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Here’s what small business owners can expect for the tax year.



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 **Top small business tax deductions**



As a small business owner, it’s important to stay up to date on tax laws. Several changes to the federal tax code will affect small businesses this tax year. Read this guide to find out the most important things to know about filing taxes next year.

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## Tax changes for 2024

The following changes are in effect for the 2023 tax year, which you prepare and file in 2024.

### Tip



Doing your taxes on your own? See our reviews of the [best tax software for small businesses](#).

## Modified credit for pension plan startup costs

The SECURE Act increases the Section 45E credit for all or a portion of employer contributions to small employer pensions for the first five employer tax years, starting in 2023. The credit for employer contributions is capped at \$1,000 per employee. The full credit is available to employers with 50 or fewer employees and is phased out completely for employers with more than 100 employees.

## Net operating rules

The rules around how to claim a net operating loss are changing this year. A net operating loss occurs when your deductions exceed your gross income. As a general rule, you can carry the loss forward to offset income in later years. You cannot offset more than 80% of your taxable income.

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### Excess business loss limitation rules

Through a temporary suspension of Tax Cuts and Jobs Act rules in 2019 and 2020, businesses could carry net operating losses back five years or carry them forward indefinitely. However, the suspension has ended. Taxpayers cannot deduct losses of more than \$540,000 per year if married filing jointly or \$270,000 if single. This applies to all business income and losses, including Schedule C and pass-through-entity income and losses. You can carry forward losses in excess of these amounts to lower your taxable income in future years.

In addition, W-2 wages can no longer be used to offset the business losses. Spousal income is taxed separately and may result in a tax bill even if the business losses are greater than the spousal income.

### Interest expense limitation rule

The interest expense limitation rule generally limits the amount of deductible interest expense for the year to the total of the following:

1. Business interest income for the year
2. 30 percent of adjusted taxable income
3. Your floor plan financing interest expense

This tax rule was temporarily suspended during the pandemic, but it is back in force in 2022 and beyond.

### Charitable contributions increased limits expired

The [charitable contribution rule](#) that allowed C corporations and individuals to deduct a greater percentage of their income for charitable contributions is no longer in force for

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business owners and freelancers who receive more than \$600 from third-party digital platforms were scheduled to receive Form 1099-K reporting that income. Platforms such as Amazon, Etsy and eBay also were to report this income to the Internal Revenue Service.

After pushback from taxpayers and businesses, this requirement has been postponed for one year. If it's applicable to your business, expect to receive a Form 1099-K in 2024 for the 2023 tax year.

### Tip



A tax professional can help make sure your business taxes are correctly prepared and filed in accordance with the latest federal, state and local laws.

## State and local tax (SALT) cap

Since 2020, filers can deduct only up to \$10,000 in state and local property and income taxes. The deduction is the same for single filers and couples filing a joint return.

Many business owners who operate a pass-through entity in a high-tax state find their deductions limited by SALT rules. Wayne Winegarden, senior fellow and director of the Center for Medical Economics and Innovation at the Pacific Research Institute, said all business owners should be aware of this cap. "I really think in the high-tax states, the SALT cap is going to be meaningful, more for small businesses, just because they're going to be fil through their personal taxes," he said.

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limited liability companies (LLCs), sole proprietorships and partnerships. Pass-throughs make up approximately 95 percent of U.S. businesses. The law now provides a 20 percent deduction for those businesses. The 2022 deduction phases out at taxable income levels between \$170,050 and \$220,050 (between \$340,100 and \$440,100 for joint filers), and the 2023 phase-out levels will be adjusted for inflation. This deduction is set to expire at the start of 2027.

C corporations also got a big tax benefit: The Tax Cuts and Jobs Act lowered the corporate tax rate from 35 percent to 21 percent in a bid to bring major corporations back to the U.S. to employ workers and create wealth.

### First-year bonus depreciation

The first-year bonus depreciation deduction was changed to 100 percent through the end of 2022. In other words, businesses that made eligible equipment and property purchases could deduct the full purchase price instead of writing off a portion of it each year. This provided businesses with more money upfront, which lawmakers hoped would be invested back into the business or be used to hire workers.

Starting with the 2023 tax year, the 100 percent bonus depreciation amount is scheduled to be reduced every year. Josh Zimmelman, founder of Westwood Tax & Consulting, said this enables businesses to write off the cost of assets in one shot.

“A company can invest in vehicles, computers and equipment, and claim the entire expense on their ... tax return,” Zimmelman said.

Winegarden said the break is an incentive for businesses to spend more. “Anything that gets you closer to complete expensing is going to increase the value of the depreciation, lower the tax burden and reward those capital-intensive firms,” he said.

