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2024–25 INCOME TAX BULLETIN

This publication is provided as a service to our clients. It focuses on the following topics:

- Federal Tax Issues
- Oregon Tax Law Changes
- Transportation and Travel Expenses
- Retirement and Health Care Plans
- Administration and Reporting Issues
- Supplemental Charts



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FEDERAL TAX ISSUES

STATUS OF FEDERAL MANDATE FOR BENEFICIAL OWNERSHIP REPORTING

Source: Tax Speaker; Schwabe, Williamson & Wyatt

Following is a reprint of the article from our December 2023 newsletter. If you have a beneficial ownership interest in any of the entity types listed below, you need to be aware that a federal court issued a temporary injunction on December 3, 2024 that suspends the filing requirement with FinCEN during the Department of Justice's appeal of a ruling in Texas that the Corporate Transparency Act is unconstitutional. This means that no penalties will be assessed on companies who have not yet filed. If the Department of Justice prevails on appeal, the filing requirement would likely be reinstated prospectively unless Congress changes or eliminates the law. On December 23, 2024 the Fifth Circuit Court of Appeals lifted the injunction reinstating the filing requirement. Then on December 26, 2024 the Appeals Court reversed its December 23 action, allowing the injunction to remain! Since the injunction is temporary, many businesses are proceeding with voluntary filing, so they don't have to follow the progress of the court case.

On September 30, 2022 the US Treasury's Financial Crimes Enforcement Network (FinCEN) issued final rules requiring beneficial ownership reporting, particularly for small business. The rule requires reporting companies to file reports with FinCEN that identify two categories of individuals: (1) the beneficial owners of the entity; and (2) the company applicants of the entity. This rule requires most corporations, LLC's and similar entities created in or registered to do business in the United States to report information about their beneficial owners (BOI or beneficial ownership information) to FinCEN. The rules came out of the Corporate Transparency Act (CTA) passed by Congress in 2021.

The objectives of reporting are for the Federal Government to create a national database of information concerning the individuals who, directly or indirectly, own a substantial interest in, or substantial control over (beneficial owners) certain types of domestic and foreign legal entities.

The rule is effective January 1, 2024. Reporting companies created or registered before January 1, 2024, were given one year (until January 1, 2025) to file their initial reports, while reporting companies created or registered after January 1, 2024, had 30 days after creation or registration to file their initial reports. Once the initial electronic report has been filed with FinCEN, both existing and new reporting companies will have to file updates within 90 days of a change in their beneficial ownership information. Penalties for failure to file were set at \$500 per day plus imprisonment.

Initial Reporting: Companies formed before 1/1/2024 by 1/1/2025
New companies formed during 2024 within 90 days of formation
New companies formed after 12/31/24 within 30 days of formation

Updates: Within 30 days of change in beneficial ownership, name or address change

Annual reporting: None

Required Reporting Entity Types (Unless specifically exempted later)

Foreign or domestic:

- C Corporations
- S Corporations
- Limited Liability Companies (LLC) – multiple member (MMLLC) or single member (SMLLC)

- Limited Liability Partnerships (LLP)
- Limited Liability Limited Partnerships (LLLP)

The required information includes owners and, for new businesses formed in 2024, the company applicants. To clarify, even if you have set up an LLC just to own a rental property this form is required, and a separate filing and form is required for every single entity, whether an LLC, an S corporation, or a C corporation. Some exemptions exist, primarily for larger companies and not-for-profit entities. We are particularly concerned about people that have set up their own LLC online, for whom the potential filing penalty is also \$500 for each day late plus potential prison time.

Since the preparation of this form is considered the practice of law, we are unable to complete it for you.

To fill out the form, the following information is needed:

For the Company or Entity:

1. Full legal name according to the Secretary of State (download a “good standing” report).
2. Any trade and “doing business as” names.
3. A complete current street address of the principal place of business (A.P.O. Box or the address of a 3rd party agent does not comply with this requirement)
4. The state, tribal or foreign jurisdiction of formation.
5. The IRS Taxpayer Identification Number

A change of any of these 5 items at any time must also be reported within 30 days to the Financial Crimes Enforcement Network, including an address or owner change.

For the Owners and Applicants:

For each owner of at least 25% of the entity (directly or indirectly), the reporting must include **for each owner:**

1. Legal name and date of birth,
2. Address,
3. Unique identifying number and the issuing jurisdiction from one of the following documents: (i) a non-expired passport issued to the individual by the United States government, (ii) or a non-expired identification document issued to the individual by a State, local government, or Indian tribe for the purpose of identifying the individual, (iii) or a non-expired driver’s license issued to the individual by a State, or (iv) a non-expired passport issued by a foreign government to the individual, if the individual does not possess any of the other documents described, and
4. An image of the document from which the unique identifying number (above #3) was obtained. Additionally, the rule requires that reporting companies created after January 1, 2024, provide the four pieces of information and document image for company applicants.

Initially **NO** extensions were available. However, the December 3, 2024 injunction provided a delay until January 13, 2025 for everyone who had not previously filed.

Guidance on filing can be found at www.fincen.gov/boi

Because of the incredible amount of confidential information that must be provided, we strongly emphasize that you do NOT use unknown 3rd party solicitors, which emerged in abundance, because they could use this confidential information to steal your or your company’s identity or data. They are easily recognizable, because they charge a fee. Filing directly with FinCEN is free.

