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To Our Clients and Friends:

2023 YEAR-END INCOME TAX PLANNING FOR BUSINESSES

INTRODUCTION

As we approach the beginning of a new year, it's important to review 2023 for possible tax planning opportunities for your business. We believe a review of your 2023 tax situation could lead to tax savings when you file next year. To assist in your review, we've included our 2023 year-end income tax planning letter for businesses. In this letter, you will find selected traditional and new planning ideas for you to consider. Of course, if you have any questions or want to discuss planning ideas not included in our letter, please call our firm.

Caution! The IRS continues releasing guidance on various important tax provisions. We closely monitor new tax legislation and IRS releases. Please call our firm if you would like an update on the latest tax legislation, IRS notifications, announcements, and guidance or **if you need additional information concerning any item discussed in this letter.**

Be careful! Although this letter contains planning ideas, you cannot properly evaluate a particular planning strategy without calculating the overall tax liability for the business and its owners (including the alternative minimum tax) with and without the strategy. In addition, this letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.** However, you should consider the state income tax impact of a particular planning strategy. We recommend that **you call our firm before implementing any tax planning technique** discussed in this letter.

POSSIBLE LEGISLATION BEFORE YEAR-END

Each year we work to provide you with our year-end planning letter in time to implement possible tax saving strategies before December 31st. As a result, it's possible Congress could pass new legislation between your receipt of this letter and year-end. However, as of the completion of this letter, it appears an omnibus spending package is the best chance for any provisions that may affect your 2023 tax return. Please **contact our firm** if you'd like an update on current legislation and how it could affect your business.

HIGHLIGHTS OF PROVISIONS INCLUDED IN SECURE ACT 2.0 FIRST EFFECTIVE AFTER 12/29/22 (DATE OF ENACTMENT) OR AFTER 12/31/22

On Thursday, December 29, 2022, the President signed H.R. 2617, the "Consolidated Appropriations Act, 2023," providing appropriations for the Federal government's fiscal year ending September 30, 2023. In the following summary, we've listed a few provisions of the Secure Act 2.0 (SECURE 2.0) segment of the Consolidated Appropriations Act, 2023.

First Year Elective Deferral For Sole Proprietor Who Is Only Participant In 401(k) Plan May Be Made By Initial Due Date Of Return. If an employer adopts a stock bonus, pension, profit-sharing, or annuity plan after the close of a taxable year but before the due date of the tax return for the taxable year (including extensions), the **employer may elect to treat the plan as having been adopted as of the last day of the taxable year.** However, participants in a 401(k) plan were not able to make elective deferral contributions to such plans for that first plan year if the plan was established after the end of the taxable year. **Good News!** SECURE 2.0 provides that an individual who **owns the entire interest in an unincorporated trade or business and who is the only employee of such trade or business,** may make elective contributions to the business's 401(k) plan on or before the due date **(excluding extensions)** of the owner's tax return for the tax year ending after or with the end of the plan's first plan year. Such elective deferrals are deemed made before the end of the first plan year. **This provision only applies to the plan year in which the plan is established. Caution!** This provision only applies to plans established by sole proprietors where the proprietor has no employees.

Summary Of Selected Other Changes Made To Retirement Plans By SECURE 2.0. The following is a brief summary of selected provisions of SECURE 2.0 first effective for 2023. **Caution!** A business wishing to implement any of these provisions should consult with the attorney handling the business's qualified plan since these provisions may require plan amendments.

- **Qualified Retirement Plans, §403(b) Plans, And §457(b) Plans May Permit Participants To Designate Employer Matching Contributions Or Nonelective Employer Contributions As Designated Roth Contributions After 12/29/22.**

- **SIMPLE Plans And SEP Plans May Allow Employees To Make Roth Contributions For Taxable Years Beginning After 2022.**

- **For Tax Years Beginning After 2022 SECURE 2.0 Provides An Up To 100% Credit For Plan Startup Costs For Employers With 50 Or Fewer Employees.** The credit is available for the first three years of the plan. SECURE 2.0 also provides an additional credit of up to $1,000 of employer contributions for each employee. The full $1,000 per employee credit only applies to employers with 50 or fewer employees.

