KRAMER, JENSEN & BAGBY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Kramer, Jensen & Bagby, LLC | 7430 E. Caley Ave. Suite 300E, Centennial, CO 80111
T 303-741-2253 | F 855-330-4215 | aaronb@kramerjensen.com | kramerjensen.com

Newsletter April 2024

The Tax-Filing Deadline Is Drawing Near

Article Highlights:

- Extensions
- Balance-Due Payments
- Contributions to Roth or Traditional IRAs
- Individual Refund Claims for the 2020 Tax Year
- Missing Information

As a reminder to those who have not yet filed their 2023 tax returns, April 15, 2024, is the due date to either file a return (and pay the taxes owed) or file for an automatic extension (and pay an estimate of the taxes owed).

In addition, the April deadline also applies to the following:

- **Balance-Due Payments for the 2023 Tax Year** – Be aware that Form 4868 is an extension to file, NOT an extension to pay. The IRS will assess late-payment penalties (with interest) on any balance due, even when the extension has been granted. Taxpayers who anticipate having a balance due need to estimate this amount and include payment for that balance, either along with the extension request (as indicated above) or electronically by this firm or through the IRS website.

- **Contributions to a Roth or Traditional IRA for the 2023 Tax Year** – April 15, 2024, is the last day for 2023 contributions to either a Roth or a traditional IRA. Form 4868 does not provide an extension for making IRA contributions.

- **Individual Estimated Tax Payments for the First Quarter of 2024** – The first installment of the 2024 estimated tax payment is due on April 15, 2024. If you make estimated tax payments and did not file the first installment on or before April 15, 2024, then that payment is late, and you should file it as soon as possible to mitigate any penalties.

- **Individual Refund Claims for the 2020 Tax Year** – The regular three-year statute of limitations expires for the 2020 tax return on April 15 of this year. Thus, no refund will be granted for a 2020 return (original or amended) that is filed after April 15, 2024. Taxpayers could risk missing out on the refundable Earned Income Tax Credit, the refundable American Opportunity Tax Credit for college tuition, and the refundable child credit for the 2020 tax year if they do not file before the statute of limitations ends. Caution: The statute does not apply to balances due for unfiled 2020 returns.

Special rule for 2020 returns originally filed after April 15, 2021 but before May 17, 2021: Due to the Covid-19 pandemic, the IRS postponed the due date of 2020 returns for individual taxpayers until May 17, 2021. So, for individual taxpayers whose 2020 tax returns were filed with the IRS after April 15, 2021, but before May 17, 2021, a claim for refund will need to be filed within three years from the date of filing to be timely.

If your 2023 return is still pending because of missing information, please forward that information to this office as quickly as possible so that we can ensure that your return meets the April 15 deadline. Keep in mind that the last week of tax season is very hectic, and your returns may not be completed in time if you wait until the last minute. If you know that the missing information will not be available before the April 15 deadline, then please let us know as soon as possible so that we can prepare an extension request.

If you have not yet completed your returns, please call this office right away so that we can schedule an appointment and/or file an extension for you.

Biden's Tax Agenda

Article Highlights:

- Capital Gains
- Medicare Tax
- High Wealth Minimum Tax
- Top Marginal Tax Rate
- Corporate Tax Rate
- Corporate Minimum Tax
- Global Minimum Tax
- Basis Step-Up
- Carried Interest
- Stock Buyback Tax
- Executive Compensation
- Private Jets
- Like-Kind Exchanges
- Cryptocurrency Losses
- Cryptocurrency Mining
- Estate and Gift Taxes
- Oil and Gas Tax Incentives
- Child Tax Credit
- Earned Income Tax Credit
- Premium Tax Credit
- High-Income Taxpayers Retirement Account Contributions

During his State of the Union Address before Congress on March 7, 2024, President Biden presented an overview of his tax agenda proposed for the 2025 fiscal year budget. The White House also released a fact sheet with highlights of the President's tax proposals along with an analysis of the need and benefits of the proposed changes. Here is a general overview of the proposed tax changes:

Capital Gains – At the center of the President's proposal is an increase in the capital gains tax for higher income taxpayers. For several years, long-term capital gains and qualified dividends have been taxed at preferential rates of 0%, 15% or 20%, with the capital gains rates depending on the taxpayer's taxable income.

