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# 2024 Tax Updates: What Service Providers Need to Know

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# 2024 Tax Updates: What Service Providers Need to Know



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This webinar has been approved to offer continuing education credit. Please stay tuned for more information!

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## Today's Presenter

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### **Andrew Zumwalt**

Associate Teaching Professor  
Program Chair of the Personal Financial Planning Program  
Division of Applied Social Sciences  
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Adjunct Professor  
The American College

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## Agenda for today

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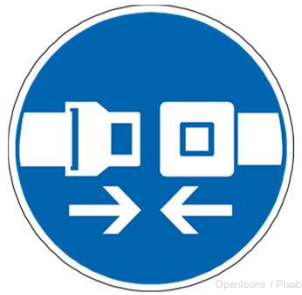
- Inflation Reduction Act
- Dependent Care FSA
- Annual Inflation Changes
- Miscellaneous
- Crystal Ball Time

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## Inflation Reduction Act

- Energy Efficient Home Improvement Credit
- Residential Clean Energy Property Credit
- Qualified Plug-in Electric Drive Motor Vehicle Credit
  - New Clean Vehicles
  - Used Clean Vehicles



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## Energy Efficient Home Improvement Credit

- Revamped for 2023-2033
- **Annual** credit of up to \$3,200 (vs lifetime credit)
- Credit taken in year installed
- Credit is 30% of qualifying expenses
  - Qualified energy efficiency improvements installed during year
  - Residential energy property expenditures
  - Home energy audits during the year (30% of costs up to \$150)

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## Qualified Energy Efficiency Improvements

- Maximum credit of \$1,200 for these improvements
  - Exterior doors (*30% of costs up to \$250 per door, up to a total of \$500*)
  - Exterior windows and skylights (*30% of costs up to \$600*)
  - Insulation materials or systems and air sealing materials/systems (*30% of costs*)



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## Residential Energy Property Expenditures

- Maximum credit of \$1,200
- 30% of costs, including labor, up to \$600 for each item
  - Central air conditioners
  - Natural gas, propane, or oil water heaters
  - Natural gas, propane, or oil furnaces and hot water boilers
  - Other (electrical equipment)



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## Heat Pumps and Biomass

- Separate credit limit of \$2,000
- 30% of costs, including labor
  - Electric or natural gas heat pump water heaters
  - Electric or natural gas heat pumps
  - Biomass stoves and biomass boilers



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## Suggestions

- Before undertaking any work, research the tax credits
  - EnergyStar.gov (includes pictures!)
  - Consider spreading work over several years
    - Credit is based on install date
    - Heat pump: November 2023
    - Heat pump hot water heater: January 2024
  - Clients should review their tax situation
    - Will they have tax to offset?
- Strong emphasis on heat pumps



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## New Clean Vehicles

- Qualified plug-in EV or fuel cell electric vehicle (FCV)
  - IRS has a list of eligible cars (fueleconomy.gov)
- Maximum credit of \$7,500
- Nonrefundable
- New rules!
  - \$3,750 for meeting the critical minerals requirement
  - \$3,750 for the battery components requirement
  - Only apply to purchases; leases avoid these requirements



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## New Clean Vehicles

- AGI Limits (current or prior year):
  - \$300,000 for married couples filing jointly
  - \$225,000 for heads of households
  - \$150,000 for all other filers
- MSRP must be below:
  - \$80,000 for vans, sport utility vehicles and pickup trucks
  - \$55,000 for other vehicles



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## Used Clean Vehicles

- Qualified used electric vehicle (EV) or fuel cell vehicle (FCV) from *a licensed dealer*
  - IRS has a list of vehicles... (fueleconomy.gov)
  - 30% of the sale price, up to \$4,000 credit
- AGI limits (current or prior year)
  - \$150,000 for married filing jointly or a surviving spouse
  - \$112,500 for heads of households
  - \$75,000 for all other filers



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## Used Clean Vehicles

- More requirements
  - Have a sale price of \$25,000 or less
  - Have a model year at least 2 years earlier than the calendar year when purchased
  - Not have already been transferred after August 16, 2022, to a qualified buyer
  - Not have claimed another used clean vehicle credit in the 3 years before the purchase date



