Table of Contents

TAB 1: IRS Changes and Update 1

IRS Data Fast Facts 1

2023 and 2022 IRS Audits of Individual Tax Returns 1

Chart: Gross Collections by Type of Tax, Fiscal Year 2023 2

Office of Professional Responsibility (OPR) – The Conversation 3

Reach of Circular 230 oversight 3

Establishing best practices by not ignoring the client 3

Client file security 4

Remote workers bring unique challenges 4

Ensure entire staff has technological competence 4

Other technology related best practices 4

Artificial Intelligence (AI) challenges 5

Social media and tax practice 5

Final wrap 6

Courts are the Ultimate Interpreters of Law, Not Administrative Regulators 6

Loper Bright 7

Okay, Chevron is gone, now what 7

IRS Protect Your Client; Protect Yourself Series 7

Week 1 – Trending Threats - New and Old Scams and Schemes 7

Week 2 – Evolving Threats 8

Week 3 – Identity Theft Red Flags 8

Week 4 – Special Protection Tools 9

Week 5 – Strengthening Account Security 9

Week 6 – Tips that Tax Pros Can Take 9

Week 7 – Security Six” – Six Steps to Increase Data Security 9

Week 8 – Commit to Data Protection Steps 9

IRS Security Bookmarks 9

Written Information Security Plan (WISP) requirement 10

Multiple resources to assist with data protection 10

Requirements of a WISP 10

Developing a WISP 11

Maintaining a WISP 11

Practical tips for keeping your office safe 12

Keeping EFIN up to date 13

Document Upload Tool Catching On 14

IRS Makes Online Business Accounts Available 14

Who can use BTA and what can they do? 14

What can business taxpayers use BTA to do? 15

What new features are planned for BTA in the future? 15

Direct File Program Here to Stay 15

IRS Direct File set to Expand for 2025 Filing Season 16

More complex tax situations will be covered in 2025 filing season 16

IRS Withholding Estimator Available on Website (IR-2024-27) 16

Avoiding Taxpayer and Preparer Penalties 16

Preparers also subject to penalties 17

Using disclosure to avoid taxpayer and preparer penalties 17

What is adequate disclosure? 17

Final Note – Line by line instructions available 18

IRS Continues to Encourage Use of IP PINs to Cut Down Identity Theft 18

IP PIN is available to all taxpayers, not just those subject to ID theft 18

Can’t pass online identity proofing? 19

Bottom line 19

Preparer Penalties under the Law: Reference is to IRC Section 20

Other IRS Updates and Developments 22

IRS Ends Policy of Unannounced Revenue Officer Visits 22

Cash Transaction Reporting Must be E-filed Starting 2024 22

Taxpayer Qualified for Reasonable Cause Exception 22

Substantiation Penalties for Disorganized Taxpayer 23

IRS Sets PTIN Fee at $19.75 for 2024 Renewals 23

Who needs a PTIN? 23

Personal Blogs Allowed into Evidence 23

IRS and Tax Related Contact Phone Numbers 24

TAB 2: Form 1040 – Filing Issues, Filing Status, and Dependents 27

Brief History of the Income Tax in the United States 27

2024 Reference Table – Inflation Adjustments 28

2024 Rates, Brackets, etc 28

2024 Estate and Trust Tax Brackets 29

2024 Capital Gain Tax Brackets 29

2024 Standard Deduction 29

Additional Standard Deductions 29

Huge Tax Changes on the Horizon 30

Tax Provisions Expiring December 31, 2025 30

2024 Form 1040 31

Form 1040 32

Filing Issue - Military Spouses Choice of Domicile 34

Military Members Protected by Servicemembers Civil Relief Act (SCRA) 34

New protections provided to service members and their spouses 35

Counselor helps Texas Department of Education understand SCRA law 35

2024 Filing Requirements 36

Dependents 37

2023 Most Popular Baby Names 37

Back to Work! 37

Two dependent definitions and related tax attributes 37

Qualifying child defined 38

Qualifying relative defined 38

No qualifying child means no EIC or HOH filing status 39

