Here are 5 year-end tax moves each small business owner should consider...right now!

by **Gene Marks**, Updated: December 9, 2019- 3:17 PM

The end of the year is quickly approaching and let's hope that as a smart business owner, you've been meeting with your accountant throughout the year and taking steps to minimize your taxes. It's only your biggest expense, right? It could be as much as 20 or 25 percent of your income, right?

But even if you've let those responsibilities lapse a bit, you still have time to take a few actions that could make a big impact on the amount of taxes you owe this year. Here are a few.

Optimize The Pass-Through Deduction

Thanks to the 2017 Tax Cuts and Jobs Act, many small businesses who file "pass-through" returns (i.e. S-corporations or partnerships) may qualify for a special 20 percent deduction on their qualified business income. This could be an enormous tax benefit for your company, but you have to make sure you're taking advantage of all the rules. The deduction may be limited to your payroll or capital expenditures this year, so it may make sense to make extra payments or purchases before year end to take full advantage. Also - be aware of phase outs. "If the business involves the performance of services in health, law, accounting, actuarial science, performing arts, consulting, and other specified business, then the 20% deduction may be phased out," says Mitchell Gerstein CPA, a senior tax advisor at Isdaner & Company, LLC in Bala Cynwyd. "Business owners may want to explore ways to defer income to next year if they are near the phase-out threshold."

Setup A Retirement Plan

Starting a retirement plan is easy and has big tax benefits. For starters, you and your staff can - between employee and company contributions - put away up to $56,000 for retirement ($19,000 is the maximum employees up to age 50 can individually contribute, $25,000 for those over) and the more your employees save, the more you can put away as long as you pass certain of the IRS' discrimination tests. Also, there's now a tax credit of $500 per year for three years available for small business owners with fewer than 100 employees that set up a 401K plan. Are you self-employed or is your company smaller, has few employees and can only handle something less complex? Then consider a simplified employee pension plan (SEP) which also has many of the same benefits as a 401(K) with less administration and rules.

Buy Capital Equipment

Most small businesses can now take a little over $1 million as an immediate deduction for purchases such as new and used equipment, machinery, software and hardware. "It's also available for certain improvements to a building's interior, roofs, HVAC, fire protection, alarm, and security systems (but excluding enlargement of a building, elevators, escalators, or internal structural framework)," says Suzy J. Feldman, CPA of Horsham-based Wouch, Maloney & Co., LLP. There are additional deductions available when you buy a car for your business too. What's even better is that you don't have to pay for those purchases right away. The rules allow you to use financing to acquire these assets (interest rates are still low, right?) and take advantage of the benefit as long as you've placed the asset in service by the end of the year.

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Give Stuff Away

You can be charitable, get a tax benefit, and you don't even have to part with your cash. "Increase charitable contribution deductions by making gifts of property that have gone up in value, such as stocks, bonds, artwork, or real estate, in lieu of cash donations to qualified charitable organizations," Feldman recommends. "Subject to certain limitations, the full fair market value of the property may be tax-deductible as a charitable contribution." Not sure which charity to support? Then please consider my favorite, Emily's Entourage, a locally based nonprofit focused on research for new treatments for a rare form of Cystic Fibrosis.

Finally, Give A Bonus

"If you are planning to reward yourself or your employees with year-end payroll bonuses, this will equate to tax savings, as these bonuses are tax deductible in the year paid along with the commensurate payroll taxes and possible employer retirement contributions that may follow," says Elizabeth A. Cummings CPA, a tax Director at Friedman LLP in Philadelphia. If your business is on the cash basis, then you'll need to pay bonuses by year end. If you're on the accrual basis, then you'll be able to pay your bonuses by March 15th. Regardless...pay bonuses. It's a great tax deduction, a solid employee benefit to offer in these days of tight employment and besides, wouldn't you rather give any excess cash to your employees instead of the government? If you have a retirement plan in place (see above) then you might want to also consider paying bonuses in directly to that to encourage your employees to save more.

These are just a few tax moves you can take before the end of the year. But I'm sure there are plenty more for you. Just talk to your accountant...please.

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