

# Last-Minute Moves for Small Businesses to Reduce 2024 Federal Income Tax

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**As** the clock ticks down toward the end of the 2024 tax year, tax-saving opportunities are about to disappear. If you're a business owner or entrepreneur, you still have time to implement a few tax-saving strategies, but you'd better hurry – time is running out.

In this two-part series, we share tax-saving strategies you can implement prior to the end of the tax year to reduce your tax obligation for 2024. In Part 1, available in the Singlette tab of the [Client Resources section](#) of our website, we focused on strategies for individual taxpayers. In Part 2 of this series, we shift our focus to tax-saving strategies for business owners, starting with tax-favored retirement plans.



## Contribute to a Tax-Favored Retirement Plan

By contributing to a tax-favored retirement plan, you can reduce your business's taxable income and allow your contributions to grow tax-free until you withdraw the money. As a business owner, you have several options:

- **Contribute to an Individual Retirement Account (IRA).** This is the simplest option, but it also has the lowest cap at \$7,000 for 2024. If you're over the age of 50, you can make an additional \$1,000 catch-up contribution.

- **Create a Simplified Employee Pension (SEP) plan.** With a SEP, you can contribute up to 20 percent of your net self-employment income for 2024. If you are employed by your own corporation, you can contribute up to 25 percent of your salary. The maximum contribution in either case is \$69,000.
- **Establish a 401(k) plan.** A 401(k) plan offers the same benefits as a SEP plan but also allows for matching employer contributions, meaning you can move more pre-tax money into the plan.
- **Use a SIMPLE IRA.** SIMPLE stands for Savings Incentive Match Plan for Employees. A SIMPLE IRA (Individual Retirement Account) can be a good choice if your business income is modest.

Contact us for information about your options for 2024 and to explore long-term solutions that may reduce your tax bill and accelerate the rate at which you build wealth in the future.

**Remember:** If your business has employees, you may need to cover them too.

Participating in a Tax Projection Meeting in November or December can help you estimate your 2024 tax liability and adjust your withholding or calculate an estimated tax payment to minimize any potential underpayment penalty.

To schedule a year-end Tax Projection Meeting with SWC Founding Partner Marni Walker, please call our office at (858) 487-4580.

To schedule with Founding Partner Laura Stees, visit [www.SWC.cpa/Contact](http://www.SWC.cpa/Contact), click "Schedule an Appointment," then select "Tax Projection" to choose a convenient day and time.

## Maximize your Section 179 Deductions

If you need equipment or software for your business, you can write off the cost up to the Section 179 deduction limit of \$1.22 million for 2024. Most types of personal property and off-the-shelf software used for business are eligible for Section 179 deductions.

Section 179 deductions also can be claimed for the following:

- Qualified Improvement Property (QIP) – any improvement to an interior portion of a nonresidential building that is placed in service after the date the building is first placed in service, except for expenditures attributable to the building's enlargement, any elevator or escalator, or the building's internal structural framework.
- Qualified expenditures for roofs, HVAC equipment, fire protection and alarm systems, and security systems for nonresidential real property. To qualify, these items must be placed in service after the nonresidential building has been placed in service.

**Warning:** The limits on the Section 179 deduction can get tricky, especially if you own an interest in a pass-through business entity, such as a partnership, S corporation, or LLC treated as either of those for tax purposes. [Contact us](#) for details on how the limits work and how they may apply to your business or entrepreneurial effort.

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## Take Advantage of First-Year Bonus Depreciation

After maxing out your Section 179 deduction limit at \$1.22 million, you can use the first-year bonus depreciation to write off up to 60 percent of the cost of some or all of your 2024 asset additions on this year's return. This first-year bonus depreciation is available for qualified new and used property that is acquired and placed in service in calendar-year 2024.

Qualified property includes depreciable property with a MACRS (Modified Accelerated Cost Recovery System) recovery period of 20 years or less and off-the-shelf computer software. Most personal property has a recovery period of 20 years or less. Some real property, such as QIP (Qualified Improvement Property - defined earlier) and land improvements (for example... sidewalks and fences) also has a recovery period of 20 years or less and qualifies for bonus depreciation.

## Time Business Income and Deductions for Tax Savings

If you conduct your business as a sole proprietorship or using a pass-through entity (*partnership, S corporation, or LLC classified as either of those*), your share of the business's income and deductions are taxed at your individual rates. Assuming no legislative changes, the individual federal income tax rates will be the same in 2024 and 2025 as they were in 2023, with bumps in the rate bracket thresholds for inflation. If your business is a C corporation, income is taxed at 21 percent in 2024 and 2025, again assuming no changes to tax law.

Depending on the outcome of the November 2024 election, individual and corporate tax rates could change in 2025, but only if Congress acts. So, consider how strongly you believe that will happen and which party you think will be in power after November. Absent any Congressional action, both the individual and the corporate income tax rates will increase in 2026.

How you time your income and deductions depends on what you expect regarding your future tax situation:

- If you expect to be in the same or lower tax bracket next year, use the traditional strategy of deferring income into next year while accelerating deductible expenditures into this year.
- If you expect to be in a higher tax bracket in 2025, take the opposite approach – accelerate income into this year (if possible) and postpone deductible expenditures until 2025. That way, more income will be taxed at this year's lower rate instead of next year's higher rate.

[Contact us here at SWC](#) for more ways to implement business income and deduction timing strategies.

## Time Your Year-End Bonuses

Both cash and accrual basis taxpayers can time year-end bonuses for maximum tax effect. Here are some general guidelines:

- If you're a cash basis taxpayer and expect to be in the same or lower tax bracket next year, pay bonuses before year end to maximize the deduction available in 2024. However,

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if you expect to be in a higher tax bracket in 2025, wait to pay 2024 year-end bonuses until January 2025, when their deduction for bonuses will offset income taxed at a higher rate.

