Tax-Saving Tips
2022 Year-End Edition for Business

December 2022

To Small Business Clients,

Last-Minute Year-End General Business Income Tax Deductions

The purpose of this letter is to get the IRS to owe you money.

Of course, the IRS will not likely cut you a check for this money (although, in the right circumstances, that will happen), but you'll realize the cash when you pay less in taxes.

Here are six powerful business tax deduction strategies you can easily understand and implement before the end of 2022.

1. Prepay Expenses Using the IRS Safe Harbor

You just have to thank the IRS for its tax-deduction safe harbors.

IRS regulations contain a safe-harbor rule that allows cash-basis taxpayers to prepay and deduct qualifying expenses up to 12 months in advance without challenge, adjustment, or change by the IRS.

Under this safe harbor, your 2022 prepayments cannot go into 2023. This makes sense because you can prepay only 12 months of qualifying expenses under the safe-harbor rule.

For a cash-basis taxpayer, qualifying expenses include lease payments on business vehicles, rent payments on offices and machinery, and business and malpractice insurance premiums.

Example. You pay $3,000 a month in rent and would like a $36,000 deduction this year. So, on Friday, December 30, 2022, you mail a rent check for $36,000 to cover all of your 2023 rent. Your landlord does not receive the payment in the mail until Tuesday, January 3, 2023. Here are the results:

- You deduct $36,000 in 2022 (the year you paid the money).

Larry M. Walker, Jr., EA, CFS
Enrolled Agent, Certified Fund Specialist
***Registered Representative**

828 Burton Ridge Dr
Loganville, GA 30052
Office: 770.978.9565
Fax: 404.795.0467

www.4-Serenity.com
lwalker@4-serenity.com

- The landlord reports taxable income of $36,000 in 2023 (the year he received the money).

You get what you want-the deduction this year.

The landlord gets what he wants-next year's entire rent in advance, eliminating any collection problems while keeping the rent taxable in the year he expects it to be taxable.

2. Stop Billing Customers, Clients, and Patients

Here is one rock-solid, straightforward strategy to reduce your taxable income for this year: stop billing your customers, clients, and patients until after December 31, 2022. (We assume here that you or your corporation is on a cash basis and operates on the calendar year.)

Customers, clients, and insurance companies generally don't pay until billed. Not billing customers and clients is a time-tested tax-planning strategy that business owners have used successfully for years.

Example. Jake, a dentist, usually bills his patients and the insurance companies at the end of each week. This year, however, he sends no bills in December. Instead, he gathers up those bills and mails them the first week of January. Presto! He postponed paying taxes on his December 2022 income by moving that income to 2023.

3. Buy Office Equipment

With bonus depreciation now at 100 percent along with increased limits for Section 179 expensing, buy your equipment or machinery and place it in service before December 31 and get a deduction for 100 percent of the cost in 2022.

Qualifying bonus depreciation and Section 179 purchases include new and used personal property such as machinery, equipment, computers, desks, chairs, and other furniture (and certain qualifying vehicles).

4. Use Your Credit Cards

If you are a single-member LLC or sole proprietor filing Schedule C for your business, the day you charge a purchase to your business or personal credit card is the day you deduct the expense. Therefore, as a Schedule C taxpayer, you should consider using your credit card for last-minute purchases of office supplies and other business necessities.

If you operate your business as a corporation, and if the corporation has a credit card in the corporate name, the same rule applies: the date of charge is the date of deduction for the corporation.

But suppose you operate your business as a corporation and are the personal owner of the credit card. In that case, the corporation must reimburse you if you want the corporation to realize the tax deduction, which happens on the reimbursement date. Thus, submit your expense report and have your corporation make its reimbursements to you before midnight on December 31.

5. Don't Assume You Are Taking Too Many Deductions

If your business deductions exceed your business income, you have a tax loss for the year. With a few modifications to the loss, tax law calls this a "net operating loss," or NOL.

If you are starting your business, you could very possibly have an NOL. You could have a loss year even with an ongoing successful business.

You used to be able to carry back your NOL two years and get immediate tax refunds from prior years, but the Tax Cuts and Jobs Act (TCJA) eliminated this provision. Now you can only carry your NOL forward, and it can only offset up to 80 percent of your taxable income in any one future year.

What does this all mean? Never stop documenting your deductions, and always claim all your rightful deductions. We have spoken with far too many business owners, especially new owners, who don't claim all their deductions when those deductions would produce a tax loss.

6. Deal with Your Qualified Improvement Property (QIP)

In the CARES Act, Congress finally fixed the qualified improvement property (QIP) error that it made when enacting the TCJA.

QIP is any improvement made by you to the interior portion of a building you own that is non-residential real property (think office buildings, retail stores, and shopping centers)-if you place the improvement in service after the date you place the building in service.

The big deal: QIP is not real property that you depreciate over 39 years. QIP is 15-year property, eligible for immediate deduction using either 100 percent bonus depreciation or Section 179 expensing. To get the QIP deduction in 2022, you must place the QIP in service on or before December 31, 2022.

