. That means many homes have greatly appreciated. If you're a senior thinking about selling your appreciated home, the transaction may bring a painful tax bill. One alternative to consider is aging in place.

If you remain in your home until your death, the tax basis of your property is adjusted to its fair market value as of your date of death or six months later, depending on your executor's choice. When your heirs sell the home, they'll owe federal capital gains tax only on appreciation that occurs after this date.

If you co-own the home with your spouse, the tax basis of your portion will be stepped up when you die, and the tax basis of the remaining portion will be stepped up when your spouse dies. Chances are your heirs will owe little or no federal capital gains tax when the property is sold. In community property states, the tax basis of the entire residence will be stepped up when the first spouse dies. So, the



surviving spouse can then sell the home and owe little or no federal capital gains tax.

Important: If these taxpayer-friendly rules for basis step-up also apply in your state, the aging-in-place strategy will work for state income tax purposes, too.

Tax planning usually calls for action. But this is one situation where it might make sense to hang tight. Contact your tax advisor to determine if this strategy is right for you and your family. ■

YEAR-END TAX PLANNING STRATEGIES FOR BUSINESSES

As 2024 is nearing its end, now is a good time to consider year-end strategies to help reduce the tax your business will owe. The effectiveness of a particular action depends on the circumstances of your business. Here are several possibilities.

DEFER INCOME, ACCELERATE DEDUCTIONS

A tried-and-true tactic for tax minimization is to defer income to next year and accelerate deductible expenses into this year. For example, a cash accounting business can defer income by postponing invoices until late in the year or accelerate deductions by paying certain expenses this year.

Accrual accounting businesses have less flexibility in timing, but you can still take some actions. For example, you can deduct year-end bonuses accrued this year even if they aren't paid until next year (no later than March 15, 2025). You might also be able to defer income from certain advance payments — including licensing fees, subscriptions and membership dues — until next year, depending on how the payments were recorded.

Deferring income and accelerating deductions may not suit every business. The opposite approach is sometimes more beneficial, especially if you anticipate being in a higher tax bracket next year.

PURCHASE ASSETS BY YEAR END

One effective way to generate tax deductions is to buy equipment, machinery and other fixed assets. Ordinarily, these assets are capitalized and depreciated

over several years, but there are ways to deduct some asset costs immediately. For example, in 2024, under Section 179 you can deduct \$1.22 million in qualifying tangible property and certain computer software costs, subject to phaseout when expenditures exceed \$3.05 million in 2024.



Bonus depreciation. This year, you can deduct up to 60% of the cost of eligible tangible property, including most equipment and machinery, plus off-the-shelf computer software and certain improvements to nonresidential building interiors. In 2025, the deduction limit will drop to 40%, then to 20% in 2026. After that it vanishes, unless Congress acts to extend it.

SET UP A RETIREMENT PLAN

Establishing a retirement plan is an effective way to generate tax benefits. It can also improve employee recruitment and retention efforts.

WRITING OFF BAD DEBTS

Review your receivables to determine whether any bona fide business debts have become worthless or uncollectible. If so, you may be able to reduce this year's tax bill by claiming a bad debt deduction.

You must be able to show you've taken reasonable steps to collect the debt, and that there's no realistic expectation of payment (such as when the debtor is in bankruptcy). You must also show that the debt was charged off this year.

Finally, the receivable must have been previously included in taxable income to be deducted as a bad debt. Thus, an accrual-basis business can deduct an eligible bad debt if it's already accrued the receivable, but a cash-basis business can't.

Certain employers are entitled to tax credits for starting a new plan. In some cases, you can take deductions this year for contributions made after year end. Some plans, including simplified employee pensions, can be adopted *and* funded after year end but deducted for this year.

SEE THE BIG PICTURE

Whichever year-end tax strategies you explore, consider how they interact with other tax code provisions. Your tax advisor can help you determine the best combination of year-end planning strategies for your business. ■

YEAR-END TAX PLANNING MOVES FOR INDIVIDUALS

It's almost holiday season, so taxes probably aren't top of mind for most taxpayers. But along with the festivities, it's also a good time to consider tax strategies that may reduce this year's tax bill — and possibly future years' tax bills as well. Here are three tax planning moves that might trim the fat off your 2024 tax bill.

