Year-end tax and financial planning letter for small businesses

As we wrap up 2023, it's important to take a closer look at your tax and financial plans and discuss steps to reduce taxes and help you save for your future. We're here to help explain tax and financial planning opportunities. Please contact us at your earliest convenience to discuss your situation so we can develop a customized plan. In the meantime, here's a look at some issues impacting small businesses to consider as we approach year-end.

Analysis of your financial statements

Look at where your business is positioned with income and expenses to close out the tax year. This may mean getting caught up on your bookkeeping to have a better picture of where your tax situation stands.

Deferral of income and accelerating expenses

Many times, there may be strategies such as deferral or acceleration of income or prepayment or deferral of expenses, that can help you save taxes and thereby strengthen your financial position.

For example, in terms of property and equipment purchases, you may benefit from making these purchases before the end of the year. Many purchases can be completely written off by businesses in the year they are placed in service. Plus, there are tax-favorable rules that permit qualified improvement property to qualify for 15-year depreciation and, therefore, also be eligible for 80% first-year bonus depreciation. The percentage for first-year bonus depreciation is set to decrease to 60% for 2024 unless Congress passes legislation. Thus, it's important to consider the timing of your capital purchases.

Business meals

As you enter the holiday season and have more social gatherings with your customers and employees, keep in mind the rules for business meal deductions. The 100% deduction for restaurant meals is not available for 2023, but there are circumstances where certain business meals may qualify for a 100% deduction. It is important to properly categorize your expenses.

Energy tax incentives

There are many tax incentives to encourage businesses to decrease their carbon footprint and become more environmentally sustainable.

In addition, businesses may be eligible for a tax deduction based on the energy savings generated for qualifying energy efficient commercial building property.

The rules are complex, and careful research and planning now can be beneficial.

Beneficial ownership interest (BOI) reporting

The Corporate Transparency Act (CTA) requires the disclosure of the beneficial ownership information of certain entities to the Financial Crimes Enforcement Network (FinCEN) starting in 2024. This is not a tax filing requirement, but an online report to be completed if applicable to FinCEN. There are severe penalties for businesses who willingly do not comply with the requirements.

Additional tax and financial planning considerations

- **Employee retention credit (ERC)** — The IRS warned employers to be cautious of third parties taking improper positions related to ERC eligibility, as claiming the credit inaccurately can result in severe consequences.
- **Charitable contributions** — For tax year 2023, the maximum allowable contribution deduction is limited to 10% of a corporation’s taxable income. Flowthrough entities’ charitable contributions may be limited based on the owner’s taxable income. Careful planning is needed to capture the tax benefit potential of charitable contributions.
- **Transactions between business and the owners** — Transactions between a business and its owners carry significant tax considerations. This includes aspects such as loans, distributions, and salaries.

- **Partnership audit and adjustment rules —** Changes to the partnership audit and adjustment rules have been in effect for a few years but we are still seeing some partnerships and their partners blindsided at the unpleasant consequences that can arise from these rules. Careful planning today can help mitigate any unfavorable consequences to both the entity and the partners themselves. Also, be aware that even if your business isn't a partnership, you'll want to evaluate the effect these rules could have if you've invested in any partnership.
- **IRS Forms K-2 and K-3 —** These forms can require much effort and potentially apply to even smaller entities. Let's discuss how these schedules apply to your situation and strategize to comply with this important requirement.
- **Digital assets and virtual currency** — The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services or holding such currencies as an investment, generally have tax impacts — and the IRS continues to increase its scrutiny in this area.
- **State and local tax considerations** — Businesses have numerous state and local tax matters to consider for compliance and planning purposes, including where income and sales are subject to tax, sourcing of income and the application of elective taxes that many states have for partnerships and S corporations.
- **Retirement plans** — Have you revisited your company's retirement plan lately? Recent legislation has provided new opportunities to consider.
- **Estimated tax payments** — Review estimated tax payments and assess any liquidity needs.

Year-end planning equals fewer surprises

Whether it's working toward a tax-optimized business succession plan or getting answers to your tax and financial planning questions, we're here for you. As always, planning ahead can help you minimize your tax bill and position you for greater success.