Planning note. If you have QIP property on an already filed 2019 return that you did not amend, it's on that return as 39-year property. You need to fix that-and likely add some cash to your bank account by making the fix.

Last-Minute Year-End Retirement Deductions

The clock continues to tick. Your retirement is one year closer.

You have time before December 31 to take steps that will help you fund the retirement you desire. Here are four things to consider.

1. Establish Your 2022 Retirement Plan

First, a question: do you have your (or your corporation's) retirement plan in place?

If not, and if you have some cash you can put into a retirement plan, get busy and put that retirement plan in place so you can obtain a tax deduction for 2022.

For most defined contribution plans, such as 401(k) plans, you (the owner-employee) are both an employee and the employer, whether you operate as a corporation or as a proprietorship. And that's good because you can make both the employer and the employee contributions, allowing you to put a good chunk of money away.

2. Claim the New, Improved Retirement Plan Start-Up Tax Credit of Up to $15,000

By establishing a new qualified retirement plan (such as a profit-sharing plan, 401(k) plan, or defined benefit pension plan), a SIMPLE IRA plan, or a SEP, you can qualify for a non-refundable tax credit that's the greater of

- $500 or
- the lesser of (a) $250 multiplied by the number of your non-highly compensated employees who are eligible to participate in the plan, or (b) $5,000.

The law bases your credit on your "qualified start-up costs." For the retirement start-up credit, your qualified start-up costs are the ordinary and necessary expenses you pay or incur in connection with

- the establishment or administration of the plan, or
- the retirement-related education of employees for such plan.

3. Claim the New Automatic Enrollment $500 Tax Credit for Each of Three Years ($1,500 Total)

The SECURE Act added a non-refundable credit of $500 per year for up to three years, beginning with the first taxable year (2020 or later) in which you, as an eligible small employer, include an automatic contribution arrangement in a 401(k) or SIMPLE IRA plan.

The new $500 auto-contribution tax credit is in addition to the start-up credit and can apply to both newly created and existing retirement plans. Further, you don't have to spend any money to trigger the credit. You just need to add the auto-enrollment feature (which does contain a provision that allows employees to opt out).

Last-Minute Section 199A Tax Reduction Strategies

Remember to consider your Section 199A deduction in your year-end tax planning. If you don't, you could end up with an undesirable $0 for your deduction amount.

Here are three possible year-end moves that could, in the right circumstances, simultaneously (a) reduce your income taxes and (b) boost your Section 199A deduction.

First Things First

If your taxable income is above $170,050 (or $340,100 on a joint return), your type of business, wages paid, and property can increase, reduce, or eliminate your Section 199A tax deduction.

If your deduction amount is less than 20 percent of your qualified business income (QBI), then consider using one or more of the strategies described below to increase your Section 199A deduction.

Strategy 1: Harvest Capital Losses

Capital gains add to your taxable income, which is the income that

- determines your eligibility for the Section 199A tax deduction,

- sets the upper limit (ceiling) on the amount of your Section 199A tax deduction, and
- establishes when you need wages and/or property to obtain your maximum deductions.

If the capital gains are hurting your Section 199A deduction, you have time before the end of the year to harvest capital losses to offset those harmful gains.

Strategy 2: Make Charitable Contributions

Since the Section 199A deduction uses your Form 1040 taxable income for its thresholds, you can use itemized deductions to reduce and/or eliminate threshold problems and increase your Section 199A deduction.

Charitable contribution deductions are the easiest way to increase your itemized deductions before the end of the year (assuming you already itemize).

Strategy 3: Buy Business Assets

Thanks to 100 percent bonus depreciation and Section 179 expensing, you can write off the entire cost of most assets you buy and place in service before December 31, 2022.

Bonus depreciation can help your Section 199A deduction in two ways:

1. The big asset purchase and write-off can reduce your taxable income and increase your Section 199A deduction when it gets your taxable income under the threshold.

2. The big asset purchase and write-off can contribute to an increased Section 199A deduction if your Section 199A deduction currently uses the calculation that includes the 2.5 percent of unadjusted basis in your business's qualified property. In this scenario, your asset purchases increase your qualified property, which in turn increases your Section 199A deduction.

DISCLAIMER: *The information provided herein does not, and is not intended to, constitute personalized financial or legal advice. The contents of the article are for general informational purposes only and should not be relied acted upon without specific professional legal or financial advice, based upon an individual's situation.*

Our contact information is as follows:

For US Mail:

4-Serenity, Inc.
828 Burton Ridge Dr
Loganville, GA 30052

For Overnight Mail:

4-Serenity, Inc.
PO Box 1208
Loganville, GA 30052

Phone Numbers: Local (770) 978-9565
Virtual Fax Number (404) 795-0467
Denise Weigner (Admin): denise@4-serenity.com
Larry's E-mail: lwalker@4-serenity.com

Larry Walker, Jr., EA, CFS
Enrolled Agent, Certified Fund Specialist