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MARCH 2024

LIFE INSURANCE REVISITED

An article in the enclosed Tax & Business Alert asks "Have you recently reviewed your life insurance needs?" We agree that one's life insurance coverage should be considered periodically. We have written here occasionally about life insurance and most recently in May 2016. This might be a good time to again mention some of our thoughts on life insurance.

The purpose of life insurance is to provide economic protection against premature death and the resulting financial loss to the beneficiaries. Life insurance is not an investment or retirement plan, although there are many insurance products marketed as such.

How Much to Buy? – Generally, enough life insurance should be purchased so that, when the death benefit is added to other investment assets, the total available investment assets will produce 80 percent of the insured's present net-of-tax earned income. A young person without significant investment assets and in doubt about the appropriate amount of insurance should probably "over insure," since their cost of term life insurance is generally very low and the status of future insurability could become uncertain.

Term or Cash Value? – Annual renewable term life insurance guaranteed to age 65 is available and is "pure insurance." In contrast, a cash value life insurance policy (e.g., whole life, universal life, variable life, etc.) is a financial product that combines life insurance with an investment feature at a high cost to the buyer in commissions and fees. An independent analysis of insurance cost and investment return will show that separately buying low-cost term life insurance and tax-efficient low-cost investments is superior to buying cash value life insurance.

The Goal of Financial Security – Finally, if one is fortunate enough to accumulate savings and investments through a lifetime of work and good decisions adequate to provide for the future financial needs of those depending on it, life insurance is no longer needed.

We would be pleased to discuss any questions you may have.

SEASONAL REMINDERS

IRA and HSA Contributions – April 15, 2024. Taxpayers making individual retirement account (Roth IRA and traditional IRA) or health savings account (HSA) contributions for 2023, and who have not already done so, will need to make the contributions on or before April 15, 2024. That is the last available date for a 2023 contribution even if the taxpayer obtains an extension of time to file the 2023 individual income tax return.

The maximum contribution to an IRA (Roth or traditional) for 2023 is $6,500 for those below age 50 and $7,500 for those age 50 or above at December 31, 2023. To increase the benefits of

(*Continued on reverse*)

long-term compounding, we encourage early contributions to tax-deferred accounts for those reasonably certain of their eligibility. For 2024, the maximum IRA contributions are $7,000 for those below age 50 and $8,000 for those age 50 or above at December 31, 2024.

The maximum HSA contribution for a single person for 2023 is $3,850 and for a family is $7,750. Those 55 or older can add, for 2023, an additional $1,000. For 2024, the maximum for a single person increases $300 to $4,150, and for a family, the maximum is $8,300. For those 55 and over, the 2024 additional amount remains the same as 2023 at $1,000 for both single and family.

Tax Return Data – Soon. Taxpayers will benefit from, and tax preparers will appreciate, receiving complete (or nearly complete) individual income tax data as early as possible. Early receipt of all data (or all but a missing Schedule K-1, etc.) allows time for more thoughtful preparation and diminishes the hazards of the rush to completion of the last days of the filing season. Many taxpayers with complex returns, brokerage accounts with histories of corrected information forms, late K-1s, etc. will be well served by an extension of time to file until October 15, 2024. Extensions of time to file do not, in our experience, prejudice the return in any way. An extension, however, does not extend the time to pay. Accordingly, early submission of the data will be helpful for computation of the estimated amount to be paid, if any, with the automatic extension and for consideration of 2024 estimated tax. For most individual income tax returns, the furnishing of all or almost all of the data by early-March will allow the orderly preparation of a well-considered return. In instances where little data is available by early-March and for most complex returns, automatic extensions are often the best choice.

NAG

Just as many, if not most, horses resent a spur, many of us resent "nagging" about something we need or what someone thinks we might need to do. Nevertheless, we are again mentioning the "new for 2024" FinCEN ownership reporting requirements.

Most passthrough entities (LLCs, Partnerships, S Corporations, etc.) subject to FinCEN requirements have until December 31, 2024 to file their initial report. However, entities created in 2024 have 90 days following creation to report. Accordingly, LLCs formed in 2024 can have due dates for reporting as early as April 1, 2024. More information about these new FinCEN responsibilities are contained in our January 2024 and our July and November 2023 newsletters – all of which are available on our website at *www.cepcpa.com/our-newsletters*. We continue to study the FinCEN rules on beneficial ownership reporting and anticipate being available to help with such filings by mid-summer of this year.