EXPIRING PROVISIONS IN THE 2017 TAX CUTS & JOBS ACT

Source: Tax Speaker & Journal of Accountancy

The provisions of the 2017 Tax Cuts and Jobs Act (TCJA) became effective January 1, 2018. In order to meet federal budget deficit requirements for the passage of income tax laws, many of the provisions were set to sunset on December 31, 2025. Unless Congress extends them, the expiring provisions include the following items that appear often in the tax returns of individuals and small business. Tax planning needs to allow for the uncertainty of the future of these provisions beyond 2025:

- Qualified Business Income (Sec 199A) Deduction ends
This is the deduction for 20% of the net income from self-employment and qualifying pass-through entities that effectively reduced the federal tax rate on this income at half of the corporate tax rate reduction from 35% to 21%.
- Bonus Depreciation ending
First-year bonus depreciation is being phased down from 100% in tax year 2022 to 0% in increments of a 20% reduction per year: 80% in 2023, 60% in 2024, 40% in 2025, and 0% thereafter. More details are in the next article.
- Big Standard deduction drops in half, but personal exemptions return
The high standard deductions of the TCJA prompted many taxpayers to stop itemizing on their federal income tax returns. It also increased the popularity of Qualified Charitable Distributions from IRAs as a way to get a tax benefit from charitable contributions while using the standard deduction.
- Massive estate tax exemption drops in half+
The current exemption amount is on page 18.
- Loss of 2% miscellaneous itemized deductions ends
This provision and the drop in the standard deduction will bring back more itemizers and restore the tax benefit of investment advisory fees.
- Loss of casualty/disaster deduction ends
This deduction will return to the individual itemized deductions.
- Low tax rates and high tax brackets ends
The rates and brackets will roll back to those in effect through 2017 with adjustment for inflation.
- High AMT brackets ends
Due to inflation, many middle income taxpayers will once again find themselves subject to this tax that was originally intended to impact the tax preferences used by high income taxpayers.
- State and Local Tax deduction \$10,000 limit ends
The cap on this deduction has been problematic for taxpayers in states with high income and/or property taxes, including Oregon. It resulted in temporary state laws allowing the payment of the state income tax of members in pass-through entities as a business deduction of the entity.
- Child credit drops in half and low income phaseout returns
This provision impacts working families.

IRC SECTION 168(k) BONUS DEPRECIATION

Source: Thomson Reuters and Tax Speaker

The first-year bonus depreciation deduction under IRC Sec. 168(k) was extended through 2027 as part of the Tax Cuts and Jobs Act of 2017 (TCJA). The previous rate of 50% was increased to 100% effective September 28, 2017 through December 31, 2022 **and phases down at the rate of 20% per year starting in 2023 as stated in the previous article**. Extension beyond 2027 would require new legislation. Unlike the section 179 expense deduction discussed next, the bonus depreciation deduction is not limited to smaller companies or capped at a certain dollar level. Qualified property is virtually any equipment, building or leasehold improvement with a cost recovery period by statute of no more than 20 years. The requirement that the property be “new” was eliminated for acquisitions after September 28, 2017. First-year bonus depreciation applicable to vehicles is limited to \$8,000. As an exception that continues under prior law, Sport Utility Vehicles (SUVs) and pickup trucks with a gross vehicle weight rating in excess of 6,000 pounds are exempt from the luxury car depreciation caps discussed later. These qualify for a separate cap in Sec. 179 or 168(k) expense; the inflation-adjusted limits are \$30,500 for 2024 and \$31,300 for 2025. The phase down of bonus depreciation increases the value of the Sec 179 expense election for qualifying assets. See the next article for discussion.

IRC SECTION 179 EXPENSE ELECTION

Source: Thomson Reuters and Tax Speaker

Under Code Sec. 179, businesses can elect to recover all or part of the cost of qualifying property, up to a limit, by deducting it in the year it is placed in service. The Code Sec. 179-dollar limitation for 2024 and 2025 is \$1,220,000 and \$1,250,000, respectively, with a \$3,050,000 investment ceiling for 2024 and \$3,130,000 for 2025. These limits were set by the TCJA. Qualified property must be tangible personal property, which is actively used in the business, and for which a depreciation deduction would be allowed. Qualified property must be newly purchased new or used property, rather than property that was previously owned and recently converted to business use. Orchards and vineyards (including capitalized planting costs) qualify, but not until the year in which the fruit is first harvested. Sport utility vehicles qualify up to \$31,300 of cost. Also qualifying are off-the-shelf computer software, single purpose agricultural structures, qualified improvements to real estate, HVAC, and roofs on commercial property. If qualified purchases for the year exceed the expensing dollar limit, the business can decide to split the expensing election among the new assets. As long as newly purchased business equipment is placed in service before the end of the tax year, the entire expensing deduction is allowed for that year. The deductibility depends on the date the qualified property is placed in service; not when it is purchased or paid.

The TCJA extended qualifying assets to include roofs on commercial property; personal property in residential rental; HVAC units; security, fire, and alarm systems. The qualified retail, restaurant, and leasehold improvement rules were replaced by a new qualified improvement property group defined as “interior modifications to commercial property”. The CARES Act included technical corrections that qualify it for Sec 179, bonus depreciation under Sec 168(k) or a 15-year depreciable recovery period. The differences between bonus depreciation and Code Sec. 179 expensing include advantages and disadvantages for each. For example, Code Sec. 179 property is subject to recapture if business use of the property during a tax year falls to 50 percent or less; but Code Sec. 179 allows a taxpayer to select for expensing particular qualifying assets within any asset class, whereas Code Sec. 168(k) requires an election for all assets within a class.

EMPLOYEE RETENTION PAYROLL TAX CREDIT ABUSE AND AUDITS

Source: IRS, Journal of Accountancy, Tax Speaker

This credit was created by the CARES Act in March 2020 and modified by the Consolidated Appropriations Act in December 2020 and American Rescue Plan Act in March 2021. It has received a lot of media attention due to the number of “consultants” who have been contacting businesses and non-profit organizations offering to file the required amended quarterly payroll tax reports on form 941-X to apply for the credit without adequate determination

of whether the employer actually qualifies for the credit. The fee for this service is a percentage (as high as 40%) of the credit claimed.

As a result of widespread abuse, the Employee Retention Credit was ranked by the IRS in the top ten Fraud Schemes for 2023 and 2024. The IRS suspended the processing of any claims submitted after September 2023 and issued Notice 2023-193 detailing a process to be used for withdrawing pending claims when employers determine that they were misled and do not qualify for the credit. Processing of claims resumed in the late summer of 2024 after the IRS announced completion of an initial review and risk ranking of claims previously processed.