1. DONATE STOCKS TO CHARITIES

If you itemize deductions and want to donate to IRS-approved public charities, you can combine your generosity with an overall revamping of your taxable investment portfolio. Here are some tax-smart principles to follow:

Sell underperforming stocks. Stocks worth less than they cost can be sold at a tax-saving capital loss. The sales proceeds can then be donated to charity, which doubles your tax benefit when you claim a tax-saving charitable write-off.

Donate appreciated stocks. Stocks held for over a year can be donated to charity, allowing you to claim a deduction for their market value while avoiding capital gains tax, which is another double benefit. Stocks held for less than a year can also be donated, but the deduction is limited to cost basis.

2. PREPAY HIGHER EDUCATION BILLS

If paid for you, your spouse or a dependent, higher education expenses may qualify you for one of the following credits:



The American Opportunity credit. This credit is equal to 100% of the first \$2,000 of qualified postsecondary education expenses, plus 25% of the next \$2,000. The maximum annual credit is \$2,500 per qualified student.

The Lifetime Learning credit. This credit is equal to 20% of up to \$10,000 of qualified education expenses. The maximum credit is \$2,000 per family.

For 2024, both credits are fully phased out if your modified adjusted gross income (MAGI) is between:

- \$80,000 and \$90,000 for unmarried people, or
- \$160,000 and \$180,000 for married couples filing jointly.

Various other restrictions also apply. If eligible for either credit, consider prepaying college tuition for academic periods from January through March 2025.

By reducing your MAGI for 2024 you could also maximize your 2024 education credit.

3. CONSIDER AN IRA CONVERSION

If you anticipate being in a higher tax bracket during retirement than you are now, consider a Roth conversion. The downside is that this will generate a current tax cost, because a conversion is considered a taxable liquidation, followed by a nondeductible contribution to a Roth account. However, it can serve as a hedge against future tax increases. Delaying the conversion might lead to higher tax later.

Post-Roth conversion, all income and gains in the account, along with qualified withdrawals, are federal-income-tax-free. Qualified withdrawals occur after:

- The Roth account has been open for over five years, and
- You've reached age 59½, become disabled, or passed away.

This strategy makes it possible to avoid potentially higher future tax rates, because the tax has already been paid.

FOR MORE IDEAS

Federal tax law may be uncertain for the next couple of years because it's an election year — and many of the Tax Cuts and Jobs Act provisions expire at the end of 2025. Consult your tax advisor to discuss these and other tax planning moves that may work for you. ■

WANT TO FIND OUT WHAT IRS AUDITORS KNOW ABOUT YOUR INDUSTRY?

To prepare for a business audit, an IRS examiner generally researches the specific industry and issues on the taxpayer's return. Examiners may use IRS Audit Techniques Guides (ATGs). A little-known secret is that these guides are available to the public on the IRS website. In other words, your business can use the same guides to gain insight into what the IRS is looking for in terms of compliance with tax laws and regulations.

Many ATGs target specific industries or businesses, such as construction, aerospace, art galleries, architecture and veterinary medicine. Others address issues that frequently arise in audits, such as executive compensation, passive activity losses and capitalization of tangible property.

UNIQUE ISSUES

IRS auditors examine different types of businesses, as well as individual taxpayers and tax-exempt organizations. Each type of return might have unique industry issues, business practices and terminology. Before meeting with taxpayers and their advisors, auditors do their homework to understand the industry and its typical issues, the accounting methods commonly used, how income is received, and areas where taxpayers might not be in compliance.

By using a specific ATG, an auditor may be able to reconcile discrepancies when reported income or expenses aren't consistent with what's typical for the industry. The auditor also might identify anomalies within the geographic area in which the business is located.



UPDATES AND REVISIONS

Some guides were written several years ago and others are relatively new. There is not a guide for every industry. Here are some of the guides that have been revised or added recently:

- Entertainment (March 2023),
- Construction Industry (April 2021),
- Child Care Provider (January 2022), and
- Equity (Stock)-Based Compensation (June 2024).

Although ATGs were created to help IRS examiners uncover common methods of hiding income and inflating deductions, they also can help businesses ensure they aren't engaging in practices that could raise audit red flags. For a complete list of ATGs, visit the IRS website here: <https://bit.ly/2rh7umD> ■