Dear **Business Clien**t,

As the year draws to a close, it's time for us to discuss whether there are any last-minute actions we can take to reduce your business-related 2024 tax liability. The actions necessary will depend on the year-end estimate of your business taxable income.

Section 179 Expensing and Bonus Depreciation

Two of the biggest tax incentives available to any business are the Section 179 expense deduction and the bonus depreciation deduction. And it's not an either/or proposition. You may be eligible for both, depending on the amount of your business's taxable income. These deductions can significantly lower your taxable income, thus saving a bundle on federal and state income taxes. Whether any last-minute purchases before the end of the year and advisable will depend not only on your business needs but whether the extra deductions available can be utilized in 2024.

Under the Section 179 expensing option, you can immediately expense the cost of up to $1,2200,000 of "Section 179" property placed in service in 2024. This amount is reduced dollar for dollar (but not below zero) by the amount by which the cost of the Section 179 property placed in service during the year exceeds $3,050,000. The Section 179 deduction is also limited to your aggregate taxable income for the year derived from the active conduct of a trade or business. Thus, unlike depreciation, the Section 179 expense cannot be used to reduce income below zero. This expensing option is available to individuals, S corporations, C corporations, and partnerships. It's important to note that, to be considered Section 179 property, the property must meet certain eligibility requirements, be acquired for business use, and be acquired by purchase. In addition, certain limitations apply to the expensing of passenger automobiles and sport utility vehicles.

In addition to the Section 179 expense option, an addition first-year depreciation allowance, known as bonus depreciation, is available for qualifying property placed in service in 2024. Generally, unless you elect out of the bonus depreciation deduction, 60 percent of the cost of qualifying property, which is not expensed under Section 179, must be deducted. This applies to new or used trade or business property. The property must meet an "original use" or "used acquisition" requirement. A deduction is still available even if you use the property for personal purposes, as long as your business use in more than 50 percent. However, if your business use of the property falls to 50 percent or less, you may have to recapture your earlier deductions as income. Unlike with the Section 179 deduction, there is no taxable income limitation on a deduction for bonus depreciation.

Electing the De Minimis Safe Harbor

It may be advantageous to elect the annual de minimis safe harbor election for amounts paid to acquire or produce tangible property. By making this election, and as long as the items purchased don't have to be capitalized under the uniform capitalization rules and are expensed for financial accounting purposes or in your books and records, you can deduct up to $2,500 per invoice or item (or up to $5,000 if you have an applicable financial statement).

Vehicle-Related Deductions and Substantiation Requirements

Vehicle expense deductions are generally calculated using one of two methods: the standard mileage rate method or the actual expense method. If the standard mileage rate is used, parking fees and tolls incurred for business purposes can be added to the total amount calculated.

To be able to deduct vehicle expenses, you should ensure that the following are part of your business's tax records with respect to each vehicle used in the business:

(1) the amount of each separate expense with respect to the vehicle (e.g., the cost of purchase or lease, the cost of repairs and maintenance, etc.);

(2) the amount of mileage for each business or investment use and the total miles for the tax period;

(3) the date of expenditure; and

(4) the business purpose for the expenditure.

The following are considered adequate for substantiating such expenses:

(1) records such as a notebook, diary, log, statement of expense, or trip sheets; and

(2) documentary evidence such as receipts, canceled checks, bills, or similar evidence.

Records are considered adequate to substantiate the element of a vehicle expense only if they are prepared or maintained in such a manner that each recording of an element of the expense is made at or near the time the expense in incurred.

Fringe Benefit/Retirement Programs

Providing fringe benefit and retirement programs to employees is a good way to attract and retain talented workers. Many businesses use benefits rather that higher wages to entice future employees. While your business is not required to have a retirement plan, there are many advantages to having one. By starting a retirement savings plan, you not only help your employees save for the future, you can impact your bottom line by reducing training costs and search costs. In addition, as a business owner, you can take advantage of the plan yourself, and so can your spouse. If you spouse is not currently on the payroll, you may want to consider adding him or her as an employee and paying a salary.

By offering a retirement plan, you also generate tax savings to your business because employer contributions are deductible and the assets in the retirement plan grow tax free Additionally, a tax credit is available to certain small employers for the costs of starting a retirement plan. Please let me know if this is an option you would like to discuss further.

S Corporation Shareholder Salaries

For any business operating as an S corporation, it's important to ensure that shareholders involved in running the business are paid an amount that is commensurate with their workload. The IRS scrutinizes S corporations which distribute profits instead of paying compensation subject to employment taxes. Failing to pay arm's length salaries can lead not only to tax deficiencies, but penalties and interest on those deficiencies as well. The key to establishing reasonable compensation is being able to show that the compensation paid for the type of work an owner-employee does for the S corporation is similar to what other corporations would pay for similar work. If you are in this situation, we need to document the factors that support the salary you are being paid.

Reminder: All Corporations, S-Corporations & Partnerships should review and update their company's by-laws and/or operating agreements annually.

Please call us at your convenience so we can discuss potential strategies to reduce your taxable income and tax liability for 2024.

Sincerely,

Cooper & Associates, AC