- **New Credit For Military Spouse's Participating In Employer's Plan For Employers With 100 Or Fewer Employees For Preceding Year.** For each of the first three years of a military spouse's participation, the credit is **1)** $200 plus **2)** up to $300 of employer's contributions to the plan for the military spouse (other than elective deferrals).

OTHER SELECTED RECENT DEVELOPMENTS

IRS Suspends Processing ERC Claims Received On Or After September 14, 2023. The IRS released the following statement: *"Amid rising concerns about a flood of improper Employee Retention Credit claims, the Internal Revenue Service today announced an immediate moratorium through at least the end of the year on processing **new claims** for the pandemic-era relief program to protect honest small business owners from scams. IRS Commissioner Danny Werfel ordered the immediate moratorium, beginning today, to run through at least Dec. 31 following growing concerns inside the tax agency, from tax professionals as well as media reports that a substantial share of new claims from the aging program are ineligible and*

increasingly putting businesses at financial risk by being pressured and scammed by aggressive promoters and marketing." [Emphasis added] The IRS says payouts for ERC claims received *before* September 14 will continue during the moratorium period but at a slower pace. IRS says, *"With the stricter compliance reviews in place during this period, existing ERC claims will go from a standard processing goal of 90 days to 180 days – and much longer if the claim faces further review or audit. The IRS may also seek additional documentation from the taxpayer to ensure it is a legitimate claim.*

The IRS is increasingly alarmed about honest small business owners being scammed by unscrupulous actors, and we could no longer tolerate growing evidence of questionable claims pouring in, Werfel said. 'The further we get from the pandemic, the further we see the good intentions of this important program abused. The continued aggressive marketing of these schemes is harming well-meaning businesses and delaying the payment of legitimate claims, which makes it harder to run the rest of the tax system. This harms all taxpayers, not just ERC applicants.'"

The IRS has now provided a special procedure to withdraw unpaid ERC claims for those who have filed an ERC claim, but the claim has not been processed. **This option will allow the taxpayers to avoid possible repayment issues.** The IRS *says "Claims that are withdrawn will be treated as if they were never filed. The IRS will not impose penalties or interest."* IRS also suggests taxpayers *"Work with a* trusted tax professional *if you need help or advice on this process or on the ERC*." Details, generally in the form of FAQs are available here – Withdraw an Employee Retention Credit (ERC) claim | Internal Revenue Service (irs.gov). These withdrawal procedures generally allow ERC claims to be withdrawn where the claim was made on an amended payroll tax return and either the IRS has not paid the claim or it has paid the claim, but the taxpayer has not cashed the check.

Extension For Filing Returns And Making Certain Payments Until February 15, 2024 For Taxpayers Living In Or Doing Business In Disaster Areas. The IRS has announced that individuals living in, and businesses located in the counties designated as "covered disaster areas" in Florida, South Carolina, and Georgia because of Hurricane Idalia now have until February 15, 2024, to file returns and to make certain payments **due during the period beginning August 27, 2023, for Florida, August 29, 2023, for South Carolina, and August 30, 2023, for Georgia, and ending February 15, 2024.** If you live or have a businesses located in FL, SC or GA, please go to the following website https://www.irs.gov/newsroom/tax-relief-in-disaster-situations for more information. This website also provides a **listing of all federal disaster areas for 2023 and the due date for returns of taxpayers located in those disaster areas.** Please consult this website if there has been a major disaster in your area to find the extended return due dates.

