GETTING MORE FROM EVERY DOLLAR: PRE-TAX ARBITRAGE FOR BUSINESS OWNERS

High-income business owners face a unique challenge: their personal and business finances are deeply intertwined, and taxes often feel like the single largest expense both personally and for the business. While most people think of tax savings in terms of deductions, business owners have opportunities to spend pre-tax dollars by structuring expenses through their entities.

It's important to note that some strategies are pure pre-tax opportunities, where dollars never touch taxable income. Others are technically deductions, but when routed through a business structure, they function much like pre-tax spending. The real difference isn't just classification; it's timing and intent. Owners who plan ahead can position their spending to capture the maximum tax benefit. Those who wait until year-end to see "what can be written off" are usually too late.

This is a concept referred to as pre-tax arbitrage, and it's about intentionally structuring your spending to convert what would normally be after-tax personal expenses into pre-tax benefits. When done consistently, this doesn't just reduce a tax bill in the current year; it reshapes the cost of recurring expenses and compounds savings over time.

Some of the most effective strategies fall squarely within business planning: electing to pay state taxes at the entity level, reimbursing healthcare through a corporation, funding education as a business benefit, or contributing to retirement plans where the dollars are deductible to the company and pre-tax to the participant. Each strategy stands on its own, but together they can create six-figure annual savings for high earners.

PTET: Converting State Taxes into Business Deductions

For years, one of the most frustrating limits for high earners has been the federal cap on state and local tax (SALT) deductions. Even business owners with significant state tax liabilities were limited to deducting just $10,000 at the individual level.

The One Big Beautiful Bill Act (OBBBA), enacted in July 2025, raised that cap to $40,000 through 2029. On the surface, that's good news. But for many high-income business owners, $40,000 still falls well short of actual state tax obligations, and the cap begins phasing out once income passes $500,000. By 2030, the limit reverts back to $10,000.

That's where the Pass-Through Entity Tax (PTET) election remains a powerful planning tool. PTET allows certain businesses, like partnerships and S corporations, to pay state income taxes at the entity level. Because the payment is made by the business, it's treated as a fully deductible business expense on the federal return, bypassing the individual SALT cap entirely.

For a high-income partner in a state like California or New York, this election can mean deducting tens or even hundreds of thousands in state tax payments that would otherwise have been nondeductible. Even with the OBBBA's temporary SALT relief, PTET elections can provide more consistent, higher-value savings, especially for owners whose income exceeds the new phaseout thresholds.

However, PTET election windows, owner eligibility, credit mechanics, and estimated payment timing differ by state. Modeling needs to happen before the election deadline and with full owner-by-owner analysis to avoid cash-flow surprises. The key takeaway is that planning ahead is necessary, but in doing so, you may be able to shift how state taxes are paid to the tune of considerable savings.

Healthcare Through the Business

Healthcare is one of the most significant recurring expenses for families, which makes it an obvious target for pre-tax arbitrage. For business owners, entity type determines how much flexibility you have in covering these costs with pre-tax dollars.

- **Self-Employed/Partnerships**: Health insurance premiums are generally deductible above the line. This helps, but out-of-pocket costs are still typically after-tax.

- **C Corporations**: C corps offer the broadest planning opportunities. By establishing a Health Reimbursement Arrangement (HRA), the business can reimburse medical expenses for the owner, spouse, and dependents. What would otherwise be a personal cost becomes a deductible business expense.
- **S Corporations**: Owners holding more than 2% of an S corp face limitations. They can deduct premiums, but cannot receive pre-tax benefits through cafeteria plans or HRAs in the same way as C corp owners. Still, premiums alone are a meaningful deduction.
- **Section 125 Cafeteria Plans**: For businesses with employees, cafeteria plans allow staff to pay health, dental, vision, and dependent care expenses with pre-tax dollars. The business benefits, too, by reducing payroll taxes.

The point is not just that healthcare costs can be deducted, but that the right business structure determines how far you can push those dollars into the pre-tax category. A C-corp owner with a well-designed HRA could turn $20,000 in family medical expenses into a fully deductible cost of doing business. Yet, these benefits are not plug-and-play. You need the right plan documents, adoption dates, and may need nondiscrimination testing for certain types of benefits.

