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CERTIFIED PUBLIC ACCOUNTANTS
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Taxing Times

Dedicated to helping our clients keep the money that belongs to them through a focus on tax.

VOLUME 16, ISSUE 5 — MAY 2024

SPECIAL POINTS OF INTEREST:

- Gift and estate taxes
- Retirement savings made easy
- Business or hobby
- Referrals, Richard's reads, May holidays, and more.

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How Much Can You Leave Behind (Tax-Free)?

Exemption limits for gifts and estates (how much you can give away before paying taxes on the money) have been a major break for wealthy taxpayers for a while now.

That may change soon.

Wealthy folks benefited especially from breaks on estate taxes from 2017's Tax Cuts and Jobs Act, but some provisions of the TCJA changes — including the deal on estate taxes — may disappear in 2026, meaning you'll have to start paying federal taxes on estates that are worth much less when you leave them to heirs. We say "may" because it's hard to know what a politically divided Congress will (or won't) do.

But, here's what we *do* know about the gift and estate taxes.

The gift tax

This is the simpler tax we're talking about. This year, you can give up to 18 grand to someone. You and your consenting spouse can give twice that in what's known as a "split gift" (you need to file IRS Form 709 if you do this). These caps have increased by 1,000 dollars a year, steadily and surely, over the past decade.

And that amount is *per recipient* — so you can really spread the dough around before Uncle Sam gets involved.

"Gifts" can also include property and other items you give without expecting to get something of at least equal value in return, including interest-free or reduced-interest loans. But, not everything you give constitutes a "gift" for taxes. Some example exceptions include tuition or medical expenses.

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Why Do Some People Experience Success While Others Struggle?

Sometimes, when I meet an aspiring, new, or even an experienced entrepreneur for the first time, they'll ask me about the fastest way to grow their business.

My first response is, "Tell me what you are doing now to grow your business. Tell me about the networking group you're a part of. Tell me about the mastermind group you're in."

I'm no longer shocked when they reply, "I'm not in one" or, "I don't need one" … or the classic "I can't afford one."

What do you mean you can't afford to invest in yourself? You can afford to put cigarettes in your mouth, you can afford to buy nice clothes, you can even afford to drink a fancy $5 coffee each day, but you can't afford to invest a little time and money on your success?

Yet, they wonder why they're struggling.

It amazes me! Every once in a while, we get someone in my networking group, BNI, who decides to cancel their membership in our referral organization because they've

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Why Do Some People Experience Success While Others Struggle?

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gotten too busy. They just "don't have time to come to the weekly meetings anymore."

So, let me get this straight. He spent six months to a year developing the referral relationships needed to grow his business. He's now getting a steady stream of referrals, just now really beginning to profit from his investment of time and money, and now he can't find the time to continue those relationships that could bring him even more business and money?

I'm sorry, but this makes no sense to me!

If it were me, I'd stop doing all the other non-revenue producing activities that I'm sure he's doing, and I'd double down on strengthening the referral partnerships I've spent time nurturing. Relationships don't stay together when you're no longer actively involved. It takes continual and consistent activity to keep them. And once you let them go, they are very difficult, if not impossible, to rebuild.

But, this is likely the same guy who will be making excuses for himself by moaning and groaning and complaining about how the economy stinks, how his industry is going through a bad time, how nobody wants to hire him, or any other "let's blame everyone and everything else" kind of excuse.

Personally, I won't leave my BNI group until I retire, because I know that once I stop, someone else will step in and start trying to build a relationship with my partners. I know that if I stopped, my business would most likely start to decline.

Keep learning and investing in yourself on a regular basis and watch your business soar to new heights! ※

Simplified Employee Pensions (SEPs) are Easy to Set Up and Administer

If you are thinking about setting up a retirement plan for yourself and your employees, but are concerned about the financial commitment and administrative burdens involved in providing a traditional pension or profit-sharing plan, an alternative program you may want to consider is a "simplified employee pension," or SEP.

SEPs are intended as an alternative to "qualified" retirement plans, particularly for small businesses. The relative ease of administration and the complete discretion you, as the employer, are permitted in deciding whether to make annual contributions, are features that are especially attractive. Here's how these plans work.

