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Items of Note

<u>2024 and 2025 ITEMS OF NOTE (Secure Act 2.0 (the "Act")</u>

- **Tax-free rollovers from 529 accounts to Roth IRAs**. After 2023, the Act permits beneficiaries of 529 college savings accounts to make up to $35,000 of direct trustee-to-trustee rollovers from a 529 account to their Roth IRA without tax or penalty. The 529 account must have been open for more than 15 years, and the rollover is limited to the amount contributed to the 529 account (and its earnings) more than five years earlier. Rollovers are subject to the Roth IRA annual contribution limits, but are not limited based on the taxpayer's AGI.

- **Age increased for required distributions**. Under the Act, the age used to determine required distribution beginning dates for IRA owners, retired employer plan members, and active-employee 5%-owners increases, in two stages, from the current age of 72 to age 73 for those who turn age 72 after 2022, and to age 75 for those who attain age 74 in 2032.

- **Bigger catch-up contributions permitted**. Starting in 2025, the Act increases the current elective deferral catch-up contribution limit for older employees from $7,500 for 2025 ($3,500 for SIMPLE plans) to the greater of $11,250 ($5,250 for SIMPLE plans), or 150% of the regular catch-up amount in 2025 for individuals who attain ages 60-63.

<u>SOME UPDATES FOR 2024 TAX RETURNS</u>

The 2024 tax filing season officially starts on Monday, January 27, 2025, when the IRS will begin accepting and processing 2024 tax returns. The individual tax filing deadline is currently **Tuesday, April 15, 2025.**

- ***Early Withdrawal Penalty Exceptions*** - Withdrawals before age 59 ½ generally are subject to a 10% penalty unless an exception is met. Please see below for some additions to the list of exceptions (some were effective in 2023 (or earlier), 2024, and 2025):

  - Disaster relief — up to $22,000 for expenses related to a federally declared disaster; distributions can be included in gross income equally over three years (effective for disasters on or after January 26, 2021)
  - Terminal illness — defined as a condition that will cause death within seven years as certified by a physician (effective 2023)
  - Emergency expenses — one distribution of up to $1,000 per calendar year for personal or family emergency expenses; no further emergency distributions allowed during three-year repayment period unless funds are repaid or new contributions are at least equal to the withdrawal (effective 2024)

- Emergency savings account – distributions from a qualified pension-linked emergency savings account (effective 2024)
- Public safety employees - Distributions made to a qualified public safety employee from a governmental plan, provided that the qualified public safety employee has separated from service during or after the year in which they attained age 50 or 25 years of service under the plan, whichever is earlier.
- Firefighters - Distributions made from a plan to an employee who provides firefighting services and who separated from service in or after the year in which they attained age 50 or 25 years of service, whichever is earlier.
- Medical expenses- Distributions to the extent you have deductible medical expenses that exceed 7.5% of your adjusted gross income whether or not you itemize your deductions for the year.
- Domestic abuse — the lesser of $10,000 (indexed for inflation) or 50% of the account value for an account holder who certifies that he or she has been the victim of domestic abuse during the preceding one-year period (effective 2024)
- Long-term care premiums - retirement plans may make penalty-free distributions of up to $2,600 per year for payment of premiums for high quality coverage under certain long term care insurance contracts (beginning Dec. 29, 2025).

