Tax breaks to consider during National Small Business Week

The week of September 13-17 has been declared National Small Business Week by the Small Business Administration. To commemorate the week, here are three tax breaks to consider.

1. Claim bonus depreciation or a Section 179 deduction for asset additions

Under current law, 100% first-year bonus depreciation is available for qualified new and used property that's acquired and placed in service in calendar year 2021. That means your business might be able to write off the entire cost of some or all asset additions on this year's return. Consider making acquisitions between now and December 31.

Note: It doesn't always make sense to claim a 100% bonus depreciation deduction in the first year that qualifying property is placed in service. For example, if you think that tax rates will increase in the future — either due to tax law changes or a change in your income — it might be better to forgo bonus depreciation and instead depreciate your 2021 asset acquisitions over time.

There's also a Section 179 deduction for eligible asset purchases. The maximum Section 179 deduction is $1.05 million for qualifying property placed in service in 2021. Recent tax laws have enhanced Section 179 and bonus depreciation but most businesses benefit more by claiming bonus depreciation. We can explain the details of these tax breaks and which is right for your business. You don't have to decide until you file your tax return.

2. Claim bonus depreciation for a heavy vehicle

The 100% first-year bonus depreciation provision can have a sizable, beneficial impact on first-year depreciation deductions for new and used heavy SUVs, pickups and vans used over 50% for

business. For federal tax purposes, heavy vehicles are treated as transportation equipment so they qualify for 100% bonus depreciation.

This option is available only when the manufacturer's gross vehicle weight rating (GVWR) is above 6,000 pounds. You can verify a vehicle's GVWR by looking at the manufacturer's label, usually found on the inside edge of the driver's side door.

Buying an eligible vehicle and placing it in service before the end of the year can deliver a big write-off on this year's return. Before signing a sales contract, we can help evaluate what's right for your business.

3. Maximize the QBI deduction for pass-through businesses

A valuable deduction is the one based on qualified business income (QBI) from pass-through entities. For tax years through 2025, the deduction can be up to 20% of a pass-through entity owner's QBI. This deduction is subject to restrictions that can apply at higher income levels and based on the owner's taxable income.

For QBI deduction purposes, pass-through entities are defined as sole proprietorships, single-member LLCs that are treated as sole proprietorships for tax purposes, partnerships, LLCs that are treated as partnerships for tax purposes and S corporations. For these taxpayers, the deduction can also be claimed for up to 20% of income from qualified real estate investment trust dividends and 20% of qualified income from publicly traded partnerships.

Because of various limitations on the QBI deduction, tax planning moves can unexpectedly increase or decrease it. For example, strategies that reduce this year's taxable income can have the negative side-effect of reducing your QBI deduction.

Plan ahead

These are only a few of the tax breaks your small business may be able to claim. Contact us to help evaluate your planning options and optimize your tax results.