Tax-Saving Tips
2024 Year-End Tax-Planning Edition

November 2024

General Business Income Tax Deductions

Here are some business tax deduction strategies you can easily understand and implement before the end of 2024.

Prepay Expenses

IRS regulations contain a safe-harbor rule that allows cash-basis taxpayers to prepay and deduct qualifying expenses up to 12 months in advance. For a cash-basis taxpayer, qualifying expenses include lease payments on business vehicles, rent, payments on offices and machinery, and business and malpractice insurance premiums.

Example. You pay $3,000 a month in rent and would like a $36,000 deduction this year. So, on Friday, December 27, 2024, you mail a rent check for $36,000 to cover all your 2025 rent. Your landlord does not receive the payment in the mail until Wednesday, January 2, 2025. Here are the results:

- You deduct $36,000 this year.
- The landlord reports $36,000 as rental income in 2025.

You get what you want—the deduction this year. The landlord gets what he wants—next year's entire rent in advance, eliminating any collection problems while keeping the rent taxable in the year he expects it to be taxable.

Stop Billing Customers, Clients, and Patients

Here is another strategy to reduce your taxable income for this year: stop billing your customers, clients, and patients until after December 31, 2024. (We assume here that you or your corporation is on a cash basis and operates on the calendar year). Customers, clients, and insurance companies generally don't pay until billed. Not billing customers and clients is a time-tested tax-planning strategy that business owners have used successfully for years.

Buy Office Equipment

Increased limits on Section 179 expensing now enable 100 percent write-offs on most equipment and machinery, whereas bonus depreciation enables 60 percent write-offs. Either way, when you buy your equipment or machinery and place it in service before December 31, you can get a big write-off this year.

Use Your Credit Cards

If you are a single-member LLC or sole proprietor filing Schedule C for your business, the day you charge a purchase to your business or personal credit card is the day you deduct the expense. Therefore, as a Schedule C taxpayer, you should consider using your credit card for last-minute purchases of office supplies and other business necessities. If you operate your business as a corporation, and if the corporation has a credit card in the corporate name, the same rule applies: the date of charge is the date of deduction for the corporation. But suppose you operate your business as a corporation and are the personal owner of the credit card. In that case, the corporation must reimburse you if you want the corporation to realize the tax deduction, which happens on the reimbursement date. Thus, submit your expense report and have your corporation make its reimbursements to you before midnight on December 31.

Buy a New or Used SUV, Crossover Vehicle, or Van

Let's say that on or before December 31, 2023, you or your corporation buys and places in service a *new or used* SUV or crossover vehicle that the manufacturer classifies as a truck and that has a gross vehicle weight rating (GVWR) of 6,001 pounds or more. This newly purchased vehicle gives you four benefits:

1. Bonus depreciation of 60 percent
2. Section 179 expensing of up to $30,500
3. MACRS depreciation using the five-year table.
4. No luxury limits on vehicle depreciation deductions

Example. You buy a $100,000 SUV with a GVWR of 6,080 pounds, which you will use 90 percent for business use. Your write-off can look like this:

- $30,500 in Section 179 expensing
- $35,700 in bonus depreciation

- $4,760 in 20 percent MACRS depreciation, or $611 if the mid-quarter convention applies.

So, the 2024 write-off on this $90,000 (90 percent business use) SUV can be as high as $70,960.

Buy a New or Used Pickup

If you or your corporation buys and places in service a qualifying pickup truck (new or used) on or before December 31, 2024, then this newly purchased vehicle gives you four big benefits:

1. Bonus depreciation of up to 60 percent
2. Section 179 expensing of up to $1,220,000
3. MACRS depreciation using the five-year table.
4. No luxury limits on vehicle depreciation deductions

To qualify for full Section 179 expensing, the pickup truck must have.

- a GVWR of more than 6,000 pounds, and
- a cargo area (commonly called a "bed") of at least six feet in interior length that is not easily accessible from the passenger compartment.

Short bed. If the pickup truck passes the more-than-6,000-pound-GVWR test but fails the bed-length test, tax law classifies it as an SUV. That's not bad. The vehicle is still eligible for expensing of up to the $30,500 SUV expensing limit and 80 percent bonus depreciation.

Buy an Electric Vehicle

If you purchase an all-electric vehicle or a plug-in hybrid electric vehicle, you might qualify for a tax credit of up to $7,500.

Year-End Retirement Deductions

The clock continues to tick. Your retirement is one year closer. You have time before December 31 to take steps that will help you fund the retirement you desire. Here are five things to consider.

First, a question: do you have your (or your corporation's) retirement plan in place? If not, and if you have some cash you can put into a retirement plan, get busy and put that retirement plan in place so you can obtain a tax deduction for 2024.

For most defined contribution plans, such as 401(k) plans, you (the owner-employee) are both an employee and the employer, whether you operate as a corporation or as a sole proprietorship. And that's good because you can make both the employer and the employee contributions, allowing you to put away a good chunk of money. The "employee" portion of a 401(k) contribution must be made by 12/31/2024 while the "employer" portion does not have to be made until the due date of your 2024 tax return.