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## Important 2023 deadlines

Take note of the following tax deadlines for 2023:

- 2022 tax returns and payments are due by midnight on April 18, 2023, for sole proprietorships, household employers and C corporations. For S corporations and partnerships, taxes are due March 15, 2023.
- Quarterly tax deadlines for 2023 for estimated income tax are April 18 for Q1, June 15 for Q2, Sept. 15 for Q3 and Jan. 15, 2024, for Q4.
- 2023 tax returns and payments are due April 18, 2024. S corporations and partnerships must file by March 15, 2024.

## Top small business tax deductions

This isn't a comprehensive list of tax deductions available to small businesses (and you need to ensure your business is eligible for these deductions), but it's a great starting point:

- **Rent:** If you rent your office space or retail location, the cost of your rent is fully deductible.
- **Home office:** If you have a dedicated workspace in your home (it must be regularly and solely used for business), then you are eligible to deduct expenses related to that portion of your home.
- **Advertising:** Promoting your company not only helps to grow your business; it also may shrink your taxes, as these expenses are fully deductible as well. Advertising expenses include things such as business cards, flyers and digital marketing.
- **Vehicle:** As long as you can document and verify that the vehicle is used for business purposes, you can deduct the operation costs. As with the home office deduction,

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- **Employee salaries:** Salaries — along with many benefits, like retirement and education offerings — are tax deductible. [Learn how to build a great [employee benefits plan](#).]

## Types of small business taxes

Small business taxes vary based on the structure of the business, but here are the five primary small business taxes:

- **Income tax:** Except for partnerships and other pass-through entities, all businesses file annual income tax returns. Pass-through entities file information returns.
- **Self-employment tax:** The self-employment tax is on your net earnings from self-employment and consists of Social Security and Medicare taxes.
- **Employment taxes:** If you have employees, you have taxes (and forms) related to their Social Security and Medicare taxes, federal income tax withholdings, federal unemployment tax, and other taxes, such as local transit taxes. These are referred to as [payroll taxes](#).
- **Sales and excise tax:** Most states require you to collect and remit [sales tax](#) on qualifying sales. You also pay excise tax on sales in specific categories. You may even have to register and collect sales tax in other states in which you do business.
- **Estimated taxes:** Many businesses (sole proprietors, partnerships and S corporation shareholders) must pay quarterly estimated tax payments. This requirement applies if you don't have taxes withheld from each paycheck or don't have a sufficient amount withheld from each paycheck.

## Key Takeaway



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## Things to remember

If you started your business in 2023, remember these key takeaways:

- To file your tax return, you will need a [tax ID number](#). This is typically either the employer identification number issued when the articles of incorporation were approved (for corporations and LLCs) or a Social Security number, although, in rare cases, other numbers can be used. If you need an employer identification number, you can [apply for and receive one online](#).
- In addition to income taxes, you pay 15.3 percent in self-employment tax on net self-employment income. This equals what an employer would normally deduct from an employee's paycheck for Medicare and Social Security taxes, plus the employer-paid share.
- All income, including cash and noncash payments, must be reported on your tax return.
- If you pay your own health insurance premiums, you may be able to deduct them as a business expense.
- If you're not ready to submit your taxes by April 15, [you can file for an extension](#). However, you should pay your estimated taxes to avoid penalties and interest. The deadlines for requesting extensions are March 15 for S corporations and April 15 for C corporations.
- [Employee bonuses are taxed differently](#) than regular wages are, with a special bonus tax of 22 percent, as well as a distinct rate for Social Security and Medicare taxes.
- If you have a side hustle that supplements the income from your regular job, the IRS considers what you make on the side to be [self-employment income](#) and you are taxed accordingly.



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cash for your business travel expenses.

## Tax planning should be a year-round strategy

It's important to be proactive about tax planning for your business. Waiting until the last minute makes tax preparation more complicated and limits your money-saving options. Keeping up with current and future tax changes helps keep you in charge so you can maximize all tax benefits and run a profitable business.

*Jennifer Dublino contributed to this article. Source interviews were conducted for a previous version of this article.*

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Sally Herigstad, an authority on all things finance and taxation, is the author of *Help! I Can't Pay My Bills: Surviving a Financial Crisis*. As a certified public accountant, a member of AICPA and a tax software developer, Herigstad has spent decades guiding business owners and others through complex tax laws, debt resolution, financial planning and more. At Business News Daily, Herigstad covers financial trends and best practices for managing business finances and taxes. Over the course of her career, Herigstad has served as a subject matter expert for Microsoft's TaxSaver, MSN Money and Microsoft Money, and contributed insights and teachings through

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