2024 CAPITAL GAINS RATE RANGES			
Filing Status	0% Rate	15% Rate	20% Rate
Single	0 - $47,025	$47,026 - $518,899	$518,900 & Above
Head of Household	0 - $63,000	$63,001 - $551,349	$551,350 & Above
Married Filing Joint	0 - $94,050	$94,051 - $583,749	$583,750 & Above
Married Filing Separate	0 - $47,025	$47,026 - $291,849	$291,850 & Above

The budget proposal would increase the capital-gains tax rate to equalize the taxation of investment and wage income. That would mean capital gains for those with taxable incomes of at least $1 million would be taxed at a base rate of 39.6%, up from the previous maximum of 20%. The 39.6% rate is an increase from the current top rate of 37% (see more below).

Medicare Tax – Currently there is a Medicare surtax of 3.8% of the lesser of the taxpayer's net investment income or the excess of the taxpayer's modified adjusted gross income over the threshold amount ($250,000 for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 for all others). Note: These amounts are not indexed for inflation.

The budget proposal would increase the 3.8% Medicare tax to 5% for those with earnings in excess of $400,000. The purpose of this proposed increase is to shore up the Medicare trust fund. This would result in a 44.6% (39.6% plus 5%) federal rate for the richest taxpayers.

Under current law some business owners can avoid Medicare taxes on some of the profits they get from pass-through businesses, such as S corporations. The President's Budget proposal closes this loophole. It is interesting to note that President Biden benefited from the current law in the past as he set up an S corp to receive the income from his lectures and book royalties, thus avoiding Medicare taxes on some of that income.

High Wealth Minimum Tax – The budget proposal includes a 25% minimum tax rate on income of families worth $100 million or more. This would require an annual determination of a taxpayer's net worth, which in itself would be complicated for families near the $100 million threshold.

Top Marginal Tax Rate – Currently the top personal marginal tax rate is 37%. The budget proposal would increase the top personal-income tax rate to 39.6% for those making more than $400,000 ($450,000 for joint filers). This higher rate would reverse a tax cut that was part Tax Cuts and Jobs Act (TCJA) set to expire after 2025.

Corporate Tax Rate – Currently the federal corporate tax rate is a flat rate of 21% set by the TCJA and scheduled to expire after 2025. The budget proposal would increase the corporate tax rate to 28%.
Corporate Minimum Tax – The President also proposes increasing the current 15% corporate minimum tax on domestic companies to 21%.

Global Minimum Tax - Also proposed is adopting the under-taxed profits rule included in the Organization for Economic Cooperation and Development's global minimum tax, which would allow the U.S. to tax a company if it is paying below a 15% rate and the country where the business is headquartered also isn't applying the 15% minimum rules.

Basis Step-Up – Currently when someone (termed an heir or beneficiary) inherits property, the basis in the hands of the beneficiary will be the fair market value (FMV) at the date of death of the property's owner, also referred to basis step-up (although it can be a step-down). This generally allows the decedent and the beneficiaries to escape taxation on accumulated gains. The budget proposal would limit basis step up to $5 million per person and $10 million per married couple. However, included in the proposal is that family-owned businesses and farms will not have to pay taxes when given to heirs who continue to run the business.

Carried Interest - Carried interest refers to compensation (management fee) earned by investment managers on the performance of their funds and is currently taxed at capital gain rates, generally 20% as opposed to ordinary income subject to the current 37% top individual income tax rate. The budget proposal would tax carried interest at ordinary income tax rates for individuals earning over $400,000.