Our firm has filed claims only for clients who have sufficient evidence of qualification in their accounting records. These clients have been advised of the audit process that has begun and the necessary documentation to support their claims. If any business or non-profit believes they qualify but has not yet submitted a claim for 2021, we are available to determine qualification and assist with a claim if appropriate. The statute of limitations has expired on claims for 2020. If any of our other clients filed their own claims or used a consultant to do so without appropriate evidence of qualification, we will be unable to prepare income tax returns for them.

ENERGY TAX CREDITS

Source: Tax Speaker

The Inflation Reduction Act, passed in August 2022, has three major categories of impact: medical provisions for individuals, additional funding for the IRS, and changes to energy tax credits for individuals. This article focuses only on the energy tax credits.

Energy Efficient Home Improvement Credit

The nonbusiness energy credit had previously expired on December 31, 2021. The 2022 Act made the expiration date December 31, 2032 and changes the name to “Energy Efficient Home Improvement Credit”. The Act does away with the lifetime limit on a home for energy efficient improvements and replaces it with a new annual limit discussed below.

The credit rate increased from 10% to 30% with an annual limit of \$1,200 (previously \$500 lifetime). The credit for efficient windows and skylights was increased to \$600 from \$200 and exterior doors goes to \$250 each (\$500 maximum) per year so staggering remodeling over several years will greatly increase the benefits.

The biggest change in home improvements is the credit for energy efficient (electric or natural gas) heat pumps, heat pump water heaters, central air conditioners, woodstoves (biomass) and natural gas or oil furnace or boilers, going from \$150 to \$2,000, and the \$1,200 limit is waived. Additionally, roofs and fans no longer qualify for the credit. The improvements qualify only for money originally spent by the taxpayer for homes in the United States used as a residence, and qualified costs include labor, site preparation and assembly.

A home energy audit (inspection and written report) is required that meets the certification requirements specified by the Secretary of the Treasury.

The new credits apply to items placed in service during 2023-2032, and the property’s basis is reduced by the credit.

The credits are nonrefundable but carry forward if unused.

Clean Energy Credit

The residential energy efficient property credit has been extended through December 31, 2034 and renamed “clean energy credit”. This is the credit for solar electric, solar water heaters, fuel cells, wind, and geothermal energy

generating systems. The credit rate was retroactively increased to 30% for 2022 through the end of 2032; 26% for 2033 and 22% for 2034. Expenses are considered to qualify when installation is completed or, in the case of a new home, when the taxpayer begins using the home.

Before the passing of the Inflation Reduction Act, energy storage systems (batteries) only qualified for the federal tax credit if they were paired with a solar energy system. Now, stand-alone batteries can qualify for the tax credit. Batteries installed to store the electricity must be in the residence of the taxpayer and have at least three Kilowatt hours of storage after December 31, 2022 to qualify for the credit.

This credit is also nonrefundable but carries forward. Additionally, basis is reduced by the credit amount.

Biomass (woodstoves) do not qualify for this credit.

Clean Vehicle Credit

New Vehicles

Previously called the “qualified plug-in electric drive motor vehicle credit”, it is now called “Clean Vehicle Credit”. The main portion of this section is the \$7,500 electric vehicle tax credit, which is renewed for vehicles placed in service after December 31, 2022 and will last a decade until the end of 2032.

The new credit makes quite a few changes, the largest of which is to remove the 200,000 vehicle cap at the start of 2023 which General Motors, Tesla and Toyota had previously surpassed. Now, all manufacturers have access to unlimited credits as long as they fulfill the other requirements of the bill. So, General Motors, Tesla and Toyota may qualify again. Also, the credit can be applied upfront at the point of sale if purchased from a dealer, rather than needing to file for it with the tax return. This is useful in avoiding the need to have \$7,500 of federal tax since the credit is nonrefundable.

New requirements include that the cars must be assembled in North America and that materials and “critical minerals” in the battery must come from the United States or a country with a free trade agreement with the United States. Final assembly must occur in the United States for any vehicle sold after August 14, 2022. These requirements are intended to spur domestic manufacturing and more diverse supply chains for electric vehicle (EV) materials which are currently heavily reliant on one country. A list of qualified vehicles is available.

Qualifying vehicles must have an MSRP of under \$55,000 for cars and \$80,000 for SUVs and trucks, leaving out several Tesla configurations and trucks like the USA-made Rivian. The buyers can only take advantage of the credit if they make under \$150K a year single, \$225K head of household and \$300K married filing jointly.

All of this applies additionally to plug-in hybrids as long as they fulfill the same requirements and have a battery over 7kWh.

Used Vehicles

A credit is available for used EVs, with the amount being the lesser of \$4,000 or 30% of the sale price on cars priced \$25K or less, and subject to lower AGI thresholds of \$75K; \$112.5K and \$150K. The car must be at least two years old, cost no more than \$25,000, be the first resale and bought from a dealer for personal or business use but not for resale. This credit runs from January 1, 2023 through December 31, 2032 and the taxpayer may only take this credit once every three years. Beginning in 2024, taxpayers are able to elect to transfer the credit to the dealer who sold the vehicle in exchange for full payment of the credit amount. Similar restrictions and rules apply to those transferring the previously owned vehicle credit as those under the clean vehicle credit.

Chargers

There is a separate credit for electric vehicle chargers at your home:

- The credit is 30% of the cost up to \$1,000 maximum credit
- The system may be bi-directional

- You must live in a “rural area” or low income tract – as determined by the U.S Department of Energy.
- There is no requirement to have an electric car (seems a little crazy)!

The basis of vehicles and chargers must be reduced by any credit amount. The vehicle must be used in the United States.

FUEL TAX CREDIT

Source: Tax Speaker

Some businesses may greatly benefit from the federal fuel tax credit. The Fuel Tax Credit is allowed for Federal highway tax paid for fuel used off-highway in a business. Qualifying uses include pumps, generators, compressors, tractors, trucks used in lots, landscapers, farmers, grasscutters, tree trimmers, helicopters, crop-dusting and many more business applications. At over 18 cents per gallon this can be a substantial credit! A similar Oregon tax credit requires an application that is separate from the income tax returns.

