BRADFORD TAX INSTITUTE

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

The purpose of this article 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 in most cases, you'll probably realize the cash when you pay less in taxes.

This article gives you 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 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.[1]

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 and likely more—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.

Get the timing right. If the landlord is on the cash basis and received the $36,000 of rent paid in advance in 2024, he would have had to pay taxes on the rent money in 2024.

Don't surprise your landlord. Before sending a big rent check to your landlord, make sure he understands the strategy. Otherwise, he might not deposit the rent check (thinking your payment was a mistake) and instead return the check to you. This could put a crimp in the strategy because you operate on a cash basis.

Also, think proof. Remember, the burden of proof is on you. How do you prove that you mailed the check on December 31? (Think like an IRS examiner or, better yet, a prosecuting attorney.)

Here's the answer: send the check using one of the U.S. Postal Service (USPS) tracking delivery methods, such as priority mail with tracking and possibly signature required. Or even better, use one of the old standards that the IRS has to abide by, such as certified or registered mail.

With these types of mailings, you have proof of the date you mailed the rent check. You also have evidence of the date the landlord received the check.

If you are using USPS online tracking, make sure to print the delivery and receipt tracking results for your tax records because that tracking information disappears from the postal service records long before you would need it for the IRS.

Planning point. Here's a little-known rule: under the tax rules, you don't (and shouldn't) include the December 31 rent payment on the Form 1099 you give the landlord. This comes as a surprise to many, but putting the December 31 payment on the 1099 to the landlord would be incorrect reporting. To see how to get the 1099 right for you, the landlord, and the IRS, see Avoid IRS Audits: Fix the 1099 Prepaid-Rent Mismatch.

2. Stop Billing Customers, Clients, and Patients

Here is one rock-solid, time-tested, easy 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 the cash basis and operates on the calendar year.)

Customers, clients, patients, and insurance companies generally don't pay until billed. Not billing customers and patients 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 just postponed paying taxes on his December 2024 income by moving that income to 2025.

3. Buy Office Equipment

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

You can likely use Section 179 to deduct 100 percent of the cost of machinery, equipment, computers, desks, furniture, and chairs.[2] Alternatively, bonus depreciation would give you a 60 percent deduction[3] plus a 5 to 20 percent MACRS depreciation deduction.

Planning note. If you qualify for the Section 199A deduction, the increased expenses will reduce your deduction, as explained in 2024 Last-Minute Section 199A Tax Reduction Strategies.

4. Use Your Credit Cards Correctly

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.[4] Therefore, as a Schedule C taxpayer, you should consider using your credit cards 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.[5]

But if you operate your business as a corporation and you are the personal owner of the credit card, the corporation must reimburse you if you want the corporation to realize the tax deduction, and that happens on the date of reimbursement. 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

You should never stop documenting your deductions, and you should 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.

But this won’t happen to you. Why? Because as a subscriber (member), you know all deductions are valuable. And you know that you must claim all your deductions to keep your taxes to their rightful amount.

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.[6]

If you are just starting your business, or with all that’s happened to you this year, you could very possibly have an 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.

6. Deal with Your Qualified Improvement Property

Qualified improvement property (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 first placed in service.[7]

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,
- 60 percent bonus depreciation, and
- MACRS depreciation.

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

Takeaways

When it comes to your taxes, business deductions are king. The more business deductions you can claim, the better. The more business deductions you claim, the less you pay in regular taxes. And if you are self-employed, you’ll pay less in self-employment taxes.

Yes, paying less in taxes is good.

Here is a review of the six last-minute tax deduction strategies covered in this article:

1. Prepaying your 2024 expenses right now reduces your taxes this year. While it's true you kicked the can down the road, perhaps you have an offset with a big deduction planned for next year. And even if you don't have such a plan now, you have plenty of time to create big deductions for 2024.

2. The easiest year-end strategy of all is simply to stop billing your customers, clients, and patients. Once again, this kicks the can down the road some and makes your 2025 tax planning more important.

3. With Section 179 expensing, you can make significant equipment, machinery, and furniture purchases and write off 100 percent of the cost. Alternatively, you can use 60 percent bonus and MACRS depreciation to write off a huge chunk. Make sure you place the assets in service on or before December 31, 2024, to get the deduction for this year.

4. Charges to your credit cards can create deductions on the day of the charge. This is true if you are a sole proprietor or if you operate as a corporation and the credit card is in the corporation's name. But if you operate as a corporation and the credit card is in your personal name, your corporation must reimburse you on or before December 31, 2024, to create the 2024 deduction at the corporate level.

5. Make sure to claim all your legitimate deductions. Don't think you have too many, and don't try to avoid deductions that you think could be red flags.

- First, it's unlikely you could have enough deductions to create red flags.
- Second, no one knows what those red flags are.
- Third, if the deduction is legitimate, it doesn't matter if the IRS audits it—you'll win.

If your deductions exceed your income, you will have a loss for the year, and that loss can create an NOL. The good news here is that the NOL can give your business a cash infusion beginning with next year's tax return.

6. For your 2024 QIP deduction, make sure to place the QIP in service on or before December 31, 2024.

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1 Reg. Section 1.263(a)-4(f).
2 IRC Section 179(b)(1).
3 IRC Section 168(k).
4 Rev. Rul. 78-38.
5 Ibid.
6 IRC Section 172(d).
7 IRC Section 168(e)(6)(A).