Education Funding as a Business Benefit

Education is another area where business structures create unique opportunities. Under Section 127 of the Internal Revenue Code, employers can provide up to $5,250 per year in tax-free educational assistance per employee, and the business gets a deduction for the expense. The OBBBA expanded this benefit by making permanent the ability for employers to apply the same $5,250 toward student loan repayments.

A properly documented, nondiscriminatory Section 127 plan can provide up to the annual limit tax-free to employees and certain owners, provided no more than 5% of total benefits go to >5% owners (and their spouses/dependents).

Like the other pre-tax strategies we've discussed, a Section 127 plan requires a written program, eligibility terms, nondiscrimination testing, and coordination with other benefits. It must be established before benefits are provided because you can't "re-label" wages after year-end.

Retirement Plans as Pre-Tax Engines

Retirement plans are often discussed as personal savings vehicles, but for business owners, they're also a way to convert compensation into deductible business spending.

- **Defined Contribution Plans**: Traditional 401(k)s and profit-sharing plans allow owners to defer income, lowering both personal taxable income and the company's taxable profit.
- **Cash Balance and Defined Benefit Plans**: For high-income owners, these advanced plans allow six-figure contributions that are deductible to the business and pre-tax to the participant. They are especially powerful for professional practices or closely held businesses with predictable cash flow.

This creates immediate arbitrage: saving on taxes today, then withdrawing funds years later, often at much lower effective rates. Retirement contributions also integrate with other strategies like Roth conversions in low-income years, or charitable planning through Qualified Charitable Distributions (QCDs).

Putting It All Together

Individually, each of these strategies delivers measurable savings. Together, they can transform how a business owner manages both taxes and wealth.

For illustration only, consider a professional services firm organized as an S corporation reporting $1.2 million in annual income. The owners elect PTET, shifting $80,000 of state income tax from nondeductible to deductible at the business level. A defined benefit plan, designed by an actuary, enables approximately $150,000 in owner contributions, deductible to the business and pre-tax for the participants.

In total, these deductions and pre-tax spending reach about $230,000. The actual federal tax reduction equals the marginal rates those dollars span on your return, plus any state-level effects.

This is, of course, a simplified scenario. Every business has unique variables that determine what's possible. And many strategies require thorough documentation, compliance, and testing. But the principle holds true: layering pre-tax strategies through the business can reduce taxable income by tens or even hundreds of thousands annually, creating efficiency today and compounding benefits over time.

Making Every Dollar Work Harder

These strategies aren't about cutting back. They're about structuring your business and personal finances, so every dollar works harder. For business owners, that's where the real advantage lies.

The key is timing. Pre-tax arbitrage doesn't happen at year-end when the return is filed. It requires proactive design, implemented throughout the year, often in collaboration with your advisor.

If you're wondering how these opportunities apply to your situation, we invite you to connect with your trusted TBC advisor. Together, we can identify where your business structure can be leveraged to capture efficiencies, reduce unnecessary tax exposure, and position your wealth for maximum long-term impact.

QUALIFIED OVERTIME PAY DEDUCTION

On July 4, 2025, President Trump signed the One Big Beautiful Bill (OBBB) Act into law. The OBBB Act includes dozens of tax changes affecting individuals and businesses, including new provisions promised by President Trump during his 2024 campaign related to overtime pay. This provision introduces a significant change in federal tax treatment for overtime compensation, aiming to benefit millions of American workers.

Effective January 1, 2025, through December 31, 2028, eligible employees may deduct up to $12,500 in qualifying overtime pay from their taxable income, with married couples filing jointly eligible for up to $25,000. To qualify, individuals must be non-exempt W-2 employees earning qualified overtime. The deduction is available to taxpayers taking the standard deduction or the itemized deduction and phases out for higher earners starting at $150,000 for single filers and $300,000 for joint filers. Married taxpayers filing separately are not eligible.

"Qualified overtime compensation" is overtime paid to an individual required under the Fair Labor Standards Act of 1938 (FLSA) that is in excess of the regular rate under the FLSA at which the individual is employed. Under the FLSA, employers generally must pay covered, nonexempt employees at least one-and-a half times their regular rate of pay for hours worked over 40 hours a week at a given job. For example, an employee is paid $20 per hour. The qualified overtime eligible for the deduction is $10, the half amount paid over the regular rate.

