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Year-End Tax Considerations for Closely Held and Small Businesses

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It is hard to believe that the year end is approaching very quickly. For closely held and small business owners, this is a very important time to review your business operations for 2019 and talk to your tax advisor about projections for your tax liability and potential tax savings opportunities before we welcome in the new year.

There are special considerations for S corporations. Officers of an S corporation generally are employees with wages and should be paid reasonable compensation through payroll. If this topic hasn't been discussed during the year, or if significant changes have occurred within your business that is taxed as an S corporation, it is important to confirm that reasonable compensation has been reported through payroll or will be reported through payroll before year end. In addition, for greater than 2-percent S corporation shareholders-employees, health and accident insurance premiums paid by the business may be deductible if the premiums are reported as wages. It is important to discuss such W2 inclusions with your tax advisor and payroll processor before year end to ensure you are maximizing your health insurance tax deduction.

It is important to consider if accelerating depreciation for fixed asset purchases is beneficial for your business or not. While I would not suggest that a business make large fixed asset purchases solely for the purpose of depreciation deductions, such purchases are very common and necessary for businesses, and the timing of the purchases and plan for the depreciation deduction should be analyzed. Fixed asset purchases may be 100% deductible in the first year through the election for bonus depreciation. If you are in a low tax bracket for 2019, you may want to reserve some of the depreciation deduction for future years. With Section 179 depreciation, we could choose how much of the depreciation we would like to accelerate in the current year up to 100% for qualifying assets. This means that we may want to depreciate 75% of qualifying assets in 2019 to reduce your taxable income to an optimal amount and reserve the remaining 25% for future years.

As a closely held or small business owner, if you have not yet reviewed your options to defer taxable income through a retirement plan, I would highly recommend scheduling an appointment with your financial or tax advisor, so you are enabled to make informed decisions. There are still opportunities for 2019, or you can discuss opportunities for the coming year. Small business retirement plans can be a great tax savings strategy for the business owner, as well as a great benefit for employees. Discuss with your advisor if a SEP, SIMPLE IRA, Solo 401(k) or 401(k) would be beneficial for your business.

While it is typically beneficial to work with your tax advisor throughout the year, it is not too late to make that phone call. At the very least, we always want to ensure that business owners are empowered to make informed decisions, understand their options, eliminate any potential tax penalties, and be prepared for their tax liability.