- If you're an accrual basis taxpayer, you deduct bonuses in the year that all events related to the bonuses are established with reasonable certainty. However, you must pay the bonus no later than 2½ months of the end of the year end for a current year deduction. If you think you'll be in a higher tax bracket in 2025 and want to defer deductions to that year, consider changing your bonus plan before year-end to set the payment date later than the 2½ month window. Calendar-year taxpayers using the accrual method must pay bonuses by March 15, 2025, to accrue and deduct the bonus in 2024.

### State Income Tax Deduction Workaround

Owners of pass-through business entities typically pay federal and state income taxes on the entity's taxable income. However, if you itemize deductions on your federal income tax return, you can deduct only up to \$10,000 (if married filing jointly) or \$5,000 (if single or married filing separately) of what you pay in state and local income tax.

The Pass-through Entity Tax (PTET) election allows pass-through entities to pay state income tax at the entity level instead of at the owner level. This reduces the taxable income that passes through to the owners. The federal cap on itemized deductions for state and local taxes does not apply to the entity, allowing for greater deductions.

Contact us to determine whether your business should consider making the PTET election.

### Maximize the Qualified Business Income (QBI) Deduction

The Qualified Business Income (QBI) deduction is available to any business operated as a sole proprietorship (including a single-member LLC) as well as partnerships, S corporations, and LLCs classified as a partnership or S corporation. For tax years through 2025, the deduction can be up to 20 percent of a business owner's QBI, subject to certain limits.

Here are a few strategies for maximizing your *QBI deduction*:

- Choose a business structure (sole proprietorship, partnership, S corporation) that optimally impacts your QBI. For example, an S corporation can help you minimize self-employment taxes.
- Look for ways to reduce your taxable business income from the business to avoid QBI deduction limits when applicable:
  - The limits start to apply to joint filers when taxable income exceeds \$383,900 and are fully phased in when taxable income reaches \$483,900.
  - For all other filers, the limits start to apply when taxable income reaches \$191,950 and are fully phased in when taxable income reaches \$241,950.

Here are a few ways to *reduce your taxable business income*:

- If you're close to an income threshold, consider paying yourself a reasonable salary or increasing your capital investments.

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- Take full advantage of all available business expenses and deductions.
- Contribute to a retirement plan, such as a SEP or 401(k).

Tax planning moves, such as claiming big first-year depreciation deductions, can reduce QBI and lower your allowable QBI deduction, so be careful. We can help you put together strategies that give you the best outcome overall.

## Claim 100 Percent Gain Exclusion for Qualified Small Business Stock

One hundred percent of the tax gain on eligible sales of Qualified Small Business Corporation (QSBC) stock that was acquired after September 27, 2010, is excluded from taxable income. QSBC shares must be held for more than five years to be eligible for the gain exclusion. Contact us if you think you own stock that may qualify for the break.

Also, contact us if you are considering establishing a new corporate business if you think the stock might be eligible for the gain exclusion. Planning may be required to lock in the exclusion privilege.

## Employ Family Members

Employing family members can be a great strategy to reduce overall tax liability. If the family member is a bona fide employee, you can deduct the wages and benefits, including medical benefits, paid to the employee on Schedule C or F as a business expense, thus reducing your self-employment tax liability. In addition, wages paid to your child under the age of 18 are not subject to federal employment taxes, are deductible at your marginal tax rate, are taxable at the child's marginal tax rate, and can be offset by up to \$14,600 (your unmarried child's maximum standard deduction for 2024).

However, your family member must be a bona fide employee, and you must adhere to basic business practices, such as keeping time reports, filing payroll returns, and paying a reasonable amount based on the actual work performed.

Although this SWC singlette focuses on last minute steps you can take at the end of the year to save on taxes, keep in mind that tax planning is most effective when it's personalized and when it covers an entire year or, better yet, multiple years. We would love to help you develop a personalized tax strategy that can save you money on your 2024 taxes and for years to come!

## Tax Projection Meetings for Business Owners

If you recently received an email from Mallory in our office about your 2024 Tax Projection Meeting and haven't scheduled your meeting, please do! Our CPAs, Laura Stees and Marni Walker, will walk you through recent tax law changes and help you make proactive decisions that can positively impact your finances, whether for personal, family, or business matters. During your one-hour meeting, which you can easily schedule by phone for Marni or online using the steps below for Laura, we'll review your financial situation and identify tax-saving opportunities that will save you money on next year's tax filing.

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To make things easy, we offer phone, virtual/video, and in-person meeting options through the end of the year.

To schedule a Tax Projection Meeting with Marni Walker, please call our office at (858) 487-4580.

To schedule your 2024 Tax Projection Meeting with Laura Stees:

1. Visit our Contact Page at [www.SWC.cpa/Contact](http://www.SWC.cpa/Contact).
2. Click “Schedule an Appointment.” This will open our booking form.
3. Select “Tax Projection” from the list of options.
4. Choose Your Advisor: Select Laura Stees from the “Select Staff” dropdown.
5. Pick Your Date and Time.
6. Enter Your Details (name, email, etc.).
7. Confirm Your Meeting Preference (online, phone, or in person).

If you're unable to find a convenient time or need help, please contact our office at (858) 487-4580, and we will assist you in finding the best appointment time.

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**Disclaimer:** *The information in this singlette about last minute moves business owners can take to reduce their 2024 federal income for tax-related purposes, is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this singlette should be construed as financial advice from the staff at SWC (Steas, Walker & Company, LLP), nor is this the information contained in this singlette 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 singlette should act or refrain from acting on the basis of any information included in, or accessible through, this singlette 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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