

2021 Last-Minute Year-End General **Business** Income Tax Deductions

This article gives you six powerful business tax deduction strategies that you can easily understand and implement before the end of 2021.

1. Prepay Expenses Using the IRS Safe Harbor

If you are a cash-basis taxpayer you can 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 2021 prepayments cannot go into 2023. 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 (among others) 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 Friday, December 31, 2021, you mail a rent check for \$36,000 to cover all of your 2022 rent. Your landlord does not receive the payment in the mail until Tuesday, January 4, 2022. Here are the results:

- You deduct \$36,000 in 2021 (the year you paid the money).
- The landlord reports \$36,000 as rental income in 2022 (the year he received the money).

You get what you want—the deduction this year.

The landlord gets what he wants—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.

Also, think proof. Remember, the burden of proof is on you. How do you prove that you mailed the check by December 31? (Think like an IRS auditor or, better yet, a prosecuting attorney.) Answer: Send the check using one of the U.S. Postal Service's tracking delivery methods, such as priority mail with tracking and possibly signature required, or one of its old standards, such as certified or registered mail. With these types of mailings, you have proof of the date that you mailed the rent check. You also have proof of the day 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.

2. Stop Billing Customers, Clients, and Patients

Again, for cash-basis taxpayers, an easy strategy to reduce your taxable income for this year: stop billing your customers, clients, and patients until after December 31, 2021. 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. Jim, 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 2021 income by moving that income to 2022.

3. Buy Office Equipment

With bonus depreciation now at 100 percent along with increased limits for Section 179 expensing, buy your equipment or machinery and place it in service before December 31 and get a deduction for 100 percent of the cost in 2021. If you are thinking of buying in the first quarter of 2022, consider buying before year-end to benefit from the deduction sooner. Remember you must also place the equipment in service, in other words receive and use it.

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

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. 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.

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 produce a tax loss.

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.

If you are just starting your business, or with all that's happened 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 2021 NOLs forward to future years.

6. Deal with Your Qualified Improvement Property (QIP)

In the CARES Act, Congress finally fixed the qualified improvement property (QIP) error that it made when enacting the Tax Cuts and Jobs Act (TCJA).

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 you place the building in service.

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 either 100 percent bonus depreciation or Section 179 expensing. To get the QIP deduction in 2021, you need to place the QIP in service on or before December 31, 2021.