Qualified overtime compensation does not include additional time paid via employer policy. Using the above scenario, the employer pays double time for working a holiday in excess of 40 hours. The employee will be paid $40 per hour for the double time, but the overtime eligible for the deduction will still be $10 as only time-and-a-half is required under the FLSA.

We are still awaiting guidance from the Internal Revenue Service related to overtime paid via employment contracts, state wage requirements, or prevailing wage rates as compensation under these scenarios may not be subject to the FLSA, but could still meet the FLSA requirements.

Qualified overtime pay must be included on the employee's Form W-2, or the nonemployee's Form 1099-NEC. In the case of qualified overtime compensation required to be reported for periods before January 1, 2026, persons required to file returns or statements may approximate a separate accounting of amounts designated as qualified overtime compensation by any reasonable method specified by the Secretary of the Treasury. The IRS has previously stated that they will not be updating the Form W-2 for 2025, but the draft 2025 form released added Code TT – Qualified overtime compensation to Box 12 for reporting purposes.

We encourage employers to begin preparing payroll systems to track and report qualifying overtime separately, and employees should consult with their tax advisors to understand how this provision may affect their 2025 tax filings.

by: Gretchen Guenther-Collins, CPA, Esq., Shareholder

IMPORTANT UPDATE: IRS TO ELIMINATE PAPER CHECKS STARTING SEPTEMBER 30, 2025

Beginning **September 30, 2025**, the federal government will no longer issue paper checks for any tax refunds due. **Going forward a bank account must be provided to receive your tax refund.**

Additionally, the IRS will "as soon as practicable" no longer accept paper checks for most payments, including **estimated tax payments, return balances due, and extension payments**.

This shift is part of **Executive Order 14247**, titled *Modernizing Payments To and From America's Bank Account*, which mandates that all payments to the federal government be processed electronically unless a specific exemption applies. The move is intended to:

- Reduce fraud and lost payments,
- Improve processing speed and efficiency, and
- Lower administrative costs for the government.

What Taxpayers Need to Know

If you have not yet filed your 2024 tax return, you will need to provide your tax professional a bank account for submission to the IRS to receive your tax refund. We strongly encourage clients to pay any remaining 2024 balance due electronically. TBC can submit payment with the tax return upon filing if bank account information is provided.

If you currently pay your estimated taxes by check, you will need to transition to one of the IRS-approved electronic payment methods as soon as possible to prevent potential processing issues. These include:

1. **IRS Individual or Business Account (login)**

Pay directly from your bank account and get access to up to 5 years of tax records.

Visit

1. **IRS Direct Pay**
   Pay directly from your bank account with no fees. Visit
2. **Electronic Federal Tax Payment System (EFTPS)**
   A secure federal system for scheduled or same-day payments. Enrollment takes about a week:
3. **IRS2Go Mobile App**
   Available on Apple and Android devices for mobile payments.
4. **Third-Party Payment Processors**
   Use an IRS-approved provider to pay by debit or credit card (fees may apply).

Exceptions and Accommodations

While the new policy is broad, exceptions may apply for:

- Individuals without access to banking services,
- Emergency payments where electronic disbursement causes undue hardship,

- National security or law enforcement-related activities, or
- Other cases as determined by the Treasury.

Action Steps for Taxpayers

- **Act Now**: Set up your IRS Account or EFTPS Account early to make estimated payments.
- **Plan Ahead**: We are recommending that clients pay the final 2025 estimated tax payment electronically.
- **Stay Informed**: Monitor IRS updates and consult your tax advisor for help with transitioning to electronic payments.
- **Keep Detailed Records:** You will not have access to payment history for payments that are made without using an login. If you choose to use one of these methods, please keep detailed records of all estimated payments made and provide them to your tax advisor with your tax documents during filing season.

For Our Clients

At Teal, Becker & Chiaramonte, we are proactively reaching out to clients affected by this change. If you typically make estimated payments by check, we will assist you in selecting and setting up an electronic payment method that fits your needs. For questions or support, please contact our tax administration team at (518) 456-6663 or email tbctaxadministration@.