OREGON TAX LAW CHANGES

Source: Oregon Department of Revenue

OREGON REDUCED TAX RATES ON PASS-THROUGH ENTITY INCOME

Oregon did not adopt the Qualified Small Business Income deduction in the federal TCJA, so this deduction is not allowed on the Oregon individual return. However, Oregon previously enacted a provision in 2014 that allowed an annual election to claim a 2% reduction in the tax rate on qualifying net income from pass-through entities that employ at least one Oregon employee for 1,200 or more hours during the tax year. Qualifying income does not include wages or guaranteed payments to owners, or any income taxed on the federal return with long term capital gain tax rates. In 2018 sole proprietorships and single member limited liability companies were added to the definition of qualifying “pass-through entities”. Unlike the federal deduction, net income from real estate rental activities does not qualify for the Oregon reduced tax rate. The election must be made by the due date of the Oregon return including extensions and cannot be claimed by an amendment filed after that date.

The law was modified as follows beginning in tax year 2022:

- Qualifying income is defined as “non-passive pass-through” income
- Removes sole proprietorships and single member LLCs from the definition of “pass-through entities”.
- Limits qualifying businesses to those with ordinary business income not in excess of \$5 million; the tax rate reduction is graduated, with the full 2% reduction under existing law limited to \$250,000 of income
- Requires the business entity to meet either:
 - An employee to employer ratio using 1,200 hours for a qualifying employee, OR
 - A 3-year average limit on distributions of income as a percentage of ordinary business income
- Specifications exist for coordination with the PTE-E tax discussed next.

OREGON PASS-THROUGH ENTITY ELECTIVE TAX (OR PTE-E)

SB 727 passed in 2021 created a new elective income tax on pass-through entities for tax years 2022 and 2023. In 2023 the legislature extended this law **through tax year 2025**. If paid, the business owners are allowed an offsetting income tax credit on their Oregon personal income tax returns based on their pro rata share of the entity tax. This election allows the state income tax on the pass-through income (including guaranteed payments in a partnership or LLC) to be effectively transferred from an itemized deduction on the individual returns of the members to a business deduction of the entity. It avoids the existing \$10,000 limit on itemized deductions for state and local taxes (SALT) under the 2017 Tax Cuts and Jobs Act (TCJA) effectively saving

federal tax at the taxpayer's marginal rate. As noted in a previous article, it may not be needed after 2025 if the SALT limit is not extended at the federal level when the TCJA sunsets.

Many of our pass-through entity clients registered for and paid 2023 and 2024 Oregon tax estimates for their members under this program after registration opened in June through Revenue Online. A fourth quarter 2024 payment can be made by January 15, 2025. Most members lowered their personal Oregon estimates or withholding from their salaries, unless they had other income requiring more tax payments. Even if your business did not elect PTE-E payments for 2024, an election can be made for 2025 if it appears that there will be sufficient taxable income.

The Oregon form OR-21 series is used to administer this program, including an OR-21-K1 issued to each member showing the payments to be reported on that member's individual Oregon return as additional estimated tax payments.

Because the election requires the consent of all owners, we can provide electing entities with a form to be signed by all owners and returned to us prior to completion of the tax returns, unless the entity's governing documents grant authority for tax elections to a specific individual.

OREGON COLLEGE SAVINGS PLAN

The Oregon College Savings Plan, (OCSP) is an IRC Sec 529 plan that enables families to accumulate tax-free investment earnings to fund qualified higher education expenses. Contributions made to accounts in the Plan are also deductible for Oregon tax purposes only up to annual limits. Distributions are entirely tax-free as long as the proceeds are used for qualified expenses. Nonqualified distributions are taxable on the Oregon return to the extent of earnings and prior contribution deductions. Oregon did not adopt the federal changes in the TCJA to include payments for certain K-12 education in qualified expenses.

Mechanics of the Oregon Credit

The credit is calculated as a percentage of the contribution, with a decreasing percentage as the taxpayer's income increases as follows:

Adjusted Gross Income	Tax Credit % of OCSP Contribution
<\$30,000	100%
\$30,000 - \$70,000	50%
\$70,000 - \$100,000	25%
\$100,000 - \$250,000	10%
>\$250,000	5%

The total credit for 2024 is limited to \$360 on a "married filing joint" return and \$180 for all others (after inflation adjustment). Contributions must be funded by December 31 of the tax year for which the credit is claimed.

SURPLUS REFUND "KICKER" CREDIT

The 2022 "kicker" was a refundable personal income tax credit equal to the kicker percentage (44.28%) x 2022 tax liability before all credits except the credit for taxes paid to another state. It was claimed on the 2023 income tax return in the section for tax payments and effectively reduced the 2023 balance due or increased any refund. The kicker credit portion of a refund is taxable in 2024 if the state tax deduction created a federal tax savings for 2022.

TRANSPORTATION and TRAVEL EXPENSES; FRINGE BENEFITS

AUTO EXPENSES – STANDARD MILEAGE RATES AND DEPRECIATION LIMITS

2024 and 2025 standard mileage rates in lieu of actual auto expenses:

RATES PER MILE:	2024	2025
Business Use	67¢	70¢
Charitable Use	14¢	14¢
Medical and Moving Expense	21¢	21¢

The personal use of an employer-provided vehicle must be treated as income to the employee. One of the optional valuation methods allows each personal mile to be valued at the business standard mileage rate, but only if the fair market value of the vehicle when first provided to the employee does not exceed a specified value. For vehicles placed in service in 2024 the value is \$62,000 for passenger cars and \$64,000 for trucks, vans, or SUVs.

For passenger cars, SUVs, trucks, and vans weighing less than 6,000 lb. placed in service in 2024, the maximum depreciation allowances are as follows:

<u>Classification</u>	<u>First Year</u>	<u>Second Year</u>	<u>Third Year</u>	<u>Subsequent Years</u>
Vehicles for which no bonus depreciation is claimed under Code Sec. 168(k)	\$12,400	\$19,800	\$11,900	\$7,160
Bonus Depreciation under 168(k)	\$ 8,000	-0-	-0-	-0-

If depreciation exceeds the annual cap, the excess is deducted beginning in the year after the vehicle's regular depreciation period ends at the maximum rate of \$5,860 per year for cars and \$7,160 for SUVs, trucks and vans.

