# Panorama

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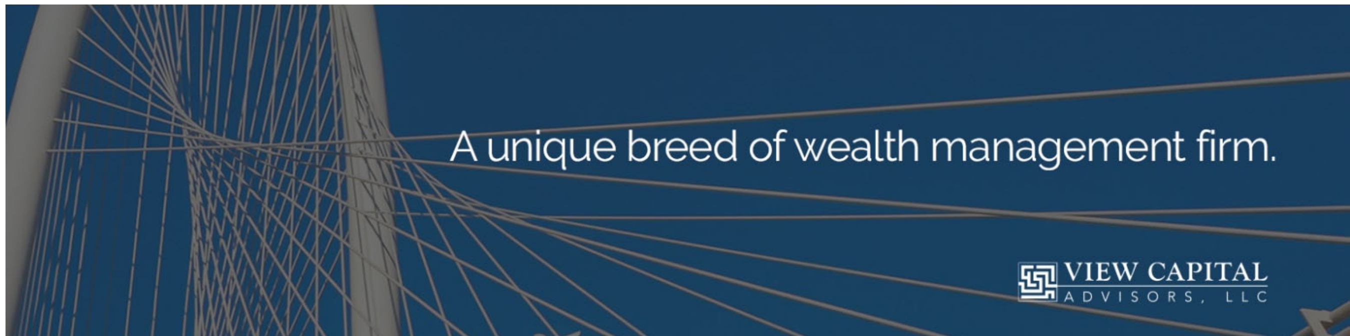


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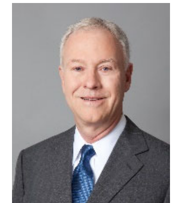

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## Form 1099-K Reporting Delay

A 1099-K is a transaction record from third-party payment networks such as PayPal or Venmo. These payors fill out the 1099-K, which is an Internal Revenue Service (IRS) information return, and send copies annually to the IRS, state taxing authority, and person receiving the payments. The objective of the form is to ensure people do not overlook and fully report their business income received from these payment networks on their tax returns. Payments between family members, such as gifts or reimbursements for expenses, are not included in 1099-K reporting because these are not considered taxable income.

Each online payment network is required to file and send a 1099-K if it transferred at least $20,000 to you during 2023. The $20,000 threshold is an aggregate, meaning that even if different people sent you small amounts of money via PayPal throughout the year, you'll get a 1099-K from PayPal if those payments add up to at least $20,000.

The IRS had planned to lower the reporting threshold to $600 in 2023 to minimize what they perceive is unreported income by taxpayers. But following feedback from taxpayers, tax professionals, and payment processors and to reduce taxpayer confusion, the IRS delayed the new $600 Form 1099-K reporting threshold requirement for third-party payment organizations for tax year 2023 and is planning a threshold of $5,000 for 2024 to phase in the new law.

Third-party payment organizations include many popular payment apps and online marketplaces. The IRS is making 2023 another transition year to implement the new requirements under the American Rescue Plan that changed the Form 1099-K reporting threshold for payments taxpayers get from selling goods or providing a service over $600. The previous reporting thresholds will remain in place for 2023.

This means that for 2023 and prior years, payment apps and online marketplaces are only required to send out Forms 1099-K to taxpayers who received over $20,000 and had over 200 transactions. For tax year 2024, the IRS plans for a new lower threshold of $5,000 to phase in reporting requirements. This phased-in approach will allow the agency to review its operational processes to better address taxpayer and payment network concerns. Taxpayers should be aware that while the reporting threshold remains over $20,000 and 200 transactions for 2023, payor companies could still issue the form for any amount.

## Corporate Transparency Act Update

The new year has arrived and so have the disclosure requirements related to the Corporate Transparency Act. Keep in mind that entities that were in existence prior to January 1, 2024, have until the end of that year to fulfill any reporting requirements they may have. While published final FinCEN regulations do provide significant guidance for the reporting process, many questions remain without direct FinCEN answers. We continue to research new unanswered “how do I” questions that we and our clients have raised and will bring them to your attention in this newsletter and coming Panorama issues.