SEPTEMBER IS NATIONAL PREPAREDNESS MONTH: STEPS TO PROTECT YOUR TAX AND FINANCIAL RECORDS

September is National Preparedness Month, a nationwide campaign led by FEMA to remind us, that storms, floods, and other unexpected events can disrupt our lives with little warning. With hurricane season in full swing, and with threats like flooding and severe winter storms always a possibility, this is the perfect time to pause and review your emergency plan.

Why It Matters

Preparedness Month highlights four focus areas: creating an emergency plan, building a supply kit, knowing your risks, and staying informed.

At Teal, Becker & Chiaramonte, we believe there is one more step worth taking: keeping your financial records safe and organized. Doing so not only speeds up recovery after a disaster but also makes insurance claims easier and ensures you are ready if the IRS provides tax relief.

IRS Recommendations for Taxpayers and Businesses

- Safeguard Records: Store essential documents such as tax returns, insurance policies, and property titles in waterproof, fireproof containers. Keep digital backup somewhere safe and offsite.
- Inventory Property: Use photos, videos, and written lists to document household and business assets. IRS disaster loss workbooks can help organize information.
- Reconstruct Records: If documents are lost, financial institutions and the IRS can provide replacements.
- Payroll & Employers: Check that your payroll provider has a fiduciary bond for protection. Businesses can use the Electronic Federal Tax Payment System (EFTPS) to securely make payments online or by phone, ensuring access even if displaced.
- IRS Disaster Relief: When a federal disaster is declared, the IRS often postpones filing and payment deadlines automatically. If you are outside the affected area but still impacted, you can call 866-562-5227 for help.

Practical Tips from TBC

- Keep Teal, Becker & Chiaramonte's contact info in your emergency folder. Having a direct line to professional support can save time when it matters most.
- Keep copies of IDs, health insurance cards, prescriptions, and emergency contacts in your kit.
- Use secure cloud storage or encrypted USB drives for digital records.
- Maintain current accounting and payroll records, they may be critical for insurance claims and SBA disaster loan applications.

How We Can Help

At Teal, Becker & Chiaramonte, we understand that disasters do not just affect your property and belongings, they also affect your financial records and tax obligations. Our team can:

- Provide replacement copies of tax returns from our records;
- Review your recordkeeping systems to ensure vital tax documents are protected;
- Assist with reconstructing records, if needed; and
- Guide you through IRS disaster relief provisions and available deductions.

Final Thought

No one likes to think about "what if," but a little preparation now can save hours of stress later. If you would like a professional review of your records and guidance on strengthening your tax readiness plan, please feel free to contact your trusted TBC advisor.

Additional Resources

- – National Preparedness Month –
- IRS Tax Relief in Disaster Situations –
- –
- SBA Disaster Assistance –
- FEMA –

by: Tobie Schlosstein, JD, MPA

WHAT TO DO IF YOU RECEIVE A NOTICE FROM THE IRS

Did you receive a letter from the IRS? Learn what steps you should take and mistakes to avoid in responding to a notice.

TAX UPDATE: "ONE BIG BEAUTIFUL BILL" SIGNED INTO LAW

Last week President Trump signed his highly anticipated "One Big Beautiful Bill" (OBBB), enacting a second round of major federal tax reform over the past decade. While the OBBB serves to extend various provisions of the 2017 Tax Cuts and Jobs Act (TCJA), it goes further to introduce various new provisions promised by President Trump during his 2024 presidential campaign. Below are the key tax highlights of the OBBB.

Individual Highlights

- TCJA provisions made permanent:
  - Lower tax brackets, with maximum rate of 37%
  - Higher Federal Estate Tax Exemption ($15M in 2026, adjusted annually for inflation)
  - Increased Standard Deduction ($31,500 MFJ, $23,625 HOH, $15,750 Single for 2025)
  - Increased child tax credit ($2,200 per child, adjusted annually for inflation)
  - Personal and Dependency Exemptions repealed
  - Elimination of miscellaneous itemized deductions subject to 2% floor
  - Qualified Business Income deduction
  - Excess Business Loss limitation
- “No tax on tips” via a deduction of up to $25,000 to offset tip income, subject to income limitations
- “No tax on overtime” via a deduction of up to $12,500 to offset certain overtime payments required under Federal law, subject to income limitations
- State and Local Tax Deduction increased to $40,000, subject to phaseouts for high income earners
- Above the line charitable deduction of $1,000 ($2,000 MFJ) for nonitemizers
- Deduction for up to $10,000 of automobile loan interest for vehicles purchased after 2024
- Additional deduction of up to $6,000 for senior citizens, subject to income limitations