If you don't already have a qualified retirement plan, you can set up a SEP simply by using the IRS model SEP, Form 5305-SEP. By adopting and implementing this model SEP, which doesn't have to be filed with the IRS, you will have satisfied the SEP requirements. This means that you, as the employer, will get a current income tax deduction for contributions you make on behalf of your employees. Your employees will be taxed not when the contributions are made, but at a later date when distributions are made, usually at retirement. Depending on your specific needs, an individually designed SEP-instead of the model SEP-may be appropriate for you.

When you set up a SEP for yourself and your employees, you will make these deductible contributions to each employee's IRA, called a SEP-IRA, which must be IRS-approved. The maximum amount of deductible contributions that you can make to an employee's SEP-IRA, and that he or she can exclude from income, is the lesser of: (I) 25 percent of compensation, and (II) $69,000 for 2024 ($66,000 for 2023). The deduction for your contributions to employees' SEP-IRAs isn't limited by the deduction ceiling applicable to an individual's own contribution to a regular IRA. Your employees control their individual IRAs and IRA investments, the earnings on which are tax-free.

There are other requirements which you have to meet to be eligible to set up a SEP. Essentially, all regular employees must elect to participate in the program, and contributions can't discriminate in favor of the highly compensated employees. But, these requirements are minor compared to the bookkeeping and other administrative burdens connected with traditional qualified pension and profit-sharing plans. The detailed records that traditional plans must maintain to comply with the complex nondiscrimination regulations aren't required for SEPs. And, employers don't have to file annual reports with IRS-Forms 5500-which, for a pension plan, could require the services of an actuary. What record-keeping is needed can be done by a trustee of the SEP-IRAs-usually a bank or mutual fund.

Another option for a business with 100 or fewer employees is a "savings incentive match plan for employees" (i.e., a "simple" plan). Under a simple plan, a "simple IRA" is set up for each eligible employee, with the employer making matching contributions based on contributions elected by participating employees under a qualified salary reduction arrangement. The simple plan is subject to much less stringent requirements than traditional qualified retirement plans. Or, an employer can adopt a "simple" 401 (k) plan, with similar features to a simple plan, and automatic passage of the otherwise complex nondiscrimination test for 401(k) plans. ※

How Much Can You Leave Behind (Tax-Free)? - *continued from page 1*

The estate tax

The fair market value of all your possessions at death — *not necessarily what you paid for them* — is your "Gross Estate." Deductions to this may include: mortgages and other debts, estate administration expenses, and property that passes to surviving spouses and qualified charities, among other things. What's left over incurs, or is exempt from, the federal estate tax, which runs about 18% to 40%, depending on what remains after the exemption.

The future estate tax exemption is trickier to plan for right now. This year, you can leave an estate worth 12.92 million dollars before federal estate tax kicks in (unless you leave it to your spouse, then there's no federal tax or limit).

To understand the potential impact of changes to that amount, let's glance again at 2017: the last year before the TCJA and the year when the most your estate could be worth was 5.49 million before you had to pay taxes if you left it to heirs at your death. The next year, that limit *more than doubled* to 11.18 million, and it's been going up every year since.

...And will continue to do so until January 1, 2026, when without action from Congress this part of the TCJA will end (or "sunset"). The new exemption after that? Back to that 5.49 million per person, as it stands right now. Not great news, unless you plan to die before 2026 ...

Another worry, on top of gift and estate taxes: The top federal marginal tax rate will (again, without action on Capitol Hill) pop back to 39.6%.

Making a plan

Given a divided Congress... who knows? Either side could prevail over the coming 30 months or so, winning either preservation of the TCJA tax rates or their rapid curtailment. Planning's never a certain business, of course, but planning for estate taxes now is *truly* uncertain.

Here are some possible moves:
Trusts: Spousal lifetime access trusts, among others, can shield income from estate taxes by basically taking assets out of your name and reserving them for a beneficiary. These get complex depending on the type of trust — check with us.