The Inflation Reduction Act Of 2022. On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 (IRA). The IRA, among other things, extends and creates various energy provisions for businesses and introduces: **1)** a 15% alternative minimum tax (AMT) and **2)** a 1% excise tax on stock redemptions both of which apply to certain publicly traded corporations beginning in 2023. The following are a few of the changes made by the Inflation Reduction Act which may affect your year-end planning. If you would like more details about the Inflation Reduction Act of 2022, please **call our firm.**

- **"New Clean Vehicle Credit" For Vehicles Placed In Service After 2022 And Before 2033.** Taxpayers may qualify for a credit of up to $7,500 for taking possession of a qualified new electric vehicle during 2023. This credit is available for vehicles used in a business (i.e., depreciable vehicles) and for vehicles acquired for personal use. However, more businesses should qualify for the credit for commercial vehicles discussed in the next paragraph than for this credit. To qualify for the New Clean Vehicle Credit, the vehicle must be a qualified electric vehicle (EV) or a qualified fuel cell vehicle. The taxpayer must be the first user of the vehicle after the vehicle is sold, registered, or titled. **No credit is allowed for a new vehicle if the manufacturer's suggested retail price of the vehicle exceeds: $80,000** for SUVs, pickups, and vans; and **$55,000** for other vehicles. In addition, **no credit** will be allowed for a new vehicle **if the lesser of current or prior year modified adjusted gross income of the taxpayer is more than $300,000 for joint filers, $225,000 for head of households, and $150,000 for others.** In addition, final assembly of the vehicle must occur in North America. Because of the complexity for determining whether a vehicle qualifies for the credit and determining the amount of the credit, we suggest using the IRS website to determine whether an EV acquired during 2023 qualifies for the new clean vehicle credit and the amount of the credit. The relevant web address is Federal Tax Credits for Plug-in Electric and Fuel Cell Electric Vehicles Purchased in 2023 or After (fueleconomy.gov). Once at the website you will need to enter: **1)** whether the vehicle was placed in service after April 17, 2023 or before April 18, 2023; **2)** the model year; **3)** the make of the vehicle (e.g., Chevrolet, Ford, Toyota); **4)** the model (e.g., Bolt, Mustang Mach-E); and **5)** whether the vehicle is all electric or a plug-in hybrid.

- **Credit For Qualified Commercial Clean Vehicles Acquired And Placed In Service After 2022 And Before 2033.** The IRA provides an EV credit for depreciable commercial electric vehicles acquired and placed in service after 2022. The credit is not allowed if the taxpayer is allowed a Clean Vehicle Credit for the same vehicle. **Planning Alert!** A qualifying depreciable commercial EV means the vehicle is used in a trade or business or for the production of income. According to the IRS, *"business use means any use in a trade or business of the taxpayer*." The credit is the **lesser of: 1)** 30% of the vehicle's basis or **2)** the incremental cost of the vehicle if the vehicle is 100% electric. The 30% credit amount is reduced to 15% if the vehicle has a gasoline or diesel component (i.e., if a hybrid). The **"incremental cost"** means the excess of the purchase price of the vehicle over the price of a comparable gas- or diesel-powered vehicle. The IRS has announced that the incremental cost of vehicles with a GVWR of less than 14,000 pounds is deemed to be $7,500 except for small hybrid vehicles where the incremental cost is deemed to be $7,000. The **maximum credit allowed** is **$7,500** where the vehicle has a **GVWR of less than 14,000 pounds** and **$40,000** for a vehicle with a **GVWR of 14,000 pounds or more.**

- **Qualified Commercial Clean Vehicle.** A "Qualified Commercial Clean Vehicle" is a vehicle that: **1)** is depreciable property; **2)** is acquired for use or lease by the taxpayer, and not for resale; **3)** is manufactured for use on public streets, roads, and highways, or is "mobile machinery" (including vehicles that are not designed to perform a function of transporting a load over the public highways); **4)** has a battery capacity of not less than 15 kilowatt hours (7 kilowatt hours for vehicles weighing less than 14,000 pounds) and is charged by an external electricity source; and **5)** is made by a qualified manufacturer that has a written agreement with the Treasury Department and provides reports to the Treasury Department. Qualified commercial fuel cell vehicles are also eligible for the credit. A list of qualified manufacturers can be found here – see https://www.irs.gov/credits-deductions/manufacturers-for-qualified-commercial-clean-vehicle-credit.

