

# LINDSEY & WALDO

CERTIFIED PUBLIC ACCOUNTANTS

"You see the numbers, we look for the opportunities."



## SPECIAL POINTS OF INTEREST:

- Don't miss the deadline
- From saving for college to retirement
- Educational Savings Accounts
- Richard's reads, referrals, and more...

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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 11

NOVEMBER 2024

## BOI Reporting Deadline is Near!

The Corporate Transparency Act (CTA) requires "reporting companies" to file with FinCEN reports that identify a company's beneficial owners, as well as information about the company applicants. The CTA applies to entities either created through a U.S. state filing or formed under the laws of a foreign country and registered to do business in the U.S. For example, LLCs, LLPs, corporations, and business statutory trusts are entities for which laws in each state require the filing of a document with the applicable state office, such as the Secretary of State, to establish their existence.

**A reporting company created/registered before January 1, 2024, must file its initial BOI report by January 1, 2025. A new entity created/registered after December 31, 2023, must file within 30 days (90 days during 2024).**

There are exceptions to the definition of a reporting company. The regulations make it clear that entities that are created without the need for a state filing document such as sole proprietorships, general partnerships, living trusts, and irrevocable trusts are excluded and do not have to report beneficial ownership information to FinCEN. There are also categorical exemptions for other entities including banks, bank holding companies, credit unions, publicly traded companies, insurance companies, public accounting firms, public utilities, and certain tax-exempt entities. Large operating companies with more than 20 U.S. employees, a physical U.S. office, and more than \$5 million in gross receipts or sales in the U.S. are also exempt.

The reporting company is obligated to report requested information on the beneficial owners of the company itself, which will typically be done by one or more of the company officers. A "beneficial owner" includes the following: (1) people with substantial control, (2) people with ownership interests, whether direct or indirect, of at least 25% of the company's equity interests, and (3) company applicants (if formed or registered after December 31, 2023). The CTA requires a beneficial owner to be a human being, so if the reporting company is owned by another company, it must look through that company to the human beings that own it.

The CTA is not part of the tax code. Instead, it is part of the Bank Secrecy Act, a set of federal laws that require record-keeping and report filing on certain types of financial transactions. Under the CTA, BOI reports will not be filed with the IRS, but with FinCEN, another agency of the Department of Treasury. As such, it is not clear whether we, as CPAs, could assist you with the BOI reporting requirements because it could constitute the "unauthorized practice of law."

**Therefore, you have sole responsibility for your compliance with the CTA, including its BOI reporting requirements and the collection of relevant ownership information. Lindsey & Waldo shall have no liability resulting from your failure to comply with CTA. Information regarding the BOI reporting requirements can be found at <https://www.FinCEN.gov/boi>. Consider consulting with legal counsel if you have questions regarding the applicability of the CTA's reporting requirements and issues surrounding the collection of relevant ownership information. ✖**

**Rule Effective January 1, 2024**



## Beneficial Ownership Information Reporting



# Navigating the 529-to-Roth Transfer Rule: A Game-Changer for College Savings

Starting in 2024, a new tax rule allows for the transfer of unused 529 College Savings Plan funds to a Roth IRA, creating a unique opportunity for families with overfunded 529 plans. Here’s how it works and what you need to know.

## What is the 529-to-Roth Transfer Rule?

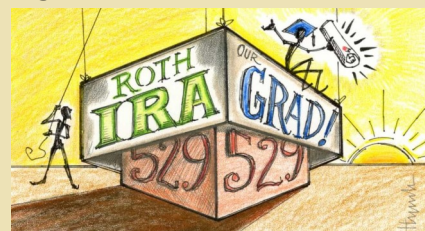
The 529 plan has long been a favored tool for tax-advantaged college savings, offering growth without federal taxes as long as the funds are used for qualified education expenses. However, what happens when there are leftover funds? Traditionally, families faced limited options: either withdraw the excess and pay taxes plus a 10% penalty on earnings or keep the funds in the plan for future generations. The 529-to-Roth transfer rule provides a third, more favorable, option.

Starting January 1, 2024, families can transfer unused 529 plan funds directly into a Roth IRA for the beneficiary, up to a lifetime limit of \$35,000. This new rule allows those leftover college savings to continue growing tax-free in a retirement account.

## Key Conditions and Limitations

Before considering this transfer, it's important to understand the specific conditions:

1. Account Age Requirement: The 529 plan must have been open for at least 15 years. Any contributions (and their earnings) made within the last five years are ineligible for transfer.
2. Annual Contribution Limits: Transfers are subject to the annual Roth IRA contribution limits. In 2024, the Roth IRA contribution limit is \$6,500 (\$7,500 for those aged 50 or older). This limit includes any contributions made outside of the transfer.
3. Beneficiary Consistency: The beneficiary on the 529 plan and the Roth IRA must be the same. This means you cannot transfer funds to your own Roth IRA if the 529 plan is in your child’s name.
4. Lifetime Transfer Cap: The maximum amount that can be transferred from a 529 plan to a Roth IRA is \$35,000 over the beneficiary’s lifetime. This cap is separate from annual contribution limits.