The decision as to whether or not a filing is required is complex as there are 23 exemptions. The exemption for entities with more than 20 employees, with an office in the U.S., and with revenues of more than $5 million, appears to be one of the least complicated. Nevertheless, the question of exemption is a legal one. Accordingly, if you need help determining exemption status, you should consult your attorney. If you or your attorney determine that a report is required and you desire help in filing, we will be pleased to assist you.

Perhaps, the Treasury will come to understand that they already have names, addresses, and taxpayer identification numbers on all tax compliant business and entity owners as part of Forms 1040, 1065, 1120, 1120S, Forms 1041, etc., and a second compilation of this same data is onerous. Hopefully, some mitigation of the filing burden will occur.

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Tax & Business Alert

MARCH 2024

RETIREMENT SAVING OPTIONS FOR YOUR SMALL BUSINESS

If you're looking for a retirement plan for yourself and your employees, but you're worried about the financial commitment and administrative burdens involved, there are some options to consider. One possibility is a "simplified employee pension" (SEP). This plan — which comes with relative ease of administration and the discretion to make or not make annual contributions — is especially attractive for small businesses.

Note: There's still time to see tax savings on your 2023 tax return by establishing and contributing to a 2023 SEP, right up to the extended due date of the return. For example, if you're a sole proprietor who extends your 2023 Form 1040 to October 15, 2024, you have until that date to establish a SEP and make the initial contribution, which you can then deduct on your 2023 return.

SEP INVOLVES EASY SETUP

You can set up a SEP easily using the IRS model SEP, Form 5305-SEP. This form, which doesn't have to be filed with the IRS, satisfies the SEP requirements. As the employer, you'll get a current income tax deduction for contributions you make on behalf of your employees. Your employees won't be taxed when the contributions are made but will be taxed later when distributions are made, usually at retirement. You can also opt for an individually designed SEP — instead of the model SEP — depending on your needs.

The maximum deductible contribution that you can make to a SEP-IRA — and that can be excluded from income — is the lesser of: 1) 25% of compensation, or 2) $69,000 for 2024 (up from $66,000 for 2023) per employee. Note, however, that if the business owner doesn't receive a W-2 from the business (for instance, from an unincorporated sole proprietor), the calculation for the contribution to be made on behalf of the owner varies slightly. 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 as well as the tax-free earnings.

There are other requirements you'll have to meet to be eligible to establish and make contributions to a SEP. Essentially, all regular employees must elect to participate in the program, and contributions can't discriminate

ANOTHER OPTION: SIMPLE PLANS

A business with 100 or fewer employees may want to consider a "savings incentive match plan for employees" (SIMPLE). The employer establishes a "SIMPLE IRA" for each eligible employee, making matching contributions based on amounts elected by participating employees under a qualified salary reduction arrangement. The SIMPLE plan is also subject to much less stringent requirements than traditional qualified retirement plans.

Another option: An employer can adopt a "simple" 401(k) plan, with similar features to a SIMPLE plan. It is not subject to the otherwise complex nondiscrimination rules that apply to 401(k) plans.

For 2024, SIMPLE deferrals are limited to $16,000 (up from $15,500 for 2023). Additional $3,500 catch-up contributions are also allowed for employees ages 50 and older.

in favor of highly compensated employees. But these requirements are minor compared to the bookkeeping and other administrative burdens connected with traditional qualified retirement and profit-sharing plans.

SEPS don't require the detailed records that traditional plans must maintain. Also, there are no annual reports to file with the IRS, and the recordkeeping that is required can be done by a trustee of the SEP-IRA — usually a bank or mutual fund.

Contact us for more information. We can also provide information about this or any other aspect of your retirement planning. ■

HIRING? HOW TO BENEFIT FROM THE WORK OPPORTUNITY TAX CREDIT

If you're a business owner or manager who is seeking to hire, you should be aware of the details of a valuable tax credit for hiring individuals from one or more targeted groups. Employers can qualify for the Work Opportunity Tax Credit (WOTC), which is worth as much as $2,400 for most eligible employees (higher or lower for certain employees). The credit is limited to eligible employees who begin work for an employer before January 1, 2026.

Generally, an employer is eligible for the credit only for qualified wages paid to members of a targeted group. These groups are:

1. Qualified members of families receiving assistance under the Temporary Assistance for Needy Families (TANF) program,
2. Qualified veterans,
3. Qualified ex-felons,
4. Designated community residents,
5. Vocational rehabilitation referrals,
6. Qualified summer youth employees,
7. Qualified members of families in the Supplemental Nutritional Assistance Program (SNAP),
8. Qualified Supplemental Security Income recipients,
9. Long-term family assistance recipients, and
10. Long-term unemployed individuals.

