Business Owners' Top 5 Year-End Tax Savings Tips

As the year comes to a close, it's a great time for business owners to think strategically about lowering their tax liabilities. Below are **five effective year-end tax savings tips**, complete with detailed examples to help you take full advantage of every opportunity.

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1. Repair, Replace, or Upgrade Equipment and Supplies

A great way to reduce your tax bill is by **repairing, replacing, or upgrading** your business equipment and supplies before the year ends. Here's how to make the most out of these deductions:

- **Upgrade or Repair by December 31**: If you have any **major repairs** or **upgrades** planned for your vehicles, tools, machines, or office supplies, consider completing them before **December 31**. This way, you can take the **deduction this year**, lowering your 2024 tax liability.
- **Plan for Major Purchases**: If you're looking at buying **new equipment or a vehicle**, make sure it is "**placed in service**" by December 31 to be eligible for a deduction in the current year.
    - **Example**: If you order new equipment and it's back-ordered until January 1, you **won't** get a deduction for 2024, even if you already paid for it. Similarly, if you buy a vehicle online, it must be delivered and available for use by December 31 to qualify for the deduction.
- **Restock Your Supplies**: Even smaller expenses, like **office supplies** (e.g., computers, pens, and printer ink), can add up. Stocking up before year-end helps reduce your taxable income for the current year.

Tip: Be mindful of delivery times—purchases must be available for use by year-end to qualify for this year's deduction.

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2. Prepay Business Expenses

If you're a **cash-basis taxpayer** (most small business owners are), you can **prepay certain business expenses** before the year ends to accelerate deductions into this year. Here's how prepaying can save you money:

- **Prepay Recurring Expenses**: Many ordinary business expenses—like **liability insurance, software subscriptions, contractor fees, legal fees, and accounting fees**—can be prepaid to reduce your taxable income.

Example Scenario

Imagine it's **December 30**, and your accountant informs you that you owe an **unexpected $10,000** in taxes for the year. Naturally, you want to find a way to reduce your tax liability. Here's one possible solution:

1. **Evaluate Monthly Expenses**: Let's say your ordinary business expenses total about **$5,000 per month**. This includes costs for liability insurance, software subscriptions, contractor fees, and more.

2. **Prepay January–April Expenses**: Instead of paying these expenses monthly, you decide to **prepay** the first **four months** of the next year (January–April). That's **$20,000** in prepaid expenses ($5,000 x 4 months).

3. **Impact on Your Tax Bill**:

    - Since you're in a **30% tax bracket**, the **$20,000** in prepaid expenses results in a tax savings of **$6,000** ($20,000 x 30%).

    - Instead of owing **$10,000** in unexpected taxes, your liability is reduced to **$4,000** ($10,000 - $6,000).

4. **Impact on Cash Flow**:

    - **Without Prepaying**: If you don't prepay your expenses, you'll need to pay **$10,000** in taxes by April 15. Starting with **$50,000** in the bank, you'd be left with **$40,000** after paying the tax bill.

    - Over the next four months, you would also need to pay your monthly expenses of **$5,000** per month for January through April (totaling **$20,000**). This leaves you with only **$20,000** left in cash.

    - **With Prepaying**: If you **prepay** the **$20,000** in expenses before year-end, you would have **$30,000** remaining in cash initially ($50,000 - $20,000). By prepaying, you reduce your tax bill from **$10,000** to **$4,000**, resulting in **$26,000** remaining in cash after paying the reduced tax bill.

Outcome

By prepaying, you essentially saved **$6,000** on your current year taxes, which means you kept more money in your pocket in the short term, even after considering the expenses. This is cash you wouldn't have had if you simply paid your tax bill in April without prepaying expenses.

- **Eligible Prepaid Expenses**: Common expenses you can prepay include **advertising, professional fees, liability insurance**, and **certain software** subscriptions. Just make sure they qualify under the **"12-month rule"**: If the prepaid expense will be consumed within **12 months** or less, you can typically deduct it in the current year.

Tip: Prepaying expenses can significantly reduce your tax bill, especially if you're expecting a larger tax liability for the current year.

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3. Delay Receiving Income

Delaying income until the next year can help minimize your tax liability for this year if you're on a **cash basis**. Here's how this strategy works:

- **Delay Payment Receipt**: As a cash-basis taxpayer, income is only recognized when you **receive the payment**. If a customer **does not pay** the invoice by the end of the year, you can defer recognizing that income until it's actually received in the following year.

