GRAFF, BLANSKI & KIM, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

TWO NORTHFIELD PLAZA SUITE 200 NORTHFIELD, IL 60093

PHONE: 847-881-2540 FAX: 847-881-2549

WEBSITE: WWW.GBBCPA.COM

Tax & Business Alert

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RETIREMENT SAVING OPTIONS FOR YOUR SMALL BUSINESS

If you're looking for a retirement plan for yourself and your employees, but you're worried about the financial commitment and administrative burdens involved, there are some options to consider. One possibility is a "simplified employee pension" (SEP). This plan — which comes with relative ease of administration and the discretion to make or not make annual contributions — is especially attractive for small businesses.

Note: There's still time to see tax savings on your 2023 tax return by establishing and contributing to a 2023 SEP, right up to the extended due date of the return. For example, if you're a sole proprietor who extends your 2023 Form 1040 to October 15, 2024, you have until that date to establish a SEP and make the initial contribution, which you can then deduct on your 2023 return.

SEP INVOLVES EASY SETUP

You can set up a SEP easily using the IRS model SEP, Form 5305-SEP. This form, which doesn't have to be filed with the IRS, satisfies the SEP requirements. As the employer, you'll get a current income tax deduction for contributions you make on behalf of your employees. Your employees won't be taxed when the contributions are made but will be taxed later when distributions are made, usually at retirement. You can also opt for an individually designed SEP — instead of the model SEP — depending on your needs.

The maximum deductible contribution that you can make to a SEP-IRA — and that can be excluded from income — is the lesser of: 1) 25% of compensation, or 2) $69,000 for 2024 (up from $66,000 for 2023) per employee. Note, however, that if the business owner doesn't receive a W-2 from the business (for instance, from an unincorporated sole proprietor), the calculation for the contribution to be made on behalf of the owner varies slightly. The deduction for your contributions to employees' SEP-IRAs isn't limited by the deduction ceiling applicable to an individual's own contribution to a regular IRA. Your employees control their individual IRAs and IRA investments as well as the tax-free earnings.

There are other requirements you'll have to meet to be eligible to establish and make contributions to a SEP. Essentially, all regular employees must elect to participate in the program, and contributions can't discriminate

ANOTHER OPTION: SIMPLE PLANS

A business with 100 or fewer employees may want to consider a “savings incentive match plan for employees” (SIMPLE). The employer establishes a “SIMPLE IRA” for each eligible employee, making matching contributions based on amounts elected by participating employees under a qualified salary reduction arrangement. The SIMPLE plan is also subject to much less stringent requirements than traditional qualified retirement plans.

Another option: An employer can adopt a “simple” 401(k) plan, with similar features to a SIMPLE plan. It is not subject to the otherwise complex nondiscrimination rules that apply to 401(k) plans.

For 2024, SIMPLE deferrals are limited to $16,000 (up from $15,500 for 2023). Additional $3,500 catch-up contributions are also allowed for employees ages 50 and older.

in favor of highly compensated employees. But these requirements are minor compared to the bookkeeping and other administrative burdens connected with traditional qualified retirement and profit-sharing plans.

SEPS don’t require the detailed records that traditional plans must maintain. Also, there are no annual reports to file with the IRS, and the recordkeeping that is required can be done by a trustee of the SEP-IRA — usually a bank or mutual fund.

Contact us for more information. We can also provide information about this or any other aspect of your retirement planning. ■

HIRING? HOW TO BENEFIT FROM THE WORK OPPORTUNITY TAX CREDIT

If you’re a business owner or manager who is seeking to hire, you should be aware of the details of a valuable tax credit for hiring individuals from one or more targeted groups. Employers can qualify for the Work Opportunity Tax Credit (WOTC), which is worth as much as $2,400 for most eligible employees (higher or lower for certain employees). The credit is limited to eligible employees who begin work for an employer before January 1, 2026.

Generally, an employer is eligible for the credit only for qualified wages paid to members of a targeted group. These groups are:

1. Qualified members of families receiving assistance under the Temporary Assistance for Needy Families (TANF) program,
2. Qualified veterans,
3. Qualified ex-felons,
4. Designated community residents,
5. Vocational rehabilitation referrals,
6. Qualified summer youth employees,
7. Qualified members of families in the Supplemental Nutritional Assistance Program (SNAP),
8. Qualified Supplemental Security Income recipients,
9. Long-term family assistance recipients, and
10. Long-term unemployed individuals.