Business Highlights

- Bonus depreciation permanently set to 100% for eligible assets placed in service after 1/19/2025
- Domestic Research & Development costs are immediately deductible for years beginning after 12/31/2024
- Business interest expense deduction limitation reverts back to an EBITDA calculation, resulting in higher interest expense deduction for some taxpayers
- Beauty Service businesses eligible for the FICA Tip Credit

Energy Efficient Credit Changes

- $7,500 clean vehicle credit terminates for vehicles acquired after 9/30/2025
- Residential clean energy credits and energy efficient home improvement credits are terminated as of 12/31/2025
- New energy efficient home credit expires early and may not be claimed for a qualified home acquired after 6/30/2026
- Alternative fuel vehicle refueling property credit does not apply to any property placed in service after 6/30/2026

Other Highlights

- $1,000 Trump accounts are created operating like individual retirement accounts for children born after 12/31/2024 and before 1/1/2029, who are U.S. citizens at birth
- 1099 Information reporting threshold for business payments increased to $2,000 in 2026 (previously $600), adjusted annually for inflation
- 529 Plan qualified higher education expenses are expanded to include additional expenses in connection with enrollment or attendance at a private, public or religious elementary or secondary school

TBC will continue to monitor the implementation of the OBBB over the coming months. Stay tuned for more detailed correspondence, including criteria, eligibility, and limitations for the OBBB provisions. For more information, please contact your TBC advisor.

AN INTRO TO CASH BALANCE PLANS

Ever wonder what *exactly* a cash balance plan entails? For your clients who own small businesses, opening a cash balance retirement plan might be a vehicle for delivering significant tax savings (and looking like a hero while doing it).

What is a cash balance plan? As you know, there are two broad categories of tax-qualified, employer-sponsored retirement plans: (1) defined contribution plans, which provide benefits determined by employer and employee contributions to the plan, and (2) defined benefit plans, which provide benefits determined pursuant to a benefit formula set forth in the plan document.

A cash balance plan is a type of defined benefit plan, albeit one that has a hybrid of other retirement plan features. Unlike a traditional defined benefit plan, for example, the plan formula in a cash balance plan describes a participant's benefit in terms of a current account balance (typically one equal to pay credits, interest credits, and earnings thereon).

So, what about the tax savings piece? Cash balance plans have a higher contribution limit than defined contribution plans and can provide small business owners with another "bucket" for tax savings. Cash balance plans are funded entirely by employer contributions—and, as these are tax-deductible to the sponsoring employer, they can provide material tax savings beginning the first year of the plan.

Happily, cash balance plans can be maintained alongside a 401(k) or profit-sharing plan. Each is generally subject to different maximum limits under the Tax Code so the tax savings here are cumulative.

What's the deadline for establishing a cash balance plan? Thanks to the SECURE Act, small business owners now have until their corporate tax filing deadline (including extensions) for the plan's initial year. This means your clients generally have until the following deadlines to set up (and fund!) a cash balance plan for 2024:

Is there a catch? It is important to remember that setting up a cash balance plan is like setting up any other retirement plan—there are various statutory and regulatory requirements that apply to the plan. Cash balance plans in particular, come with unique administrative complexities. This should not be treated as a temporary holding space and should instead be considered carefully with your trusted TBC advisor to ensure your small business client is ready for the duties and administrative complexity that come with maintaining a cash balance plan.

Sounds great, what's next? Now is a great time to reach out to your trusted TBC advisor for more information about whether a cash balance plan would be a good fit for your clients, or to just learn more about cash balance plans in general.

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AVOID TAX SURPRISES: SET UP PROPER WITHHOLDING NOW

Think your tax refund is just "extra money"? It might actually be a sign that your withholding is off, and that the IRS has been holding your money all year. This quick read breaks down how to fix that now, so you're not stuck with a surprise bill (or a missed opportunity) next April.