TRAVEL EXPENSE PER DIEM RATES

The 2024 and 2025 simplified "high-low" per diem rates for travel in the continental U.S. (excluding Alaska and Hawaii) that employers can use to reimburse employees who are away from home overnight on business are shown in the chart below for high-cost areas and low-cost areas. The per day rate breaks down to lodging and meals/incidentals. The same rates are deductible on the tax returns of employees who are not reimbursed. Self-employed persons can use the per diems to substantiate meals only. They must separately substantiate lodging. Taxpayers using per diem rates may also deduct or be reimbursed for transportation and mailing expenses. The per diem rate for the incidental expenses only deduction is \$5 per day for 2024 and 2025 travel.

	2024		2025	
	High Cost	Low Cost	High Cost	Low Cost
Meals & Incidentals	\$ 74	\$ 64	\$ 86	\$ 74
Lodging	235	150	233	151
Total	\$ 309	\$ 214	\$ 319	\$ 225

FRINGE BENEFITS

Source: Tax Speaker

- The Internal Revenue Code established in 1913 says that anything given by an employer to an employee is taxable compensation, unless specifically excluded in the Internal Revenue Code. This includes small "de minimis" fringe benefits. "De minimis" does NOT have a specific dollar amount attached to it, but it does mean that it cannot be cash or a gift card; it must be "stuff", such as a holiday ham or pie, and must be made

available to virtually every employee. An employee can turn it down, but not request an alternative gift. With inflation, holiday food gifts could be valued as high as \$250 in 2024.

- An “Accountable Business Expense Reimbursement Plan” can be used to reimburse employees for expenses like a home office that would not be deductible on Schedule A for the employees under current law. The plan should be written.
- Although they are generally tax-free to the employee, many fringe benefits require inclusion in the W-2. Examples:
 - Employee personal use of company vehicles,
 - Employer paid health insurance for employees,
 - Employer paid health savings account deposits,
 - Employer paid childcare expenses,
 - Employer paid education plans and term life insurance,
 - Employer contributions to employee pension plans.

RETIREMENT AND HEALTH CARE PLANS

SECURE ACT 2.0

Source: Tax Speaker

As part of the Consolidated Appropriations Act of 2023 signed into law by the President on December 29, 2022, Congress approved the retirement law changes embodied in the “Secure Act 2.0”. Here is a list of the changes effective in 2023 and future years.

Provisions Effective Immediately After Enactment

- Increases Required Mandatory Distribution Age to 73 beginning January 1, 2023, and to age 75 in year 2033.
- One-time Qualified Charitable Distribution (QCD) up to \$50,000 allowed to either a charitable remainder trust or gift annuity
- Reduces Rate of Penalty Tax for Failure to Take Minimum Distributions from 50% to 25% (or 10% if corrected in a timely manner)
- Adds Two More Exemptions from the 10% Excise Tax on Early Distributions: Domestic Abuse and Terminal Illness
- Modifies Small Employer Pension Startup Credit
- Eliminates the Requirement for Changes in the Contribution Rate of Participants in a 457(b) Plan to be requested by the first day of the month; changes can be made at any time
- Creates a Tax Credit for Small Employers of Military Spouses who allow immediate eligibility for the spouse’s participation in a defined contribution plan
- Public Safety Officers (PSOs):
 - Repeals the direct payment requirement for health insurance premiums to qualify for the \$3,000 exclusion.
 - Modifies the exception from the 10% early distribution tax for distributions made to a qualified PSO following separation from service after age 50 to also apply if the employee separates after at least 25 years of service under the plan.
 - Modifies the definition of qualified PSO to also include any employee of a State or political subdivision who provides services as a corrections officer or as a forensic security employee providing for the care, custody, and control of forensic patients.
- Automatic disaster relief for retirement plan distributions and loans
 - Applies upon the issuance of a federal disaster declaration.
 - Only available for distributions of up to \$22,000.
 - Applicable to disasters the incident period for which begins on or after January 26, 2021.

Provisions effective January 1, 2024:

- Roth 401(k)'s and 403(b)'s no longer require an annual RMD for original account holders.
- Allows SIMPLE IRAs and SEPs to accept Roth contributions
- Requirement that Age-Based Catch-Up Contributions Must be Roth (Not Pretax) for Participants Earning Over \$145,000 (indexed)
- Inflation indexing will apply to the present limits of:
 - \$1,000 on catch-up contributions to traditional and Roth IRAs
 - \$100,000 on Qualified Charitable Distributions (QCDs).
- Allows Sec 529 Plan rollovers to Roth IRAs with a lifetime aggregate limit of \$35,000 and minimum of 15-year history in the 529 Plan. There is also an annual rollover limit equal to the Roth IRA allowable contribution amount plus catch-up provision.
- Authorizes Employer Matching Contributions to Retirement Plans based on employees' student loan payments.
- Addressing the Need for Emergency Savings
 - Permits employers to offer workplace emergency savings accounts linked to defined contribution plans but funded with after-tax dollars.
 - Provides an exception from the 10% excise tax for retirement plan distributions up to \$1,000 per year used for emergency expenses, which are unforeseeable or immediate financial needs relating to personal or family emergency expenses.

Provisions Effective January 1, 2025

- Mandatory Automatic Enrollment/Escalation requires employers that establish new 401(k) and 403(b) defined contribution plans to automatically enroll newly hired employees, when eligible, in the plan at a pretax contribution level of 3 percent of the employee's pay. This provision would not apply for small businesses with 10 or fewer employees, those in business for less than three years, church plans and governmental plans.
- Allows larger Catch-Up Contributions for participants ages 60 through 63.
- Expedite Part-Time Workers' Participation in their employers' 401(k) plan by shortening from three years to two years the consecutive years of service for eligibility.