- ***Clean Vehicle Tax Credit – Some new rules apply for 2024***

  - Transfer election for a new or previously owned clean vehicle –
    - The transfer election program applies to vehicles placed in service after Dec. 31, 2023, and before Dec. 31, 2032.
    - The transfer election allows a taxpayer purchasing a new clean vehicle or previously owned clean vehicle after December 31, 2023, to transfer the entire amount of the allowable credit to an eligible entity (a registered dealer) in exchange for a financial benefit (a reduced final amount due from buyer) from the eligible entity equal to the amount of the credit, whether in cash, in the form of a partial payment, or down payment for the purchase of such vehicle.
    - You cannot elect to transfer only part of the credit. If election is made, you must transfer the entire amount of the credit allowable to you to the registered dealer.
    - You must file a tax return and attach Form 8936 and Schedule A (Form 8936) to report the transfer of the credit and reconcile your eligibility on your return.
    - Taxpayers who purchase an eligible vehicle and do not make the transfer election will still be able to claim the New or Previously Owned Clean Vehicle Credit on their federal income tax return.
  - New Vehicles - If you purchase a new, qualified plug-in electric vehicle (EV) or fuel cell vehicle (FCV), you *may qualify* for a clean vehicle tax credit up to $7,500 under Internal Revenue Code Section 30D, subject to income limitations (Purchase dates between 2023 and 2032).
  - Used Vehicles - Beginning January 1, 2023, if you buy a qualified used EV or FCV from a licensed dealer for $25,000 or less, you *may* be eligible for a used clean vehicle tax credit. The credit equals 30% of the sale price up to a maximum credit of $4,000. At the time of sale, a seller must give you information about your vehicle's qualifications. Sellers must also register online and report the same information to the IRS. If they don't, your vehicle won't be eligible for the credit.

Both of these credits are nonrefundable, so you can't get back more on the credit than you owe in taxes. You also can't apply any excess credit to future tax years. In general, in order to qualify you must buy the vehicle for your own use, use it primarily in the U.S., and your modified adjusted gross income (AGI) may not exceed $300,000 (MFJ), $225,000 (HOH), or $150,000 (all other filers).

- ***Excess Business Losses*** – Noncorporate taxpayers can deduct a net trade or business loss up to a maximum of $305,000 ($610,000 for joint returns) in 2024. Any excess loss becomes an NOL and is carried forward to future tax years.

- ***Energy Credits*** – If you make energy improvements to your home, tax credits are available for a portion of qualifying expenses. You can claim either the Energy Efficient Home Improvement Credit or the Residential Clean Energy Property Credit for the year when you make qualifying improvements.

  Energy Efficient Home Improvement Credit – The maximum credit you can claim each year is:

  - $1,200 for energy efficient property costs and certain energy efficient home improvements, with limits on exterior doors ($250 per door and $500 total), exterior windows and skylights ($600) and home energy audits ($150)

  - $2,000 per year for qualified heat pumps, water heaters, biomass stoves or biomass boilers

  The credit has no lifetime dollar limit. You can claim the maximum annual credit every year that you make eligible improvements or install energy efficient property until 2033. However, beginning in 2025, for each item of qualifying property placed in service, no credit will be allowed unless the item was produced by a qualified manufacturer and the taxpayer reports the PIN for the item on their tax return. The credit is nonrefundable, so you can't get back more on the credit than you owe in taxes. You can't apply any excess credit to future tax years.

  Residential Clean Energy Property Credit - The Residential Clean Energy Credit equals 30% of the costs of new, qualified clean energy property for your home installed anytime from 2022 through 2032. The credit percentage rate phases down to 26 percent for property placed in service in 2033 and 22 percent for property placed in service in 2034. You may be able to take the credit if you made energy saving improvements to your home located in the United States.

  The credit is nonrefundable, so the credit amount you receive can't exceed the amount you owe in tax. You can carry forward any excess unused credit, though, and apply it to reduce the tax you owe in future years.

- **Form 1099-K:** Form 1099-K is a report of payments you got for goods or services during the year from:

  - Credit, debit or stored value cards such as gift cards (payment cards)
  - Payment apps or online marketplaces, also called third party settlement organizations or TPSOs

  New reporting requirements for Form 1099-K. Beginning in 2024, there are lower reporting thresholds for Form 1099-K. For 2024, payment card companies, payment apps, and online marketplaces will be required to send you a Form 1099-K when the amount of your business transactions during the year is more than $5,000. In calendar year 2025, the threshold will lower to more than $2,500; and for 2026 and later years, the threshold will be more than $600.
  Changes to reporting amounts from Form 1099-K. Beginning in 2024, if you received a Form(s) 1099-K that shows payments that were included in error or for personal items sold at a loss, you will now enter these amounts in the entry space at the top of Schedule 1 (Form 1040).