To claim the WOTC, an employer must first get certification that the person hired is a member of one of the targeted groups above. They do so by submitting Form 8850, Pre-Screening Notice and Certification Request for the WOTC to their state agency, within 28 days after the eligible worker begins work.

YOU MUST MEET CERTAIN REQUIREMENTS

There are several requirements to qualify for the credit. For example, each employee must have completed a specific number of hours of service for the employer.

Also, the credit isn't available for employees who are related to, or who previously worked for, the employer.

There are different rules and credit amounts for certain employees. The maximum credit available for first-year wages is $2,400 for each employee, $4,000 for long-term family assistance recipients, and $4,800, $5,600 or $9,600 for certain veterans. Additionally, for long-term family assistance recipients, there's a 50% credit for up to $10,000 of second-year wages, resulting in a total maximum credit, over two years, of $9,000.

For summer youth employees, the wages must be paid for services performed during any 90-day period between May 1 and September 15. The maximum WOTC credit available for summer youth employees is $1,200 per employee.

An eligible employer claims the WOTC on its federal income tax return. The credit value is limited to the business's income tax liability.

A VALUABLE CREDIT

There are additional rules and requirements. In some cases, employers may elect not to claim the WOTC. And in limited circumstances, the rules may prohibit the credit or require an allocation of it. However, for most employers hiring from targeted groups, the credit can be worthwhile. Contact us with questions or for more information about your situation. ■

HAVE YOU RECENTLY REVIEWED YOUR LIFE INSURANCE NEEDS?

At one time, life insurance played a much larger part in an estate plan than it does now. Why? Families would often use life insurance payouts to pay estate taxes. But with the federal gift and estate tax exemption at $13.61 million for 2024, far fewer families currently are affected by estate tax.

However, life insurance remains a powerful tool to help provide for your loved ones in the event of your death. The amount of life insurance that's right for you depends on your personal circumstances, so it's critical to review your life insurance needs regularly in light of changing circumstances.

REASONS TO REEVALUATE

In addition to the estate tax exemption amount, consider reevaluating your insurance coverage if you're:

- Getting married,
- Getting divorced,
- Having children,
- Approaching retirement, or
- Facing health issues.

The right amount of insurance depends on your family's current and expected future income and expenses, as well as the amount of income your family would lose should you pass away. The events listed above can change the equation, so it's a good idea to revisit your life insurance needs as you reach these milestones. For example, if you get married and have kids, your current and future obligations are likely to increase significantly for expenses related to childcare, mortgage, car payments and college tuition.

As you get older, your expenses may go up or down, depending on your circumstances. For example, as your children become financially independent, they'll no longer rely on you for financial support.

On the other hand, health care expenses for you and your spouse may increase. When you retire, you'll no longer have a salary, but you may have new sources of income from retirement plans and Social Security. You may or may not have paid off your mortgage, student loans or other debts. And you may or may not have accumulated sufficient wealth to provide for your family.

PERIODIC REASSESSMENT A MUST

There are many factors that affect your need for life insurance, and these factors change over time. To make sure you're not over- or underinsured, reassess your insurance needs periodically — and especially when your life circumstances change. We can help you assess whether you have an adequate amount of life insurance coverage. ■

THE CHILD TAX CREDIT IS STILL AVAILABLE

Parents know that raising children is expensive. Although some of the enhancements of the Child Tax Credit (CTC) have expired, this valuable credit is still available for eligible parents of children under age 17. Plus, there's still time to claim the CTC on your 2023 tax return if you haven't filed yet. Here are the current rules.

For 2023, the CTC is $2,000 for each child if your modified adjusted gross income (MAGI) is $200,000 or less for single filers ($400,000 for married couples who file jointly). Once your MAGI exceeds that limit, the credit is reduced by $50 for each $1,000 above the threshold. It's fully phased out when your MAGI reaches $240,000 for single filers ($440,000 for married couples who file jointly).

Important: This credit is partially refundable, meaning that you don't have to owe taxes to qualify for the credit. For 2023, the maximum refundable portion is $1,600.

Also available is a $500 credit for certain dependents other than qualifying children. This may include dependent children age 17 or older, dependent parents or other qualifying relatives supported by the taxpayer, and dependents who live with the taxpayer but are unrelated.

FINAL POINTS

On January 31, 2024, the House of Representatives passed a bill containing enhancements to the CTC for 2023 through 2025. As of this writing, it's uncertain whether it has enough support to pass the Senate. Contact us for the latest information. ■