Provision effective January 1, 2026

- Saver's Match Program
 - The Saver's Match replaces the current nonrefundable Saver's Credit for certain IRA and retirement plan contributions with a federal matching contribution that is deposited into an IRA or retirement plan.
 - The Match program would incentivize retirement savings by providing a 50% matching contribution on up to \$2,000 in retirement savings annually for low- and middle-income Americans, without regard to whether an individual has a tax liability.
 - The match phases out between \$41,000 and \$71,000 of Adjusted Gross Income in the case of taxpayers filing a joint return and lower limits for other filing statuses.

SOCIAL SECURITY AND MEDICARE

<u>Payroll Tax Rates for Employees</u>	<u>2024</u>	<u>2025</u>
Social Security (FICA)	6.20%	6.20%
Medicare	1.45%	1.45%
Combined	7.65%	7.65%
<u>Taxable Wage Bases</u>		
Social Security (FICA)	\$168,600	\$176,100
Medicare	No Limit	
<u>Earnings Needed to Accrue Benefits</u>		
Wages Needed to Earn one “Credit” (to determine benefits)	\$1,730	\$1,810
<u>Earned Income Limits for Retirees Under Full Retirement Age</u>		
Before normal retirement age	\$22,320	\$23,400
Year of normal retirement age	\$59,520	\$62,160
<u>Maximum Monthly Benefit at Full Retirement Age</u>	\$3,822	\$4,018
These amounts increase by 8% for each year of benefit commencement deferral up to age 70.		
<u>Medicare Part B Premiums per month</u>	\$174.70	\$185.00

Medicare Premium Surcharges

Couples with AGIs over \$206,000 and singles with more than \$103,000 of AGI for 2022 or \$212,000 and \$106,000 for 2023 owe an additional premium for 2024 and 2025 respectively. The 2025 surcharges range from \$74 to \$444 per month.

ESTATE AND GIFT TAX EXEMPTION LEVELS AND PLANNING

	2024	2025
Federal estate tax exemption	\$13,610,000	\$13,990,000
Annual gift tax exclusion	\$18,000	\$19,000
Oregon estate tax exemption	\$1,000,000	\$1,000,000
Washington estate tax exemption	\$2,193,000	\$2,193,000

Amounts over the annual gift tax exclusion shown in the table above are taxable gifts that are subtracted from an individual’s lifetime estate- and gift-tax exemption, which is the same as the estate tax exemptions in the chart above. In an alternative strategy, givers can “bunch” five years of annual excludable gifts to a 529 education-savings plan, typically for children or grandchildren by filing Form 709 and making the appropriate election.

While the filing of a gift tax return (Form 709) is not required for gifts to individuals not exceeding the increased \$18,000 annual exclusion per donee, a gift tax return is required if making gifts above the \$18,000 annual exclusion. Though many gifts to trusts will qualify for annual exclusion treatment and not require disclosure by filing a gift tax return, many trusts do not qualify for such treatment and will require the filing of a gift tax return. Additionally, gift tax returns are required to “gift split” – where one spouse makes a gift in excess of the annual exclusion amount and the couple wishes to treat the gift as being made by both spouses in order to utilize the annual exclusion treatment for both spouses. To do this, both spouses need to “consent” to the treatment on the gift tax returns each will file.

The basic exemption amount for estates is \$13,610,000 for 2024 and \$13,990,000 for 2025. This increase in the exemption is set to lapse after 2025 when the Tax Cuts and Jobs Act sunsets. There are also unlimited deductions for qualifying transfers during life and at death to charities and spouses. In November 2018, the Treasury Department and the IRS issued proposed regulations that would allow individuals who make large gifts between 2018 and 2025 to retain the tax benefit of the higher exemption, even if it reverts to pre-2018 levels.

It is important to note that if a decedent's gross estate (the fair market value of the decedent's assets on the date of death plus prior taxable gifts) does not exceed the new increased lifetime exemption amounts noted above, an estate tax return is not required to be filed. However, in such circumstance, if an estate tax return is filed, the decedent's unused lifetime estate and gift tax exemption may be transferred to the decedent's surviving spouse for use during the spouse's lifetime or at death. This concept is known as portability, and to take advantage of this beneficial election, an estate tax return must be filed.

CONTRIBUTION AND BENEFIT LIMITS FOR RETIREMENT PLANS AND HEALTH SAVINGS ACCOUNTS

The dollar limits on contributions and benefits under qualified plans are as follows.

	<u>2024</u>	<u>2025</u>
401(K) Elective Deferrals Annual Dollar Limit	\$23,000	\$23,500
401(K) Age 50+ Catch-up Contribution	\$7,500	\$7,500
SIMPLE Plan Elective Deferrals Annual Dollar Limit	\$16,000	\$16,500
SIMPLE Plan Age 50+ Catch-up Contribution	\$3,500	\$3,500
Annual Includible Compensation Limit (SEP and qualified plans)	\$345,000	\$350,000
Key Employee's Compensation Limit (SEP and qualified plans)	\$220,000	\$225,000
Highly Compensated Employee's Compensation Limit	\$155,000	\$160,000
Defined Contribution and SEP Annual Addition Limit	\$69,000	\$70,000
Defined Benefit Pension Plan Annual Benefit Limit	\$275,000	\$280,000
SEP Minimum Compensation Amount	\$750	\$750
457 Plan Elective Deferral Limit	\$23,000	\$23,500
Traditional IRA Contribution	\$7,000	\$7,000
Roth IRA Contribution	\$7,000	\$7,000
IRA Age 50+ Catch-up Contribution	\$1,000	\$1,000
HSA Contribution Limits: Family	\$8,300	\$8,550
Single	\$4,150	\$4,300
Age 55+ Extra	\$1,000	\$1,000
HSA Caps on Out-of-Pocket Reimbursements: Family	\$16,100	\$16,600
Single	\$8,050	\$8,300
HSA Minimum Deductible on HDHP: Family	\$3,200	\$3,300
Single	\$1,600	\$1,650
FSA Out-of-Pocket Maximum	\$3,200	\$3,300

ADMINISTRATION AND REPORTING ISSUES

IRS INTEREST RATES ON TAX DEFICIENCIES AND OVERPAYMENTS/ABATEMENT

Source: Internal Revenue Service

	<u>January 1 – December 31, 2024</u>	<u>January 1 – March 31, 2025</u>
Federal	8.0%	7.0%
Oregon	8.0%	4.0% for 60 days; then 10.0%

1099 AND W-2 INFORMATION REPORTING AND RELATED PENALTIES

Source: CCH Federal Tax Weekly/Internal Revenue Service

The electronic filing threshold for Forms W-2, 1099 and certain other information returns has been reduced to an aggregate of 10 or more returns. Go to [IRS.gov/InfoReturn](https://www.irs.gov/InfoReturn) for e-file options.