- **It's Easier To Qualify For The Commercial Clean Vehicle Credit Than The Clean Vehicle Credit Discussed Previously.** The AGI limitations, the limitation on the cost of the vehicle, the requirement that final assembly of the vehicle must occur in North America, and the battery minerals and component requirements that apply to the Clean Vehicle Credit do not apply to the credit for Qualified Commercial Clean Vehicles. In addition, any unused Qualified Commercial Clean Vehicle Credit may be carried forward if the taxpayer does not have sufficient tax to use the credit. The Clean Vehicle Credit may not be carried forward.

TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES

Planning With Timing Of Income And Expenses. It goes without saying that, for most business owners, the last several years have been challenging. Dealing with the pandemic, disruptions in the supply chain, and hiring and retaining good employees has caused many business owners to face issues they've never experienced. One traditional year-end tax planning strategy for business owners includes reducing current year taxable income by deferring it into later tax years and accelerating deductions into the current tax year. This strategy has been particularly beneficial where the income tax rate on the business's income in the following year is expected to be the same or lower than the current year. For businesses that have done well during the current tax year, this strategy would still generally be advisable. **Caution!** In the following discussions we include "timing" suggestions as they relate to traditional year-end tax planning strategies that would cause you to accelerate deductions into 2023, while deferring income into 2024. However, for businesses that expect their taxable income to be significantly lower in 2023 than in 2024, the opposite strategy might be more advisable. In other words, for struggling businesses, a better year-end planning strategy could include accelerating revenues into 2023 (to be taxed at lower rates), while deferring deductions to 2024 (to be taken against income that is expected to be taxed at higher rates). Please keep that in mind as you read through the following timing strategies for income and deductions.

First-Year 168(k) Bonus Depreciation Deduction. Traditionally, a popular way for businesses to maximize current-year deductions has been to take advantage of the **First-Year 168(k) Bonus Depreciation deduction.** Beginning **with 2023,** the §168(k) deduction is **80%** and reduced as follows for property placed in service: **1)** During **2024 - 60%, 2)** During **2025 - 40%, 3)** During **2026 - 20%,** and **4) After 2026 - 0%** (with an additional year for long-production-period property and noncommercial aircraft). **Planning Alert! Used property temporarily qualifies for 168(k) bonus depreciation** for qualifying property acquired and placed in service **after September 27, 2017, and before 2027.** Property that generally qualifies for the 168(k) Bonus Depreciation includes **new** or **used** business property that has a depreciable life for tax purposes of **20 years or less** (e.g., machinery and equipment, furniture and fixtures,

sidewalks, roads, landscaping, computers, computer software, farm buildings, and qualified motor fuels facilities). Vehicles used primarily in business generally qualify for the 168(k) Bonus Depreciation. However, there is a dollar cap imposed on business cars, and on trucks, vans, and SUVs that have a **loaded vehicle weight (GVWR) of 6,000 lbs. or less.** For qualifying vehicles placed in service **in 2023** and used 100% for business, the annual depreciation caps are as follows: **1st year - $12,200; 2nd year - $19,500; 3rd year - $11,700; fourth and subsequent years - $6,960.** Moreover, if the vehicle (new or used) otherwise qualifies for the 168(k) Bonus Depreciation, the first-year depreciation cap (assuming 100% business use) is **increased by $8,000 (i.e., from $12,200 to $20,200 for 2023). Planning Alert!** If a new or used truck, van, or SUV (which is used 100% for business) has a **GVWR over 6,000 lbs., 80% of its cost** (without a dollar cap) could be deducted **in 2023** as a **168(k) Bonus Depreciation deduction.**