Jamie/Adobe Stock

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## New in 2024

- Dealer will submit your info to the IRS
- Two ways to claim the credit
  1. Claim it on your tax return on form 8936
  2. Transfer the credit to the dealer (and lower the cost)
    - Still need to file form 8936 noting the transfer



*Note that if the vehicle qualifies but you do not qualify for the credit for any reason (e.g., your modified adjusted gross income exceeds certain thresholds), you must reimburse IRS for any difference in the credit for which you are eligible and the benefit you received from the dealer. Dealers are not required to verify the eligibility of the buyer at the time of sale. It is your responsibility to ensure that you meet all buyer requirements. The dealer is, however, required to provide the modified adjusted gross income requirements for your information.*

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## Suggestions


- Research before walking into the dealership
  - Get the details down before negotiating
- Private sellers at a disadvantage
  - Discount in the private markets?
- Negotiate without mentioning/considering the credit
- Credits are nonrefundable
  - Need a tax liability to offset
  - Credits do not carryforward
- Dealers will report everything to IRS



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## Used Car Examples



Get it Friday ♥

EV Credit

**2017 Kia Soul EV**  
e • 12,172 miles

**\$16,990** Est. \$327/mo ⓘ  
\$590 cash down

Shipping: \$590 • Get it by Friday

EV Tax Credit

### Up to \$4,000 in savings

This vehicle may qualify for the Previously-Owned Clean Vehicle tax credit made available to taxpayers in the Inflation Reduction Act.

[Learn More](#)

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## Dependent Care FSA

- Dependent Care Flexible Spending Account
- Cover the basics; Explore the tax issues
- Compare to the Child and Dependent Care Credit
- Learn more:

<https://finred.usalearning.gov/benefits/dcfsa>



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## Dependent Care FSA

- Funds are deducted from paycheck, deposited in the FSA
  - Avoid federal, state (mostly), Social Security, and Medicare taxes
- Claims are submitted against the DCFSA to reimburse dependent care expenses
- Cannot request prepaid expenses
- Can request in excess of payroll withdrawals
- Funds are 'use it or lose it'
  - Unused amounts are forfeited at the end of the time period
- **Purpose:** Avoiding taxes on dependent care expenses



Anton Sheparenko/Adobe Stock

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## Dependent Care FSA

- Qualifying person:
  - A qualifying child who is **under age 13 when care is provided**
  - A spouse unable to care for themselves, physically or mentally
  - Other person unable to care for themselves, physically or mentally, who either is
    - Your dependent
    - Would have been a dependent except for issues of income, joint return, or other reason\*



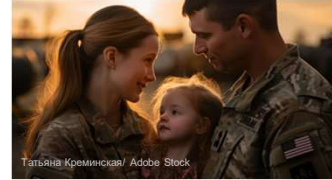
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## DCFSA Key Details

- Taxpayers (and their spouse) must be:
  - Working (or looking for work); volunteering does not count or
  - Full-time student (at least 5 months of the year) or
  - Physically or mentally unable to care for self
- Expenses must be related to work
  - Example: Put your child in daycare while you work, YES!
  - Example: Hire a babysitter for date night, NO!



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## Dependent Care FSA

- Can transfer \$5,000 to the DCFSA per return
  - If two spouses max out both their DCFSAs, only \$5,000 will be excluded from taxation. The other \$5,000 will be taxed.
- Can't be Married Filing Separate
  - *unless you meet exception\**
- If the taxpayer fails to meet the requirements, some or all of the \$5,000 could be included in taxable income.



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## DCFSA Key Details

- **Qualifying expenses:**

- Provide care: *main purpose is wellbeing and protection*

- **Non-qualifying:**

- Food, lodging, clothing, education, and entertainment... unless incidental and can't be separated from cost of care



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## DCFSA Key Details

Example: Kelly attends daycare, and the care provider serves lunch.

- Lunch is incidental to the care and isn't separated out (*have you seen a hungry 5-year-old?!).*)



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## DCFSA Key Details

Ex: James attends overnight summer camp.

- Since the main purpose is overnight camping, the expense is not qualified.
- If the camp was a day camp with little/no overnight camping, then expenses could qualify; this includes specialized camps (e.g., robotics, soccer).



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## DCFSA Key Details

### Qualifying expenses:

- **Provide care:** *main purpose is wellbeing and protection*
- **Education:** Expenses for Nursery school, preschool, and anything else *below* kindergarten qualify.
  - Kindergarten and higher grades do not qualify.
  - Summer school and tutoring are not expenses for care.
- BUT! Expenses for before or after-school care do qualify.

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## DCFSA Key Details

- **Qualifying providers:**

- E.g., Child daycare provider, day camp provider, tax-exempt agency, neighbor, relative

- **Anyone who isn't:**

- Someone you **can** claim as a dependent
- Your child under the age of 19 (at the end of the year)
- Your spouse (at any point during the year)
- The qualifying person's parent if the qualifying person is your child and under 13

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## DCFSA Key Details

- Must submit care provider's info and amount paid on form 2441
- Name, address, TIN (SSN or EIN)
  - W10 or other documentation (letterhead)
- Provide due diligence if uncooperative
- What will the IRS do?



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## DCFSA Fun Party Facts

- Established in the early 1980s
- No income limit on DCFSA or Dependent Care Credit
- Employer saves on the payroll taxes as well

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## DCFSA - Is it worth it?

- Sample tax return, baseline, no child care expenses
- MFJ couple, each spouse makes \$30,000, no withholding
- AGI: \$60,000
- Federal Refund: \$561, Child Tax Credit, refundable portion
- Social Security of **\$3,720**.
- Medicare of **\$870**.
- Total outlay: **\$4,029** in all federal taxes

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## DCFSA - Is it worth it?

Dependent Care FSA for \$5,000 in expenses

AGI:\$55,000  
 Child Tax Credit, refundable: \$1,161  
 Earned Income Tax Credit: \$938  
 Social Security: **\$3,410**  
 Medicare: **\$798**  
 Total outlay: **\$2,109**  
 Savings vs baseline: \$1,920

Dependent Care Credit for \$5,000 in expenses

AGI:\$60,000  
 Child Tax Credit, refundable: \$1,561  
 Earned Income Tax Credit: \$0  
 Social Security: **\$3,720**  
 Medicare: **\$870**  
 Total outlay: **\$2,648**  
 Savings vs baseline: \$1,381

DCFSA is \$539 ahead!

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## DCFSA - Is it worth it?

Dependent Care FSA for \$5,000 in expenses

AGI:\$95,000  
 Tax after Child Tax Credits: **\$3,639**  
 Social Security: **\$5,890**  
 Medicare: **\$1,378**  
 Total outlay: **\$10,907**

Dependent Care Credit for \$5,000 in expenses

AGI:\$100,000  
 Tax after Child Tax Credits and CDCC: **\$3,239**  
 Social Security: **\$6,200**  
 Medicare: **\$1,400**  
 Total outlay: **\$10,839**

DCFSA is \$68 behind!  
 Reminder not considering state taxes!

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## When is DCFSA most beneficial?

- Live in a state that taxes income
- Lower income makes you eligible for more credits
- Income taxed at a marginal bracket greater than 20%
- Phasing out of certain benefits
  - Retirement Saver's Credit



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## Strategies

- Estimate expenses
- Choose the amount during open enrollment
- Submit expenses as they occur
  - Taxpayer may outpace paycheck withdrawals
- Use qualifying events to change amounts
  - Birth/death of a child, change in job, etc.



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## Strategies

- Most importantly:
  - If you're not going to submit the paperwork, don't use the DCFSA.
  - Losing the tax deferred income is the worst outcome.

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## Normal Annual Changes



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## Normal Annual Changes - Retirement Accounts

- Thrift Savings Plan (TSP), 401(k), 403(b), and most 457 plans
  - 2023 – Contribution Limit: \$22,500 / Catch-Up Limit: \$7,500
  - 2024 – Contribution Limit: \$23,000 / Catch-Up Limit: \$7,500
- Roth IRAs/Traditional IRAs
  - Contribution limit increases to \$7,000 (\$8,000 if 50 or older)
  - IRA contribution limits can be phased out based on the modified AGI of the taxpayer or spouse if one or the other is covered by a retirement plan at work.

