2024 Last-Minute Year-End General Business Income Tax Deductions

The purpose of these strategies is to get the IRS to owe you money.

Of course, the IRS will not likely cut you a check for this money (although in the right circumstances, that will happen), but you'll realize the cash when you pay less in taxes.

Here are six powerful business tax deduction strategies you can easily understand and implement before the end of 2024.

1. Prepay Expenses Using the IRS Safe Harbor

You just have to thank the IRS for its tax-deduction safe harbors.

IRS regulations contain a safe-harbor rule that allows cash-basis taxpayers to prepay and deduct qualifying expenses up to 12 months in advance without challenge, adjustment, or change by the IRS.

Under this safe harbor, your 2024 prepayments cannot go into 2026. This makes sense, because you can prepay only 12 months of qualifying expenses under the safe-harbor rule.

For a cash-basis taxpayer, qualifying expenses include lease payments on business vehicles, rent payments on offices and machinery, and business and malpractice insurance premiums.

Example. You pay $3,000 a month in rent and would like a $36,000 deduction this year. So on Tuesday, December 31, 2024, you mail a rent check for $36,000 to cover all of your 2025 rent. Your landlord does not receive the payment in the mail until Thursday, January 2, 2025. Here are the results:

- You deduct $36,000 this year (2024—the year you paid the money).
- The landlord reports $36,000 as rental income in 2025 (the year he received the money).

You get what you want—the deduction this year.

The landlord gets what he wants—next year's entire rent in advance, eliminating any collection problems while keeping the rent taxable in the year he expects it to be taxable.

2. Stop Billing Customers, Clients, and Patients

Here is one rock-solid, straightforward strategy to reduce your taxable income for this year: stop billing your customers, clients, and patients until after December 31, 2024. (We assume here that you or your corporation is on a cash basis and operates on the calendar year.)

Customers, clients, and insurance companies generally don't pay until billed. Not billing customers and clients is a time-tested tax-planning strategy that business owners have used successfully for years.

Example. Jake, a dentist, usually bills his patients and the insurance companies at the end of each week. This year, however, he sends no bills in December. Instead, he gathers up those bills and mails them the first week of January. Presto! He postponed paying taxes on his December 2024 income by moving that income to 2025.

3. Buy Office Equipment

Increased limits on Section 179 expensing now enable 100 percent write-offs on most equipment and machinery, whereas bonus depreciation enables 60 percent write-offs. Either way, when you buy your equipment or machinery and place it in service before December 31, you can get a big write-off this year.

Qualifying Section 179 and bonus depreciation purchases include new and used personal property such as machinery, equipment, computers, desks, chairs, and other furniture (and certain qualifying vehicles).

4. Use Your Credit Cards

If you are a single-member LLC or sole proprietor filing Schedule C for your business, the day you charge a purchase to your business or personal credit card is the day you deduct the expense. Therefore, as a Schedule C taxpayer, you should consider using your credit card for last-minute purchases of office supplies and other business necessities.

If you operate your business as a corporation, and if the corporation has a credit card in the corporate name, the same rule applies: the date of charge is the date of deduction for the corporation.

But suppose you operate your business as a corporation and you are the personal owner of the credit card. In that case, the corporation must reimburse you if you want the corporation to realize the tax deduction, which happens on the reimbursement date. Thus, submit your expense report and have your corporation make its reimbursements to you before midnight on December 31.

5. Don't Assume You Are Taking Too Many Deductions

If your business deductions exceed your business income, you have a tax loss for the year. With a few modifications to the loss, tax law calls this a "net operating loss," or NOL. And the good news is that NOLs can turn into future cash infusions for your business because you carry 2024 NOLs forward to future years.

What does this mean? Never stop documenting your deductions, and always claim all your rightful deductions. We have spoken with far too many business owners, especially new owners, who don't claim all their deductions when those deductions would have produced a tax loss.