DECODING INCOME DEFINITIONS: AGI, MAGI, AND TAXABLE INCOME EXPLAINED

Navigating the U.S. tax system can be complex, particularly when understanding critical concepts like Adjusted Gross Income (AGI), Modified Adjusted Gross Income (MAGI), and Taxable Income. These definitions impact your tax liability and eligibility for various deductions and credits, playing a pivotal role in financial planning. Empower yourself with the knowledge to make informed tax decisions by decoding these essential terms in our latest article.

END-OF-YEAR TAX STRATEGIES FOR BUSINESSES

As the year winds down, it's a great time for small business owners to start thinking about taxes. Taking some proactive steps now can make a significant difference in your tax bill and set your business up for a successful year ahead.

Let's explore some strategies that can help you maximize deductions and be financially prepared for what's next.

Cost segregation analysis

A cost segregation analysis is a commonly used strategic tax planning tool that allows companies and individuals who have constructed, purchased, expanded, or remodeled any kind of real estate to accelerate depreciation deductions. When a property is purchased, not only does it include a building structure, but it also includes all its interior and exterior components. Many of those components fall into tax categories that can be written off faster than the building structure. A cost segregation analysis dissects the construction cost or purchase price that would otherwise be depreciated over 27 ½ or 39 years for residential or nonresidential property, respectively. The primary goal of a cost segregation analysis is to identify all property-related costs that can be depreciated over 5, 7 and 15 years.

Deferring income and accelerating deductions

One common strategy is to defer income to the next tax year while accelerating deductible expenses into the current year. By doing so, you lower your taxable income, reducing the amount you owe when tax season arrives. If your cash flow permits, you might consider postponing sending out invoices until January, so the income isn't recognized until 2025. Likewise, you can pay deductible expenses like rent, insurance premiums, employee bonuses, or utility bills before year end.

However, if you expect to earn more next year or anticipate changes in tax rates, it might be more beneficial to reverse this approach. In such cases, bringing income into the current year and postponing deductions to the next year can help offset higher taxes down the road. To accelerate income, consider offering discounts to encourage early payments or completing sales before year-end. Defer expenses by delaying purchases until after the new year.

It's important to note that the effectiveness of these strategies depends on whether you use cash-basis or accrual accounting. Under the cash-basis method, income and expenses are recognized when cash changes hands. This makes it relatively straightforward to accelerate or defer income and expenses.

The accrual method recognizes income when services are provided or goods are delivered, regardless of when payment is received. Expenses are deducted when they are incurred, not necessarily when they are paid. To accelerate income under accrual accounting, you need to deliver products or complete services before year-end. Receiving payment before the end of the year doesn't affect income recognition. Similarly, prepaying expenses like rent or insurance won't accelerate deductions under accrual accounting. However, you can still accelerate

some deductions by incurring expenses earlier. For instance, if you plan to purchase equipment or other deductible items in the near future, making those purchases before year-end allows you to deduct them in 2024.

Ensure estimated tax payments are on time

To avoid penalties, make your last estimated tax payment for the year by the due date. The fourth quarter payment is due on January 15, 2025. Even if you've fallen behind on estimated tax payments for previous quarters, catching up by the January 15 deadline can help reduce potential penalties and interest. While it may not eliminate penalties for earlier underpayments, making the full payment now can prevent additional charges from accruing.

Maximize the Qualified Business Income (QBI) deduction

The QBI deduction allows eligible business owners to deduct up to 20% of their qualified business income. Eligible taxpayers include individuals with income from a pass-through entity, including sole proprietorships, partnerships, and S corporations.

For 2024, the QBI deduction begins to phase out when taxable income exceeds $383,900 for married couples filing jointly or $191,950 for single filers. Once your taxable income surpasses these thresholds, limitations based on W2 wages paid and the unadjusted basis immediately after acquisition (UBIA) come into effect.

If your business is in a specified service field – like health, law, accounting, consulting, athletics, financial services, or brokerage services – the QBI deduction phases out entirely once taxable income reaches certain levels. For married couples filing jointly, the deduction is fully phased out at $483,900, and for single filers at $241,950.

Understanding W2 wages and UBIA limitations

If your business isn't in a specialized service field, the deduction doesn't phase out entirely once you reach the income threshold, but it is limited to the lesser of:

- 20% of your QBI, or
- The greater of 50% of:
  - W2 wages paid, or
  - 25% of W2 wages paid plus 2.5% of the UBIA of qualified property.

