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MEDICARE PREMIUMS MAY LEAD TO TAX SAVINGS

If you pay premiums for Medicare health insurance, you may be able to combine them with other qualifying expenses and claim them as an itemized deduction for medical expenses on your tax return. This includes amounts for "Medigap" insurance and Medicare Advantage plans, which cover some costs that Medicare Parts A and B don't cover.

For 2024, you can deduct medical expenses only if you itemize deductions and only to the extent that total qualifying health care expenses exceeded 7.5% of your adjusted gross income. For tax year 2024, the basic standard deduction amounts are: $14,600 for single filers; $29,200 for married joint-filing couples; and $21,900 for heads of households. Under the Tax Cuts and Jobs Act, which raised the standard deductions through 2025, fewer individuals itemize deductions. However, those with significant qualified medical expenses may still be eligible to itemize and enjoy some tax savings.

Important note: Self-employed people and shareholder-employees of S corporations can generally claim an above-the-line deduction for their health insurance premiums, including Medicare premiums. That means it's not necessary for them to itemize to get the tax savings from their premiums.

In addition to Medicare premiums, you can deduct a variety of other medical expenses, including ambulance services, dental treatment, eyeglasses, hospital services, lab tests, qualified long-term care services and prescription medicines. Transportation costs to medical appointments may also be deductible.

Contact us with questions about claiming medical expense deductions on your personal tax return. We can help you identify an optimal overall tax-planning strategy based on your personal circumstances. ■

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Tax & Business Alert

SEPTEMBER 2024

ARE YOU AWARE OF THE BUSINESS CREDITS AVAILABLE?

It's a challenging time for businesses. Therefore, any help you can get — such as tax credits, tax exemptions and other incentives — can make a big difference. Unfortunately, these incentives often go unclaimed because businesses don't know about them.

Here's a look at two types of incentives available and an outline of some potential benefits.

1. STATUTORY INCENTIVES

Some credits are available "as of right." That is, if your business meets the specified requirements, you just need to claim the benefit on a timely filed tax return to receive it.

State and federal tax credits and exemptions are designed as incentives for businesses to engage in certain activities or invest in specific economically distressed areas. Here are a few:

Work Opportunity Tax Credit (WOTC). The WOTC is a federal credit, ranging from $2,400 to $9,600 per eligible new hire from certain disadvantaged groups. Examples include convicted felons, welfare recipients, veterans and workers with disabilities. Other steps must also be taken, such as completing paperwork.

State and federal research and development (R&D) tax credits. These credits may be available to an eligible business that invests in developing new products or techniques, improving processes, or developing software for internal use, regardless of size. The federal "increasing research activities" credit is equal to 20% of the amount by which the business increases qualified research expenditures, compared to a base amount.

The R&D credit is available even to businesses with no income tax liability and may be carried forward to offset taxable income in future years. If eligible, a start-up company can claim the federal R&D credit against up to $500,000 in employer-paid payroll taxes.

Empowerment zone incentives. Certain tax breaks are available to companies that operate in federally designated, economically distressed "empowerment zones." Tax credits may be worth up to $3,000 for each eligible employee.

Industry-based and investment credits. Many states and other jurisdictions offer tax credits and other incentives to attract certain types of businesses, such as manufacturing or film and television production. Jurisdictions may also offer investment tax credits for capital investments within their borders.

2. DISCRETIONARY INCENTIVES

Discretionary tax breaks must be negotiated with government representatives. Typically, these incentives are intended to persuade a business to stay in, or relocate to, a certain state or locality.

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SALES TAX EXEMPTIONS

States with sales taxes provide exemptions for some purchases. Common exemptions include purchases by:

- Retailers for the purpose of resale,
- Manufacturers of equipment, raw materials or components used in the manufacturing process,
- Specific tax-exempt entities, and
- Agricultural businesses that buy such items as farming equipment and fuel, feed, seeds, fertilizer, and chemical sprays.

Businesses should familiarize themselves with the exemptions available where they do business, and what it takes to qualify. For example, they may need to prove to the sellers that they have a resale or exemption certificate.

To secure these incentives, a business must show it'll bring benefits to the jurisdiction, such as job creation and revenue generation. Discretionary incentives may include income and payroll tax credits, property tax abatements and utility rate reductions.