6. Deal with Your Qualified Improvement Property (QIP)

QIP is any improvement made by you to the interior portion of a building you own that is non-residential real property (think office buildings, retail stores, and shopping centers)—if you place the improvement in service after the date the building was placed in service.

The big deal with QIP is that it's not considered real property that you depreciate over 39 years. QIP is 15-year property, eligible for

- immediate deduction using Section 179 expensing, and
- 60 percent bonus and MACRS depreciation.

To get the QIP deduction in 2024, you need to place the QIP in service on or before December 31, 2024.

2024 Last-Minute Vehicle Purchases to Save on Taxes

Here's an easy question: Do you need more 2024 tax deductions? If the answer is yes, continue reading.

Next easy question: Do you need a replacement business vehicle?

If so, you can simultaneously solve or mitigate the first problem (needing more deductions) and the second problem (needing a replacement vehicle) if you can get your replacement vehicle in service on or before December 31, 2024. Don't procrastinate.

To ensure compliance with the "placed in service" rule, drive the vehicle at least one business mile on or before December 31, 2024. In other words, you want to both own and drive the vehicle to ensure that it qualifies for the big deductions.

Now that you have the basics, let's get to the tax deductions.

1. Buy a New or Used SUV, Crossover Vehicle, or Van

Let's say that on or before December 31, 2024, you or your corporation buys and places in service a *new or used* SUV or crossover vehicle that the manufacturer classifies as a truck and that has a gross vehicle weight rating (GVWR) of 6,001 pounds or more. This newly purchased vehicle gives you four benefits:

1. Elect bonus depreciation of 60 percent
2. Elect Section 179 expensing of up to $30,500.
3. Elect MACRS depreciation using the five-year table.
4. No luxury limits on vehicle depreciation deductions.

Example. You buy a $100,000 heavy SUV, which you will use 90 percent for business use. Your write-off will look like this:

- $30,500 in Section 179 expensing
- $35,700 in bonus depreciation
- $4,760 in 20 percent MACRS depreciation, or $1,190 if the mid-quarter convention applies because you placed more than 40 percent of your MACRS assets in service in the final quarter of the year

So the 2024 write-off on this $90,000 (90 percent business use) SUV can be as high as $70,960 ($30,500 + $35,700 + $4,760).

2. Buy a New or Used Pickup

If you or your corporation buys and places in service a qualifying pickup truck (new or used) on or before December 31, 2024, then this newly purchased vehicle gives you four big benefits:

1. Bonus depreciation of 60 percent
2. Section 179 expensing of up to $1,220,000
3. MACRS depreciation using the five-year table
4. No luxury limits on vehicle depreciation deductions

To qualify for full Section 179 expensing, the pickup truck must have

- a GVWR of more than 6,000 pounds, and
- a cargo area (commonly called a "bed") of at least six feet in interior length that is not easily accessible from the passenger compartment.

Example. You pay $55,000 for a qualifying pickup truck that you use 91 percent for business. You can use Section

179 to write off your entire business cost of $50,050 ($55,000 x 91 percent).

Short bed. If the pickup truck passes the more-than-6,000-pound-GVWR test but fails the bed-length test, the tax code classifies it as an SUV. That's not bad. The vehicle is still eligible for expensing of up to the $30,500 SUV expensing limit and 60 percent bonus depreciation. (See the example above for how the SUV treatment works.)

3. Buy an Electric Vehicle

If you purchase an all-electric vehicle or a plug-in hybrid electric vehicle, you might qualify for a tax credit of up to $7,500. You take the credit first, and then follow the rules that apply to the vehicle you purchased.

2024 Last-Minute Year-End Retirement Deductions

The clock continues to tick. Your retirement is one year closer.

You have time before December 31 to take steps that will help you fund the retirement you desire. Here are five things to consider.

1. Establish Your 2024 Retirement Plan

First, a question: Do you have your (or your corporation's) retirement plan in place?

If not, and if you have some cash you can put into a retirement plan, get busy and put that retirement plan in place so you can obtain a tax deduction for 2024.