The most common reaction we’ve had from our clients is whether they can simply hire a qualified third-party service provider to satisfy their reporting obligations for their companies and individual beneficial ownership. We have discovered that this service provider solution may not be as readily available as one would think.

CPAs and tax preparers would seem to have the perfect skill sets to perform this service. However, we have been informed by many accountants that they will not provide this service. They have been advised by their liability insurance carriers that since this reporting task has nothing to do with tax compliance, their participation could be viewed as unauthorized practice of law. Accordingly, accountants would not

have liability coverage for any inadvertent errors they might commit in reporting that cause financial or other harm to their clients while providing this service.

We then asked several of our local law firm friends about their plans for offering this service. Many smaller law firms have generally concluded that they do not wish to provide this service because they do not have the required infrastructure, resources, or training. Larger law firms may offer the service, but they anticipate that their hourly billing rates for their involvement may disincentivize clients from pursuing this avenue.

Another available service provider possibility is to hire established corporate registered agent services that historically provide entity setup and management services. These firms are going to offer this beneficial ownership reporting service for a fee. For some, this may be a good option. However, based on our more in-depth conversations with these service providers, they will simply electronically enter the data you supply them into the FinCEN database. Any determination of whether one of the 23 reporting exemptions is available for a particular reporting company, or the mathematical calculation to determine whether you or another family member directly and indirectly own more than 25% of a reporting company, is outside the scope of their service offering. You will need to figure out the answers to these questions on your own before signing an attestation attesting to the accuracy and truthfulness of the answers they will enter.

In any event, our recommended starting point for any individual is to do a thorough review of all entities that you have ever had ownership of or some form of control. With this inventory in hand, the first analysis should be to see if any of those reporting companies might meet the "inactive" exemption. An inactive entity that would otherwise be a reporting company is one that a) was in existence on or before January 1, 2020; b) is not currently engaged in active business; c) has no direct or indirect ownership by a foreign person; d) has not experienced any change in ownership in the preceding 12 months; e) has not sent or received funds in an amount greater than $1,000, either directly or through any financial account in which the entity or any affiliate of the entity had an interest, in the preceding 12-month period; and f) does not otherwise hold any kind or type of assets, whether in the U.S. or abroad. You may lessen the amount of reporting you have to do if you take this opportunity to clean house and dissolve any outdated, unnecessary entities.

One observation that we have is directed at our clients who have relatively simple entity ownership structures, for example, maybe they own one single member LLC for liability purposes. We advise you to consider filing the online FinCEN reporting yourself. There is no fee charged by FinCEN, and the information to be uploaded for many of our clients will not be complicated.

Another observation we have is to consider acquiring a FinCEN identifier number. You do this by going online to the FinCEN BOI website and submitting the information and documentation requested. They will immediately issue you a unique, permanent ID number that identifies you in your filing. This may be extremely helpful if you have several disclosures to make. You are required to update your online information for any changes, such as a change in address or the expiration of the personal photo ID you

submit. Whether you hire a third-party service provider to do your online filing or do it yourself, you will have to acquire your own FinCEN identifier number if you choose to use one.

Also, since there are continuing obligations to update any information that has changed, a question for consideration is: What happens when you no longer have a FinCEN reporting obligation? For example, you have retired, died, become disabled, or no longer have the ownership or control that requires reporting. FinCEN has announced that they will provide a process to follow to deactivate your FinCEN identifier. You will need this deactivation option because of the continuing obligation the identifier owner has to update their information, at the risk of civil or criminal penalties.

## IRS Sets 2024 Inflation Adjustments

The IRS issues its annual revenue procedure at the end of each year to disclose annual inflation adjustments to more than 60 tax provisions that benefit from such adjustments. Generally, these inflation adjustments are intended to ensure that provisions that affect designated retirement and income tax liability for the year do not indirectly raise your taxes due to inflation. Until 2022, inflation has been at a very low level. The past two years, however, have seen significant hikes in inflation, making these annual adjustments very relevant. Consider these 2024 inflation adjustments:

