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Prepping for filing 2023 taxes: waiting for TRAF

BY ARLENE GROSS, LIBN CONTRIBUTING WRITER (https://libn.com/authors/arlene-gross/)

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With new regulations in place, such as the Corporate Transparency Act, in which organizations are required to file an ownership report with the U.S. Department of the Treasury, business owners should be aware of various changes when preparing their 2023 tax returns.

Jodi Bloom-Piccione, a tax partner at EisnerAmper's Melville office notes that many business owners wrongly believe the CTA applies only to foreign-owned entities when, in fact, it applies to almost all small businesses.

"All new entities formed after Jan. 1, 2024, have 90 days to report the beneficial ownership information; pre-existing entities must be filed by Jan. 1, 2025," Bloom-Piccione said.

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JODI BLOOM-PICCIONE:
'Anybody who is placing assets into service this year that's subject to bonus, should hold off and wait for this legislation to pass.'

Keep an eye out for whether the Tax Relief for American Families and Workers Act of 2024, which contains a number of retroactive provisions, passes through Congress. For example, bonus depreciation, currently at 80 percent, might revert to 100 percent.

If passed, the bill will be paid for mostly through the Employee Retention Credit, in which businesses that meet the criteria must pay back 80 percent of the credit they received.

The business interest limitation could become retroactive to 2022.

"For 2022, you weren't allowed to add back depreciation, which reduced the amount of interest people who were subject to this could claim," Bloom-Piccione said. "Now, retroactively, you would be able to add back depreciations, so that would increase the amount of interest."

Adds Bloom-Piccione: "Anybody who is placing assets into service this year that's subject to bonus, should hold off and wait for this legislation to pass."

Deductions: some lower, some higher



With bonus depreciation slated to drop from 100 to 80 percent, Ron Burton, partner, tax & business services at **Marcum** LLP in Melville, says that this will slow down a company's deductions.

"In theory, that would put more companies into an income position, because they're going to have less of a deduction," Burton said.

On the flip side, IRS code section 179 increases total deduction limits from \$1.08 million to \$1.16 million, potentially giving taxpayers an extra deduction of \$80,000

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RON BURTON: 'With bonus depreciation slated to drop from 100 to 80 percent, this will slow down a company's deductions.'

over the course of the year. That is, with the proviso that the company does not put themselves at a loss by taking the deduction.

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To jumpstart the economy during the pandemic, it was permitted to deduct 100 percent of business meals. That has been reduced to 50 percent.

"It's a small change, but it is something that companies should be on the lookout for when they're filing their 2023 tax returns," Burton said.

The pass through entity tax provision, now in effect in 35 states, allows companies, "to circumvent the \$10,000 SALT cap at the individual level by electing to treat your pass through entity, which is typically not a taxpayer, as a taxpaying entity in these 35 different states," Burton said.

If possible, postpone filing



EVAN FOX: 'Certain taxpayers should wait to file, as TRAFA might significantly change rules that would impact them.'

Certain taxpayers should wait to file, as TRAFA might significantly change rules that would impact them, advises Evan Fox, partner, real estate tax leader of Grassi Advisors & Accountants, a global firm headquartered in Jericho.

For example, IRS section 174, which eliminates research deductions and requires capitalization of expenditures which can be amortized over a period of five years, may be deferred until 2026 by the new law.

As the 2017 Tax Cuts and Jobs Act sunsets, the IRS has removed the add back for depreciation and amortization for the 163(j) limitation, and business interest expense deductibility is currently limited to 30% of your interest income.

In addition to returning to full R&D deductibility and 100% bonus depreciation, TRAFA would include, the add back of depreciation and amortization for the 163(j) limitation.

"If you have the ability to go on extension [to September 15], that might be wise," said Fox, noting that the changes might be retroactive to the 2022 tax year.

Pass through entities, due on March 15, can be extended to September 15. Corporate returns, due on April 15, can be extended to October 15.

Under the Inflation Reduction Act, businesses that have energy properties—solar, geothermal, and energy storage—which qualify under section 48 of the Internal Revenue code, can receive an upfront tax credit.

"They can not only get the depreciation on those assets, but also a tax credit," Fox said.

Accrue back expenses

If you're an accrual-based taxpayer, as opposed to cash-based, you can accrue expenses back to last year, even though you haven't paid them, notes Lisa Martinelli Bowman, partner at Islandia-based **Owen Petersen & Co.**

"If you have outstanding bills for your attorney, for example, and they come in January, you can accrue them back to December," Bowman said.

Year-end bonuses for employees, which are paid in January or February, can also be accrued back to 2023, Bowman said, "As long as it's paid by March 15."



LISA MARTINELLI-BOWMAN: 'If you're an accrual-based taxpayer, as opposed to cash-based, you can accrue expenses back to last year, even though you haven't paid them.'

Until 2025, owners of S corporations, partnerships and sole proprietorships are entitled to a qualified business income deduction on their personal tax returns for 20% of their corporate earnings.

Bowman advises utilizing the pass through entity tax, which allows you to circumvent the \$10,000 limit on real estate tax deductions.

"Now, if the corporation pays the tax, the corporation gets a direct deduction," Bowman said. "You have to elect into this option by March 15 of the current tax year."

The new Corporate Transparency Act requires every business to register their beneficial ownership interest with the Financial Crimes Enforcement Network.

"They have to register who are the owners of their businesses," Bowman said. "They only have to do it once, and they have until Dec. 31, 2024, to do so."

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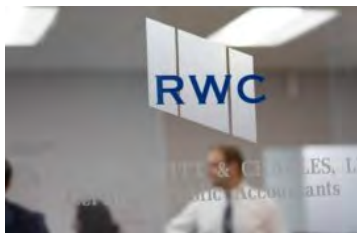


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