



November 2024

Dear Business Client:

With year-end approaching, it is time to start thinking about moves that may help lower your business's taxes for this year and next.

Whether or not tax increases become effective next year, the standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results for most small businesses, as will the bunching of deductible expenses into this year or next to maximize their tax value.

If proposed tax increases do pass, however, the highest income businesses and owners may find that the opposite strategies produce better results: Pulling income into 2024 to be taxed at currently lower rates, and deferring deductible expenses until 2025, when they can be taken to offset what would be higher-taxed income. This will require careful evaluation of all relevant factors.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all of them will apply to you or your business, but you may benefit from many of them. We can narrow down specific actions when we meet to tailor a particular plan for your business. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial:

- Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2024, if taxable income exceeds \$383,900 for a married couple filing jointly, (about half that for others), the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, 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; for example, the phase-in applies to joint filers with taxable income up to \$100,000 above the threshold, and to other filers with taxable income up to \$50,000 above their threshold.
- More small businesses are able to use the cash (as opposed to accrual) method of accounting than were allowed to do so in earlier years. To qualify as a small business a taxpayer must, among other things, satisfy a gross receipts test, which is satisfied for 2024 if, during a three-year testing period, average annual gross receipts don't exceed \$30,000,000 (next year this dollar amount is estimated to increase to \$31,000,000). Note that many years ago it was \$1 million. Cash method taxpayers may find it a lot easier to shift income, for example by holding off billings till next year or by accelerating expenses, for example, paying bills early or by making certain prepayments.
- Businesses should consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2024, the expensing limit is



\$1,220,000, and the investment ceiling limit is \$3,050,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for interior improvements to a building (but not for its enlargement), elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems.

- Generous dollar ceilings mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. So expensing eligible items acquired and placed in service in the last days of 2024, rather than at the beginning of 2025, can result in a full expensing deduction for 2024.
- Businesses also can claim bonus first year depreciation deduction for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service this year, and for qualified improvement property, described above as related to the expensing deduction. The write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2024.
- A corporation (other than a large corporation) that anticipates a small net operating loss (NOL) for 2024 (and substantial net income in 2025) may find it worthwhile to accelerate just enough of its 2025 income (or to defer just enough of its 2024 deductions) to create a small amount of net income for 2024. This allows the corporation to base its 2025 estimated tax installments on the relatively small amount of income shown on its 2024 return, rather than having to pay estimated taxes based on 100% of its much larger 2025 taxable income.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

Very truly yours,

PSK LLP Tax Team