Our office is available to prepare the 1099 information returns that are required to be issued for payments made by cash, check or money order. It does not include payments by credit or debit card, and other third-party network transactions subject to 1099-K reporting by the processing agency. We can provide you with a worksheet for compiling the necessary information to enable us to prepare these forms. Form 1098 Mortgage Interest Statements can also be prepared from this worksheet if you change “Recipients of 1099 Income” to “Payers of Mortgage Interest.”

Form 1099-NEC - Nonemployee Compensation. FILE ON OR BEFORE JANUARY 31, 2025

File this form for each person or unincorporated business entity in the course of your business to whom you have paid at least \$600 for services performed by someone who is not your employee, or payments to an attorney. This type of income can be subject to self-employment Social Security tax.

Form 1099-MISC – Miscellaneous Information. FILE ON OR BEFORE FEBRUARY 28, 2025, IF YOU FILE ON PAPER, OR MARCH 31, 2025, IF YOU FILE ELECTRONICALLY

File this form for each person or unincorporated business entity in the course of your business to whom you have paid at least \$600 in rents, prizes and awards, other income payments (such as fiduciary fees), fishing boat proceeds, medical and health care payments and crop insurance proceeds. Use this form to report direct sales totaling \$5,000 or more. Use this form to report \$10 or more in royalties.

Form 1099-INT – Interest Income FILE ON OR BEFORE FEBRUARY 28, 2025, IF YOU FILE ON PAPER, OR MARCH 31, 2025, IF YOU FILE ELECTRONICALLY

File this form for each person or unincorporated business entity in the course of your business to whom you have paid at least \$600 in interest.

Form 1099-DA – Digital Asset Proceeds From Broker Transactions NEW FOR 2025 - FILING WILL START IN 2026

For each digital asset sale that a broker has effected for a customer in 2025 and later years, the broker must complete this form. A broker includes any person who, in the ordinary course of a trade or business, stands ready to effect sales of digital assets to be made by others.

The Oregon Department of Revenue (ODR) requires that copies of all 1099s to Oregon recipients be filed electronically with ODR using its iWire system. Filing the federal copies with the IRS is not sufficient to meet the Oregon requirements.

In an audit of business returns, the IRS may assess penalties for failure to file correct 1099's, W-2's and similar information returns. The penalty cap for failure to file correct information returns and failure to furnish correct payee statements increased in 2021 from \$1.5 million to \$3.7 million. The amount for each individual failure increased from as low as \$60 to as high as \$310. Lower penalty caps that apply when the penalty is corrected within 30 days or before August 1, have also doubled and tripled to \$630,500 and \$1.8 million, respectively. Lower limitations for persons with gross receipts of \$5 million or less have also been raised. The penalty amounts are indexed for inflation. The penalties apply for erroneous returns, as well as missing returns. However, there is a safe harbor. If an error is \$100 or less (\$25 in the case of errors involving tax withholding) the issuer is not required to file a corrected return, and no penalty will be imposed. The recipient, however, can elect to have a corrected return issued.

Form 1099-K – Payment Card and Third Party Network Transactions

The form could be sent to anyone who is using payment apps or online marketplaces to accept 2024 payments for selling goods or providing services in excess of \$5,000 and has over 200 transactions. The threshold drops to \$2,500 for 2025 payments. This includes people with small businesses, crafters and other sole proprietors. However, it could also include casual sellers who sold personal property. Taxpayers who receive a Form 1099-K should review the forms, determine if the amount is correct, and determine any deductible expenses associated with the payments that may be claimed when they file their tax returns. The payment on a Form 1099-K may be reported in different places on the recipient's tax return, depending on what kind of payment it is.

FAILURE TO FILE PENALTIES

Source: Tax Speaker

The Taxpayers First Act included an increase in the minimum penalty for failure to file an income tax return to the lesser of \$525 (indexed for inflation), or 100% of the amount required to be shown on the return.

