



December 2024

Re: Year-end tax and financial planning for small businesses

As we wrap up 2024, 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. With a new administration on the horizon and many provisions of the Tax Cuts and Jobs Act (TCJA) set to expire soon, some form of change is likely. We continue to closely monitor any potential tax legislation and will update you accordingly.

We are here to clarify tax and financial planning opportunities and assist you in implementing strategies to reduce your tax burden. 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 as we approach year-end.

Upcoming sunset of TCJA provisions

As we approach the end of 2025, it is crucial to be aware of the upcoming changes due to the scheduled sunset of the provisions enacted in 2017 in the TCJA. Unless Congress acts, several key benefits will expire on December 31, 2025, impacting your tax situation starting in 2026.

One major change will be the elimination of the 20% deduction on qualified small business income. That, coupled with the changes in the individual income tax rates, may have a large impact on your tax obligation. Therefore, assessing your businesses income and deductions in 2024 and 2025 could be crucial to capitalizing on existing tax benefits.

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. We can help you analyze your financial statements for tax savings and planning opportunities.

Deferral of income and accelerating expenses

Many times, there may be strategies such as the deferral or acceleration of income or prepayment or deferral of expenses, that can help you save taxes and thereby strengthen your financial position. As another 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 60% first-year bonus depreciation. The percentage for first-year bonus depreciation is set to decrease to 40% for 2025 unless Congress passes legislation. Thus, it's important to consider the timing of your capital purchases. Let us help you receive the best tax treatment.

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. There are circumstances where certain business meals may qualify for a 100% deduction. It is important to properly categorize your expenses.

Net operating losses (NOLs)

If your deductions for the year are more than your income for the year, you may have an NOL. In general, you can use an NOL by deducting it from your income in other year(s), but it is limited to 80% of your taxable business income in any one year. We can advise you on any potential tax benefits and limits.

Energy tax incentives

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

When certain criteria are met, businesses may be able to claim tax credits for items such as:

- Electricity produced from certain renewable sources (including geothermal, solar and wind facilities)

- Energy efficient home improvements (only available to eligible contractors and manufactured home manufacturers)
- Alternate fuels

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), effective January 1, 2024, mandates the disclosure of the beneficial ownership information of certain entities to the Financial Crimes Enforcement Network (FinCEN). Notably, this reporting requirement may also apply to single member LLCs, which are typically disregarded entities for income tax purposes.

It is crucial to understand that this is not a tax filing requirement, but rather an online report submitted directly to FinCEN if applicable. There are severe penalties for businesses who willingly do not comply with the requirements. For entities in existence before January 1, 2024, the report must be filed by January 1, 2025. There are other deadlines related to entities created during 2024 and those with changes to reported information.

The reporting is made directly through FinCEN's website at www.fincen.gov/boi. It is important to note that this is a one-time filing requirement unless there are changes to the reported information.

Digital assets and virtual currency

Digital assets are defined as any digital representations of value that are recorded on a cryptographically secured distributed ledger or any similar technology. For example, digital assets include non-fungible tokens (NFTs) and virtual currencies, such as cryptocurrencies and stablecoins.

The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services or having such currencies that you hold as an investment, generally have tax impacts – and the IRS continues to increase its scrutiny and reporting requirements in this area. We can help you understand the tax and investment consequences.

If you hold and transact with digital assets, you should be aware of a safe harbor that allows for the allocation of unused basis before the end of the year if you used the universal method to determine the cost of those assets.

Additional tax and financial planning considerations

- **Employee retention credit (ERC)** — The IRS has continued to warn employers to be cautious of third parties taking improper positions related to ERC eligibility, as claiming the credit inaccurately can result in severe consequences. We can help you appropriately navigate the ERC.
- **Charitable contributions** — For tax year 2024, 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 a business and its owners** — Transactions between a business and its owners carry significant tax considerations. This includes aspects such as loans, distributions and salaries. Our expertise lies in helping you structure these elements in a manner that is most beneficial from a tax perspective.
- **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.
- **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. Let us help you with your state and local income tax needs, including sales/use and franchises taxes.
- **Preparing for disasters** — Do you have a disaster recovery plan in place for your business and, if so, have you updated it recently? We can help you review your plan, especially as it relates to financial information.
- **Retirement plans** — Have you revisited your company's retirement plan lately? Recent legislation has provided new opportunities to consider. Let's look at the many retirement

savings options to make sure that you are taking advantage of tax deductions as well as providing ways for employees (and owners) to save for retirement.

- **Estimated tax payments** — Let's 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. Please contact our office today to set up your year-end review. As always, planning ahead can help you minimize your tax bill, avoid surprises, and position you for greater success.