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## Normal Annual Changes - Health Savings Accounts

- 2023 Contribution Limits based on High Deductible Health Plan (HDHP) Coverage
  - Self-only HDHP: \$3,850
  - Family HDHP: \$7,750
- 2024 limits will increase to \$4,150 (self-only HDHP) and \$8,300 (family HDHP)
- Limits are increased by \$1,000 for individual taxpayers aged 55 and older

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## Normal Annual Changes - Standard Deduction

Filing Status	2022	2023	2024
Single	\$12,950	\$13,850	\$14,600
Married Filing Joint/QSS	\$25,900	\$27,700	\$29,200
Married Filing Separate	\$12,950	\$13,850	\$14,600
Head of Household	\$19,400	\$20,800	\$21,900
Additional Amount for MFJ	\$1,400	\$1,500	\$1,550
Additional Amount for others	\$1,750	\$1,850	\$1,950

Example: MFJ couple with both spouses over age 65 will have a Standard Deduction of \$32,300.

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## Normal Annual Changes - Education

- Coverdell Education Savings Account (ESA)
  - Contribution limits: \$2,000 per student per year (2023 and 2024)
  - Income limits: \$220,000 married filing jointly, \$110,000 for others
- 529 Contribution Limits
  - Generally, the Annual Gift Tax Exclusion (\$18,000)
    - State law may determine deductibility
  - Can preload with 5 years (\$90,000), 2 grandparents (\$180,000)

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## Normal Annual Changes - Gift and Estate Tax

- Lifetime Estate Tax Exemption: \$13.61 million in 2024 / \$12.92 million in 2023
- Annual Gift Tax Exclusion: \$18,000 in 2024 / \$17,000 in 2023

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## Normal Annual Changes - Mileage

- For all of 2023, the following rates are in effect:
  - 65.5 cents per mile for business miles driven
  - 22 cents per mile driven for medical or moving purposes (PCS)
  - 14 cents per mile driven in service of charitable organizations
- For all of 2024, the following rates are in effect
  - 67 cents per mile for business miles driven
  - 21 cents per mile driven for medical or moving purposes (PCS)
  - 14 cents per mile driven in service of charitable organizations

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## Normal Annual Changes - Qualified Dividends & Long-Term Capital Gains

Tax-filing status	Single	Married, filing jointly	Married, filing separately	Head of household
<b>2023</b>				
<b>0%</b>	\$0 to \$44,625	\$0 to \$89,250	\$0 to \$44,625	\$0 to \$59,750
<b>15%</b>	\$44,625 to \$492,300	\$89,250 to \$553,850	\$44,625 to \$276,900	\$59,750 to \$523,050
<b>20%</b>	\$492,300 or more	\$553,850 or more	\$276,900 or more	\$523,050 or more
<b>2024</b>				
<b>0%</b>	\$0 to \$47,025	<b>\$0 to \$94,050</b>	\$0 to \$47,025	\$0 to \$63,000
<b>15%</b>	\$47,026 to \$518,900	\$94,051 to \$583,750	\$47,026 to \$291,850	\$63,001 to \$551,350
<b>20%</b>	\$518,901 or more	\$583,751 or more	\$291,851 or more	\$551,351 or more

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## Zero Percent Tax Rate

- 0% Long Term Capital Gains and Qualifying Dividend rates from \$0 to \$94,050.
- 2024 Standard Deduction of \$29,200 for MFJ
- Long Term Capital Gains and Qualifying Dividend Income of \$123,250 with \$0 *federal* taxes owed

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## Miscellaneous

- Tax returns due April 15, 2024
  - Maine and Massachusetts: April 17, 2024
- Extensions
  - Only an extension to file, not to pay!
  - Can extend to October 15, 2024, but must pay the estimated liability by April 15



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## Crystal Ball Time



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## Tax Provisions Still Around?