2024 PENSION COMPARISON TABLE

Source: Bob Jennings/Tax Speaker

	Traditional IRA	Roth IRA	Non-Deductible IRA	Roth 401-K	Simple IRA	SEP	Solo 401-K	401-K
Highlights	Excellent savings plan for those not covered by other plans but who have earned income	Great long-term plan that offers tax-free accumulations and withdrawals	Worst of the 3 IRAs but better than nothing	Fantastic way to save big bucks with no future taxation, but must be employer sponsored	Excellent choice for side businesses, small businesses, and those with <\$50k annual income. 97% employee funded	Excellent contribution limits, no 5500 make this a winner, but 100% employer funded. Voluntary contributions	The best plan for family businesses, those with only part-time employees as long as they want to fund more than a SIMPLE. Better than a SEP in many cases.	Excellent plan, partly employee funded, but watch the dreaded top-heavy rules which can make this a bad choice for some businesses.
Max. Employee Contribution	\$7,000	\$7,000	\$7,000	\$23,000	\$16,000	-0-	\$23,000	\$23,000
Max. Employer Contribution	N/A	N/A	N/A	\$46,000	\$16,000	Lesser of 25% of W-2 or \$66,000	Lesser of 25% of W-2 or \$66,000	Lesser of 25% of W-2 or \$66,000
Max. Contribution All Sources	\$7,000	\$7,000	\$7,000	\$69,000	\$16,000 + 3% of W-2 Before Deferral	\$69,000	\$69,000	\$69,000
Over Age 49 Additional Catch-Up	\$1,000	\$1,000	\$1,000	\$7,500	\$3,500	N/A	\$7,500	\$7,500
Tax Deduction	Yes	No	No	No	Yes	Yes	Yes	Yes
Withdrawals	Taxed	Nontaxable	Earnings Taxed	Nontaxable	Taxed	Taxed	Taxed	Taxed
Earnings	Tax Deferred	Nontaxable	Tax Deferred	Nontaxable	Deferred	Deferred	Deferred	Deferred
Penalty Exceptions	Death, disability, education, 1 st home, more	Death, disability, education, 1 st time home, more	Death, disability, education, 1 st time home, more	Death, disability, education, 1 st time home, more	Most IRA exceptions	Most IRA exceptions	Most IRA exceptions	Most IRA exceptions
Form By (2024)	4/15/25	4/15/25	4/15/25	Due date + Extension	10/1/24	Due date + extension	Due date + Extension	Due date + Extension
Contribute By	4/15/25	4/15/25	4/15/25	Due date + Extension	Due date + Extension	Due date + Extension	Due date + Extension	Due date + Extension
Penalty Issues	10% before 59 ½	10% before 59 ½ on earnings only	10% before 59 ½	10% before 59 ½	25% 1 st 2 years	10% before 59 ½	10% before 59 ½	10% before 59 ½
Tests	1-Earned Income 2-Not covered by other plan 3-If covered, must be below income limits	1-Earned income 2-Max Income under \$144k single, \$214k MFJ	1-Earned Income	Employer sponsored	No other active plan	No other active plan	Family Only. Employer sponsored, other plans ok	Employer sponsored; other plans ok
Distributions	Start by 4/1 of year after turning 72	No requirement	Start by 4/1 of year after turning 72	Plan based Usually 72	Plan based Usually 72	Plan based Usually 72	Later of 72 or retirement	Later of 72 or retirement
Bankruptcy Protection	\$1,000,000 Infl. adj.	\$1,000,000 Infl. adj.	\$1,000,000 Infl. adj.	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
5500 Required?	No	No	No	Yes	No	No	Yes	Yes
More Information	Pub 590	Pub 590	Pub 590	Publications 560	Publications 560	Publications 560	Publications 560	Publications 560

For more information, visit the following websites:
<http://www.irs.gov/publications/p560or590/index.html>

DOCUMENTATION GUIDE FOR CHARITABLE CONTRIBUTIONS

Source: Thomson Reuters/PPC

PURPOSE: This table describes the types of documentation required to substantiate various types of charitable contributions made by individual taxpayers. Failing to maintain the proper documentation generally results in the donation being nondeductible.

TYPE OF DONATION	AMOUNT GIVEN IN A SINGLE DONATION			
	Less than \$250	\$250 to \$500	Over \$500, up to \$5,000	Over \$5,000
Cash	<ul style="list-style-type: none"> • Bank record or written receipt from charity showing donee name, date, and amount of contribution unless donation is to a charitable remainder trust 	<ul style="list-style-type: none"> • Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment 	<ul style="list-style-type: none"> • Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment 	<ul style="list-style-type: none"> • Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment
Noncash:				
1. Publicly traded stock	<ul style="list-style-type: none"> • Receipt or reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records
2. Nonpublicly traded stock	<ul style="list-style-type: none"> • Receipt or reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records • Qualified appraisal • Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
3. Artwork	<ul style="list-style-type: none"> • Receipt or reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records • Qualified appraisal • Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
4. Vehicles, boats, and airplanes	<ul style="list-style-type: none"> • Receipt or reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment 	<ul style="list-style-type: none"> • Acknowledgment • Qualified appraisal if deduction is FMV
5. All other noncash donations	<ul style="list-style-type: none"> • Receipt or reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records 	<ul style="list-style-type: none"> • Acknowledgment • Reliable written records • Qualified appraisal • Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
6. Payroll deduction	<ul style="list-style-type: none"> • Paystub, Form W-2, or other record from employer • Pledge card from donee showing donee's name 	<ul style="list-style-type: none"> • Paystub, Form W-2, or other reliable written record from employer • Documentation from charity 	<ul style="list-style-type: none"> • Paystub, Form W-2, or other reliable written record from employer • Documentation from charity 	<ul style="list-style-type: none"> • Paystub, Form W-2, or other reliable written record from employer • Documentation from charity
7. Out-of-pocket expenses while serving as a volunteer	<ul style="list-style-type: none"> • Receipt, cancelled check, or other reliable written records 	<ul style="list-style-type: none"> • Receipt, cancelled check, or other reliable written records • Acknowledgment 	<ul style="list-style-type: none"> • Receipt, cancelled check, or other reliable written records • Acknowledgment 	<ul style="list-style-type: none"> • Receipt, cancelled check, or other reliable written records • Acknowledgment

MEALS and ENTERTAINMENT DEDUCTIONS

Business Related Meals	100%	50%	Non Deductible
Quiet Business Meals		X	
Occasional Employee Fringe Benefit Meals (Cocktail parties, picnics, Holidays)	X		
Meals for Public as Costs of Goods Sold	X		
Business Meeting Meals for Employees, Stockholders & Directors	X	X	
Meals for Public as Advertising	X		
Meals overnight for Business		X	
Meals as part of Equipment Installation (Capitalize)	X		
Meals with Business Groups		X	
Meals before and after entertainment		X	
Meals on Premises – For employer convenience		X	
Business Related Entertainment			
Sporting, Hunting, Fishing			X
Plays, Theatres, Shows, Concerts			X
Games of any Sport			X
Tickets to clients for any of above			X
Dues: Country clubs, social clubs, athletic clubs, or organizations			X
Skybox, Sporting or Entertainment facility fees or leases			X
Business Meals Separately Stated as part of above entertainment		X	
Entertainment directly related to taxpayers' line of business (sporting goods salesperson going to ballgame)	X		