This means the amount of W2 wages your business pays and the value of its qualified property directly impact your allowable deduction.

Strategies to maximize the QBI deduction

One way to maximize the deduction is to keep your taxable income below the phase-out thresholds. This can be achieved by deferring income, accelerating deductible expenses, and contributing to tax-deferred retirement plans.

Once taxable income exceeds the threshold, however, you'll likely want to increase W2 wages. Many pass-through business owners are inclined to minimize W2 wages to reduce payroll taxes, but this strategy can significantly limit your QBI deduction. In many cases, the tax savings from a higher QBI deduction can outweigh the additional payroll taxes incurred by increasing W2 wages.

Please note that the rules surrounding the QBI deduction are intricate and vary based on individual circumstances. Given this complexity, it's crucial to consult with a CPA. They can provide personalized advice to ensure you're maximizing the deduction while complying with all tax laws and regulations.

Capitalize on Section 179 deduction and bonus depreciation

If you're planning to purchase equipment or software for your business in the near future, consider moving those purchases up to 2024 to maximize your tax benefits.

Section 179

Section 179 lets you deduct the full purchase price of qualifying equipment and software in the year it's placed in service. For 2024, the deduction limit is $ million, with an investment ceiling of $ million. This applies to most depreciable property like machinery, equipment, off-the-shelf software, and certain nonresidential building improvements, including roofs, HVAC, fire protection, and security systems.

Even if you acquire the qualifying property late in the year, you can still deduct the full amount for 2024. However, Section 179 deductions cannot exceed your business's taxable income for the year. Any excess is carried forward to future years.

Bonus depreciation

Bonus depreciation allows you to deduct 60% of the cost of eligible property in 2024 and does not have a phase-out threshold, but it's scheduled to decrease to 40% in 2025. Unlike Section 179, bonus depreciation does not have an annual deduction limit and can create a net operating loss since it's not limited by taxable income.

Caution: New York, and many other states, don't conform to the federal bonus depreciation rules. In such instances, bonus depreciation claimed on the federal return must be added back in full to state taxable income, and the bonus depreciation-eligible property is depreciated over the normal recovery period for state purposes.

Maximizing both deductions

You can use both Section 179 and bonus depreciation in the same year but not on the same asset (you can't "double-dip"). Generally, it's advantageous to maximize your Section 179 deduction first because it allows you to deduct 100% of the cost of the asset in the year it's placed in service, compared to the 60% deduction provided by bonus depreciation in 2024.

If you plan to use both deductions, it's essential to review all qualifying assets and determine which ones qualify for Section 179 but not bonus depreciation and vice versa. This ensures compliance and maximizes your tax savings.

For instance, let's say your company invests in new equipment and property improvements totaling $2 million:

- $1 million for new machinery and equipment.
- $800,000 for used equipment purchased from an unrelated party.
- $200,000 for non-residential HVAC and roof upgrades.

You'll want to apply the Section 179 deduction to the nonresidential real property improvements because they don't qualify for bonus depreciation. Then, use the remaining Section 179 deduction on the new equipment that qualifies for both deductions. Finally, you'll apply bonus depreciation to assets not covered by Section 179.

Keep in mind that state tax laws may differ from federal laws regarding Section 179 and bonus depreciation, so it's important to consider state tax implications when choosing between the two deductions.

To ensure you get the most out of the two deductions, consult with a tax professional. They'll help you identify which assets qualify for each deduction and develop a strategy to maximize tax savings.

Use the de minimis safe harbor election

The de minimis safe harbor election allows businesses to immediately expense lower-cost tangible property and materials and supplies that would otherwise need to be capitalized and depreciated over time. This reduces the need to track and depreciate numerous small-dollar assets over several years.

If your business has an applicable financial statement (AFS), you can deduct up to $5,000 per item or invoice. An AFS is typically an audited financial statement prepared in accordance with generally accepted accounting principles (GAAP). Larger businesses or those with regulatory requirements usually have an AFS. For instance, let's say your business purchases 20 office chairs at $400 each. Since each chair costs less than $5,000, you can deduct the total cost of $8,000 immediately as long as you attach a statement titled "Section (a)-1(f) de minimis safe harbor election" to your tax return.