Consider converting your 401(k) or traditional IRA to a Roth IRA.

You first need to answer this question: How much tax will you have to pay to convert your existing plan to a Roth IRA? With this answer, you now know how much cash you need on hand to pay the extra taxes caused by the conversion to a Roth IRA.

Here are four reasons you should consider converting your retirement plan to a Roth IRA:

1. You can withdraw the monies you put into your Roth IRA (the contributions) at any time, both tax-free and penalty-free, because you invested previously taxed money into the Roth account.

2. You can withdraw the money you converted from the traditional plan to the Roth IRA at any time, tax-free. (But if you make that conversion withdrawal within five years of the conversion, you pay a 10 percent penalty. Each conversion has its own five-year period.)

3. When you have your money in a Roth IRA, you pay no tax on qualified withdrawals (earnings), which are distributions taken after age 59 1/2, provided you've had your Roth IRA open for at least five years.

4. Unlike with the traditional IRA, you don't have to receive required minimum distributions from a Roth IRA when you reach age 72—or to put this another way, you can keep your Roth IRA intact and earning money until you die.

Children on Payroll

If you have a child under the age of 18 and you operate your business as a sole proprietor or spousal partnership, you need to consider putting that child on your payroll. Neither you nor your child will pay payroll taxes on the child's salary. If the child makes IRA contributions, he or she can avoid all income taxes on up to $20,350 of earned income. If you operate as a corporation, you can still benefit from employing the child, but payroll taxes cannot be avoided.

Monitor Estimated Tax Payments & Withholding

Review the amount of withholding and estimated tax payments you have made for 2024. You won't be penalized for insufficient estimate payments if you pay in at least 90% of your 2024 tax amount or 110% of your 2023 tax amount.

Max Out 401(k) and IRA Contributions

You have until 12/31/24 to put money in your 401(k) plan, and until 4/14/25 to contribute to an IRA. The maximum contribution to a 401(k) is $23,000, or $30,500 if age 50 or older. The maximum allowable IRA contribution is $7,000m or $8,000 if age 50 or older.

Tax Strategies for Your Stock Portfolio

When you take advantage of the tax code's offset game, your stock market portfolio can present opportunities to reduce your 2024 income taxes.

The tax code contains the basic rules for this game, and once you know the rules, you can apply the correct strategies.

Here's the basic gist:

- Avoid the high taxes (up to 40.8 percent) on short-term capital gains and ordinary income.
- Lower the taxes to zero—or if you can't do that, lower them to 23.8 percent or less by making the profits subject to long-term capital gains.

Think of this: you are paying taxes at a 71.4 percent higher rate when you pay at 40.8 percent rather than the tax-favored 23.8 percent.

To avoid higher rates, here are seven possible tax planning strategies.

Strategy 1

Examine your portfolio for stocks you want to unload and make sales where you offset *short-term* gains subject to a high tax rate, such as 40.8 percent, with *long-term* losses (up to 23.8 percent). In other words, make the high taxes disappear by offsetting them with low-taxed losses, and pocket the difference.

Strategy 2

Use *long-term* losses to create the $3,000 deduction allowed against ordinary income. Again, you are trying to use the 23.8 percent loss to kill a 40.8 percent rate of tax (or a 0 percent loss to kill a 12 percent tax, if you are in the 12 percent or lower tax bracket).

Strategy 3

As an individual investor, avoid the wash-sale loss rule. Under the wash-sale loss rule, if you sell a stock or other security and then purchase substantially identical stock or securities within 30 days before or after the date of sale, you don't recognize your loss on that sale. Instead, the tax code makes you add the loss amount to the basis of your new stock.

If you want to use the loss in 2024, you'll have to sell the stock and wait for more than 30 days before repurchasing that stock.

Strategy 4

If you have lots of capital losses or capital loss carryovers and the $3,000 allowance is looking extra tiny, sell additional stocks, rental properties, and other assets to create offsetting capital gains. If you sell stocks to purge the capital losses, you can immediately repurchase the stock after you sell it—there's no wash-sale "gain" rule.

Strategy 5

Consider giving appreciated stock to your parents and your non-kiddie-tax children. Why? If the parents or children are in lower tax brackets than you are, you get a bigger bang for your buck by

- gifting them stock,
- having them sell the stock, and then.
- having them pay taxes on the stock sale at their lower tax rates.

Strategy 6

If you are going to donate to a charity, consider appreciated stock rather than cash, because a donation of appreciated stock gives you more tax benefit.

It works like this:

- You deduct the fair market value of the stock as a charitable donation.
- You don’t pay any of the taxes you would have had to pay if you sold the stock.

Strategy 7

People 70 ½ and up can transfer up to $105,000 from their IRA directly to charities. These QCDs count as RMDs but they are not taxable. The QCD strategy is a good way to get tax savings from charitable gifts for taxpayers who take the standard deduction instead of itemizing.