Section 179 Deduction. Another popular and frequently used way to accelerate deductions is by taking maximum advantage of the up-front Section 179 Deduction ("179 Deduction"). For 2023 the 179 Deduction **limitation is increased to $1,160,000** and the **phase-out threshold for total purchases** of 179 property is **$2,890,000.** To maximize your 179 Deductions for 2023, it is important for your business to determine which depreciable property acquired during the year qualifies as 179 Property. Generally, "depreciable" property qualifies for the **179 Deduction** if: **1)** It is purchased **new or used, 2)** It is "tangible personal" property, **and 3)** It is used primarily for business purposes (e.g., machinery and equipment, furniture and fixtures, business computers, etc.). **Planning Alert!** The 179 Deduction **is now allowed** for otherwise qualifying property used in connection with lodging (e.g., the cost of furnishing a home that the owner is renting to others would now qualify). New or used business vehicles generally qualify for the 179 Deduction, provided the vehicle is **used more-than-50% in your business. Planning Alert!** As discussed previously in the 168(k) Bonus Depreciation segment, there is a dollar cap imposed on business cars and trucks that have a **vehicle weight of 6,000 lbs. or less.** If applicable, this dollar cap applies to both the 168(k) Bonus Depreciation and the 179 Deduction taken with respect to the vehicle. Trucks, vans, and SUVs that have a loaded **weight (GVWR) of more than 6,000 lbs.** are exempt from the annual depreciation caps. In addition, these vehicles, if used more-than-50% in business, will also generally qualify for a **179 Deduction of up to $28,900** if placed in service in 2023 **($30,500** if placed in service in 2024). **Planning Alert!** The $28,900 cap applies only for purposes of the 179 Deduction. This $28,900 cap **does not apply** with respect to the 168(k) Bonus Depreciation deduction taken on vehicles weighing over 6,000 lbs. **Tax Tip!** A business may be able to deduct most of the cost of the vehicle or other qualifying assets placed in service in 2023 by using the 179 deduction, then the 168(k) deduction for 80% of the remaining cost when applicable. Neither the **179 Deduction** nor the 168(k) Bonus Depreciation deduction requires any proration based on the length of time that an asset is in service during the tax year. Therefore, your calendar-year business would get the benefit of the **entire 179 or 168(k) Deduction** for 2023 purchases, even if the qualifying property **was placed in service as late as December 31, 2023!**

Salaries For S Corporation Shareholder/Employees. For 2023, an employer generally must pay FICA taxes of 7.65% on an employee's wages up to $160,200 ($168,600 for 2024) and FICA taxes of 1.45% on wages in excess of $160,200 ($168,600 for 2024). In addition, an employer must withhold FICA taxes from an employee's wages of 7.65% on wages up to $160,200 ($168,600 for 2024) and 1.45% of wages in excess of $160,200 ($168,600 for 2024). Generally, the employer must also withhold an additional Medicare tax of 0.9% for wages paid to an employee in excess of $200,000. If you are a shareholder/employee of an S corporation, this FICA tax generally applies only to your W-2 income from your S corporation. Other income that passes through to you or is distributed with respect to your stock is generally not subject to FICA taxes or to self-employment taxes. **Caution!** If the IRS determines you have taken unreasonably "low" compensation from your S corporation, it will generally argue that other amounts you have received from your S corporation (e.g., distributions) are disguised "compensation" and should be subject to FICA taxes.

MAXIMIZE YOUR 20% 199A DEDUCTION FOR QUALIFIED BUSINESS INCOME (QBI)

First effective in 2018, the 20% 199A Deduction has had a major impact on businesses. This provision allows qualified taxpayers to take a 20% Deduction with respect to **"Qualified Business Income," "Qualified REIT Dividends,"** and **"Publicly Traded Partnership Income."** Of these three types of qualifying income, **"Qualified Business Income" (QBI)** has had the biggest impact by far on the greatest number of taxpayers. In certain situations, the rules for determining whether a taxpayer qualifies for the 20% 199A Deduction with respect to **Qualified Business Income (QBI)** can be quite complicated. Taxpayers who may qualify for the 20% 199A Deduction are generally taxpayers that report **"Qualified Business Income" (QBI)** as: Individual owners of S corporations or partnerships; Sole Proprietors; Trusts and Estates; and Certain beneficiaries of trusts and estates. **Planning Alert!** The 20% 199A Deduction is available **for tax years beginning after 2017 through 2025** and is generally taken on the owner's individual income tax return. The 20% 199A Deduction does not reduce the individual owner's "Adjusted