If you don't have an AFS, you can still take advantage of the de minimis safe harbor, but the deduction limit is

$2,500 per item or invoice.

To use the election, you must have written accounting procedures in place at the beginning of the tax year that specify amounts paid for property under the relevant dollar threshold will be expensed for accounting purposes. If you have an AFS, these procedures must be in writing. For businesses without an AFS, while written procedures are not required by the IRS, it's best practice to document them in writing to ensure consistency and compliance. In all cases, you must apply these procedures consistently in your books and records throughout the taxable year.

Review inventory levels and accounts receivable

Taking the time to review your inventory levels before year-end can uncover valuable opportunities to reduce your taxable income. Start by conducting a thorough physical inventory count and compare the results with your financial records. Identify any discrepancies, such as excess, obsolete, or damaged stock. Writing off this inventory as a loss not only cleans up your balance sheet but also reduces your taxable income for the current year.

In addition to inventory, it's wise to examine your accounts receivable. Analyze your aging report to identify any outstanding debts that are unlikely to be collected. Writing off bad debts as uncollectible can provide a deduction, further lowering your taxable income. This improves the accuracy of your financial statements and gives you a clearer picture of your cash flow heading into the new year.

Plan for retirement contributions

By maximizing both employer and personal contributions to retirement accounts, you can lower your tax liability and enhance retirement savings for yourself and your employees.

Employers can contribute the following amounts to employees' retirement plans:

- **SEP IRA Contributions**: employers can contribute up to 25% of an eligible employee's compensation or $69,000 for 2024, whichever is less. These contributions are tax-deductible for the business and can be made up until the tax filing deadline, including extensions.
- **401(k) Contributions**: the contribution limit for 2024 is $23,000 for employee contributions and $69,000 for combined employee and employer contributions.

By contributing to these plans, employers can reduce their taxable income and also enhance employee satisfaction and retention by offering valuable retirement benefits.

Planning with year-end bonuses

If a business is having a successful year, owners should consider making bonuses to employees. An accrual basis taxpayer can accrue bonuses and take a deduction in 2024 as long as bonuses are paid to their employees by March 15, 2025. Please note that bonuses accrued to owners do not qualify for the tax deduction.

If an owner believes they have underpaid on estimated taxes, a year-end bonus paid by December 31, 2024, can be used to withhold additional federal and state taxes.

Another bonus strategy relates to an existing C corporation that is making an election to be treated as an S corporation. An existing C corporation that makes this election is subject to built-in-gains (BIG) tax for a 60-month period after electing S status. Any asset sold during the 60-month period that has a BIG attached is subject to C corporation tax rates. An accrued bonus to an owner that is paid in the following year is considered a built- in-loss that can be used to reduce BIG tax in the future.

Consider charitable contributions

Making charitable donations through your business is a powerful way to support the community while also reaping tax benefits. Contributions must be made to organizations recognized by the IRS as tax-exempt 501(c)(3) organizations. Donations can be in the form of cash, property, or inventory, but each type of donation has specific rules for valuation and deduction.

Deduction limits:

- **C Corporations**: can generally deduct charitable contributions up to 10% of their taxable income. Any excess contributions can often be carried forward for up to five years.
- **Pass-through entities**: the deduction passes through to the individual owners, who can claim it on their personal tax returns. For individuals, the deduction limit is typically 60% of adjusted gross income (AGI) for cash contributions, though lower limits may apply for non-cash contributions.

Donating appreciated assets like stocks or real estate held for more than one year can offer additional tax benefits. You can deduct the fair market value of the asset and avoid capital gains tax on the appreciation.

Documentation requirements

For any cash donation, maintain a bank record or a written communication from the charity indicating the name of the organization, the date, and the amount of the contribution. For any single contribution of $250 or more, obtain a written acknowledgment from the charity. For property donations over $500, you must file Form 8283 with your tax return. For items over $5,000, a qualified appraisal may be required.

Plan ahead with tailored advice

Taking proactive steps before the year ends can make a significant difference in your tax liability and overall financial health. While the strategies discussed can provide substantial benefits, the complexities of tax laws mean that there’s no one-size-fits-all solution. To truly maximize your tax savings and ensure that you’re in full compliance with all regulations, contact our office for personalized advice.
