



Tax & Business Alert

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NAVIGATE THE TAX SEASON WITH GREATER EASE

It's that time again: Time to start thinking about getting your tax return prepared. Here are some quick tips you can use to help speed tax processing and avoid hassles.

Don't wait to contact us for a tax preparation appointment. Gather all documents needed to prepare an accurate return, including W-2s, 1099 forms, statements of interest and dividends, and relevant receipts. Failure to provide certain information may mean a return is incomplete, which may require additional processing and delay any refund due.

Check names, Social Security numbers and amounts for accuracy and correct spelling. Also, if you supply a bank account number, double-check it.

PENALTIES COULD APPLY

What if you file late or can't pay your tax bill? Separate penalties apply for failing to pay and failing to file. Both are based on a percentage of unpaid or late taxes. You can avoid the late filing penalty by obtaining an



extension of the time to file until October 15. However, note that this is only an extension to file. You must still estimate and pay any taxes due by the regular deadline or face possible penalties.

These penalties can be severe, but if the lateness occurs for a "reasonable cause," such as illness, the IRS may excuse it. Contact us with your questions. ■

UPDATED GUIDE TO ROBUST DEPRECIATION WRITE-OFFS FOR YOUR BUSINESS

When your business places newly acquired qualifying assets into service, tax-saving benefits are generally available. Under Section 179 of the tax code, businesses can take substantial depreciation deductions, with limits based on their taxable income. The deduction amounts for Sec. 179 are adjusted annually for inflation, including the maximum deduction and phaseout threshold.

Another potential write-off is for first-year bonus depreciation. Like Sec. 179, this benefit also changes annually and is scheduled to disappear after 2026.

BASICS YOU NEED TO KNOW

Most tangible depreciable assets, such as equipment, furniture and fixtures, computer hardware, and some software, qualify for Sec. 179 deductions in the year you purchase and place them in service. Vehicles also qualify, subject to limitations.

For tax years beginning in 2025, the Sec. 179 deduction maxes out at \$1.25 million and begins to phase out when total qualifying assets exceed \$3.13 million (up from \$1.22 million and \$3.05 million, respectively, in 2024).

For qualifying assets placed in service in 2025, the first-year bonus depreciation drops to 40% (down from 60% in 2024). In 2026, this figure drops to 20% and is scheduled to be eliminated in 2027. However, with Republicans in control in Washington, there's a chance that it could be restored to 100% before then.

HOW INCOME AFFECTS YOUR DEDUCTION

Under tax law, a Sec. 179 deduction can't result in an overall business taxable loss. So, the deduction is limited to your net aggregate taxable income from all your businesses. This includes wages and other compensation, your net business income, net proceeds from selling business assets, and possibly net rental income.



If the business income limitation reduces your Sec. 179 deduction, you can carry forward the disallowed amount or use first-year bonus depreciation. Unlike Sec. 179, bonus depreciation isn't subject to dollar limits or phaseouts. (See "Sec. 179, first-year bonus depreciation or both?" for an example.)

SEC. 179, FIRST-YEAR BONUS DEPRECIATION OR BOTH?

You may still be undecided about the best tax-saving strategy for assets that you purchased and placed in service in 2024. Here's an example that combines two methods.

In 2024, Jim's calendar-tax-year C corporation purchased and placed \$500,000 of assets in service that qualify for the Sec. 179 deduction and first-year bonus depreciation. However, due to the taxable income limitation, his company's Sec. 179 deduction is restricted to only \$300,000, which can be claimed on the corporation's federal income tax return.

The company can deduct 60% of the remaining \$200,000 using first-year bonus depreciation (\$500,000 minus \$300,000). So, the write-offs for the year include 1) a Sec. 179 deduction of \$300,000 and 2) \$120,000 of bonus depreciation (60% of \$200,000). Thus, the company achieves \$420,000 in write-offs on its 2024 tax return, leaving only \$80,000 to depreciate in future tax years. (Note: If the business income limitation didn't apply, Jim's business could have written off the entire amount under the Sec. 179 deduction rules because his company's asset additions are below the phaseout threshold.)

