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Guide to Year End Tax Planning For Businesses

Here are some ideas to help you reduce your taxes for 2023 and beyond.

The first step in tax planning is knowing where you stand, so now is the time to start getting your records in order and your bookkeeping up to date, The most effective tax planning strategies require you to take action before year end, some strategies even require that action is taken through out the year.

	Planning Considerations	*Notes*
☐	**Business Entity Selection.** Choosing the right entity can result in substantial tax and other savings. The choices include; Sole Proprietorships, Corporations, S Corporations, Partnerships and LLCs. Each entity has it's own advantages and disadvantages as well as it's own liability protection status. Business growth, changes in ownership and increases in liability exposure may all be reasons to revisit your business entity choice.	
☐	**Officers / Owners Compensation.** Corporation and S Corporation officers by definition of law are employees of the corporations and must receive a reasonable salary as employee compensation with all payroll taxes properly withheld and payroll tax returns filed. Partners and Sole Proprietors are not considered employees and withdraw capital or profits, they should not be included on payroll and are responsible for their own taxes. Have you properly treated officer / owner compensation? If not this should be corrected before year end.	
☐	**Qualified Business Income Deductions.** Owners of passthrough entities such as S Corporation, Partnerships and Sole Proprietorships are permitted a tax deduction equal to the lessor of 20% of their net Qualified Business Income or 20% of their total taxable income. S Corporations must have reasonable officers payroll to take advantage of this deductions. Properly balancing the amount of payroll to maximize the net business income qualifying can have a substantial impact on your tax liability. This deduction can be limited for certain trades and business owners with taxable income in excess of $364,200 for married taxpayers filing a joint return and in excess of $182,100 for other filing statuses.	
☐	**Health Insurance Costs.** The health insurance costs for business owners are deductible on their personal tax return not the business tax return. The only exception to the is that Corporations may deduct health insurance costs of owners along with those of other employees. The cost of medical insurance for S Corporate shareholders must be included in compensation on the shareholders W2 and the W2 must be properly marked to show the health insurance portion.	
☐	**Business Meals.** Qualifying restaurant meals are 100% deductible for 2022. To qualify the meal must be provided by a restaurant and consumed by employees away from home overnight for work or in conjunction with a business meeting at which business is discussed before during or after the meal. To support the deduction of business meals the business must maintain records of; who, what, when and where along with proof of the cost of the meal.	

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☐	**Inventory.** Business that sell products and maintain an inventory of goods to sell need to account for inventory on hand at cost for year end. Since inventory on hand, the cost of inventory held for sales is not deductible until the inventory has been sold or disposed of. Reducing inventory through sales, donation or disposal of unsaleable inventory makes the cost part of your costs of goods and can decrease taxable profits.	
☐	**Hire Your Children or Grandchildren.** Putting your children or grandchildren on the payroll not only shifts income from your tax return to theirs it also teaches financial responsibility. But remember the children or grandchildren need to provide real services to your business and must be compensated at the market rate. Young children can handle taking out the trash, putting inventory away, and stuffing envelopes. Older children can manage web pages and social media, to name just a few things. *The first $13,850 of earned income for a child is not subject to income tax.*	
☐	**Computers, Equipment, Furniture and Other Depreciable Assets.** Purchased prior to year end can be depreciated and or expensed using section 179 a business can expenses up to $1,160,000 in new depreciable assets for 2023, subject to net income limitations. However, the dollar limit is reduced on a dollar-for-dollar basis if the Section 179 property placed in service by the taxpayer during the tax year exceeds $2,890,000.	
☐	**Retirement Plans.** Fully fund qualified retirement plans. If your business does not have a plan start one there are lots of choices businesses can make including; SIMPLE, SEP, 401(k) and pension profit sharing plan. **Note**: Money in a qualified retirement plan is generally subject to early distribution penalties if withdrawn before 59.5 years of age. Hint: Most plans must be coordinated with payroll so be sure to discuss this with your tax advisor.	
☐	**Delay Receipt of Income.** Cash basis taxpayers report and pay tax on income on a received basis so delaying the receipt of income until after the end of the year delays paying tax on that income for a year. Income can be delayed by holding off on billing customers, extending the payment terms on sales made in December and by not being around to receive payment, which is why many professional and service business take off the week between Christmas and New Years. If your business is closed you can't receive those payment until you reopen.	
☐	**Accelerate Expenses.** Cash basis taxpayers can deduct for payment made including prepaid expenses like advance rents, telephone and utilities expenses. You can also deduct prepaid insurance expenses and the purchases of supplies held for use by your business. Accelerating expenses increases costs and reduces current year profits thereby reducing current year taxes.	
☐	**Auto Reimbursements.** Business use of personally owned auto should be reimbursed by the business to the autos owner at the standard mileage rate of 65.5¢ for miles driven January 1, 2023 through December 31, 2023. This mileage reimbursement is deductible to the business and tax free to the person being reimbursed.	

☐	**Other Reimbursements.** Corporations and S Corporations can only deduct expenses actually paid by the business so if you as an owner / officer employee have paid expenses on behalf of your corporation they will not be deductible unless they are paid by the business. So be sure to provide an expense report and documentation to the business and get a payment reimbursing your self for any expenses advanced.	
☐	**Accounting.** Make sure your accounting and bookkeeping is up to date. Tax planning requires a good understanding of where your business stands when it comes to profits and or losses to properly implement a strategy that is best for you.	
☐	**Disabled Access Credit.** Credits directly reduce the tax you owe so are even more valuable that tax deductions. The credit is available for providing disabled access, by removing architectural, communication, physical, or transportation barriers preventing access to or use by disabled individuals, other than in connection with the construction of a new facility.	
☐	**Small Employer Health Insurance Credit.** Tax credits directly reduce the tax you owe so are even more valuable than tax deductions. This credit is designed to help small employers with low and moderate income workers offer health insurance coverage to their employees. If you provide health insurance to employees ask your tax advisor about eligibility.	
☐	**Other Business Tax Credits.** Employer-Paid FICA on Tips, Employer-Provided Child Care, Family and Medical Leave, Small Employer Automatic Enrollment, Small Employer Pension Plan Start-Up Costs, and Work Opportunity. Each credit has specific requirements for eligibility. A discussion with your tax advisor can help uncover any credits that you may be eligible for.	

Action Items: