CRI CARR RIGGS & INGRAM CPAs and Advisors

2024 Mid-Year Tax Planning Checklist for Business Owners

Monitoring federal and state tax liability obligations is an ongoing commitment. It has become a task performed by business owners on a recurring basis throughout the year. Now that we are in the third quarter of 2024, it is important to analyze tax positions along with your periodic financial statement data reviews. Subtle modifications may prove beneficial in attempts to align tax planning with current regulations. This should help optimize certain tax efficiencies and avoid year-end surprises.

This checklist can help you identify potential 2024 tax year planning opportunities.

☐ CHANGE IN ENTITY'S TAX CLASSIFICATION

Could you achieve lasting tax benefits by changing the business entity's tax classification?

- Electing to change the tax classification could be a prudent business decision. Some common circumstances that may lead to consideration of a change in tax classification are:
  - A partnership has decided to pay W-2 wages to its partners.
  - A partner or LLC member would like to avoid excessive self-employment tax liability.
  - There is a desire to retain cash within the company.
  - You want to take advantage of the historically low 21% corporate tax rate.
- Since tax rates change, it is important to weigh the immediate tax benefits against the long-term ramifications of any tax classification change under consideration.

☐ DEPRECIATION, BONUS DEPRECIATION & SECTION 179 BUSINESS EXPENSING

How should you depreciate business assets for maximum tax efficiency?

- If your focus is maximizing deductions, apply Section 179 ($1,220,000 deduction limit and $3,050,000 investment cap) to assets with the longest recovery period first, and take bonus depreciation on other qualifying assets.
- Sometimes it's better not to maximize your deductions. Since bonus depreciation for 2024 drops to 60%, it may be better to elect out of bonus depreciation when:
  - You anticipate unusually low revenue in 2024 or higher income in future years.
  - You expect your tax rate to rise in the future.
  - Partners or shareholders lack basis to deduct bonus depreciation.
  - You want to increase business income to maximize the Section 199A Qualified Business Income "pass-through" deduction.

  Electing out of both Section 179 and bonus depreciation to use the modified accelerated cost recovery system (MACRS) instead may be able to "save" deductions to offset future tax obligations.
- Always think carefully before accelerating depreciation of assets that have both business and personal use; the IRS requires recapture of accelerated depreciation deductions if business use falls below 50% for those assets in future years.

☐ STATE PASS-THROUGH ENTITY ELECTIONS

Have you made required elections to take advantage of state SALT (state and local tax) limit workarounds?

- Thirty-one states have enacted legislation allowing owners of pass-through entities to pay state tax at the entity level, attempting to circumnavigate the cap on the federal deduction for SALT. Many states require taxpayers to make a one-time or annual election as part of the process. Confirm your state's eligibility requirements and make the necessary elections prior to the deadline.

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RESEARCH AND EXPERIMENTAL COSTS

Are you ready for more potential changes to R&D credit rules?

- The **IRS plans to require more information** about projects for which a business claims the research tax credit.
- Keep in mind that most R&D expenses must now be amortized over five or more years instead of being deductible in the current year. There's legislation in the works that could retroactively eliminate this requirement, but only for domestic R&D (and it's still a long way from becoming law).

RETIREMENT PLANNING UNDER SECURE 2.0

Do you know what the SECURE Act 2.0 means for your business?

- Among the changes affecting businesses:
  - Employers can encourage participation with small incentives (besides matching funds).
  - New 401(k) plans must provide for automatic elective deferrals.
  - Plans with 100+ participants must submit audited financial statements with Form 5500.
  - Qualified plans can permit employer contributions as Roth contributions.
  - Coverage for long-term part-time employees increases beginning in 2025.
- SECURE 2.0 also expands tax credits for small employers that offer retirement plans:
  - Employers with 100 or fewer employees are eligible for a credit of 50% of startup costs for the first three years the plan is established, up to $5,000 per year. The credit increases to 100% of startup costs for employers with fewer than 50 employees.
  - There's an additional tax credit for small employer contributions to qualified plans for employees earning less than $100,000. Employers can claim up to $1,000 per employee in each of the first five years the plan is in effect, calculated as a percentage of employer contributions:
    - 100% in years 1 and 2
    - 75% in year 3
    - 50% in year 4
    - 25% in year 5
  - The additional tax credit for small employers decreases 2% for each employee over 50 employees, dwindling to zero for employers with 100 employees.
- IRS limits on voluntary employee retirement contributions for 2024 are set at:
  - $23,000 for 401(k) account contributions. Participants who are 50 or older can contribute an additional $7,500 as a "catch-up contribution."
  - $16,000 for SIMPLE retirement accounts, plus $3,500 in catch-up contributions.
  - $7,000 in IRA contributions (traditional and Roth), plus $1,000 in catch-up contributions.
- Business owners who have a solo 401(k) plan can contribute to their retirement in two ways: as an employee and as an employer via match and profit-sharing contributions. These contributions can represent no more than 25% of compensation. Calculating the allowable total can be tricky; confirm the amount with your tax advisor before depositing employer contributions.

EXPIRING TAX PROVISIONS

Have you planned for events on the tax horizon?

- With TCJA provisions expiring at the end of 2025, business owners **considering an exit** may want to transfer ownership before individual income tax rates return to higher, pre-TCJA levels. But scurrying thorough an exit plan, or not adequately exploring the business aspects of going public, is highly discouraged. It is definitely important to consider all advantages and disadvantages of the TCJA provisions prior to the 2025 sunset.

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KEY DATES TO REMEMBER

Have you noted these important deadlines and due dates?

- **July 31, 2024**:
  - Deadline for employers to file Form 5500 with the Department of Labor
- **September 16, 2024**:
  - Due date for third-quarter 2024 estimated tax payments
  - Extended 2023 federal tax return due date for partnerships, S corps, and multi-member LLCs
  - Extended 2023 tax year deadline for partnerships, S corps, and multi-member LLCs for contributions to retirement plans
- **October 15, 2024**:
  - Extended 2023 federal tax return due date for C corps, sole proprietorships, and single-member LLCs
  - Extended 2023 tax year deadline for C corps, sole proprietorships, and single-member LLCs for contributions to retirement plans
- **December 31, 2024**:
  - Deadline for making 2024 voluntary employee contributions to solo 401(k) accounts

THE EARLY BIRD CATCHES THE TAX SAVINGS

Scheduling time to evaluate tax positions in mid-summer may not be instinctive for diligent business owners. While tax planning might not always be part of the day-to-day operations, the benefits of a thorough strategy are rewarding and could prove valuable to your long-term financial health.

Schedule a mid-year tax review with your CRI advisor.