Tie breaker rule 39

Dependents and Divorce 40

Release of exemption to noncustodial spouse 40

Form 8332 41

TAB 3: Income & Adjustments to Income 43

Gross Income 43

Schedule 1 43

Gross Income Rules 45

Social Security and the Workers Comp Offset 45

Workers’ compensation programs 45

Workers' compensation costs & benefits per $100 of payroll, 1980–2020 46

Social Security Disability Insurance 46

Workers Comp Offset 46

Average current earnings defined 47

Reverse offset states 47

Veterans benefits not impacted 48

Workers’ comp offset impacts disabled taxpayer 48

Request of redetermination 48

Sometimes what seems righteous isn’t how the law works 48

Tribal General Welfare Exclusion 48

IRS clarifies welfare benefit exclusion in proposed regulations 49

Tribal Government Program 49

Tribal General Welfare Benefits 49

Gaming revenue and general welfare benefits 49

Tribal Gaming Income Included in Tribal Member’s Gross Income 49

Gambling Income and Losses in General 50

Players adopt session accounting to calculate wagering income 51

Courts support the concept of session accounting 51

IRS concedes session accounting is appropriate for slots 52

Records help save part of the day for gambler 53

Sch C not allowed. 53

So what’s left – mercy of the Court. 53

Miscellaneous Gross Income Items 54

Public Safety Officer Health Insurance Exclusion 54

Workers Comp Awards Retain Tax-free Status if Converted 54

IRS confirms tax-free status retained 54

Car Sales Employee Doesn’t Get Sch. C for 1099 Income 55

GoFundMe, Giveforward, Crowd Funding Sites 55

IRS releases Online Crowdfunding Fact Sheet 56

Adjustments to Income 57

Educator Expense Deduction 58

Qualifying educators 58

Qualified expenses 58

Health Savings Accounts 58

2024-25 HSA Limits 58

High deductible health insurance plan required 58

New law extends HSA telehealth provisions through 2024 58

HSAs combine the best features of an IRA and a Roth IRA 59

HSA contributions 59

Medicare Lookback Issue For HSA Contributions 60

Overview 60

HSA contributions at age 65 and over 60

Medicare lookback creates a problem 60

HSAs at death of account owner 61

Creditable Coverage – Prescription Drug Coverage Notification Requirements 62

TAB 4: IRAs & Retirement Savings 63

Retirement in the U.S. in 2024 63

Figure 1. Access and Participation Rates 63

Congress takes action – no, really! 64

Secure Act 2.0 Summary 64

SECURE 2.0 Summary of Significant Provisions 64

2024 IRA Comparison Table 66

Traditional Deductible Individual Retirement Accounts 67

Traditional IRA Deduction Income Phase-Out Ranges 67

Traditional Non-Deductible IRA 67

What if Form 8606 is not included with the return? 68

Pro rata rule must be used for distributions 68

All IRAs must be aggregated when calculating the pro rata rules 68

IRA Rollovers 69

Roth IRAs 70

2024 Roth IRA AGI Limits 70

Roth Conversions 70

Backdoor Roth planning 71

Conversion caution 71

Serial Backdoor Roth 72

Mega-Roth Accounts 72

Mega-Roth – the New Frontier 72

To qualify 72

After tax contributions 73

Enter the Mega-Roth account 73

Limited §529 Plan Conversion to Roth IRA Allowed Start in 2024 74

Overview 74

What if there’s extra 529 plan money and nowhere to use it 74

Roth IRA rollover to the rescue – maybe? 75

IRA and Pension Plan Distributions 76

Excellent Sources of Additional Retirement Information 76

Account Holder Retirement Withdrawals 76

Required Minimum Distributions 76

SECURE Act 2.0 Changes RMD Age 76

Required beginning date” defined 76

RMD exception for those still working 77

Qualified Charitable Distributions from IRAs to Charity 77

Inflation adjustments coming to QCD annual maximum 77

QCD benefit 77

QCDs and inherited IRAs 78

IRAs only – not allowed for qualified plans 78

