

# Year-End Tax Planning Ideas for Your Small Business



*Tax planning is a year-round activity, but there are still some year-end strategies small business owners can use to lower their 2023 tax bill. Here are 12 tax moves you should consider.*



**1. Postpone invoices.** If your business uses the cash method of accounting, and it would benefit from deferring income to next year, wait until early 2024 to send invoices. Accrual-basis businesses can defer recognition of certain advance payments for products to be delivered or services to be provided next year.

**2. Prepay expenses.** A cash-basis business may be able to reduce its 2023 taxes by

prepaying certain expenses — such as lease payments, insurance premiums, utility bills, office supplies and taxes — before the end of the year. Many expenses can be deducted up to 12 months in advance.

**3. Buy equipment.** Take advantage of 80-100% bonus depreciation and Section 179 expensing to deduct the full cost of qualifying equipment or other fixed assets. Under the Tax Cuts and Jobs Act, bonus depreciation, like

Sec. 179 expensing, is now available for both new and used assets. It is generally available for most depreciable property (other than buildings) including equipment, off-the-shelf computer software, interior improvements to a building, HVAC, and security systems. Keep in mind that, to deduct the expense on your 2023 return, the assets must be placed in service — not just purchased — by the end of the year.





The high dollar ceilings mean that many small- and medium-sized businesses will be able to currently deduct most or all of their outlays for machinery and equipment. What's more, the deduction isn't prorated for the time an asset is in service during the year. Just place eligible property in service by the last days of 2023 and you can claim a full deduction for the year.

**4. Use credit cards.** What if you'd like to prepay expenses or buy equipment before the end of the year, but you don't have the cash? Consider using your business credit card. Generally, expenses paid by credit card are deductible when charged, even if you don't pay the credit card bill until next year.

**5. Contribute to retirement plans.** If you're self-employed or own a pass-through business — such as a partnership, limited liability company or S corporation — one of the best ways to reduce your 2023 tax bill is to increase deductible contributions to retirement plans. Usually, these contributions must be made by year-end. But certain plans — such as SEP IRAs — allow your business to make 2023 contributions up until its tax return due date (including extensions).

**6. Qualify for the pass-through deduction.** If your business is a sole proprietorship or pass-through entity, you may be entitled to a deduction of up to 20% of your qualified business income (QBI). For

2023, if taxable income exceeds \$364,200 for married couples filing jointly (half that amount for others), the deduction may be limited based on: whether the taxpayer is engaged in a service-type business (such as law, health or consulting), the amount of W-2 wages paid by the business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the business. The limitations are phased in.

Taxpayers may be able to salvage some or all of the QBI deduction by deferring income or accelerating deductions to keep income under the dollar thresholds (or be subject to a smaller deduction phaseout). You also may be able to increase the deduction by increasing W-2 wages before year-end. The rules are complex, so consult us before acting.

**7. Utilize cash balance pension plans.** While you may have a 401(k) plan, far fewer business owners utilize cash balance pension plans. While there are pros and cons to this strategy, the fund allocation makes this a very beneficial proposition for the owner. This results in allocations of several times what can be funded through a 401(k)-profit sharing plan.

**8. Consider donor-advised funds for charitable contributions.** Making charitable contributions is an ideal way to maximize tax deductions and lessen your tax burden. However, there are new tax laws in place that have significantly changed how to make charitable contributions. The standard deduction is now double what it was in previous years. And, if your charitable contributions total less than the standard deduction in a given year, you will not receive a tax deduction on these contributions.

In order to donate to a charitable organization and receive a tax benefit, you will need to forecast the next several years of charitable contributions. With a donor-advised fund, you will receive a tax deduction in the year that you fund it.

So, if you were looking to contribute \$75,000 to charity in the next several years, you could take the deduction in the first year of funding the donor-advised fund. This fund would basically become a checking account for making future donations over these next four years. You would then take the standard deduction in the subsequent years.

**9. Utilize the business vehicle expense.** Subject to requirements, this is perhaps one of the more straightforward tax tips we can give to small business owners. The vehicle would need to meet the IRS qualifications for a business vehicle, and it may result in a large write-off. Certain vehicles can result in a 100% deduction in the year put into service.

**10. Qualify for Research and Development Tax Credits.** If your company is engaged in activities to develop or improve products, processes, software, formulas, techniques, or inventions in a way that required some level of technical experimentation to determine the most accurate and appropriate design you may qualify for the R&D credit.

**Note:** this is a credit and not a deduction. A deduction

reduces your taxable income. A credit offsets your tax liability dollar-for-dollar.

The IRS applies the following four-part test to determine whether an expense qualifies for the R&D tax credit:

*A. Does it lead to the creation or improvement of a product, process, or software?* The activity must be related to developing or improving the functionality, quality, reliability, or performance of a business component (i.e., product, process, software, technique, formula, or invention).

*B. Is it technological in nature?* The business component's development must be based on hard science, such as engineering, physics or chemistry, or the life, biological or computer sciences.





C. Was there uncertainty about the method, approach, or outcome? The company must have faced technological uncertainty at the activity's outset related to either the appropriate design of the business component or their capability or method of developing it.

D. Was the process experimental in nature? The business must have evaluated multiple design

alternatives or employed a systematic trial and error approach to overcome the technological uncertainties. If you are undertaking any research that meets these criteria, you may be eligible to save on taxes by expensing eligible costs such as research expenses, employee wages, and costs of supplies.

**11. Make contributions to a Registered Education Savings Plan.** Making contributions to a Registered Education Savings Plan (RESP) will give you a tax efficient way to save and pay for your children's post-secondary education. The Federal Government offers a gift/grant that is equal to 20 percent of the initial \$2,500 of yearly RESP contributions per child or \$500 annually.

**12. Open up 529 plans.** You may have children in your family who are too young to work. If that's the case, they can still help you save money on your taxes. Just open up a 529 plan for each child. The 529 plan is a special tax-deductible investment account that enables you to save money on taxes, while also saving for future education expenses. The 529 plans have high contribution limits. This means you could benefit from huge tax breaks. Here is how 529 plans work in Connecticut.

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Most of these strategies are subject to various limitations and restrictions beyond what we've covered here, so please consult us before you implement them. We can also offer more ideas for reducing your taxes this year and next.



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