GEHRING & FARRWOOD

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Greetings!

We hope you had a nice holiday season. The new year is here, so we wanted to provide an annual update since our last newsletter. We'll focus on some changes in the law and provide some general reminders and strategies. There was very little legislation passed in 2023 related to taxes, and it's likely that will continue in 2024 with a split congress.

Changes to Our Firm

For the first year in many, there are no changes to our team this year. By this point you almost certainly know Melissa who is now in her fifth year with us as our Office Manager. Kristyn Grayson is now in her second year with us and is our lead Administrative Assistant. This tax season you'll find Kristyn sitting at the front desk where Melissa used to sit. Kristyn will be the first point of contact in our office for now as Melissa takes on more advanced duties. However, Melissa is still available for any of your needs. Finally, Natalie Carrey is in her second year with us as our lead Bookkeeper.

Last tax season we switched tax software, and we're quite happy with it. We will be sending you a tax organizer from the new software this month. This new software has an option to send tax organizers electronically as well. We've tested this feature as best we can, but since this is the first year using it we're going to send a paper version of the organizer in addition to the electronic version. A paper copy of the organizer is enclosed in this packet, and we'll also send out an email with instructions for completing the organizer electronically if we have your email address on file. If you do not receive the electronic organizer but would prefer that method, please reach out to our office. You can use whichever method is easier for you.

The IRS allows taxpayers to give their CPAs or tax preparers power of attorney to deal with various tax issues, access tax transcripts, and to receive copies of notices sent by the IRS. We encourage all our clients to sign these POA forms so that we can deal with notices from the IRS faster. The POA forms only last for three years from the date of signature, and most of our POAs on file expire after the 2023 tax year. Therefore, there will be a new POA form to sign this year when your tax return is complete. Again, these forms are encouraged, not required, but they do really help us to resolve tax issues much faster.

Please note the following dates and deadlines

January 2024:	2023 Tax Organizers. Please complete either the paper or electronic version and return it to us along with your tax documents.
January 31, 2024:	Form 1099-MISC and 1099-NEC
March 15, 2024:	Form 1065 (Partnerships) and Form 1120S (S Corporations)
April 15, 2024:	Form 1040, Form 1041 (Estates and Trusts), Form 1120 (Corporations), IRA contributions, HSA contributions, and foreign asset reporting.

Sincerely,

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UPDATES, REMINDERS, STRATEGIES – FOR INDIVIDUALS

Key Changes & General Reminders

- Since April 2020, corresponding with the IRS has been incredibly difficult. Things have improved since the height of the COVID shutdowns, but there are still numerous issues that take 12 or more months to deal with and can only be resolved via the mail.
- The IRS is significantly improving their electronic customer service options. Taxpayers have long been able to create electronic accounts with the IRS, but the functionality has been fairly limited until now. Recently, the IRS began launching services to deal with certain issues digitally via a secure messaging portal. If an issue can be resolved using the new digital portal, there will be instructions on the paper notice from the IRS along with a QR code to scan. We have done limited testing on this new feature, and it seems to work, with issues being resolved in up to four weeks.
- Due to delays in sending taxpayers balance due notices for the 2020 and 2021 tax years, the IRS has recently announced it will abate many late payment and late filing penalties for these tax years. This abatement has been programmed into their computer system and will happen automatically, so if you paid penalties these years that qualify for abatement you will receive a refund with no action required.
- The IRS is once again delaying the requirement to report payments over $600 on a 1099-K Form. This is the second year in a row the requirement is delayed, so the limit for reporting will follow the old threshold of $20,000 (tax year 2023). The requirement will drop to $5,000 for the 2024 tax year and then $600 for tax years 2025 and later. Historically, 1099-K Forms have been used by credit card companies to report gross transactions paid to a business electronically, but with the evolution of technology these forms will also include payments on apps such as Venmo and CashApp.
- Businesses are now able to create an electronic IRS account to deal with tax issues, see the status of various tax forms, and download transcripts.
- Fill out a new W-4 with your employer if your tax situation has changed, such as a change in income, marital status, or dependents.
- The deadline for contributing to your HSA for the 2023 tax year is April 15, 2024. HSA contributions lower your taxable income, and distributions are not taxable if used for qualified medical expenses. Even better, if you contribute via a payroll deduction you also save an additional 7.65% on FICA taxes.
- The annual gifting limit has increased from $17,000 to $18,000 per individual or trust in 2024. The amount gifted to an individual or trust in excess of this amount is required to be reported on an annual gift tax return.
- The Paid Family & Medical Leave tax in Washington will be reduced to 0.74% in 2024. This year employees will pay 71.43% of that amount, and employers will pay the remaining 28.57% if they employ more than 50 full time equivalent employees.
- The Washington Long Term Care program (CARES) started collecting premiums in June 2023, after a needed 18-month delay. They have also updated the rules for those who can opt out of the program to include out-of-state residents and certain military personnel. To opt out, an eligible employee must apply for an exemption with the Employment Security Department and present their exempt certificate to their employer.
- The new overtime exempt salary threshold for qualified Washington employees is $67,724.80. Qualified employees include those in administrative, executive, professional, computer-related (such as a systems analyst or software engineer), and outside sales.
- The Washington Long Term Capital Gains tax was unexpectedly upheld last April by the Washington Supreme court. A challenge to the United States Supreme Court is expected. Please see our prior newsletter for more information on this tax.
- The new rules for energy credits and electric vehicles are in place for 2023, applying to certain residential upgrades or new components, as well as electric vehicles. Please see our previous newsletter for more details about these changes.
- The health insurance subsidy changes for the Affordable Care Act made for 2021 are now permanent. The limits are more favorable under the new law and provide a larger subsidy at higher income levels.
- Temporary changes from the 2018 Tax Cuts and Jobs Act (TCJA) revert to the prior law on January 1, 2026. Most notable is the reduction of the standard deduction which nearly doubled under the TCJA, restoration of personal exemptions, increase in most income tax brackets by 3% back to pre TCJA levels, restoration of miscellaneous itemized deductions, removal of the Qualified Business Income deduction, and the reduction of the estate tax exemption which nearly doubled under the TCJA.