- Top marginal income tax bracket — $731,200 for married filing jointly
- Standard deduction — $29,200 for married filing jointly
- Additional amount for married seniors (age 65 or older) — $1,550 for married filing jointly
- Alternative minimum tax exemption — $133,300 for married filing jointly
- 0% capital gains tax bracket — $94,050 for married filing jointly, $47,025 for single
- Annual exclusion gifts — $18,000 per donee per year from each donor
- Annual exclusion for gifts to non-citizen spouses —$185,000
- Qualified business income deduction threshold — $383,900
- Estate and gift basic exclusion amount — $13,610,000 per spouse
- Social Security and Supplemental Security Income benefits increase by 3.2% in 2024
- SEP IRA contribution limits for 2024 — lesser of 25% of compensation or $69,000
- Traditional and Roth IRA contribution limits for 2024 — $7,000 plus a catch-up limit for individuals aged 50 and over of $1,000
- 401(k) plan contribution limits for 2024 — $23,000 plus a catch-up limit for individuals aged 50 and over of $7,500 for a total of $30,500
- 2024 limit on charitable contributions/RMD from your IRA — $105,000

## Pay Attention To Paying Your Taxes

Over your lifetime of paying federal income taxes, you'll undoubtedly receive at least one IRS notification stating that while you ultimately paid enough to satisfy your tax liability for the year, you didn't pay your taxes soon enough. Therefore, the IRS assesses you an underpayment penalty to remind you to pay more of your tax sooner next year.

How much and how fast must you pay? The U.S. income tax operates on a pay-as-you-go system. While earning income during the tax year, you must pay at least 90% of the tax you ultimately will report when you file your tax return or be penalized. The problem is that most taxpayers won't know what their total tax bill is until well after the IRS expects you to have paid the 90% minimum. Your tax payments during the year are made through payroll withholding if you're employed, or through quarterly estimated tax payments, or both. The quarterly payment due dates are April 15, June 15, September 15, and January 15 following the end of the tax year.

Using an example, let's illustrate the amounts and timing of these payments. Assume no tax withholding and all your payments are made by quarterly estimated tax payments. Further assume your entire tax bill for the year is $30,000. Under the general rule, you need to pay at least 90%, or $27,000, during the year. But you can't pay it all on the last day of the tax year. You are required to pay 90% equally over the four quarterly payments, which is 22.5% of your total tax or $6,750 each quarter. If you underpay a quarter, you'll pay a penalty. If you overpay a quarter, the excess will count toward the next quarter's payment.

For those individuals whose income fluctuates widely between tax years and is hard to estimate, there is a safe harbor payment amount. So long as you pay at least 110% of your prior year's total tax liability ratably over the four quarters, you will not pay an underpayment penalty, even if you fail to meet the 90% minimum. Here's a bit of tax trivia that some taxpayers can benefit from. To the extent that you have earned income subject to tax withholding, it is important to understand that withholding is treated as being paid ratably during the tax year, regardless of when the withholding is actually paid during the year. By an exaggerated example, if your employer pays you a bonus the last week of the year, you could request an oversized withholding from your bonus to make up for any potential tax payment shortfalls in earlier quarters. The withholding will apply backwards to January 1 of the current tax year and possibly move you out of penalty exposure in earlier quarters. Some individuals might also consider taking a taxable IRA distribution and withhold most or all the distribution. These are strategies to be pursued only after thoroughly reviewing the appropriateness with your tax preparer.

Also, any tax refunds when you file your return can be applied to the following year's tax liability. When this strategy is pursued, the refund effectively works as a first quarter payment for the following tax year, even if the refund amount is not determined until well after the first quarter due date of April 15. Given that the interest rate the IRS charges for the underpayment penalty is now 8% due to increased market rates, it can get quite expensive to have an inadequate tax payment schedule. In fact, a smarter

strategy might be to pursue a perpetual and reasonable overpayment position where you have the option to apply some or all of your refund to next year's return to ensure that the required April 15 quarterly tax payment in the following year has the greatest likelihood of being achieved.

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**We seek to bring wealth planning best practices and a wide range of non-proprietary solutions to our clients. We also conduct our own research and diligence on world markets and investment alternatives.**

**For further information, please contact your investment representative or one of our wealth planning specialists:**

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