Contributing to an IRA may result in a reduction of the deductible QCD amount 78

Some charities do not qualify for QCDs 78

Charitable documentation is still required 78

Tax-free QCDs made to split-interest entity now allowed 78

Required Minimum Distribution Calculation – the math 79

Uniform Life Table Updated for 2022 and Years After 79

Inherited IRAs Distributions 79

Beneficiaries versus Designated Beneficiaries 79

Non-designated beneficiaries – the 5-year rule 79

IRS Issues Final RMD Regulations SECURE Act Rules 80

Chart: All Beneficiaries Are Either 81

Clarification of 10-year withdrawal for inherited accounts provided 81

Death occurs prior to owner reaching RMD age 81

Death occurs after required beginning date is reached 81

IRS waived excess accumulation penalties for 2021-2024 82

“Eligible Designated Beneficiary” (EDBs) definition clarified 82

Surviving spouse is the beneficiary 83

Non-spouse beneficiaries 84

Undesignated beneficiaries 84

Certain trusts may qualify as a designated beneficiary 84

Recent PLR provides insight when Trust is named beneficiary 85

New Regs Make Significant Change to Documentation Rules 85

Form 5329 – Additional Taxes On Retirement and Other Tax-Favored Accounts 86

Early Distributions – 60-day Rollover Rule Doesn’t Apply So Now What? 86

Exceptions to 10% Additional Tax (§72(t) 87

§72(t) Recent Developments 88

Federally Declared Disasters exempts withdrawals 88

Qualified loss 89

Employer participation optional 89

Form 8915-F 90

Adoption or Birth Early Distribution Exception 91

New birth-adoption repayment terms 91

Individual Emergency Personal Expenses 91

Terminally Ill Exception 91

TAB 5: Itemized Deductions 99

Schedule A 99

Standard Deduction 100

Medical Expense Deduction 100

Overview 100

Medical care defined 100

IRS Adds FAQs To Website-Clarify Medical Expense Deductions 101

Therapy: FAQ #7 101

Nutritional counseling: FAQ #8 101

Gym memberships: FAQ #10 101

Exercise: FAQ #11 101

Food and beverages: FAQ #12 101

Non-prescription medicines: FAQ #13 101

Nutritional supplements: FAQ #14 102

Beware of Misleading Advertising for Medical Reimbursement Products 102

Medical insurance deductions 102

Proposed regulations expand medical care definition 103

“Direct primary care arrangement” (aka: concierge medicine) 103

Direct primary care arrangements 103

“Health care sharing ministry” defined 103

Payments to Health Care Sharing Ministries as health insurance 104

HRA or HSA reimbursements 104

Medical (and other) Mileage 104

Qualified Long-Term Care Premiums 105

Taxes 105

Overview 105

State and local tax deductions limited to $10,000 105

Capitalization of tax and interest allowed 105

Home Mortgage and Investment Interest 106

Where to Deduct Interest Expense 106

Charitable Contributions 107

Taxpayer Certainty Act make changes to contribution rules 107

AGI limit of charitable giving modified 107

Charitable Contribution Deduction Substantiation Requirements 107

Contribution Documentation Summary 108

Date or “no goods or services” wording 108

The rest of the story 108

Volunteer Expenses as Charitable Contributions 109

Volunteers' Questions and Answers 110

Conservation Easements Continue to be Hot Button for IRS 111

Background 111

Conservation Easement Final Regulations Officially Add SCEs 111

IRS reported problems with conservation easements 111

Final regulations aim to correct problems with Notice 2017-10 112

Final regulations provide Court ordered comment period 112

New holding periods required for some conservation easements 112

In perpetuity requirement and related regulation 113

Penalties may be avoided 115

Taxpayers are not the only ones in the IRS sights 115

TAB 6: Credits, Other Taxes, Withholding & Estimated Tax Payments 117