For most defined contribution plans, such as 401(k) plans, you (the owner-employee) are both an employee and the employer, whether you operate as a corporation or as a sole proprietorship. And that's good because you can make both the employer and the employee contributions, allowing you to put a good chunk of money away.

2. Claim the New, Improved Retirement Plan Start-Up Tax Credit of up to $15,000

By establishing a new qualified retirement plan (such as a profit-sharing plan, 401(k) plan, or defined benefit pension plan), a SIMPLE IRA plan, or a SEP, you can qualify for a non-refundable tax credit that's the greater of

- $500 or
- the lesser of (a) $250 multiplied by the number of your non-highly compensated employees who are eligible to participate in the plan, or (b) $5,000.

The law bases your credit on your "qualified start-up costs." For the retirement start-up credit, your qualified start-up costs are the ordinary and necessary expenses you pay or incur in connection with

- the establishment or administration of the plan, and
- the retirement-related education of employees for such plan.

3. Claim the New Small Employer Pension Contribution Tax Credit (up to $3,500 per Employee)

The SECURE 2.0 Act, passed in 2022, added an additional credit for your employer retirement plan contributions on behalf of your employees. The new up-to-$1,000-per-employee tax credit begins with the plan start date.

The new credit is effective for 2023 and later.

Exception. The new $1,000 credit is not available for employer contributions to a defined benefit plan or elective deferrals under Section 402(g)(3).

In the year you establish the plan, you qualify for a credit of up to 100 percent of your employer contribution, limited to $1,000 per employee. In subsequent years, the dollar limit remains at $1,000 per employee, but your credit is limited as follows:

- 100 percent in year 2
- 75 percent in year 3
- 50 percent in year 4
- 25 percent in year 5
- No credit in year 6 and beyond

Example. You establish your retirement plan this year and contribute $1,000 to each of your 30 employees' retirement. You earn a tax credit of $30,000 ($1,000 x 30).

If you have between 51 and 100 employees, you reduce your credit by 2 percent per employee in this range. With more than 100 employees, your credit is zero.

Also, you earn no credit for employees with wages in excess of $100,000 adjusted for inflation in increments of $5,000 in years after 2023.

4. Claim the New Automatic-Enrollment $500 Tax Credit for Each of Three Years ($1,500 Total)

The first SECURE Act added a non-refundable credit of $500 per year for up to three years, beginning with the first taxable year (2020 or later) in which you, as an eligible small employer, include an automatic contribution arrangement in a 401(k) or SIMPLE plan.

The new $500 auto-contribution tax credit is in addition to the start-up credit and can apply to both newly created and existing retirement plans. Further, you don't have to spend any money to trigger the credit. You just need to add the auto-enrollment feature (which does contain a provision that allows employees to opt out).

5. Convert to a Roth IRA

Consider converting your 401(k) or traditional IRA to a Roth IRA.

You first need to answer this question: How much tax will you have to pay to convert your existing plan to a Roth IRA? With this answer, you now know how much cash you need on hand to pay the extra taxes.

Here are four reasons you should consider converting your retirement plan to a Roth IRA:

1. You can withdraw the monies you put into your Roth IRA (the contributions) at any time, both tax-free and penalty-free, because you invested previously taxed money into the Roth account.
2. You can withdraw the money you converted from the traditional plan to the Roth IRA at any time, tax-free. (But if you make that conversion withdrawal within five years of the conversion, you pay a 10 percent penalty. Each conversion has its own five-year period.)
3. When you have your money in a Roth IRA, you pay no tax on qualified withdrawals (earnings), which are distributions taken after age 59 1/2, provided you've had your Roth IRA open for at least five years.
4. Unlike with the traditional IRA, you don't have to receive required minimum distributions from a Roth IRA when you reach age 73—or to put this another way, you can keep your Roth IRA intact and earning money until you die. (After your death, the Roth IRA can continue to earn money, but someone else will be making the investment decisions and enjoying your cash.)