Federal Individual Income Tax Significant Changes Effective 2024

Tax year 2024 was rather uneventful for federal tax changes that we anticipate impacting our clients in an unexpected way. While annually adjustable items like tax brackets, standard deductions, contribution limits for IRAs, HSAs, etc. adjusted for inflation there were no special changes to be concerned about other than Form 1099-K reporting thresholds (see below).

1. Electronic Payment & E-Commerce Platforms:

Electronic payment platforms like Venmo, PayPal, CashApp, etc. and E-Commerce companies like eBay and Etsy are required to issue 1099-K forms. The IRS has adopted a phased in approach to this requirement. The thresholds are as follows:

Tax Year 2023: $20,000 and 200 transactions
Tax Year 2024: $5,000
Tax Year 2025: $2,500
Tax Year 2026 and after: $600

*Note: Taxpayers who receive taxable income of any amount (even $1) are required to report the income even if they don't receive an income form showing it (1099-Misc, 1099-NEC, 1099-K, etc.). This is true for taxpayers with taxable income who do not receive a Form 1099-K.

Electronic payment platforms can be used to collect taxable income for goods and/or services. However, they are also used to give non-taxable gifts, split group bills, and reimburse friends/family for purchases. This second category of payments are not taxable income. With the increased requirements it is important for users of these platforms to review their account setup as well as Forms 1099-K to be sure non-taxable payments are not included in error. Similarly, it is each taxpayer's responsibility to keep record of their taxable income to be reported whether they receive Forms 1099-K or not.

If you receive a Form 1099-K that includes non-taxable payments, we will need to report them on your returns then adjust them off with a note to minimize potential correspondence and audit vulnerability when preparing your returns. We will also suggest you contact the payment platform to complete all steps necessary to reduce the risk of this happening in future years. We suggest you review the policies of each platform you use to be sure you are well informed.

2. 529 College Savings Plans Improved:

Contributions to 529 College Savings Plans are not deductible on federal tax returns, but some states (including Arizona) allow limited deductions. Earnings are shielded from taxation and qualifying distributions are tax & penalty free. This has been the case for many years. New changes have increased the effectiveness of these plans by:

a) Grandparent Loophole: In prior years the FAFSA form has considered grandparent owned 529 plan distributions as untaxed student income, reducing eligibility. This is no longer the case.
b) Roth IRA rollovers: Limited rollovers to Roth IRAs from unused 529 plan balances can be tax & penalty free if qualifications are met.