- Student loan forgiveness not taxable (expires 2025)
- Employer Educational Assistance for student loans
  - \$5,250 toward student loans, not taxable to employee (expires 2025)
- Cancelled qualified principal residence indebtedness
  - Not taxable (expires 2025)

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## The Future!

- 2026 is looming: Tax Cuts and Jobs Act (TCJA) 2017 sunsets many provisions on December 31, 2025
  - Increase in tax rates (12% rate → 15% rate)
  - Standard deduction would halve
  - Child Tax Credit would revert to \$1,000
  - Exemptions would return (~\$5,000 per person)
  - Tax free treatment for student loans forgiven due to death/disability would end
  - \$10,000 limit on itemizing state and local taxes would end
  - AMT exemption amounts will radically reduce causing more AMT

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## The Future!

- 2026 is looming: Tax Cuts and Jobs Act (TCJA) 2017 sunsets many provisions on December 31, 2025
  - Would Congress let everything expire/do nothing?
  - 2024 Election
    - Congress seated in Jan 2025 would confront this issue
- Look to 2010: Bush Tax Cuts expired
  - Extended two years to 2012
  - Made permanent for families <400k, <450k

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## The Future!

- **Medicare:** *March 2023 report: Trust fund depletion in 2031*
- **Social Security:** *March 2023 report: Trust fund depletion in 2034*
- Current **tax rates** are historically low
  - Tax rates could rise to cover benefit shortfalls

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## Pending Legislation!

- Several business tax deductions expired end of 2023
- Businesses would prefer these deductions be extended
- Tax Relief for American Families and Workers Act of 2024
- Reinstate the business tax benefits
- Enhance the Child Tax Credit, temporarily and retroactively

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## Child Tax Credit Currently

- Child Tax Credit
  - \$2,000 per child that meets the criteria (related, resided, age, and support)
  - \$1,600 refundable for 2023
  - Earned income over \$2,500 \* 15% for refundable portion
  - 2 kids, \$3,200 refundable, \$23,833 in earned income to get the full amount

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## Child Tax Credit Proposed

- Child Tax Credit
  - \$2,000 per child that meets the criteria (related, resided, age, and support)
  - \$1,800 refundable for 2023, \$1,900 in '24, \$2,000 in '25
  - Earned income over \$2,500 \* 15% then \* by number of children for refundable
  - 2 kids, \$3,200 refundable, \$13,167 in earned income to get the full amount
  - Retroactive to TY2023 (filing started yesterday)

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## Child Tax Credit Proposed

- Child Tax Credit (for 2024 and 2025)
  - \$2,000 CTC would adjust for inflation (rounded down to nearest \$100)
  - Use prior year earned income to calculate credit

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## Child Tax Credit Proposed

- What is the point?
  - Child Tax Credit has been unchanged since 2017 (except 2021)
  - Add inflation adjustment
  - Providing more benefit to low income earners
  - Not much change for higher income earners

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## Free Tax Assistance

- VITA/TCE/AARP
- Military Tax Centers
- Military OneSource MilTax
- Office of Financial Readiness
  - Tax Calculators

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Questions?



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- Resources



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- Thrive while spending within your means.



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### Supporting Military Families in the Artificial Intelligence Era

Tuesday, February 20, 2024, at 11:00 AM ET-12:30 PM ET

Explore Artificial Intelligence (AI) as a tool for family service providers to increase efficiencies, creativity and engagement in their work with military families. Consider the social impacts of AI for military families including employment and workforce changes, fraud/scams, privacy concerns, and AI bias/discrimination.

Continuing education credit will be available for this session!

<https://oneop.org/learn/160020/>

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- 1.5 CE credits from the Association for Financial Counseling & Planning Education (AFCPE) for Accredited Financial Counselors
- 1.5 CE credits from the Center for Financial Certifications (FinCert.org) for Certified Personal Finance Counselors
- 1.5 CE credits from the American Association for Family and Consumer Sciences (AAFCS) for Certified in Family and Consumer Sciences (CFCS) and Certified Personal and Family Finance Educators (CPFFE)
- Certificate of attendance are also available

### Evaluation Link

Go to the event page for the evaluation and post-test link.

[Continuing Education](#)

### Questions?

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