Stock Buyback Tax - The Inflation Reduction Act (IRA) signed into law in August 2022 imposed a 1% excise tax on net share repurchases in a tax year that are made by certain publicly traded corporations. The budget proposal would increase the rate to 4% and urges companies to spend that money on wages or equipment instead of stock buybacks.

Executive Compensation – The budget proposal would limit a corporation's deduction for compensation to any employee to $1 million, thus denying corporate tax breaks for compensation paid to any employee that exceeds $1 million. Currently the deduction limit applies only to payments to certain executives.

Private Jets – The President's proposal continues the recent IRS crack down on personal use of corporate jets as a business expense by ending a tax break for deduction of corporate jet use.

Like-Kind Exchanges – Currently Code Sec 1031 allows investors to avoid paying taxes on profits from a real estate property sale if they reinvest those profits into other real estate. The budget proposal would limit the deferral of profits to $500,000.

Cryptocurrency Losses –A loss from a sale of stock or securities is disallowed by Section 1091 of the Internal Revenue Code if the same or substantially identical stock or securities are purchased within 30 days before or after the sale (a “wash sale”). On the other hand, a taxpayer may sell a digital asset that is currently not considered a stock or security for wash sale purposes at a loss on one day and repurchase the same digital asset the next day, and would be able to claim the loss on their tax return. Under Biden’s proposal, the wash sale rules would be amended to add digital assets to the list of assets subject to the wash sale rules.

Cryptocurrency Mining – Mining is the activity or process of searching through large amounts of information for specific data or patterns. Mining is a process where a miner solves a transaction puzzle and publishes a block which contains a proof-of-work and other miners verify the solution. This process requires substantial computer power and uses enormous amounts of electricity. The budget proposal would impose a 30 percent excise tax on electricity costs associated with digital asset mining.

Estate and Gift Taxes – Although not included in Biden’s legislative proposals currently, it is notable that the current TCJA estate and gift tax lifetime exemptions will expire after 2025. Thus, the current higher TCJA estate tax exemption ($13.61Millon in 2024) will revert to 2009 levels of about $5.49 Million.

Oil and Gas Tax Incentives - Biden is calling for Congress to end the oil and gas industry tax incentives, including certain drilling costs, depletion write-offs, etc.

Child Tax Credit – Biden’s goal is to reestablish the child tax credit that was in effect in 2021 during the COVID-19 pandemic when the child tax credit was $3,600 for children under six and $3,000 for older children.

Earned Income Tax Credit – The proposed budget would expand the Earned Income Tax Credit for low-paid workers who don’t have a child in their home, and would make older workers age 65 and older and young adults age 18 to 24 eligible for the credit.

Premium Tax Credit – Biden wants to make permanent the Inflation Reduction Act’s expansion of the premium tax credit for those who acquire their health insurance through a government Marketplace.

High-Income Taxpayers Retirement Account Contributions - The proposal would impose special distribution rules on high-income taxpayers with large retirement account balances. Those with tax-favored retirement arrangements that exceeded $10 million in a preceding calendar year would be required to distribute a minimum of 50% of that excess. Would apply to IRAs, 401(a), 403(b), and 457(b) plans.

A taxpayer is a high-income taxpayer for this purpose if their modified adjusted gross income is over $450,000 if married and filing jointly (or filing as a surviving spouse); over $425,000 if the taxpayer files as head-of-household; or over $400,000 for taxpayers using other filing statuses.

Be aware these are all tax proposals and there is no assurance that they will be passed nor is there any assurance they will not be modified.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Aaron Bagby
Kramer, Jensen & Bagby, LLC

VISIT OUR WEBSITE

SPREAD THE WORD

SHARE THIS EMAIL

Kramer, Jensen & Bagby, LLC

aaronb@kramerjensen.com

Share This Email as Webpage

KEEP UP ON THE LATEST

SIGN UP FOR OUR EMAILS