Five Year-end Tax Moves For Small Businesses

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Similar to individual taxpayers (see "Seven Year-end Tax Moves for Individuals"), a small business may take advantage of tax-saving opportunities at the end of the year, as well as avoiding potential pitfalls. Some of the tax breaks result from extensions authorized by the American Taxpayer Relief Act of 2012 (ATRA). Here are five year-end tax strategies that may appeal to business owners and managers.

1. Buy business property before 2014. Under ATRA, the maximum Section 179 deduction allowed for qualified business property placed in service in 2013 is $500,000, reduced dollar-for-dollar for amounts above $2 million. The maximum allowance is scheduled to drop to $25,000 in 2014, subject to a $200,000 phase-out threshold. Also, ATRA retains the 50% "bonus depreciation" break for qualified property placed in service before 2014.

2. Fix up the office. Generally, expenses for minor repairs you make to the business premises—for example, replacing a broken window—are currently deductible. Conversely, the cost of a capital improvement is added to your basis in the property. When possible, take care of repairs before year-end. There are new regulations that address some of the more complex issues.

3. Nail down bad debt deductions. If you are not paid amounts owed to your business, at least you may be able to salvage a deduction for debts that are "worthless." But you must show that you have made good faith efforts to collect the debts. To secure a deduction for 2013, step up your collection activities before the end of the year. Keep detailed records—including correspondence and e-mails with debtors—of your efforts.

4. Look into research credits. A business may be entitled to a tax credit for incurring qualified research and development costs. This credit is generally equal to 20% of the expenses over a base amount, or the business can elect a simplified 14% credit. Be aware that the credit, which has expired and been extended several times in the past, is currently scheduled to expire again after 2013.

5. Kick-start a new operation. Under a special tax law provision, you can currently deduct up to $5,000 of qualified start-up expenses of a new business. Any excess must be amortized over 180 months. To qualify for the current tax write-off, the operation must be an ongoing activity, so make sure the doors are officially "open for business" before the end of the year.

This is just a brief overview of five year-end tax-planning ideas. Consult your Henry & Horne, LLP professional tax advisers with respect to your situation.

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