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Top 10 2024 Year-End Tax Planning Strategies for Business Owners

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This year business owners have had to contend with overall economic resiliency, cooling inflation, the Federal Reserve's (Fed) pause in interest-rate hikes, and the Fed's decision in September to lower the rate by half a point. Geopolitical challenges remain as well. U.S. politics is also an unknown. As of this writing, we have upcoming presidential and congressional elections that could affect the Donald Trump-era tax cuts that are set to expire at the end of 2025. But don't let uncertainty paralyze your planning. Proactive planning is essential now.

As a reminder, this is where we stand in the current tax landscape:

- Corporate tax rate is 21%.
- Personal income top ordinary tax rate of 37% and a potential additional Medicare tax of 0.9% on high-wage earners.
- Special maximum tax rates generally apply to long-term capital gains and qualified dividends for individuals (0%, 15%, or 20%). Corporate capital gains are generally taxed as ordinary income at the corporate rate of 21%.
- A 3.8% Medicare surtax for individuals on net investment income. This does not apply to trades or business conducted as a sole proprietor, partnership, or S corporation.
- Generous expensing and depreciation rules for businesses.
- Availability of the qualified business income deduction for non-corporate entities.

Here are the top 10 planning ideas for business owners to consider before year-end to position your company for future growth:

1. Review corporate structure and tax status

The end of the year is a good time to revisit whether your business's structure is still the best fit. Owners of closely held businesses have several options for structuring their companies. Many businesses operate as sole proprietorships with one owner servicing and managing the business. In fact, according to U.S. Census data, 73% of businesses are sole proprietorships.

Other businesses — especially those with more than one owner — are structured as partnerships, limited liability companies (LLCs), S corporations, or C corporations. The structure of your business also affects how taxes are filed, so future tax rate changes may significantly impact your tax liability. The potential for an increase in the corporate tax rate, an increase in the individual tax rate for high earners, and the potential change in the preferential rate for qualified dividends all could have an impact. Tax savings aren't the only factor to consider in structuring a business, so it is important to discuss options with your tax advisor.

2. Review retirement plan options

Qualified retirement plans can be a powerful way to lower current tax liabilities and provide opportunities for owners and employees to save significantly for retirement. Individuals who already have these plans should use the end of the year as an opportunity to fully fund their contributions or at least contribute enough to receive the entire company match, if applicable.

If you have a Roth option for your retirement plan, review your current tax rate and try to determine whether your tax rate will be higher in retirement. If so, it may be wise to allot some of your retirement contributions to the Roth option and forego the current tax savings. Contributions to a Roth do not generate a tax deduction. Since there are many unknowns when trying to predict your future tax situation years down the road, it may make sense to hedge and to have some taxable retirement accounts and some that are not subject to tax at the time of distribution.

The end of the year is a great time for businesses to provide end-of-year bonuses or retirement contributions to their employees and potentially receive tax breaks on these funds, which can be financially appealing to business owners. Business owners may want a plan that maximizes their contributions up to the legal limit.

For self-employed individuals, a simplified employee pension (SEP) IRA can be funded with 20% of self-employment earnings with a maximum of $69,000 for 2024. There is no year-end deadline, and you can establish the pension up to the extended due date of your income tax returns. A solo 401(k) will allow for the largest pre-tax contribution, as it recognizes that you are both employer and employee. Solo 401(k)s are suitable for sole proprietors, partnerships, C corporations, and S corporation business owners. Additionally, a business can make a profit-sharing contribution to a retirement plan, up to 25% of payroll, lowering the company's taxable income.

There may also be tax credits for businesses with fewer than 100 employees to help defray the cost of offering retirement plans. There is an employer contributions tax credit that can be claimed for up to five years; the percentage decreases each year by 25%, beginning in year three. Eligible employers may be able to claim a tax credit of up to $5,000, for three years, for the ordinary and necessary costs of starting an SEP, SIMPLE IRA, or qualified plan (like a 401(k) plan).

An eligible employer who adds an auto-enrollment feature to their plan can claim a tax credit of $500 per year for a three-year taxable period beginning with the first taxable year the employer includes the auto-enrollment feature. This tax credit is available for new or existing plans that adopt an eligible auto-enrollment plan.

Regardless of your business structure, it is important to consult with your tax advisor to determine the effect of the Setting Every Community Up for Retirement Enhancement Act of 2019 (the SECURE Act) and the SECURE 2.0 Act of 2022 on any current or future employer-sponsored plan. The SECURE Act encouraged the establishment of retirement plans through expansive tax credits and administrative modifications.

The act also introduced the pooled employer plan (PEP), which enables unrelated employers to combine their resources and participate in one plan. To learn more about PEPs, see our article Pooled Employer Plans, the Next Frontier for Improving Participant Outcomes | Key.

