



T A X S E A S O N

2023 Year End Tax Update



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INTRODUCTIONS



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FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, and Bloomsburg.

We provide **Advisory & Business Consulting, Audit & Assurance, Entrepreneurial Support & Client Accounting, Internal Audit, Professional Placement, Tax, and Technology** services to a variety of industries including:



Affordable Housing



Construction



Employee Benefit Plans



Family-Owned Business



Healthcare



Manufacturing & Distribution



Nonprofits



WHAT ARE WE GOING TO TALK ABOUT TODAY?

- Current Tax Law and How We Got Here
- What's Coming in 2026?
- Employee Retention Credit
- IRC Section 174 (R&D) Update
- Supreme Court Update
- Federal Corporate Transparency Act
- PA Annual Reporting Requirement





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CURRENT TAX LAW AND HOW WE GOT HERE

CURRENT TAX LAW

- Tax Cuts and Jobs Act
 - C Corporation Provisions
 - Lowered rate to a flat 21% - PERMANENT
 - Individuals – Expire after 2025
 - Lowered the Top Individual Tax Rate to 37%
 - Increased Rate Bracket Spread
 - Allows for a 20% Deduction Against Flow-Through Income (QBI Deduction)
 - Increased the Standard Deduction
 - But Eliminated Personal Exemptions
 - Capped the State and Local Tax Deduction at \$10k
 - Increased the AMT Exemptions
 - Increased the Child Tax Credit
 - Suspended Miscellaneous Itemized Deductions
 - Dramatically Increased the Estate Tax Exemption



CURRENT TAX LAW & HOW WE GOT HERE

■ Tax Cuts and Jobs Act

■ Other

- Bonus Depreciation – CALENDAR YEAR
 - Phase Out Began in 2023 – 80%
 - 2024 – 60% ... 2026 – 20%
- IRC Section 174 – R&D Capitalization

■ How did we get here?

- Two Words – Budget Reconciliation





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WHAT'S COMING IN 2026?

WHAT ABOUT 2026?

- C Corporations – rate stays at 21%
- Individuals
 - Top Rate Back to 39.6%
 - Brackets Get Compressed
 - Standard Deduction Reduced
 - Personal Exemptions Come Back
 - QBI Deduction – GONE
 - SALT Cap – GONE
 - AMT Exemptions Reduced
 - Estate Tax Exemption Back to \$5m



SO WHAT?

- We're Just Back to 2017, Right?
- Wrong!
 - C Corp Rate DOES NOT CHANGE
 - QBI Deduction is GONE
 - Flow-Through Income Max Rate – 39.6% PLUS STATE!
 - SALT Deduction Most Likely Limited by AMT
 - C Corp Max Rate – 25%?
 - Double Taxation
 - Is This the End of Flow Throughs?



WHAT ABOUT YOU AND ME?

■ 2023 – 2025

- Take Advantage of the Standard Deduction
- Maximize HSA/FSA etc.
- Accelerate Income?
- Estate Planning?

■ 2026

- Know the Changes
 - What is a \$10k Charitable Contribution Worth in 2025?
 - What is it Worth in 2026?





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EMPLOYEE RETENTION CREDIT

EMPLOYEE RETENTION CREDIT

- What's the IRS Doing?
 - Officially – numerous warnings and clarifications
 - Unofficially – 90% of enforcement division switched to ERC compliance
- What are the ERC “Experts” telling you?
 - Mask mandate? You qualify!
 - Social distancing? You qualify!
 - Supply Chain Issues? You qualify!
 - Do we sign the 941X? Well... no.
 - Do I work for the company calculating the credit? Well... no.
 - Are we even calculating the credit? Well... no. We just take the numbers you give us.
 - But You're Certifying that We Qualify, Right? Not Exactly.
 - But you don't need to pay us until you get the credit!



EMPLOYEE RETENTION CREDIT

- What are the rules?
 - Greater than 50% decrease in gross receipts (20% in 2021)
 - 2020 or 2021 calendar quarter vs same 2019 calendar quarter
 - Shut down by government mandate
 - Supply chain issues?
 - Customer issues?
 - Operate remotely?
 - Partial shutdown?
 - No double dipping with PPP or other wage credits!