Detailed Example Scenario

Let's say you complete a project for a client on **December 15**, and the total payment due is **$10,000**. You send the client the invoice on **December 16**, and here's what happens next:

1. **Customer Payment Timing**:
    - If the customer **chooses to delay payment** until **January 1**, then the **$10,000** in revenue will **not** be counted as taxable income in 2024, because you haven't received it. This deferral helps lower your **2024 taxable income** by that amount.

- However, **you cannot make arrangements** to intentionally delay customer payments with the goal of controlling when income is recognized. The customer must independently decide when to pay.

2. **Tax Effect**:

   - If the client pays you on **January 1, 2025**, the **$10,000** counts as income in 2025, effectively reducing your **2024 taxable income**. This helps lower your current year's tax liability, which can be particularly helpful if you're already expecting high income for 2024.

3. **Constructive Receipt Rules - Beware**:

   - Be cautious of **constructive receipt rules**. If the client sends you a check in late December and it arrives in your mailbox on **December 30**, the IRS may consider that you've "constructively received" the payment, even if you haven't deposited it yet. This means the **$10,000** would count as **2024 income**, and you'd need to pay taxes on it, even if you wait until January to cash it.

4. **Profit & Loss Consideration**:

   - When you generate an invoice, the income is technically included in your **Profit & Loss Statement**, but because you haven't yet received the payment, it's not **recognized as taxable income** until the payment is received from the customer.

   - **For Example**: If you receive the payment on **January 1**, you start the year with that income, which may give you a boost for the new year while saving you from taxes in 2024.

Outcome: By **delaying income**—only when the customer hasn't paid the invoice—you can effectively manage your taxable income for 2024. In this scenario, not recognizing **$10,000** until 2025 helps reduce your current tax burden and allows you to control when that income is taxed.

Tip: Timing when you receive payments can help you manage your tax liability, especially if you're having an unusually high-income year. However, you **cannot arrange** to delay customer payments just to defer taxes—this must happen naturally if the customer does not pay by year-end.

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4. Maximize Retirement Contributions

Retirement contributions are one of the most powerful and effective ways to reduce your tax burden. Unlike other deductions that require you to spend money that you won't get back, retirement contributions let you **save money on taxes while keeping the money for your future**. Let's dive deeper into how you can leverage retirement accounts for tax savings and long-term financial security.

Why This is Beneficial

Imagine you're running a small business and it's been a good year—your profits are up, and you're facing a higher-than-expected tax bill. You'd like to lower that tax bill, but you're reluctant to spend money unnecessarily just to get a deduction. This is where retirement contributions can be a game-changer: they let you **save on taxes while saving for yourself**.

Retirement contributions are often my **favorite tax savings tool**, because they offer a unique win-win scenario. You get a tax deduction now and, at the same time, you're putting money aside for your future, growing it in a tax-advantaged account. It's one of the few strategies where you get to **keep the money you save**.

Retirement Accounts for Business Owners

As a business owner, you have access to several types of retirement accounts that can provide substantial tax advantages. Let's explore some options:

- **Solo 401(k)**: If you're self-employed, a Solo 401(k) could be a great option. For **2024**, you can contribute up to **$69,000** if you're eligible, depending on your age and income. This means you can lower your taxable income by up to **$69,000** for the year, which can make a huge difference in your tax bill.
- **SEP IRA**: The **SEP IRA** is another powerful option for business owners. It allows you to contribute a percentage of your business income, up to a maximum amount of **$69,000**. This can be particularly beneficial if you've had an exceptionally profitable year and want to make a large contribution to reduce your tax liability.
- **Traditional IRA & Roth IRA**: These accounts are available to everyone, and while they have lower contribution limits compared to a Solo 401(k) or SEP IRA, they're still valuable tools for tax savings. With a **Traditional IRA**, contributions are generally tax-deductible in the year you make them, which can help reduce your current tax bill.

Example Scenario: Planning for the Future

Let's say your business had a good year, and you've got **$50,000** in profits that you want to manage smartly. Instead of spending money on equipment you don't need, you decide to contribute to your **Solo 401(k)**. You make a **$50,000** contribution, which reduces your taxable income by that amount.

- You're in a **30% tax bracket**, so that contribution saves you **$15,000** in taxes for the year ($50,000 x 30%).
- Not only did you save $15,000 on taxes, but you've also just put $50,000 into a retirement account, where it can grow **tax-deferred** until you're ready to retire.

Unlike buying equipment—which may or may not provide a good return—retirement contributions are an investment in **your future self**. This money grows over time, allowing you to build a financial cushion for retirement. Plus, as a business owner, you have more flexibility to contribute larger amounts compared to the typical employee retirement accounts.