SECURE 2.0 ushered in new provisions and opportunities for employers and employees. Many provisions were crafted primarily to benefit small- and medium-sized employers and to incentivize the establishment of a plan. The provisions of SECURE 2.0 have various effective dates, with most changes applying to all plans but some rules only applying to new plans.

Included in the provisions are the introduction of student loan repayments as 401(k) contributions, Roth tax treatment for catch-up contributions of the highest earners, expansion of automatic enrollment, and the addition of some emergency provisions, making it easier for employees to contribute to a plan with a safety net in case events cause the need to access funds early. With all the complexity, it is important for businesses to stay updated and adaptable in the retirement space.

3. Business transition planning strategies

Business transition planning isn't top of mind for most busy owners of closely held businesses, who are focused on maintaining and growing a successful business. Unless an unexpected event occurs, many owners are too swamped or too reluctant to turn their attention to creating and implementing a plan of action for when they are no longer running the business. Unfortunately, lack of advance planning to position your exit from your business is one of the main reasons families receive less value for their business when that time comes, which inevitably will happen to all business owners.

In considering your inevitable exit, you need to understand the different transfer channels available to transition your business. For instance, many owners of closely held businesses look to transfer the company to family members — especially when they are instrumental in the daily operations of the business. Establishing, implementing, and communicating an innovative estate and tax plan that specifies roles and functions of family members can make for a smooth transition with less family strife. At the same time, effective planning can provide significant income and transfer tax savings.

Alternatively, if you would like to sell your business to a co-owner, employees or an outside third party, advance planning is key to ensuring your transition goals are met. Regardless of the exit plan you choose, it is important to implement and routinely review and revise the plan at the end of the year. That's especially important if there are proposed changes in tax law that may impact your ability to save taxes and maximize the amount of sale proceeds retained by you and your family.

In 2024, the outcome of a U.S. Supreme Court Case (Connelly v. United States (U.S., No. 23-146)) has made succession planning for family and closely held businesses more challenging. In light of this court case, redemption agreements should be reviewed, and other buy-sell agreements should be reviewed and possibly restructured. Insurance policies that are to be used to fund such buy-sell arrangements should be reviewed for adequacy.

4. Establish or revise wealth transfer strategies

As circumstances change throughout the year, it is prudent to establish or revise the wealth transfer planning strategies available to minimize federal and state income and transfer taxes (estate, gift, and generation skipping). As always, gifting at year-end — whether outright or in trust to individuals or charities — is a planning strategy available to reduce income tax and/or estate tax liability. You have until year-end to make annual exclusion gifts of up to $18,000 per person. If you are married, you may gift split and gift $36,000 to one person. Keep in mind, the gift must be out of your control by year-end.

Annual exclusion gifts do not count against your lifetime gift tax exemption, so such gifting is a great way to transfer assets without subjecting the transfer to taxes. That's critical now because the current federal estate gift tax exemption (FEGTE) in 2024 is $13.61 million with an increase for inflation to $13.99 million in 2025 but will automatically fall to $6.8 million to $7 million in 2026 under current tax law.

Creating an estate plan to establish long-term lifetime trusts or trusts at death via your will may significantly maximize your income and transfer tax savings. That's especially true if you are looking to transition your business to the next generation.

Once such plans are created, it is always prudent to review and revise them periodically as circumstances change. Additionally, you should consider state residency changes as a strategy to significantly decrease state income tax liability. That can be particularly effective if your business assets are held in long-term trusts that permit you to control the disposition or sale of the business and your business isn't physically tied to your home state of residency. Consult estate and tax planning professionals before year-end to determine whether such tax saving strategies work for you and your business.

5. Take advantage of the business expensing election

For qualified property placed in service in tax years beginning in 2024, the maximum amount that may be expensed under the limitation of Section 179 is $1,220,000 — up $60,000 from 2023. The beginning-of-phaseout amount has been increased to $3,050,000, as adjusted for inflation. The expensing deduction can be claimed regardless of how long the property is held during the year. Therefore, property acquired and placed in service in the last days of the tax year, rather than at the beginning of the following year, can result in a full expensing deduction for the earlier year.

The deduction includes both new and used qualified equipment. Also, the Tax Cuts and Jobs Act of 2017 (TCJA) expanded the definition of Section 179 property to qualified improvements to nonresidential real property, including the building's interior, roofs, HVACs, fire protection systems, alarm systems, and security systems. The deduction also now applies to non-customized computer software available to the public.

6. Bonus depreciation: Use it or lose it!

Business owners commonly take advantage of the bonus depreciation deduction in the first year that new or used machinery and equipment is purchased and placed in service. Unlike standard amortization, bonus depreciation immediately facilitates tax savings, which can be a valuable business incentive when costs are rising. Bonus depreciation deduction is permitted without any proration based on the length of time that an asset is in service during the tax year.