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IRC SECTION 174 (R&D) UPDATE

IRC SECTION 174

- What is it?
 - Specified Research or Experimental Expenditures incurred in tax years beginning after December 31, 2021, must be capitalized and amortized over five years using the half-year method (so six years)
 - Over Fifteen years if costs not domestic
- When did they do this?
 - 2017 – this is how we’re supposed to pay for the Tax Cuts and Jobs Act



IRC SECTION 174

- What are “Specified Research or Experimental Expenditures”?
 - Anything that Generates a Credit
 - Software Development Costs (regardless of whether or not it’s eligible for the credit)
 - Includes Costs that are NOT Credit Eligible
 - Labor
 - Materials & Supplies
 - Cost Recovery
 - Patent Costs
 - Management
 - Travel



IRC SECTION 174

- So, what do we do now?
 - Just don't take the R&D credit? (doesn't solve the problem)
 - Plan accordingly
 - Call your legislators
 - Cross your fingers





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SUPREME COURT – MOORE V. UNITED STATES

MOORE V. UNITED STATES

- Can Income be Taxed Before It's Received?
 - Sometimes?
 - Administrative Convenience or Constitutional Mandate?
 - IRC Section 965 – Changed with The Tax Cuts and Jobs Act
 - One-Time Tax on Foreign Undistributed Earnings
 - Otherwise Would have Been Untaxed Permanently
 - Ramifications:
 - Flow-Through Entities?
 - Accrual Basis?
 - Wealth Tax?
 - Unrealized Gains?





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FEDERAL TRANSPARENCY ACT AND PA ANNUAL REPORT

FEDERAL AND PA REPORTING

- Federal Corporate Transparency Act
 - Who Must File?
 - Corporations, LLCs, and Partnerships
 - Beneficial Owners
 - Exercise “Substantial Control” over a reporting entity; or
 - Owns/Controls 25% or More of a Reporting Entity
 - What Must be Filed?
 - Name/Address
 - State of Formation
 - EIN
 - Beneficial Owners
 - Date of Birth
 - Identification (e.g. Driver’s License, Passport)



FEDERAL AND PA REPORTING

■ Federal Corporate Transparency Act

■ When to File?

- Existing Companies – on or before January 1, 2025
- Newly Formed Companies (after 1/1/2024) – within 30 Days of Formation
- Within 30 Days of Any Changes

■ How to File?

- TBD

■ What Happens if I don't File?

- Big Penalties



FEDERAL AND PA REPORTING

■ Federal Corporate Transparency Act

■ Large Company Exemption

- Employs MORE THAN 20 FTEs; and
- More than 20 FTEs are Employed in the United States; and
- Operating Presence at a Physical Office in the United States; and
- MORE THAN \$5,000,000 in Gross Receipts (Excluding Foreign)

■ Most Tax-Exempt Entities Exempt

■ Resources

- <https://www.fincen.gov/boi>
- <https://www.fincen.gov/boi-faqs>
- https://www.fincen.gov/boi-faqs#C_1
- https://www.fincen.gov/sites/default/files/shared/BOI_Small_Compliance_Guide.v1.1-FINAL.pdf



FEDERAL AND PA REPORTING

■ Federal Corporate Transparency Act

■ So What, Now What?

- There is a Solution!

- Harbor Compliance

- Setup to Pull Public Record Data

- You Securely Provide Beneficial Ownership Info

- They Prepare and File on Your Behalf

- Tracking and Filing Done by Harbor

- <https://www.harborcompliance.com/beneficial-ownership-information-reporting-service>



FEDERAL AND PA REPORTING

■ Pennsylvania Annual Reporting

- Effective for 2025
- Who?
 - **ALL** Entities Registered to Do Business in Pennsylvania
- When?
 - Corporations (For-Profit and Exempt) – June 30th
 - LLCs – September 30th
 - LPs, GPs, and anyone else – December 31st
- <https://www.dos.pa.gov/BusinessCharities/Business/Resources/Pages/Annual-Reports.aspx>



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UPCOMING EVENTS

COLLABORATE! 2024



SAVE THE DATE!



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