

SWC Business Brief



**2022 Year-End Tax-Savings
Tips for Small-Business
Owners and Entrepreneurs**



Tax planning and
financial strategy.
Simplified.®

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INTRODUCTION

2022 Year-End Tax-Savings Tips for Small-Business Owners and Entrepreneurs



With only about two months remaining in 2022, time is quickly running out to take advantage of a few attractive tax deductions/credits available only to business owners and entrepreneurs. If you're planning to delay taking on certain expenses until 2023, you may want to reconsider your approach after reading this SWC Business Brief. Some deductions/credits may not be available in 2023, or they may be significantly reduced.

There are four steps that – if you take now – could result in considerable tax savings.

Step 1: Maximize your retirement plan contributions.

If your business already has a retirement plan, consider maximizing tax-deductible contributions before the end of the year. If your business doesn't have a retirement plan, now's a good time to consider starting one. With a retirement plan in place, you can make tax-deductible contributions to the plan that grow tax-free until the funds are withdrawn. A retirement plan is a great way for you and your employees to build wealth while reducing your tax burden.

You can set up various types of retirement plans, including the following:

- **Simplified Employee Pension – Individual Retirement Account (SEP-IRA):** With a SEP-IRA, you can contribute up to 20 percent of your self-employment earnings, with a maximum contribution of \$61,000 for 2022. If you're employed by a business of your own, you can contribute up to 25 percent of your salary, with a maximum contribution of \$61,000.
- **401(k) plan:** With a 401(k) plan (which can be set up for just one person), an employee can contribute up to \$20,500 of their earnings for 2022. Employees 50 years and older can make additional catch-up contributions of up to \$6,500.

- **Defined benefit pension plan:** With a pension plan, you (as employer) commit to making regular contributions to a pool of money that is set aside to fund future guaranteed payments to employees after they retire.
- **Savings Incentive Match Plan for Employees (SIMPLE) IRA:** A SIMPLE-IRA is a retirement savings plan for small businesses with fewer than 100 employees that allows both employers and employees to make tax-deductible contributions. While contributions are voluntary for employees, they're required of the employer. For 2022, the contribution limit is \$14,000. For employees 50 years or older, the limit is \$17,000.

***Recommendation:** If you have a retirement plan, consider making the maximum deductible contribution in 2022. In some cases, you can take a 2022 deduction for contributions to a retirement plan made as late as Oct. 16, 2023, but this reduces the timeframe for generating tax-deferred earnings.*



In addition to making deductible contributions, your business may be eligible for up to two (2) tax credits when you start a retirement plan for that business:

- •Most employers who initiate a new retirement plan are eligible for a nonrefundable income tax credit of up to \$5,000 for the administrative and retirement-education expenses of adopting a new qualified plan, including a 401(k), a SIMPLE IRA plan, or a SEP.
- If your business has an Eligible Automatic Contribution Arrangement (EACA) in a qualified plan, it can claim an annual credit of \$500 for up to three (3) tax years. The credit also is available to companies that convert an existing plan to one that enables automatic enrollment.

Contact us for more information on small-business retirement plan options. However, keep in mind that if your business has employees, you may have to cover them in addition to yourself.

Step 2: Consider expensing some assets.

Section 179 of the U.S. Internal Revenue code enables you to deduct as an immediate expense the cost of certain business assets (such as equipment, vehicles, and software) instead of depreciating them over time.

The maximum Section 179 deduction is \$1.08 million for qualifying property placed in service in tax years beginning in 2022. The Section 179 deduction begins to phase-out when the cost of Section 179-eligible

property placed in service during the year exceeds \$2.7 million. That means many small businesses will be able to write off the cost of all the assets they purchased in 2022 instead of having to spread the deduction over several years' time.

You may even want to consider purchasing additional assets before year-end!

Note: *“Placed in service” generally means that the asset is ready to be used for its intended purpose. Many assets, such as personal computers and cell phones, are placed in service the day you buy them. Other assets may not be considered “placed in service” until they’ve been assembled or installed.*



Step 3: Take advantage of 100 percent bonus depreciation.

For qualified business assets you purchase and place in service in 2022, you can deduct 100 percent of their cost as bonus depreciation. If you wait until 2023, you can deduct only 80 percent of the asset's cost as bonus depreciation. Then you write off the remaining 20 percent over the asset's recovery period, which can be up to 20 years.

At this point, you're probably wondering whether you're better off claiming the Section 179 deduction or 100 percent bonus depreciation. To make that decision, consider the following factors:

- **Whether the property is used:** You can claim bonus depreciation only for new property. If you bought a piece of used equipment, claim the expense as a Section 179 deduction.
- **Whether the property was acquired in a like-kind exchange:** If you had to pay money in addition to what you exchanged to acquire the new property, you can claim that amount as a Section 179 deduction. You can then claim bonus depreciation on the remaining value of that property.
- **Whether you are reporting a net operating loss for the year:** Section 179 deductions are limited to your taxable income for the year, although you can carry over the unclaimed expense and deduct it from future income. However, bonus depreciation isn't limited by your taxable income; you can claim it even if your business operated at a loss.
- **Whether your business is engaged in active business or a passive activity:** You can claim bonus depreciation for the cost of assets used in passive activities, such as a rental business. You can't claim a Section 179 deduction on expenses related to passive activities.

Step 4: Take advantage of larger deductions for business meals.

During the COVID-19 pandemic and extending through 2022, the deduction for the cost of business meals was increased from 50 percent to 100 percent to help restaurants, which were hit hard by the pandemic.

If you use the per diem method (an allowance paid to your employees for lodging, meals, and incidental expenses incurred when travelling) to reimburse employees for business expenses, you can treat the entire meal portion of the per diem rate paid or incurred in 2022 as being attributable to food or beverages provided by a restaurant, making the meal per diem 100 percent deductible.

If you're planning any business meals for early 2023, you may want to consider rescheduling them for the end of 2022 to maximize your deduction. If you use the cash method of accounting, consider prepaying the cost of business meals (in a restaurant) in 2023.

Remember: You can generally only prepay and deduct an expense if it will be incurred within 12 months.



These four steps should give you plenty to think about and prepare for in anticipation of your 2022 year-end tax planning meeting (assuming your CPA offers that meeting like we do for our clients here at [SWC](#)).

Disclaimer: The information in this SWC Business Brief about tax saving tips for business owners and entrepreneurs to consider taking before the end of 2022 is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this Business Brief should be construed as financial advice from the staff at SWC (Steas, Walker & Company, LLP), nor is the information contained in this Business Brief intended to be a substitute for financial counsel on any subject matter or intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this Business Brief should act or refrain from acting on the basis of any information included in, or accessible through, this post without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.



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