Offsetting "Equipment-Light" Years

Retirement contributions are especially useful in what I call **"equipment-light" years**. If you don't need to buy much for your business—no new trucks, computers, or heavy machinery—your deductions may be lower than usual. This could lead to a higher taxable income, which means a larger tax bill.

In such cases, retirement contributions can act as a substitute for the equipment deductions you might normally take. Instead of buying things that depreciate over time, you're investing in your future, all while saving on taxes now.

How Retirement Contributions Make a Difference

Consider the following points:

1. **Tax Savings Now**: Retirement contributions reduce your **current taxable income**, which means a lower tax bill today. For instance, contributing **$50,000** to a retirement plan can directly reduce your taxable income by that amount.
2. **Long-Term Growth**: That money isn't just sitting idle—it's growing over time. Investments in a retirement account grow either **tax-deferred** (in a Traditional IRA or 401(k)) or **tax-free** (in a Roth Type Account), depending on the type of account.

3. **Special Retirement Plans for Business Owners**:
    - A **Solo 401(k)** or **SEP IRA** allows for significantly larger contributions compared to what a regular employee can contribute. If you qualify, you could contribute up to **$69,000** in 2024, making it one of the most powerful tools for business owners looking to shelter income from taxes.
    - In future years, if you're "light on equipment" or other deductions, having these retirement plans set up means you can still reduce your taxable income and save money.
4. **The Sleep-At-Night Benefit**: Unlike spending money on business expenses that may or may not provide a return, contributing to your retirement is an investment in **your financial security**. It's money that remains yours and grows for your benefit. Knowing you've set aside money for the future gives peace of mind, especially during uncertain times.

Contributions Available to Everyone

- **Traditional IRA & Roth IRA**: These accounts are great for everyone, not just business owners. With a **Traditional IRA**, you can typically take a tax deduction for your contributions, while a **Roth IRA** allows your money to grow tax-free, providing flexibility for your future needs.
- **Contribution Limits**: You can contribute up to **$6,500** (or **$7,500** if you're 50 or older) to a Traditional or Roth IRA in 2024. While not as much as some of the business-specific plans, every bit helps, especially when you're thinking about your long-term goals.

Tip: Set up your retirement accounts now, even if you don't plan to make full contributions this year. Establishing the accounts early means they're available as soon as you need them, especially in a high-profit year when a large contribution could significantly lower your taxes.

Takeaway: Maximizing your retirement contributions is a **powerful strategy** to save on taxes while building a secure financial future. As a business owner, you have unique opportunities to contribute larger amounts, allowing you to **reduce your taxable income**, save money on taxes, and create lasting wealth for retirement. Don't overlook this incredible benefit—it's one of the smartest ways to take care of your financial well-being both now and in the years to come.

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5. Don’t Miss Miscellaneous Tax Credits and Deductions

Make sure you take advantage of every tax credit and deduction available to you. Here are some commonly missed deductions that could save you thousands:

1. **Dependent Care Credit**: Provides a credit for expenses like **daycare, summer camps,** and **preschool tuition**.
2. **Energy Efficiency Credits**: Certain improvements to make your home more **energy-efficient** or purchasing specific **electric vehicles** may qualify for credits. Be sure to notify your tax professional if you think you qualify.
3. **Qualified Business Income Deduction (QBI)**: If you have **taxable business profit**, you may be eligible for a deduction equal to **20%** of your business income, subject to certain limits. This is often missed and can be quite substantial.
4. **Reimbursable Business Expenses**: Make sure you’re reimbursing yourself for expenses that have a business component, such as:
    - **Phone and Internet**: If you use your phone **50% for business** and your bill is **$100/month**, you can reimburse yourself **$50** from your business and claim it as a tax deduction.
    - **Business Mileage**: Make sure to track and reimburse yourself for any **business miles** driven.
5. **Retirement Contribution Credit**: For taxpayers below a certain income threshold, contributing to a retirement account may qualify you for an **additional tax credit** on top of any deduction.
6. **Fuel Tax Credit**: If you’re a contractor buying gas for equipment used in **off-road activities**, you may qualify for a tax credit for the gallons used.

Tip: Reviewing these credits and deductions with your tax professional can help ensure you don’t miss valuable opportunities to save.

Conclusion

Effective year-end tax planning can make a significant difference for business owners. By **upgrading equipment**, **prepaying expenses**, **delaying income**, **maximizing retirement contributions**, and **utilizing miscellaneous credits and deductions**, you can reduce your tax liability and set yourself up for greater financial success.

Need Assistance? If you need help implementing these strategies or have questions about how they apply to your business, reach out to your tax professional now. There's still time to make a big difference before December 31!