

2023 Year-End Tax Planning for Businesses

Dear Client,

2023 has been a relatively quiet year from both a tax standpoint, and an overall economic standpoint for the United States. After 2022 saw historically high inflation as the economy rebounded from the impacts of the pandemic, inflation has cooled somewhat, and it appears that the chances of a recession have abated.

On the tax front, 2023 (as of now) has not seen any major legislation. In the meantime, the IRS has been busy issuing guidance implementing major pieces of 2022 tax legislation. However, much of this legislation, and the ensuing guidance, is very narrowly applicable, largely impacting green energy investment and retirement planning and saving.

This means fewer tax changes in 2023 than in years past. While there are always new strategies to consider, and indeed there are some changes from recent legislation that are in effect for 2023, the usual tactics of deferring income and increasing current deductions still apply for 2023.

LEGISLATION

As mentioned earlier, there have been no major tax bills passed during 2023. With Democrats controlling the Senate and White House, and Republicans controlling the House with a very slim margin, this is hardly surprising. Indeed, very little legislation of any type has been passed by Congress.

As always, however, there is a potential for that to change before the end of 2023. At the end of September, Congress passed a continuing resolution to avoid a government shutdown, but only extended that government funding to November 17. While it is widely believed another continuing resolution will be passed before that date to kick the can a little farther down the road, there is always the potential for any continuing resolution, or any final legislation funding the government for the 2024 fiscal year, to include some sort of tax legislation.

As an example, in the waning days of 2022, Congress passed an appropriations bill that included the SECURE 2.0 Act of 2022. The Act built upon the provisions of the original SECURE Act from 2019 and further ensured that more Americans can save for retirement and increase the amount they are able to save. The Act did this by expanding upon automatic enrollment programs, helping to ensure that small employers can easily and efficiently sponsor plans for employees, and enhancing various credits to make saving for retirement beneficial to both plan participants and plan sponsors.

The Act also improved various investment options for plan participants, streamlines plan administration for plan fiduciaries, and made important changes to required minimum distributions that will help retirees with plan selections and decisions that will enhance their ability to make better use of their retirement savings. Many of the provisions of the SECURE 2.0 were not immediately applicable to 2022, or even 2023, and some changes are phased in over the course of several years. However, there are a couple changes that are now in effect, and they do present some opportunities that are discussed below.

YEAR-END BUSINESS STRATEGIES

Retirement Plans

Many of the provisions of the SECURE 2.0 Act do not take effect until after 2023. However, one change that applies to employers in 2023 is the expansion of the credit for smaller employers to start a retirement plan for employees. Effective for tax years beginning after 2022, the amount of the credit is increased to 100 percent of startup costs for employers with 50 or fewer employees, and an additional credit for contributions is added for the first five years of a plan's existence.

Employee Retention Credits

One of the last remaining provisions from the various pieces of COVID-19-related legislation in 2020 and 2021 is the employee retention credit (ERC). While the employment period for which the credit can be claimed has long since passed (wages paid after 2021 do not qualify for any form of the credit) the period for claiming the credit is still open. Employers who paid employees during the applicable period should speak with a tax professional to see if a credit claim can be made.

Taxpayers should be careful of advice received with regard to the ERC. Many tax promoters have been helping employers make dubious claims for the credit, which can result in penalties to the taxpayer. Recently, the IRS placed a moratorium on credit claims through the end of 2023 in order to properly process claims and address a claim backlog. Additionally, the IRS has provided instructions for taxpayers to withdraw unprocessed claims if the taxpayer believes such claims were erroneously made.

Depreciation and expensing

The Tax Cuts and Jobs Act provided very generous depreciation and expensing limitations. Businesses may want to take advantage of 100-percent first-year depreciation on machinery and equipment purchased during the year. Additionally, Code Sec. 179 expensing has an investment limitation of \$2,890,000 for 2023, with a dollar limitation of \$1,160,000. Note however, that these provisions do not apply to 2023 only, so there is time to take advantage of them in later years.

Clean commercial vehicles

Beginning January 1, 2023, taxpayers may qualify for a credit if they buy a new, qualified plug-in electric vehicle or fuel cell electric vehicle. Businesses and tax-exempt organizations that buy a qualified commercial clean vehicle may qualify for a clean vehicle tax credit of up to \$40,000. The credit equals the lesser of:

- 15% of the vehicle purchase price for plug-in hybrid electric vehicles
- 30% of the vehicle purchase price for EVs and FCEVs
- The incremental cost of the vehicle compared to an equivalent internal combustion engine vehicle

Maximum tax credits may not exceed \$7,500 for vehicles under 14,000 lbs. and \$40,000 for vehicles above 14,000 lbs.

Contact Us

In addition to these year-end planning issues unique to 2023, the usual year-end planning strategies also still apply, such as managing gains and losses from taxable investments and considering postponing income and accelerating deductions. There is no one size fits all for tax planning and any strategy may have unintended consequences if the taxpayer's situation is not evaluated holistically considering the changing landscape. Please call our office to discuss all your options.

Sincerely,
EWK Legal, Tax & Accounting Services

For business clients to consider their available year-end tax planning opportunities for 2023. (11/07/2023)