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IRS Penalties and Interest

- Since there aren't many new tax provisions in 2024 due to a slow legislative year, we wanted to focus on IRS penalties and interest. While many of the provisions listed below apply to all types of federal taxes, the main focus here is individual income tax.
- In general, income taxes are due by the due date of the tax form. In most cases, you're required to pay estimated income taxes throughout the year leading up to the due date to prepay your income taxes. Underpayments of estimated taxes incur a penalty that is calculated based on the current IRS interest rate. As of the due date of the tax return, underpayment penalties stop accruing, and failure to pay penalties start accruing at a rate of .5% per month with a cap of 25 months. If a return is not filed by the due date, an automatic extension can be filed that grants an additional six months to file your tax return. If you do not file your tax return on time, there is a penalty of 5% per month on the balance due with a cap of 5 months.
- Filing an extension does not extend the due date to pay your taxes, so if you must file an extension, it's best to estimate your balance due and pay it in by the original due date of your tax return.
- The required amount to pay in for estimated payments is calculated one of two ways. The first is 90% of your current year tax, split into fourths. The second is 100% (or 110% if above $150,000 Adjusted Gross Income) of your prior year's tax split into fourths. In either scenario, you must pay in ¼ of your required pay in amount by the quarterly due date to avoid Estimated Tax Penalties. Any underpaid amount is penalized using a daily interest calculation based on the current IRS interest rate for that quarter.
- For example, say in 2023 your income was $100,000 and your total tax was $16,000. In 2024 you expect your income to increase to $125,000, and your total tax to increase to $22,000. Since you are under $150,000 Adjusted Gross Income you can use the 100% rate. Your total tax in the previous year was $16,000, so you're required to pay in $4,000 per quarter to avoid Estimated Tax Penalties. The remaining $6,000 of tax ($22,000 minus $16,000) can be paid by the due date of your tax return.
- Assume the same facts as above, except this time your income decreases to $75,000 and your total tax decreases to $10,000. In this case you likely won't want to pay in the same $16,000 from the prior year, so you'll want to shoot for 90% of current year tax, which is $9,000, or $2,250 per quarter.
- As you can see from the examples above, the only guaranteed way to not incur any Estimated Tax Penalties is to pay in 100%/110% of your prior year's tax. This is because your prior year's tax is a known number, whereas your current year's tax is not known until the end of the year. In most cases we recommend you pay in 100%/110% of prior year's tax unless your income is going to decline significantly in the current year.
- Your income tax withholding from your W2 pay is applied equally to all four quarters. Your W2 withholding is calculated based on how you fill out your W4 with your employer and should automatically adjust to account for differences in income as long as your W4 information is up to date. It's very important to fill out a new W4 if your tax, marital, or family status changes.
- In prior years these Estimated Tax Penalties were negligible in many cases because the interest rate has been at 3% for years. However, the current IRS interest rate is 8%, so these penalties are much more noticeable now.
- The IRS has a First Time Offender policy which lets you get out of a specific type of penalty once every three years. Estimated Tax Penalties do not qualify for First Time Offender relief.
- If you do not qualify for First Offender relief, your only recourse is to demonstrate reasonable cause to the IRS in writing. This is generally very difficult to do, and will usually require a death in the family, an accident such as a fire that is out of your control, or a natural disaster. Moving, getting married, having a child, going to school, or other significant life changes do not qualify. Additionally, issues like a death in the family will only qualify as reasonable cause for a certain length of time. For example, if someone dies in your family, the IRS will likely see that as reasonable cause for filing the deceased person's income tax returns four months late, but likely won't see it as reasonable cause for filing the deceased person's income tax returns three years late.

