

Abstract: As 2024 is nearing its end, now is a good time for businesses to consider year-end moves that can help reduce their tax bills. This article explores several year-end tax planning strategies for businesses to consider. A brief sidebar answers the question of whether companies can write off bad business debts.

Year-end tax planning strategies for businesses

As 2024 is nearing its end, now is a good time to consider year-end strategies to help reduce the tax your business will owe. The effectiveness of a particular action depends on the circumstances of your business. Here are several possibilities.

Defer income, accelerate deductions

A tried-and-true tactic for tax minimization is to defer income to next year and accelerate deductible expenses into this year. For example, a cash accounting business can defer income by postponing invoices until late in the year or accelerate deductions by paying certain expenses this year.

Accrual accounting businesses have less flexibility in timing, but you can still take some actions. For example, you can deduct year-end bonuses accrued this year even if they aren't paid until next year (no later than March 15, 2025). You might also be able to defer income from certain advance payments — including licensing fees, subscriptions and membership dues — until next year, depending on how the payments were recorded.

Deferring income and accelerating deductions may not suit every business. The opposite approach is sometimes more beneficial, especially if you anticipate being in a higher tax bracket next year.

Purchase assets by year end

One effective way to generate tax deductions is to buy equipment, machinery and other fixed assets. Ordinarily, these assets are capitalized and depreciated over several years, but there are ways to deduct some asset costs immediately. For example, in 2024, under Section 179 you can deduct \$1.22 million in qualifying tangible property and certain computer software costs, subject to phaseout when expenditures exceed \$3.05 million in 2024.

Bonus depreciation. This year, you can deduct up to 60% of the cost of eligible tangible property, including most equipment and machinery, plus off-the-shelf computer software and certain improvements to nonresidential building interiors. In 2025, the deduction limit will drop to 40%, then to 20% in 2026. After that it vanishes, unless Congress acts to extend it.

Set up a retirement plan

Establishing a retirement plan is an effective way to generate tax benefits. It can also improve employee recruitment and retention efforts.

Certain employers are entitled to tax credits for starting a new plan. In some cases, you can take deductions this year for contributions made after year end. Some plans, including simplified employee pensions, can be adopted *and* funded after year end but deducted for this year.

See the big picture

Whichever year-end tax strategies you explore, consider how they interact with other tax code provisions. Your tax advisor can help you determine the best combination of year-end planning strategies for your business.

Sidebar: Writing off bad debts

Review your receivables to determine whether any bona fide business debts have become worthless or uncollectible. If so, you may be able to reduce this year's tax bill by claiming a bad debt deduction.

You must be able to show you've taken reasonable steps to collect the debt, and that there's no realistic expectation of payment (such as when the debtor is in bankruptcy). You must also show that the debt was charged off this year.

Finally, the receivable must have been previously included in taxable income to be deducted as a bad debt. Thus, an accrual-basis business can deduct an eligible bad debt if it's already accrued the receivable, but a cash-basis business can't.