 Schedule 2 117

Schedule 3 119

Credits 120

Refundable credits include 120

Nonrefundable credits include 120

Energy Efficient Home Credit 120

Credit criteria 120

Qualified energy efficiency improvements 121

Residential energy property expenditures 121

Home energy audits 121

Additional documentation required beginning in 2025 121

Qualifying improvements 121

Homes used personally and for business 122

Other credit conditions include 122

Documentation required 122

Credit is nonrefundable 122

Guidance on Tax Treatment of Rebates for Energy Efficiency Property 124

Energy Efficient Home Credit Summary 125

Residential Clean Energy Credit 125

Applying the credit 126

Storage systems qualify starting in 2023 126

Other credit details 126

Residential Clean Energy Credit Summary 126

IRS Provides Early Statistics for 2023 Tax Returns and Home Energy Credits 127

Residential and Energy Efficient Home Improvement Credit 127

IRS Warns Taxpayers of New Scams Targeting Energy Credits 127

Other credit related scams also on the IRS radar 127

Clean Vehicle (CV) Credit 128

Newly revised clean vehicle (CV) credit began January 1, 2023 128

Qualifying vehicle 128

Qualified manufacturer 128

Qualifying taxpayer 129

2-wheel and 3-wheel vehicle credit repealed 129

Qualified dealer required? 129

Form 8936 130

Summary of Qualifications for the Clean Vehicle Credit 130

Used Clean Vehicle (UCV) Credit 130

Qualifying UCV purchase 130

Other UCV rules 131

Transferability of new and used clean vehicle credits 131

IRS clarifies transfer rules 131

Alternative Fuel Vehicle Refueling Property (AFVRP) Credit 132

Changes to AFVRP credit in 2023 and beyond 132

Non-business credit is also available 132

Census tract specific locations only 132

Premium Assistance Credit 133

Summary of old law 133

Applicable Percentage Table for Pre-2021 and Post-2025 133

Changes for years 2021 through 2025 133

Applicable Percentage Table for 2021 and 2025 133

2024 Federal Poverty Levels 134

Premium Assistance Credit (PAC) – Planning Note 135

Allocation allowed in any fashion taxpayers agree to 135

Author note - Pushback on this example 135

Household income defined 135

Other Planning Opportunities Revolving Around PAC, Savers Credits and IRAs 136

Savers Match Credit 138

Credit for IRA and pension contributions often overlooked 138

2024 Saver's Credit 138

Secure Act 2.0 makes big changes to Savers Credit 139

IRS requests comments 139

Other Taxes 140

Net Investment Income Tax (NII Tax) 140

Surtax Guide SELECTED Business Items 140

TAB 7: Landlords, Investors & Capital Gains 141

Sales and Capital Gains 141

Purpose and Use of Form 4797 144

Form 4797 Recapture Rules 147

Example 1 of §1245 Installment Sale 148

Example 2 of §1245 Installment Sale 150

Example of §1250 Installment Sale 152

Example of §1231 Recapture Rules 154

Reporting Business Asset Sales on Form 4797 155

Other Form 4797 Issues 155

Example of §179 Recapture Rules 157

Rentals of Mini Storage Facilities 158

Operations 158

Income is passive for all, but real estate pros 158

Incidental income is still passive rental income 158

Self-storage rental reporting 158

Deprecation and related issues 158

Operating Statistics 159

Estimating value 159

Delaware Statutory Trusts 160

DST ownership structure 160

DST requirements 160

DSTs are complex 161

DST structural advantages 161

Other DST facts and figures 161

DST real estate ownership 161

Typical DST Structure 162

Role of DSTs in Like-Kind Exchanges 162

Conversion of DST ownership to REIT ownership 162

Conversion to REIT mechanics 163

DSTs - Advantages and Disadvantages 165

Other Operating and Tax Issues 168

Monetized Installment Sales to be Added to IRS List of Reportable Transactions 170