Gross Income" (AGI) or impact the calculation of the owner's Self-Employment Tax. Instead, the deduction simply reduces the owner's Taxable Income (regardless of whether the owner itemizes deductions or claims the standard deduction). Qualified Business Income (QBI) generally eligible for the 20% 199A Deduction, is defined as the net amount of qualified items of income, gain, deduction, and loss with respect to **"any"** trade or business **other than:** **1)** Certain **personal service** businesses known as **"Specified Service Trades Or Businesses"** and **2)** The **Trade or Business** of performing services **"as an employee"** (e.g. W-2 wages). **Caution!** QBI also generally **does not include** certain items of income, such as: **1)** Dividends, investment interest income, short-term capital gains, long-term capital gains, income from annuities, commodities gains, foreign currency gains, etc.; **2)** Any **"guaranteed payment"** paid to a partner by the partnership; **3)** Reasonable compensation paid by an S corporation to a shareholder; or **4)** Income you report as an independent contractor (e.g., sole proprietor) where it is ultimately determined that you should have been classified as a "common law" employee.

W-2 Wage And Capital Limitation On The 20% QBI Deduction. Generally, your 20% QBI Deduction with respect to each Qualified Trade or Business may not exceed **the greater of:** **1)** 50% of the allocable share of the business's W-2 wages allocated to the QBI of each "Qualified Trade or Business," or **2)** The sum of 25% of the business's allocable share of W-2 wages with respect to each "Qualified Trade or Business," plus 2.5% of the business's allocable share of unadjusted basis of tangible depreciable property held by the business at the close of the taxable year. **Caution!** For 2023, the Wage and Capital Limitation phases in ratably as a taxpayer's Taxable Income **goes from more than $182,100 to $232,100, or from more than $364,200 to $464,200** (if filing jointly).

"Specified Service Trade Or Businesses" (SSTBs) Income Does Not Qualify For The 20% 199A Deduction For Owners Who Have "Taxable Income" Above Certain Thresholds. If **"Taxable Income"** for 2023 (before the 20% 199A Deduction) is **$182,100 or below ($364,200 or below** if married **filing jointly), all** the qualified business income from a "Specified Service Trade or Business" **(SSTB)** is eligible for the 20% 199A deduction. However, if for 2023 **"Taxable Income"** is **$232,100 or more ($464,200 or more** if married **filing jointly), none** of your SSTB income qualifies for the 20% 199A Deduction. A **SSTB** is generally defined as: **1)** a trade or business activity involved in the performance of services in the field of: health; law; accounting; actuarial science; performing arts; consulting; athletics; financial services; or brokerage services; **2)** a trade or business involving the receipt of fees for celebrity-type endorsements, appearance fees, and fees for using a person's image, likeness, name, etc.; and **3)** any trade or business involving the services of investing and investment management, trading, or dealing in securities, partnership interests, or commodities. An "SSTB" **does not include** the performance of **architectural** or **engineering** services.

BE CAREFUL WITH EMPLOYEE BUSINESS EXPENSES

Un-Reimbursed Employee Business Expenses Are Not Deductible. For 2018 through 2025, "un-reimbursed" employee business expenses are not deductible at all by an employee. For example, an employee **may not deduct** on the employee's income tax return any of the following business expenses **incurred as an "employee", even if the expenses are necessary for the employee's work - Automobile expenses** (including auto mileage, vehicle depreciation); **Costs of travel, transportation, lodging and meals; Union dues** and expenses; **Work clothes and uniforms;** Otherwise qualifying **home office expenses; Dues** to a chamber of commerce; **Professional dues; Work-Related education expenses; Job search expenses; Licenses and regulatory fees; Malpractice insurance premiums; Subscriptions** to professional journals and trade magazines; and **Tools and supplies** used in your work. Generally, employee business expenses reimbursed under an employer's qualified **"Accountable Reimbursement Arrangement" are deductible by the employer** (subject to the 50% limit on business meals), and the reimbursements are **not taxable to the employee. Planning Alert!** Generally, for a reimbursement arrangement to qualify as an **"Accountable Reimbursement Arrangement": 1)** The employer must maintain a reimbursement arrangement that requires the employee to substantiate covered expenses; **2)** The reimbursement arrangement must require the return of amounts paid to the employee that are in excess of the amounts substantiated; and **3)** There must be a business connection between the reimbursement (or advance) and the business expenses. **Caution!** If an employer reimburses an employee's deductible business food and beverage expense under an Accountable Reimbursement Arrangement, the employer could deduct 50% of the reimbursement.