Starting in 2023, bonus depreciation is being phased out in 20% intervals, ultimately ending in 2026. So, for 2024, businesses can take advantage of 60% bonus depreciation on both new and used equipment purchased and placed in service by midnight December 31. Because of the eventual phaseout of the bonus depreciation deduction, it may be prudent to make such purchases sooner rather than later.

7. Maximize the pass-through business income deduction

The qualified business income (QBI) deduction is available up to 20% of QBI from a qualified trade or business. The deduction was created by the TCJA in 2017 and is available through 2025. Owners of qualified businesses that are structured and operated as pass-through entities – including trusts and estates — may be eligible for the QBI deduction. Specified service businesses qualify for the deduction if your taxable income is less than $191,950 for individual filers and $383,900 for married taxpayers filing jointly.

The heart of planning for the QBI deduction is managing taxable income by accelerating deductions or deferring income, and for those in a non-specified service trade or business, managing the wage/capital limitation.

To reduce taxable income below the threshold amount, consider:

- Making pension plan contributions.
- Increasing payroll.
- Accelerating business expenses.
- Recognizing losses.
- Avoiding recognizing gains.
- Making charitable contributions.

If you are in a non-specified service trade or business, but you exceed the income limitations and are subject to the additional W-2 wage and capital (qualified property) limitation, you should consider making additional qualified capital purchases or increasing wages to increase your available QBI deduction. Future tax changes could affect the availability of this deduction for higher earners.

8. Online sellers: Prepare for new 1099-K reporting requirements

Form 1099-K was introduced in the American Rescue Plan Act of 2021 to ensure online sellers are reporting sales correctly for tax purposes. If you have a business that accepts credit card or electronic payments like Venmo, PayPal, Amazon, or Square for goods or services, you may end up with a 1099-K at the end of the year from each payment processor that summarizes all your sales transactions.

If you receive payment for goods or services through third-party networks, the threshold is $5,000, with no transaction minimum. This is part of a phase-in process by the IRS to eventually implement the $600 threshold originally brought by the American Rescue Plan. As it stands, the threshold is expected to drop again to $600 for tax year 2025, unless the IRS makes more changes. There is no threshold for payment card transactions such as Mastercard or Visa. Keep an eye out for any updates if this could apply to you.

9. Leverage energy-related and research and development credits

There has been increased focus on environmental, social, and governance (ESG) concerns for business owners. Your business may be considering turning to clean commercial vehicles for savings via tax credits as well as their being better for the environment. There are also provisions for improving the energy efficiency of commercial buildings. The research and development (R&D) tax credit for small businesses has also been expanded. Business owners should consider how they can benefit from any of these incentives and begin planning to take advantage of them.

10. Prepare for the reporting requirements of the Corporate Transparency Act

The Corporate Transparency Act, enacted on January 1, 2021, requires certain domestic and foreign entities registered to do business in the U.S. to report information on beneficial ownership. Most businesses will have to contend with the act's ownership reporting requirements. Existing entities created or registered before Jan. 1, 2024, must file by Jan. 1, 2025. There is limited time to address filings. New entities created or registered in 2024 must file within 90 days. Reporting companies formed or first registered on or after Jan. 1, 2025, will have 30 days to file an initial report.

Reporting companies must report changes to any previously reported information within 30 days after a change occurs. There are penalties for noncompliance. Bills have been proposed to defer the filing date or to extend the filing for any report changes.

However, as of the writing of this article, bills have not been passed by both sides of Congress. Begin identifying reporting entities and beneficial owners and gathering information to prepare for the eventual reporting requirements. It may take time to accumulate this information. Compile a list of every entity you are owner of, or involved with, and have your advisor review the reporting implications for that list of entities. Maintain records of every entity you determine that you either do or do not have to report, and why, for future use.

For more information, please contact your advisor.

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About the Author

In her role, Tina Myers is responsible for managing the Central Planning Team and overseeing the Key Wealth Institute and any financial planning content distributed. She works with our Regional Planning Strategists to help facilitate our best thinking and advice delivery to clients.

Before joining Key, Tina worked in the public accounting industry, where she focused on taxes, specifically individual, trust, estate, and gift tax planning. She also held roles at a small public accounting firm, a regional firm, and the private client group of a large multi-national firm.

Tina earned an M.Tax from Virginia Commonwealth University and holds several industry-standard licensures. She received the Circle of Excellence Award for Key Private Bank in 2016 and 2018. She was selected to attend the 2024 Key Wealth Education Symposium, which recognizes top performance and extraordinary commitment to serving our clients and growing our business.