

**Tax Planning Workshop**

**2022 Year-end Tax Strategies**



**Welcome!**  
Today's webinar will be starting shortly.



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**THE LARGO GROUP**

**2022 Year-end tax strategies**

Anne E. Gannon, CPA  
Principal

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### Why is it important to plan for taxes this year?

Being a business owner makes your taxes **COMPLEX**.

Why **PROACTIVE** tax planning is a must:

- \*Tax planning after 12/31 means you have missed opportunities.
- \*Tax rules will change, so we must understand the rules today, as well as what might be changing tomorrow.



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### Where do I begin?



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### 3 Questions to start building a tax plan...

1. Total taxable BUSINESS income for the year

2. Income from various sources:

- Business Income
- W-2 Income
- Investment Income
- Government assistance (taxable and non-taxable)

3. Any changes to my tax picture in 2022?

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### 1. Total BUSINESS Income for the year

- For tax planning - we will want to breakdown any OTHER INCOME received to determine its impact on tax liability.
- ERTC is NOT part of 2022 tax planning. BUT should be handled BEFORE filing the 2022 return.

	2022	2021
Sales	\$950,000.00	\$875,000.00
COGS	\$285,000.00	\$236,250.00
Labor	\$266,000.00	\$280,000.00
Operating Expenses	\$266,000.00	\$250,000.00
Operating Income	\$133,000.00	\$108,750.00
Other Income:		
ERTC	\$102,000.00	

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### 3 Things we MUST know about ERTC before filing our 2022 return



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- ▶ Employee retention tax credit IS taxable
- ▶ ERTC is taxable in the year of the FILING.
- ▶ In most cases, 2020 AND 2021 will need to be amended BEFORE filing 2022 return.


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### What does this do to my P&L for 2022?

Tax Entity	2022	2021	2020
<b>Sales</b>	\$ 1,928,600	\$ 2,030,105	\$ 1,845,550
Total Revenue	\$ 1,928,600	\$ 2,030,105	\$ 1,845,550
<b>COGS</b>			
Total COGS	\$ 675,010	\$ 669,935	\$ 590,576
% of Sales	35.0%	33.0%	32.0%
<b>Payroll Expenses</b>	\$ 771,440	\$ 771,440	\$ 682,854
% of Sales	40.0%	38.0%	37.0%
<b>Overhead</b>	\$ 424,292	\$ 446,623	\$ 406,021
	22.0%	22.0%	22.0%
<b>Operating Income</b>	\$ 57,858	\$ 142,107	\$ 166,100
<b>ERTC</b>		\$ 54,550	\$ 65,885

2022 taxable income does NOT include ERTC.

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## 2. Personal Income from other sources

Tax planning focuses on the individual returns for the business owner, as each owner will have their own unique tax situation. For a meaningful tax projection, need to be aware of **individual owner's effective tax rates.**

Income from ALL sources received in 2022:

- Wages from business: \$42,500 - will want to also note WITHHOLDINGS
- Business Income: \$75,000 - 50% of total business income
- Interest Income: \$1,500
- Dividend Income: \$500
- **Total INCOME: \$119,500**

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## Other Business Deductions/Credits to consider

**Qualified Business Income Deduction** - tax deduction that allows for self employed and small business owners to deduct up to 20% of their qualified business income.

BUSINESS INCOME MUST BE **UNDER \$170,050** for single filers and **\$340,100** for joint filers to qualify!

**FICA TIP CREDIT** - this is a general business tax credit for businesses who pay employee tips through payroll. The credit is 7.65% of total tips paid through payroll during the calendar year.

**Domestic Production Activities Deduction** - applies to manufacturers, **INCLUDING BREWERIES**. The deduction is approximately 9% of qualified production activities during the calendar year.

**Research and Development Credit** - A credit available for companies performing research, including breweries and other companies creating new products. The research credit provides dollar-for-dollar cash savings each year for companies performing activities related to the development of new or improved products and processes.

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## How does this all work?

2022 Taxes...

Business Income changes in 2022

What can I do to lower tax liability before year-end?


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## Capital Improvements

**Capital Improvements:** Section 179 expense allows you to decrease taxable income by writing off the FULL value of business assets all at once.

- \$40,000 in capital improvements would save \$5,000 - \$10,000 in taxes depending on your effective tax rate.
- 30% tax rate - 30% savings for every dollar spent on capital asset purchases before 12/31/2022.
- Potential change: Based on current rules, the bonus depreciation is set to be reduced to 80% as of 1/1/2023, and 179 expenses are set to expire as of 1/1/2023.

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## Expense Acceleration

**Expense Acceleration:** Purchase of small items can add up to tax savings if purchased before 12/31/2022. Examples include office supplies, paper products, software renewals, or employee bonuses.

- Increase expenses by \$10,000 would save **\$3,000 in taxes** if you are in the 30% effective tax rate.