STRADDLING TWO YEARS

Depending on the details, you may have a robust depreciation deduction for 2024 and possibly depreciation to carry forward in 2025. Maximizing the benefits of both depreciation methods can be complex

and may adversely affect your company's eligibility for certain other deductions. So, don't go it alone. Contact your tax advisor for help devising the optimal tax strategy for your business and staying atop the latest tax law developments. ■

WHO CAN TAKE HOME OFFICE DEDUCTIONS?

Working from home isn't new, especially for self-employed people. But during the height of the pandemic, millions of jobs were moved from employers' premises to employees' private homes. Many of those workers continue working from home and wonder if they qualify for home office tax deductions.

The short answer is: Only if you're self-employed. As a result of a Tax Cuts and Jobs Act (TCJA)



provision — which eliminated the ability to claim miscellaneous itemized deductions — employees can no longer claim home office expenses. (The TCJA is scheduled to expire after 2025, so it's possible this deduction may be restored.)

Even if you're self-employed, the rules are strict to qualify for home office deductions. Here's a rundown.

WHAT CAN BE WRITTEN OFF?

If you qualify, you can deduct "direct" home office expenses, such as painting, repairs and depreciation for office furniture. "Indirect" costs, like a portion of utilities, insurance, depreciation, mortgage interest, real estate taxes and casualty losses, are also deductible. If your home office is your principal place of business, transportation costs between your office and other work locations are deductible rather than considered nondeductible commuting expenses.

WHAT'S DEDUCTIBLE?

You can deduct your expenses if you meet any of these three tests:

1. Your home is your principal place of business. You can claim deductions if your home office is used to conduct most of your business

exclusively and regularly. This requires meeting one of two tests: the "management or administrative activities test," where the office is used for tasks and meets specific criteria, or the "relative importance test," where the home office is the most critical location for conducting your business.

2. Your home office is where you meet customers. You're entitled to deductions if you use your home office exclusively and regularly to meet or deal with patients, clients or customers. Patients, clients or customers must physically come to the office.

3. Your office is in a separate structure. You're entitled to deductions for an office used exclusively and regularly for business and located in a separate, unattached structure on the same property as your

home. For example, this could be an unattached garage, artist's studio or workshop.

You may also be able to deduct the expenses of specific storage. Suppose you're selling products at retail or wholesale and your home is your sole fixed business location. In that case, you can deduct home expenses allocable to space you use to store inventory or product samples.

PLAN AHEAD

The amount of home office deductions for self-employed taxpayers is subject to various limitations. Proper planning is key to claiming the maximum deductions for your home office expenses. Contact us to discuss your situation. ■

DON'T MOVE ... UNTIL YOU'VE CONSIDERED THE TAX IMPLICATIONS

With so many people working remotely, it's become common to think about moving to another state — perhaps for better weather or to be closer to family. Many retirees also look at across-the-border moves to better control living expenses. If you've found yourself harboring such notions, be sure to consider taxes before packing up your things.

MORE TO THINK ABOUT THAN INCOME TAX

It may seem like a no-brainer to simply move to a state with no personal income tax, but you must consider *all* taxes that can potentially apply to residents. In addition to income taxes, these may include property taxes, sales taxes, and estate or inheritance taxes.

If the states you're considering have an income tax, look at the types of income they tax. Some states, for example, don't tax wages but do tax interest and dividends. And some states offer tax breaks for pension payments, retirement plan distributions and Social Security benefits.

READY, SET, HOME!

If you make a permanent move to a new state and want to escape taxes in the state you came from, it's important to establish legal domicile in the new location. Generally, your domicile is your fixed and permanent principal residence and where you plan to return, even after periods of living elsewhere.

Each state has its own rules regarding domicile. You don't want to wind up in a worst-case scenario. Two states could claim you owe state income taxes if you established a domicile in a new state but didn't



successfully terminate the domicile in an old one. Additionally, if you die without clearly establishing domicile in one state, both the old and new states may claim that your estate owes income taxes and any state estate tax.

The simplest and most obvious way to establish domicile is to buy or lease a home in a new state and sell your previous home (or rent it out at market rates to an unrelated party). Then, change your mailing address on insurance policies and other essential documents. Also, get a driver's license in the new state and register your vehicle there. Take these steps as soon as possible after moving.

CHECK IT OUT BEFORE YOU DECIDE

Research and contact us when looking into whether the grass is greener in another state for tax purposes. We can help you avoid unpleasant surprises. ■