Abusive monetized installment sales programs 170

Digital Asset Developments 171

Final Digital Asset Regs Issued 171

New Form Coming for Digital Asset Sale Reporting, but Not for 2024 171

Penalty provisions delayed 171

Form 1099-DA 172

Landlords and Schedule E 173

Schedule E 173

Purpose of Schedule E 174

Rental activity defined 174

Common errors on Schedule E 174

IRS weighs in on SE tax for rental activities 175

1. Home rented with substantial services provided 176

Level of service provided means SE tax is owed 176

2. Partial home rented 176

No services, no SE tax 176

Real Estate Professionals 176

Overview 176

Qualifying to be a real estate professional 176

IRS targets time tests as vulnerable 177

Other items to note for tests 177

Implausible testimony not enough 178

Taxpayer is a real estate professional – so what? 178

Real estate professionals get to test – that’s it. 178

Spousal participation counts 179

Grouping Activities 180

Grouping is important for several reasons 180

Appropriate economic unit 180

Grouping factors to consider include 180

Certain activities may not be grouped 180

Grouping election 181

Grouping Election Example 182

Aggregation Election (§1.469-4) for Real Estate Professionals 183

Late aggregation election allowed 183

IRS allows 120-day extension to make aggregation election 184

Aggregation procedures 184

Election procedure 184

Aggregation Election for Real Estate Professional 185

No grouping election means each property looked at individually 185

Good records save rental deductions for stockbroker 185

Final note 186

FinCEN 114 (Report of Foreign Bank & Financial Account (FBAR)) 187

Filing Requirements 187

Corporations have an FBAR reporting responsibility 188

Form 1040, Schedule B reporting 188

Who is United States Person? 189

“Financial Accounts” defined 190

Financial Interest 193

Signature Authority 194

Reporting Jointly Held Accounts 195

Modified Reporting Requirements 195

Filing Exceptions 196

Recordkeeping 198

FBAR Penalties 198

Penalty amounts 198

Penalties are assessed per report (FinCen Form 114) not per account 199

Supreme Court gets involved 199

FBAR is late, now what? 199

Filing Amended Returns After You’ve Been Caught Not Much Help 199

Penalty for the undisclosed foreign accounts 200

Court say pay up 200

Penalties 200

FinCEN 114 201

Other Foreign Investor Reporting 203

Who must file 203

Non-filing penalties 203

Farhy, admitted tax cheat, argues Form 5471 penalties not enforceable 203

Farhy challenges IRS’s authority to assess penalties 204

Court of Appeals Sides with IRS – Let’s Penalties Stand 204

So, the penalty stands, right? Not so fast. 204

TAB 8: Tax Planning for W-2 Employees 205

Tax Planning in 2024 and Beyond 205

Author note 205

Private equity firms (PE) are looking to invest in CPA firms 205

Employee retention credit (ERC) and revealed potential 205

ERC is not the end 205

Everyone’s an expert if you don’t get audited 206

Consultant hired to provide “Income Tax Plan.” 206

IRS says no deal and Court agrees 206

How Does Tax Planning Fit Into All This? 206

Tax planning process 206

Tax Changes on the Horizon 207

Tax Provisions Expiring December 31, 2025 207

Excess business losses 208

Multi-year, multi strategy planning is key 208

Expiring provisions – the basics 208

Rate changes 209

Standard deduction 209

TCJA Planning Strategies 209

Planning example 210

Overall Strategy – ABD for sure! 210

Estate and Gift strategies 212

Irrevocable trust considerations 213

Spousal Lifetime Access Trust (SLAT) 213

Charitable remainder trust (CRT) 213

Qualified personal residence trust (QPRT) 213

Intentionally defective grantor trusts (IDGT) 214

Charitable lead trusts (CLT) 214

Tax Planning Strategies 214

Low Income Year Checklist 222

W-2 Employee Planning Checklist 223

Retirement Planning Checklist 224

Planning for Every Taxpayer Checklist 225

Employer Fringe Benefit Plan Checklist 226

Business Owner Checklist 227

TAB 9: Estate & Trust Developments 229

2024 – Estates by the Numbers 229

Estate Tax Rates 229

Table A- Unified Rate Schedule 229

Gifting Rules 229

Gift-splitting 230

Estate and Gift Tax Developments 230

Value of Life Insurance Included in C Corp Value for Estate 230

What is the value of the business? 230

Supreme Court analyze chicken and egg dilemma 230

Valuation based on pre-redemption value. 231

Final Regulations Issued for Basis Reporting Rules 231

Zero basis rule 231

Basis notification statements due date 231

Subsequent gifts 231

Form 8971 231

Sch A- Info Regarding Beneficiaries Acquiring Property From a Decedent 232

No Basis Step Up for Assets Owned by Irrevocable Trust 232

Sham Trusts with no Economic Substance – Taxpayers Pay 233

Court says whole scheme was a sham 233

More than money at stake 233

Uncashed Checks are Still Part of Decedents Estate 233

Disclosure Required for Recipients of Large Gifts from Foreign Persons 234

Accrued Savings Bond Interest is Income in Respect of a Decedent 234

Estate Closing Letters 234

Process for obtaining estate tax closing letter 234

Transcript Delivery 235

Transcript Delivery Service Now Available for Estate Tax Accounts 235

Portability Election Changes 235

Portability Overview 235

Estates not required to file Form 706 235

IRS continues to field numerous late election requests 235

Late portability election rules changed again 235

Refund claimed on Form 843 237