To claim the WOTC, an employer must first get certification that the person hired is a member of one of the targeted groups above. They do so by submitting Form 8850, Pre-Screening Notice and Certification Request for the WOTC to their state agency, within 28 days after the eligible worker begins work.

YOU MUST MEET CERTAIN REQUIREMENTS

There are several requirements to qualify for the credit. For example, each employee must have completed a specific number of hours of service for the employer.

Also, the credit isn't available for employees who are related to, or who previously worked for, the employer.

There are different rules and credit amounts for certain employees. The maximum credit available for first-year wages is $2,400 for each employee, $4,000 for long-term family assistance recipients, and $4,800, $5,600 or $9,600 for certain veterans. Additionally, for long-term family assistance recipients, there's a 50% credit for up to $10,000 of second-year wages, resulting in a total maximum credit, over two years, of $9,000.

For summer youth employees, the wages must be paid for services performed during any 90-day period between May 1 and September 15. The maximum WOTC credit available for summer youth employees is $1,200 per employee.

An eligible employer claims the WOTC on its federal income tax return. The credit value is limited to the business's income tax liability.

A VALUABLE CREDIT

There are additional rules and requirements. In some cases, employers may elect not to claim the WOTC. And in limited circumstances, the rules may prohibit the credit or require an allocation of it. However, for most employers hiring from targeted groups, the credit can be worthwhile. Contact us with questions or for more information about your situation. ■

HAVE YOU RECENTLY REVIEWED YOUR LIFE INSURANCE NEEDS?

At one time, life insurance played a much larger part in an estate plan than it does now. Why? Families would often use life insurance payouts to pay estate taxes. But with the federal gift and estate tax exemption at $13.61 million for 2024, far fewer families currently are affected by estate tax.

However, life insurance remains a powerful tool to help provide for your loved ones in the event of your death. The amount of life insurance that's right for you depends on your personal circumstances, so it's critical to review your life insurance needs regularly in light of changing circumstances.

REASONS TO REEVALUATE

In addition to the estate tax exemption amount, consider reevaluating your insurance coverage if you're:

- Getting married,
- Getting divorced,
- Having children,
- Approaching retirement, or
- Facing health issues.

The right amount of insurance depends on your family's current and expected future income and expenses, as well as the amount of income your family would lose should you pass away. The events listed above can change the equation, so it's a good idea to revisit your life insurance needs as you reach these milestones. For example, if you get married and have kids, your current and future obligations are likely to increase significantly for expenses related to childcare, mortgage, car payments and college tuition.

As you get older, your expenses may go up or down, depending on your circumstances. For example, as your children become financially independent, they'll no longer rely on you for financial support.

On the other hand, health care expenses for you and your spouse may increase. When you retire, you'll no longer have a salary, but you may have new sources of income from retirement plans and Social Security. You may or may not have paid off your mortgage, student loans or other debts. And you may or may not have accumulated sufficient wealth to provide for your family.

PERIODIC REASSESSMENT A MUST

There are many factors that affect your need for life insurance, and these factors change over time. To make sure you're not over- or underinsured, reassess your insurance needs periodically — and especially when your life circumstances change. We can help you assess whether you have an adequate amount of life insurance coverage. ■

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THE CHILD TAX CREDIT IS STILL AVAILABLE

Parents know that raising children is expensive. Although some of the enhancements of the Child Tax Credit (CTC) have expired, this valuable credit is still available for eligible parents of children under age 17. Plus, there's still time to claim the CTC on your 2023 tax return if you haven't filed yet. Here are the current rules.

For 2023, the CTC is $2,000 for each child if your modified adjusted gross income (MAGI) is $200,000 or less for single filers ($400,000 for married couples who file jointly). Once your MAGI exceeds that limit, the credit is reduced by $50 for each $1,000 above the threshold. It's fully phased out when your MAGI reaches $240,000 for single filers ($440,000 for married couples who file jointly).

Important: This credit is partially refundable, meaning that you don't have to owe taxes to qualify for the credit. For 2023, the maximum refundable portion is $1,600.

Also available is a $500 credit for certain dependents other than qualifying children. This may include dependent children age 17 or older, dependent parents or other qualifying relatives supported by the taxpayer, and dependents who live with the taxpayer but are unrelated.

FINAL POINTS

Absent further legislative action, after 2025, the rules for the CTC will revert to those in effect in 2017, when fewer taxpayers were eligible. Contact us for more information about this valuable credit. ■

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