DON'T MISS THESE OPPORTUNITIES

Every year, a vast amount of these tax credits and incentives aren't claimed because businesses are unaware of them or erroneously believe they're ineligible. Many more examples exist. Your tax advisors can help ensure that your business receives all the tax breaks it deserves. ■

BUSINESS SUCCESSION AND ESTATE PLANNING SHOULD BE INSEPARABLE

As a business owner, your company is likely to be your most valuable asset. To ensure it survives after you're gone, your estate plan must address the tax impact of transferring your ownership interests to the next generation. It can also provide a smooth transition of the business to your family members after you retire.

ENSURE KEY DOCUMENTS ARE IN PLACE

A comprehensive estate plan should be supported by several key documents, starting with a basic will. A will specifies how your assets will be distributed to designated beneficiaries and meets other objectives. Without a will or having assets otherwise titled, your business and other assets will be distributed under the prevailing state law, regardless of your wishes.

A financial power of attorney (POA) appoints someone to manage your affairs in case you become incapacitated, and allows this "attorney-in-fact" to conduct business transactions. The POA should be complemented by the guidance of health care directives.

MAKE USE OF TAX BREAKS

If you own significant business assets, consider maximizing the currently available federal estate tax breaks. This includes using the unlimited marital deduction and the federal gift and estate tax exemption, which in 2024 shields up to $13.61 million. Some states also impose their own state estate or inheritance taxes.

You may be able to minimize federal and state taxes by using multiple trusts or setting up a family limited partnership (FLP). With a tax-favored FLP, the assets are removed from your taxable estate, and limited partner interests can be gifted to loved ones, often at a discounted value.

CONSIDER WHO WILL TAKE THE REINS

If you're like many business owners, you may dream of the day you can transfer ownership to your children, who will continue to run the operation when you retire. A succession plan can provide a smooth transition of power and be used in the event of the unexpected death of an owner.

Typically, a succession plan will outline the structure going forward and prepare for the eventual sale of the business. Make sure the plan is in writing. Identify training opportunities and special compensation arrangements for your successors. Include in the plan financial details reflecting assets, liabilities and current value, and update the plan periodically. Also, coordinate your succession plan with your estate planning documents.

BYPASS POTENTIAL FAMILY CONFLICTS

As your retirement approaches, you may face family challenges. Unfortunately, elevating one sibling to run the business and leaving another out — or giving someone a secondary role — may create hard feelings.

One estate planning strategy is to attempt to "even things out." For example, let's say that you own a business valued at $5 million and you have $5 million in other assets. You might give one child who works with you $5 million is business assets and give the other child assets worth $5 million.

RELAX AND ENJOY A SMOOTH TRANSITION

There's no universal plan for family business succession. What's right depends on your circumstances and goals. Your estate planning and business advisors can help. ■

HOME SALE: FAILURE TO PLAN MAY RAISE YOUR TAX BILL

As the saying goes, there's nothing certain in life except for death and taxes. Roughly two-thirds of Americans say their federal income taxes are too high, according to a poll earlier this year from the University of Chicago Harris School of Public Policy and The Associated Press-NORC Center for Public Affairs Research. Similar numbers of respondents say the same about state and local taxes. But when it comes to selling your home, proactive tax planning can help you reduce your individual federal tax bill.

A COSTLY MISTAKE TO AVOID

Let's say Tom is a soon-to-be married homeowner who is looking to sell his principal residence. If certain tests are met, an unmarried individual may be able to exclude up to $250,000 of taxable gain (up to $500,000 for married couples).

Just before the wedding, Tom sells the home he'd purchased 20 years earlier. The home had appreciated by $500,000. He and his future wife planned to move into her much smaller fixer-upper home after the wedding. As an unmarried taxpayer, Tom can exclude $250,000 of the gain from the sale of his home, leaving a taxable gain of $250,000 ($500,000 minus the $250,000 federal home sale gain exclusion). He owes 15% federal income tax on the gain, plus the 3.8% net investment income tax and state income tax.

Instead, suppose that Tom and his future wife had taken the time to seek tax planning advice. Rather than sell the house before the wedding, they might've kept it and lived in it as a married couple for two years. That would've allowed them to avoid the full $500,000 in taxable gain and the resulting taxes when they later sold it. Even if they sold his spouse's fixer-upper home, the gain would likely be much smaller and may have been sheltered with her $250,000 home sale gain exclusion.

SLOW DOWN AND SEEK ADVICE

Proactive tax planning is generally worth the effort — especially if you have a lot at stake and/or tax rates increase. Even if you don't need advice on the subject of home sales, other issues may be much more complicated and a lack of knowledge could lead to costly mistakes. Contact your tax advisor to get the best tax planning results for your circumstances. ■