Pre-Filing Checklist & Additional Considerations
A Summary of:

1. Things to consider before filing your 2024 tax return
2. Things to consider for the new year, 2025

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1. Things to Consider Before Filing Your 2024 Tax Return

- **Estimating Your Tax Liability:**
  How much can you expect to owe in taxes for the year? Generally, we recommend setting aside about **30–35% of your net income** for income taxes.
    - **What is net income?** It's the bottom-line figure on your Profit & Loss statement once all financials are up to date.
    - Setting aside 30–35% should typically cover your tax liability.
- **Quarterly Estimates and Penalties:**
  Did you make quarterly estimated tax payments throughout the year? If not, you may face about a **7% penalty** on any tax owed.
    - While these penalties are usually not very large, they do increase the amount you ultimately pay.
- **New Asset Purchases and Depreciation Choices:**
  Did you buy any new assets (equipment, vehicles, rental property) in 2024?
    - Consider how you want to expense these purchases. For example, if you bought $50,000 in equipment, you can:
        1. Expense the entire $50K in 2024, or
        2. Spread that $50K expense over 5 years.
    - Expensing it all in one year may lower your immediate tax bill, but it leaves you with fewer deductions in future years (Years 2, 3, 4, etc.). This can be problematic if you went into debt for the equipment, as you'll still be paying on the loan in future years without the offsetting tax deduction.
    - If you don't plan on buying more equipment soon—or if you borrowed to purchase equipment—spreading the depreciation may be better long-term.
- **Interest Expense on Business Loans:**
  Don't forget to deduct the interest portion of your business loan payments. Principal payments are not deductible, but the interest is.
    - Ensure your tax preparer knows about any interest expenses.
- **Self-Employed Health Insurance:**
  If you have self-employed health insurance, you should receive a Form 1095-A.
    - You're entitled to a deduction for health and dental insurance premiums.
    - Inform your tax preparer so they can include this deduction.
- **Deductions That Don't Appear in Financial Statements:**
  Some deductions, like the **home office deduction**, **auto mileage deduction**, and **business use of personal items**, don't show up directly in your P&L statements.
    - If you don't inform your tax preparer about these, they may be missed.
    - Keep track and communicate these to your tax preparer.

- **Retirement Contributions for 2024 (Made in 2025):**
  Even though the year 2024 is over, you can still make certain retirement contributions before filing your tax return, and they will count for 2024.
  - If you're unhappy with your tax bill after your return is prepared, consider making tax-deductible retirement contributions, assuming you have the proper accounts set up.
  - This can lower your taxable income and save you money on taxes.
- **Electric Vehicle Tax Credits & Energy Efficient Improvements:**
  If you purchased a new or used electric vehicle (EV) in 2024, let your tax preparer know, as you may qualify for a credit worth up to $7,500.
  - Also, if you made energy-efficient improvements to your home, you might qualify for additional tax credits. Be sure to mention these upgrades to your tax preparer.
- **Fuel Tax Credit:**
  If you use fuel from a gas station for off-road business equipment (e.g., lawn mowers in a landscaping business), you may qualify for the fuel tax credit.
  - For example, buying 3,000 gallons of gas for off-road business use could make you eligible for this credit.
  - Inform your tax preparer about your off-road fuel usage so they can calculate any available credit.

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2. Things to Consider for the New Year 2025

- **Reflecting on 2024 Taxes:**
  After filing your 2024 return, you may wonder, "Did I overpay in taxes?" If yes, consider the following for 2025:
- **Entity Selection:**
  If your business currently operates as a stand-alone LLC or partnership, you're likely subject to self-employment taxes.
  - Electing **S-corporation status** could potentially reduce these taxes, but S-corps come with more compliance requirements and costs. Electing S-corporation status should be carefully considered.
  - If you own rental real estate, do not put these properties into an S-corporation—it will likely increase your tax burden.
  - Similarly, if you have a business (e.g., a landscaping company) and own a building or garage, you also should not hold this property in an S-corporation. Real estate is not taxed favorably inside S-corps.
- **Sending in Quarterly Estimates for 2025:**
  To avoid penalties (i.e., paying more tax than necessary), plan to send in four quarterly estimated tax payments in 2025.
  - A general guideline: take the total tax you owed for 2024, divide by 4, and send that amount each quarter.

- **Anticipate Changes in Depreciation Deductions:**
  If you bought a lot of equipment in 2024 and won't buy much in 2025, your 2025 tax bill might be higher because you'll have less depreciation expense.
    - Conversely, if you plan to buy more equipment in 2025, you might expect a lower tax bill.
- **Setting Up Tax-Advantaged Retirement Accounts:**
  Consider accounts like a Roth IRA, Traditional IRA, Solo 401(k), SIMPLE IRA, Traditional 401(k), or SEP IRA.
    - Each has its own rules, but all help shelter income from taxes.
    - This can be especially beneficial in years when you aren't buying much equipment.
- **Health Savings Account (H.S.A.):**
  An H.S.A. is an underutilized tax shelter.
    - Contributions are tax-deductible, and withdrawals for medical expenses are tax-free.
    - If you don't use the funds for medical expenses now, you can invest and grow the account. After reaching retirement age, it essentially functions like a Traditional IRA.
    - An H.S.A. can serve as both a healthcare cushion and an additional retirement account.
- **Flow-Through Entity Election for S-Corporations or Partnerships:**
  Consider making the "Flow-Thru Entity Election" with your state.
    - Example: If your business earns $200K in taxable profits and your state tax is 4%, you owe $8,000 in state taxes.
    - By making the election, your business gets to deduct that $8,000 tax payment on its own return. Without the election, you don't get this deduction.
- **Looking Ahead to 2026 Tax Changes:**
  If no new legislation passes, tax rates may revert to pre-2018 levels in 2026, likely increasing your tax burden.
    - For many, this could mean going from a 28% rate to a 39% rate without any increase in income.
    - If you anticipate higher rates in 2026, it may be beneficial to delay some investments or purchases until that year, so the deductions become more valuable.

In Summary:
Use the above checklist to ensure you maximize deductions and minimize your tax liability for 2024. Also, start planning for 2025 and beyond. Tax planning & strategizing is a year around process if you truly want to optimize your tax situation. This is why we offer routine tax planning & strategizing services throughout the year.