## Strategic Considerations

This rule opens up new strategic opportunities:

- Overfunded 529 Plans: For families who were cautious and saved more than necessary, the new rule prevents the dilemma of either over-saving or dealing with penalties. Now, those excess funds can give a head start on the beneficiary’s retirement savings.
- Long-Term Planning: Since the account must be open for 15 years, it’s beneficial to start a 529 plan early, even if only with a small initial contribution. This can ensure flexibility in the future if circumstances change.
- Multi-Beneficiary Plans: If a 529 plan has multiple beneficiaries, consider how this rule might impact decisions about fund allocation and potential future transfers.

## Conclusion

The 529-to-Roth transfer rule is a significant addition to the financial planning toolkit. It provides a tax-advantaged way to ensure that no dollar saved for education goes to waste, offering both immediate and long-term benefits for savvy planners. As with all tax strategies, it's essential to consult with a tax professional to ensure that you’re optimizing this rule within the broader context of your financial goals. ※

## We Believe in Referrals

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.

- |                                |                            |                          |
|--------------------------------|----------------------------|--------------------------|
| ◆ Custom Monogramming          | ◆ Realtor                  | ◆ Printer                |
| ◆ Medicare Benefits Specialist | ◆ Handyman                 | ◆ Social Media Marketing |
| ◆ Gutters                      | ◆ Financial Advisor        | ◆ Business Coach         |
| ◆ Cruise Specialist            | ◆ Auto/Home/Life Insurance | ◆ Home Inspector         |
| ◆ Attorney                     | ◆ Mortgage Broker          | ◆ Cultured Marble        |
| ◆ Home Insulation              | ◆ Air Conditioning Repair  | ◆ Human Resources        |



## Alabama Expands Educational Options

With the recent passage of Alabama's *Creating Hope and Opportunity for our Students' Education Act of 2024* (CHOOSE Act), new opportunities for education funding have emerged that may benefit your family. This law introduces **Education Savings Accounts (ESAs)**, alongside tax credits and expanded scholarships. Here's what you need to know about these changes and their potential tax implications.

### Overview of the CHOOSE Act

The CHOOSE Act is designed to expand educational options for Alabama families, giving more flexibility in choosing educational paths for students through the creation of ESAs, increased tax credits, and enhanced scholarships. It supports both public and private schooling options, providing more opportunities to tailor education to individual student needs.

### What Are Education Savings Accounts (ESAs)?

One of the key components of the CHOOSE Act is the establishment of **Education Savings Accounts (ESAs)**. These accounts allow parents to use public funds for approved educational expenses outside of the traditional public school system. ESAs give families more control over how state education dollars are spent, allowing them to personalize education in a way that fits their child's needs.

### How ESAs Work

- **State Funds Allocation:** A portion of the state's education funding for each student (approximately 90% of the state's per-pupil funding) is deposited into the ESA. Parents can then use these funds for approved educational expenses.
- **Eligible Expenses:** These include tuition for private schools, tutoring, textbooks, online courses, special education services, and even homeschooling materials. The ESA can also cover transportation costs and fees for standardized testing or advanced placement courses.
- **Account Management:** ESAs are managed by parents or guardians, but must be used for approved educational expenses. Any misuse could lead to penalties, and unused funds at the end of the year can roll over for future education costs or be saved for higher education expenses.

### Framework and Funding of ESAs

#### State Funding

The ESA program is primarily funded by reallocating a portion of state funds that would have otherwise been spent on public education for each participating student. This means that families opting into the ESA program essentially direct a percentage of their child's allocated public school funding to the ESA.

- **Per-Pupil Allocation:** Each eligible student's ESA will receive a percentage of what the state would normally spend on that student in a public school. For example, if the state allocates \$7,000 per student in public education funding, the ESA might receive around \$6,300, depending on the exact funding model used.
- **Fiscal Responsibility:** The program is designed to ensure fiscal accountability, with strict oversight on the use of ESA funds. While the funds are flexible, they must be spent on approved educational services to ensure they are used for the student's benefit.

### Funding Caps and Growth

- The ESA program has a **statewide cap** on how many students can participate in its initial years to manage demand and ensure the program's success. As the program grows and is refined, these caps may increase, allowing more families to take advantage of the educational options ESAs provide.

