

JENNINGS & CLOUSE, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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Year-end tax and financial planning letter for small businesses

Dear Valued Client,

As we wrap up 2022, it's important to take a closer look at your tax and financial plans and discuss steps that can be taken to reduce taxes and help you save for your future. Though there has been a lot of political attention to tax law changes, inflation and environmental sustainability, political compromise has led to smaller impacts on taxes this year. However, with the passage of the Inflation Reduction Act and CHIPS Act this year, there are new incentives for you to consider. There are also several tax provisions that have expired or will soon. We continue to closely monitor any potential extensions or changes in tax legislation and will update you accordingly.

We're here to help explain tax and financial planning opportunities. 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 to consider as we approach year-end.

Analysis of your financial statements

Let's 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 deferral or acceleration of income or prepayment or deferral of expenses, that can help you save taxes and thereby strengthen your financial position. For 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 100% first-year bonus depreciation.

Certain write-off benefits are set to decrease after the end of the year unless Congress extends them. Thus, it's very important to consider the timing of your capital purchases. Let us help you receive the best tax treatment.

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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 is a 100% deduction (rather than the prior 50%) for expenses paid for food or beverages provided by a restaurant. This provision expires at the end of 2022.

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 credits

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)
- Carbon oxide sequestration
- Zero-emission nuclear power production
- Alternate fuels

The rules are complex, and some elements of the law are not in effect until 2023, so careful research and planning now can be beneficial.

Additional tax and financial planning considerations

- **Deferred self-employment or payroll taxes from 2020** — If you deferred taxes from 2020, the second 50% payment is due by Dec. 31, 2022. The payment process is the same as the first 50% payment you should have made by Dec. 31, 2021.
- **Employee retention credit (ERC)** — The ERC encouraged businesses to keep employees on their payroll during the pandemic. Although these credits relate to tax years 2020 and 2021, applying for these credits is still available. The IRS warned 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 2022, the maximum allowable contribution deduction is limited to 10% of a corporation's taxable income (as compared to the temporary increase of 25% that was in effect last year).

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- **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 be 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.
- **IRS Forms K-2 and K-3** — These new forms can require much effort and potentially apply to even smaller entities. The IRS announced an additional exception to the requirement to complete and provide these forms. Let's discuss this exception's applicability to your situation and otherwise strategize to comply with this new and important requirement.
- **Digital assets and virtual currency** — The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services or holding such currencies as an investment, generally have tax impacts — and the IRS continues to enhance its scrutiny in this area. We can help you understand any tax and investment consequences.
- **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? Let's take a look at the many retirement savings options to make sure that you are taking advantage of tax deductions as well as providing opportunities 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 at 615.206.0360 if you have any questions. As always, planning ahead can help you minimize your tax bill and position you for greater success.


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