OTHER SELECTED YEAR-END PLANNING CONSIDERATIONS FOR BUSINESSES

IRS Increases Standard Mileage Rates Effective January 1, 2023. The standard mileage deduction rate for deductible **business miles** was increased from 62.5 cents per mile to **65.5 cents per mile** effective

January 1, 2023. The **charitable mileage rate is still 14.0 cents per mile** and the rate for **medical and moving mileage remained at 22.0** cents per mile for 2023. **Planning Alert!** Be sure to keep proper records for business, medical/moving, and charitable mileage for use as a possible deduction for 2023. **Note!** Moving expenses are not deductible for 2018 through 2025 except for certain military personnel.

Consider Simplified Accounting Methods For Certain Small Businesses. The Tax Cuts And Jobs Act (enacted in late 2017) provides the following accounting method relief provisions for businesses with **Average Gross Receipts (AGRs)** for the **Preceding Three Tax Years** of **$29 Million or Less (for 2023): 1)** Generally allows businesses to use the cash method of accounting even if the business has inventories, **2)** Allows simplified methods for accounting for inventories, **3)** Exempts businesses from applying UNICAP, and **4)** Liberalizes the availability of the completed-contract method.

No Deduction For Expenses Of A "Hobby". Previously, otherwise deductible trade or business expenses attributable to an activity that was *"not engaged in for profit"* (i.e., a hobby loss activity) were deductible: **1)** only as *miscellaneous itemized deductions,* and **2)** only to the extent of the activity's gross income. Since these hobby loss expenses are classified as miscellaneous itemized deductions, no deduction is allowed for these expenses ***from 2018 through 2025.*** **Planning Alert!** This makes it even more important for owners engaged in activities commonly subject to IRS scrutiny, to take steps to demonstrate the business is operated with the intent to make a profit.

Lower Form 1099-K Threshold For 2023 Transactions. For each calendar year between 2010 and 2022, Payment Settlement Entities have been required to file Form 1099-K annually with the IRS with respect to payees and furnish information to the payees, reporting the gross amount of reportable payment transactions. **However, prior to 2023,** third-party settlement organizations were not required to file Form 1099-K where: **1)** the payee had **200 or fewer otherwise reportable transactions** during the calendar year and **2)** the **gross amount of such transactions during the calendar year was $20,000 or less. "Payment Settlement Entities"** generally include banks or other organizations that process credit card transactions on behalf of a merchant and make an interbank transfer of funds to the merchant from a customer. **Alert!** The American Rescue Plan Act lowered the exception from filing Form 1099-K by Payment Settlement Entities to gross payments of **$600 or less, with no minimum number of transactions.** The new $600 reporting threshold applies beginning with 2023 transactions. **Caution!** The American Rescue Plan Act provided that only payments for goods and services are reportable third-party network transactions. Payment services such as PayPal and Venmo generally allow users to designate a payment as personal. The Taxpayer Advocate Service advises taxpayers to *"Be sure to ask those friends or family members to correctly designate the payment as a non–business-related transaction and then make a note yourself of what the payment was for and from whom it was received."*

Don't Forget To Properly Document And Provide Details For Charitable Contributions. It is important to provide the IRS with all the necessary documentation for any charitable contributions made during 2023 in order to deduct them against taxable income. The IRS recently denied Hobby Lobby's charitable contributions in the amount of $84.6 million because the fair market value and basis of each item contributed was not properly reported on Form 8283.

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, **please call us before implementing any planning idea discussed in this letter, or if you need additional information concerning any item mentioned in this letter.** We will gladly assist you. **Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of promoting, marketing, or recommending to another party any transaction or matter addressed herein. The preceding information is intended as a general discussion of the subject addressed and is not intended as a formal tax opinion. The recipient should not rely on any information contained herein without performing his or her own research verifying the conclusions reached. The conclusions reached should not be relied upon without an independent, professional analysis of the facts and law applicable to the situation.