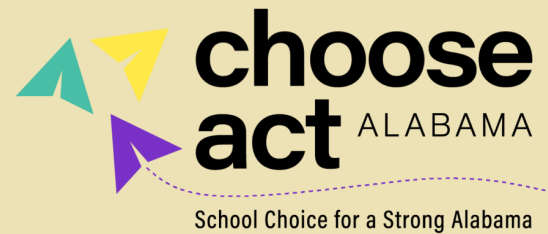
- **Student Eligibility:** Beginning with the 2025-2026 academic year, priority will be given to the following students:
  - The first 500 ESAs awarded for participating students with special needs,
  - Second priority goes to participating students who are dependents of active-duty service members in, or assigned to, a participating school.
  - The remaining will be awarded for participating students whose family have an adjusted gross income not exceeding 300 percent of the federal poverty level for the preceding tax year.
- **Income Restrictions:** Some ESA programs may have income-based eligibility restrictions, with priority given to low- and middle-income families. However, the CHOOSE Act's framework is designed to provide broad access to students across a range of income levels.

### Tax Planning Considerations

- **ESAs and Tax Implications:** While ESA funds are not taxed as income, it's important to keep accurate records of how the money is used. Any expenses outside the approved list could result in penalties or tax issues.
- **Maximizing Credits and Deductions:** If your family utilizes an ESA, you can still potentially benefit from Alabama's new tax credits for education expenses, depending on the expenses you incur beyond what the ESA covers. Consult with a tax professional to coordinate these benefits.
- **Impact on Future Education Planning:** If ESA funds are not fully used for K-12 expenses, they may be rolled over and used for post-secondary education, offering long-term planning benefits for your child's educational future.

### Conclusion

The CHOOSE Act and its introduction of ESAs represent a significant shift in how Alabama supports education. By allowing families more control over education dollars, the state is providing flexibility in choosing the best educational setting for each student. ✧



## What I'm Reading...

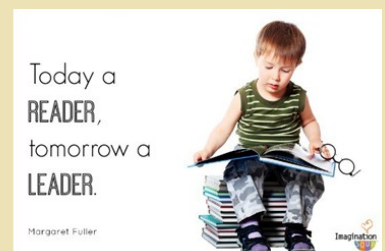
### NOW

*W.E.B. Griffin Zero Option*  
by Peter Kirsanow

### RECENTLY

*Twisted Lives*  
by Tim Tigner

*The Indispensable Right: Free Speech in an Age of Rage*  
by Jonathan Turley





# LINDSEY & WALDO, LLC

CERTIFIED PUBLIC ACCOUNTANTS

4328 Boulevard Park S. • Mobile, AL 36609  
P: (251) 633-4070 • F: (251) 633-4071  
www.CPAMobileAL.com

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## The Importance of Leading From the Front

In the heart of a bustling city, there lived a renowned composer who conducted an orchestra known for its great potential. But, this conductor began to grow dissatisfied with his orchestra's performances, noting errors from his musicians that he himself would never make.

So, during the next concert, he left his post at the podium to hover behind the first violinist, pointing out the musical dynamics that were being missed as she played. The violinist's notes faltered, and the whole strings section began struggling to stay on tempo.

The maestro rushed back to the podium and snatched up his baton to try to restore rhythm. But, then he noticed a trumpet player struggling to keep up. He hustled over to bombard the player with unsolicited advice on breath control. The once-confident brass section's notes wavered.

Running back up front, he waved his hands frantically to restore order. But, the flute solo was approaching, so he tiptoed forward to whisper instructions. When she tripped up slightly on a particularly delicate trill, the conductor suddenly jerked the flute away and played the solo himself. With each meddling gesture, the music limped along as the orchestra struggled to find cohesion and cadence. At the end of the performance, the audience responded with uncomfortable shuffling and polite but hesitant applause.

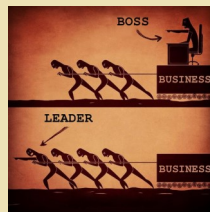
As this practice continued over time, musicians began to drop out,

ticket sales declined, and once-loyal audience members lamented the day that the conductor stepped off the podium.

**The moral of the story here is obvious:** Empowering others is empowering yourself. You need to lead from the front, with the full picture in view, which your team desperately needs to stay on mission. Good leadership is marked by the practice of empowerment. Instead of trying to lead each musician individually, the conductor could have empowered each section's first chair musicians to coach the rest of their sections. Trust your team to handle their responsibilities and provide them with the guidance and resources they need to succeed.

*"Don't tell people how to do things, tell them what to do and let them surprise you with their results."*

George S. Patton



Steve Jobs, the co-founder of Apple, understood the connection between leadership and empowerment. He once said, "It doesn't make sense to hire smart people and tell them what to do; we hire smart people so they can tell us what to do."

Jobs recognized that by trusting and empowering his team, he could tap into their creativity, leading to the creation of countless groundbreaking products and a company leading the way in technology innovation.

Leading this way is better for your business, and your sanity. ✨

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