Retirement

- 2023 Traditional and Roth IRA contribution limits are $6,500 plus a $1,000 catch-up for those 50 and older. The deadline for contributing for the 2023 tax year is April 15, 2024.
- 2024 Traditional and Roth IRA contribution limits will increase to $7,000 plus a $1,000 catch-up for those 50 and older.
- Contributions to 401(k) and other Qualified plans are now $23,000 plus a $7,500 catch-up for those 50 and older.
- Contributions to SIMPLE plans are now $16,000 plus a $3,500 catch-up for those 50 and older.
- The new age to start taking RMDs is 73 starting in 2023 and will increase to 75 by 2033.
- The 2023 requirement to take an RMD from an inherited account was suspended due to confusion about the new laws. RMD requirements for inherited IRAs will begin in 2024.
- Balances in 529 Education Savings Accounts can now be rolled over to a Roth IRA. Restrictions apply, so please check with your CPA if you are interested in a rollover.

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UPDATES, REMINDERS, STRATEGIES – FOR BUSINESS OWNERS & EMPLOYERS

Reminders & Key Changes

- Beginning in 2024, all business entities must report Beneficial Ownership Information (BOI) to the Financial Crimes Enforcement Network (FINCEN), which deals with money laundering and international financial crimes. The report will be filed annually, and will report basic information about partners, shareholders, and members of LLCs. All new business entities created after December 31, 2023, will have 90 days to file the BOI report. Starting in 2025, new business entities will have 30 days from the time of formation to file an annual BOI report. Business entities in existence prior to 2024 will have until January 1, 2025, to file their first BOI report.
- Minimum Wage is now $16.28 in Washington State. This affects all wages earned after December 31, 2023.
- Washington employers must now list a pay range and description of benefits for all job listings starting in 2023. Employers who have under 15 total employees in the company are exempt from this requirement.
- Your business must register with the Washington Department of Revenue if you collect sales tax, owe use tax, or collect more than $12,000 in gross revenue per year. Other jurisdictions have similar licensing and registration requirements, so check with your local authority.
- Keep a mileage log for all business automobile use. Your log should include dates, locations, and a description of the business purpose for each trip. Logs should be kept for each vehicle used.
- We recommend that you take a picture of the odometer on January 1 each year for all vehicles in which an automobile expense deduction is taken. This helps substantiate business mileage upon audit.
- 2023 SEP IRA contributions are due on March 15, 2024, for businesses and April 15, 2024, for individuals. Your contribution deadline can be extended by six months by filing a federal income tax extension.
- The 2023 deduction for business meals from restaurants is once again 50%. There was a special 100% deduction for 2021 and 2022 tax years to encourage spending at restaurants during COVID shutdowns.
- 100% bonus depreciation is no more. The rate decreases to 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and will be unavailable in years afterward. Bonus depreciation can be claimed on most business assets except real estate and smaller passenger vehicles. It is generally preferable to Section 179 Depreciation because it is allowed on more types of assets and doesn't have income limitations.
- Section 179 Depreciation is still available, which allows up to 100% expensing in the year of purchase for certain business equipment. As mentioned above, there are limitations on Section 179 Depreciation that makes it less useful than bonus depreciation. Beginning in 2023, we'll likely see the use of Section 179 Deprecation increase due to the bonus depreciation rate decreasing.
- Businesses can also qualify for electric vehicle credits for business vehicles referred to in the previous section.
- Beginning in 2022, R&D expenses must be capitalized and amortized instead of deducted in the year incurred. The IRS released temporary guidance on this subject in the Fall of 2023 and will release final guidance sometime in 2024.
- Most states have enacted a Pass-Through Entity Tax election which essentially allows a PTE (Scorp, Partnership) to elect to become responsible for the shareholder's or partner's state income tax on their share of the PTE's income. This creates a deduction for the Pass-Through Entity for state income tax that would not otherwise be deductible at the business level. Instead, individuals would deduct their state income taxes as an itemized deduction on their federal income tax return. These PTE tax elections were created as a workaround to the $10,000 State and Local Income Tax cap that was part of the Tax Cuts and Jobs Act. The ability to make this election is a win for PTE owners in most cases. It shifts what would otherwise be an itemized deduction to an above the line deduction, as well as circumventing the $10,000 tax cap, and in some cases, allows a deduction for state income taxes against self-employment tax for non-passive partners in partnerships.

Employee Retention Credit (ERC)

- You may have been contacted by various companies regarding the Employee Retention Credit (ERC), which is a payroll tax credit that was part of the various pieces of COVID-related legislation. These companies promise large payroll tax refunds from the IRS. For the most part, these companies are a scam. Qualification for the ERC is strict, and if you were an existing client in 2020 or 2021 when the credit was available, Gehring & Farrwood already applied the tests to see if you qualify.
- The IRS is very aware of the scams by these companies and estimates there are billions of dollars of fraudulent filings. In Fall 2023 the IRS put a moratorium on processing any new ERC claims. Once the moratorium ends, all new claims will be scrutinized heavily during processing, and it's likely that many older claims that are already refunded will be audited. We feel very confident that all ERC claims we assisted with are qualified and will easily pass audit, but we wanted to make all employers aware that these solicitations you are receiving are likely from a fraudulent company.
- The statute of limitations for 2020 ERC claims ends on March 31, 2024, and for 2021 claims ends on March 31, 2025. We expect solicitations to continue until the statute of limitations for refunds on ERC claims ends next year.