For Businesses • December 2022

MIERENDORF CPAs

2022 BUSINESS YEAR-END PLANNING

Planning to help lower your business' taxes for 2022 and 2023 remains challenging. With inflation, interest rates, hiring and retention challenges, and uncertainty with pending legislation we are diligently monitoring Congressional, Judicial and State tax and business actions including the impact of the Inflation Reduction Act; lame duck Congress business tax action; potential Michigan minimum wage increases and Michigan Earned Sick Time Act impacts.

Mierendorf & Co. staff are constantly reviewing strategies to best advise you on possible actions before year-end to help you save tax dollars. We can narrow down specific actions when we discuss a plan for your business. Contact us to schedule a tax planning appointment.

The standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results for most small businesses, as will the bunching of deductible expenses into this year or next to maximize their tax value. Here are some actions to consider before the end of the year.

- **Taxpayers other than C-corporations may be entitled to a deduction of up to 20% of their qualified business income.** Taxpayers may be able to salvage some or all of this deduction, by deferring income or accelerating deductions to keep income under the dollar thresholds (or be subject to a smaller deduction phaseout) for 2022. The rules are quite complex, so don't make a move in this area without consulting us.

- More small businesses can use the cash (as opposed to accrual) method of accounting than could do so in earlier years. **Cash method taxpayers may find it a lot easier to shift income,** for example by holding off billings till next year or by accelerating expenses, such as, paying bills early or by making certain prepayments.

- Businesses should **consider making expenditures that qualify for the liberalized business property expensing option.** Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for interior improvements to a building (but not for its enlargement, elevators or escalators, or the internal structural framework), for roofs, and for

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DECEMBER YEAR-END PACKETS

We will be mailing or emailing December Year-end Packets by the end of the year. Contact our office if you do not receive yours.

When you send or upload your year-end information for tax preparation, be sure to include the signed copy of your 2022 Engagement Letter. Partnerships may also be receiving a 2022 1065 Election to sign. Work cannot begin on the return until we receive these signed items.

HVAC, fire protection, alarm, and security systems.

The generous dollar ceilings mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. The expensing deduction is not prorated for the time that the asset is in service during the year. Expensing eligible items acquired and placed in service in the last days of 2022, rather than at the beginning of 2023, can result in a full expensing deduction for 2022.

- Businesses also can claim a **100% bonus first year depreciation deduction** for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service this year, and for qualified improvement property, described above as related to the expensing deduction. The 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2022.

- A corporation (other than a large corporation) that anticipates a small net operating loss (NOL) for 2022 and substantial net income in 2023 may find it worthwhile to accelerate just enough of its 2023 income (or to defer just enough of its 2022 deductions) to create a small amount of net income for 2022. This allows the corporation to **base its 2023 estimated tax installments on the relatively small amount of income** shown on its 2022 return, rather than having to pay estimated taxes based on 100% of its much larger 2023 taxable income.

- **Year-end bonuses can be timed** for maximum tax effect by both cash- and accrual -basis employers.

- To reduce 2022 taxable income, consider deferring a debt-cancellation event until 2023.

These are just a few of the year-end steps that can be taken to save taxes. Our tax planning service can customize your business' tax strategy. Don't wait to schedule your appointment.

If your business contact email address or mailing address have changed, please let us know.

MIERENDORF & COMPANY, PC

Bottom line—we help yours grow!

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