Regular use of gifts. The gift tax exemption is likely to grow year after year. Giving each of your intended heirs the maximum amount every 12 months will whittle the eventually taxable portion of your estate (even though the lifetime gift tax exemption is the same as the estate tax exemption).

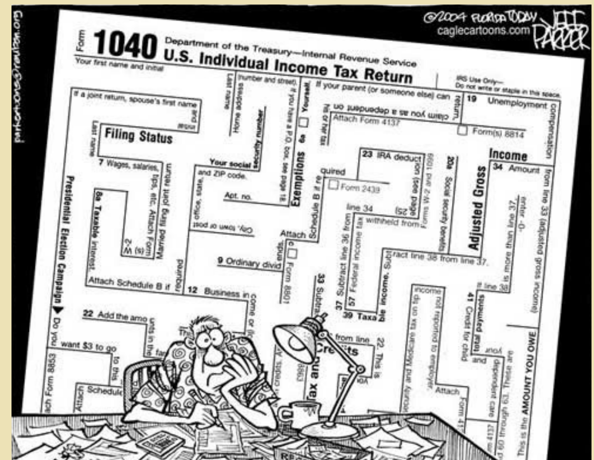
Convert to a Roth. If you're planning to leave a traditional individual retirement account, converting it to a Roth IRA can save the beneficiaries from future taxes, as there are no taxes on withdrawals from a Roth. You will have to pay income tax now on the converted amount — but again, if you're in the top bracket, your tax rate will increase (as it stands now) in the future if that provision of the TCJA is allowed to sunset.

What you give to others and leave behind for those you care about are some of the biggest decisions of your life. Let's do it in a way that makes the most impact while avoiding the most taxes. ※

Looking for Someone You Can Rely On?

We really believe in the process of referrals, so part of the service we provide is to be sure to refer our clients and associates to other qualified businesspeople in the community. Below, you'll find a list of areas in which we know very credible, ethical and outstanding professionals. If you're looking for a professional in a specific area we've listed, please feel free to contact us. We will be glad to put you in touch with the people we know who provide these services.

- Travel Agent
- Port Facility
- Attorney
- Bathroom Remodeling
- Physical Therapist
- Custom Embroidery & Monogramming
- Medicare Supplements
- Home Repairs
- Auto and Home Insurance
- Technical Staffing Agency
- Home Inspector
- A/C Repair and Replacement
- Banker
- QuickBooks® Advisor
- Realtor
- Printer
- Financial Advisor
- Signs



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Is Your Pastime a Hobby or a Business?

From collecting stamps and woodworking to crafting and quilting, people have all kinds of hobbies -- but most will never turn a profit. For hobbies that do earn income, you should know that it must be reported on your income tax return. You should also be mindful that your hobby might be a business.

Deciding whether you should classify the activity as a hobby or a business can be confusing, but the bottom line is that a business operates to make a profit. People pursue hobbies for sport or recreation, but not for profit. Here are a few questions you should consider when deciding how to classify your project. No single consideration is the deciding factor, consider all of them when deciding if your pastime is a hobby or a business.

- Is the activity carried out in a businesslike manner? Are a complete set of books and records maintained?
- Does the time and effort put into the activity show you intend to make it profitable?
- Do you depend on the income from the activity for your livelihood?
- Are any losses incurred due to circumstances beyond your control or are they normal for the startup phase of this type of business?
- Do you change methods of operation to improve profitability?
- Do you, and your advisors, have the necessary knowledge to carry out the activity in a profitable manner?
- Have you been successful in making a profit in similar activities in the past?
- Does the activity make a profit in some years, and how much profit does it make?
- Do you expect to make a future profit from the appreciation of the assets used in the activity? ※

BUSINESS VS. HOBBY

Business: Operates to make a profit

Hobby: Operates for sport or recreation

What I'm Reading…

NOW

Dead Zero by Stephen Hunter

RECENTLY

The Spy Coast by Tess Gerritsen
Think and Grow Rich by Napoleon Hill

5/6–National Nurse's Day
5/7–National Teacher's Day
5/12-5/18–National Police Week
5/19-5/25–National EMS Week

Thank you for all you do for our communities!

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