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## Missing Deductions

- **Missing Deductions:** creating accountable plan for company could increase expenses and incentivize employees for business expenses incurred but not reimbursed throughout the year.
- Example: Manager uses cell phone for work throughout the year. Could reimburse manager \$1,000 before 12/31 for use of phone and save **\$300 in taxes**.
- Plan should be well documented and applied to employees and owners in an equitable way.
- Other reimbursements include:
  - Travel (mileage to catering events, etc.)
  - Home office
  - Continuing education
  - Supplies
  - Uniforms

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## Employing Children in family business

**Employing your children:** If you have children between the ages of 7-22, you can use this strategy to save money.

- Each child can be employed by business and paid up to \$12,950 TAX FEE.
- Business receives deduction for the payment - reducing tax liability by \$3,137 per child.
- Child files return, but they pay no federal income tax because they are below the standard deduction.

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## Retirement Planning

**Retirement planning:** If you find yourself with extra cash, it may be a year to think about your retirement strategy.

- Increase wages to \$147,000 - MAX social security cap. If within 5 years of retirement, this may increase benefit received when retired? *Would increase tax liability but may be worth it if concerned about social security contributions in prior years.*
- Make pre-tax retirement contribution through SEP IRA. Can contribute up to \$58,000 to SEP IRA which would generate a savings of \$14,500 in taxes.

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## 401k Plan for employees

- ▶ 401k plan is an employer sponsored retirement account that allows employees to contribute to their retirement benefits. You can contribute up to \$20,500 per employee, and if you own the business you can contribute more.
- ▶ If you are planning on contributing more than \$10,000 annually to a retirement account, 401k is usually the best option.
- ▶ **Tips: There can be significant fees to 401k plans on an annual basis, so it is always a good idea to review this with a financial advisor before making a final decision.**

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## How would these tips save money on taxes in 2022?

- ▶ Year-to-date business income: \$57,858
- ▶ Planning strategies:
  - ▶ \$20,000 in Sec 179 Expenses (new oven purchased and delivered 12/2022)
  - ▶ \$5,500 in expense acceleration (new paper product orders/supplies)
  - ▶ \$10,000 to child paid on 12/31 payroll (must be processed in CALENDAR year 2022 to be eligible)
  - ▶ **Revised business income 12/31/2022: \$22,358**

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## But does this REALLY save me in taxes?

Revised business income:		<b>22,358.00</b>
Original Projected Liability:		17,357.40
Revised Liability:		6,707.40
Savings (using 30% effective rate)		<b>10,650.00</b>

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## Reconciling CASH FLOW and TAX PLANNING

- ▶ Option 1: Stay the course
  - ▶ Original Net Income \$57,858
  - ▶ Original Tax Liability: \$17,357
- ▶ Option 2: Increase expenses/purchase capital expenses to decrease tax liability
- ▶ Total Cash Outflows:
  - ▶ Sec 179 \$20,000
  - ▶ Expense Accelerator \$5,500
  - ▶ Additional wages (Child) \$10,000
  - ▶ Tax Liability \$6,707
  - ▶ Total Cash Outflows: \$42,207
- ▶ **Cash impact of tax savings: 30% saved for every additional \$1 spent.**

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## Understanding owner compensation and taxes

▶ Year-to-date business income: \$57,858

- ▶ Distributions - allowable to the extent that there is income and NOT taxed (assuming pass-through entity and not a C corp)
- ▶ Wages - deduction to business, but considered income to owner. Depending on effective tax rate, wages may be taxed at a higher tax rate than business income.

▶ **Tips: Create a preliminary tax projection BEFORE paying additional wages prior to year-end.**

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	\$0 to \$10,275	\$0 to \$20,550	\$0 to \$14,650
12%	\$10,275 to \$41,775	\$20,550 to \$83,550	\$14,650 to \$55,900
22%	\$41,775 to \$89,075	\$83,550 to \$178,150	\$55,900 to \$89,050
24%	\$89,075 to \$170,050	\$178,150 to \$340,100	\$89,050 to \$170,050
32%	\$170,050 to \$215,950	\$340,100 to \$431,900	\$170,050 to \$215,950
35%	\$215,950 to \$539,900	\$431,900 to \$647,850	\$215,950 to \$539,900
37%	\$539,900 or more	\$647,850 or more	\$539,900 or more

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## Owner Cash flow:

▶ Already included in tax calculation

2021	
Owner Wages	\$42,500.00
Distribution	\$110,000.00
Less Tax Liability	-\$26,612
Owner free cash from business	\$179,112.00
Business Cash Flow	
Projected 12/31 Balance	\$215,000.00
12/31 Owner Distribution	\$110,000.00
Adjusted Business Cash Flow	\$105,000.00
<b>Tax Liability on Distribution</b>	<b>\$0.00</b>

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Feeling lost: please visit [www.thelargogroup.com](http://www.thelargogroup.com) today for a free one-on-one 30 minute session to walk through your tax picture in 2022.



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# Thank You

<p>Anne E. Gannon, CPA Principal The LARGO Group, Inc. <a href="http://www.thelargogroup.com">www.thelargogroup.com</a></p>	<p>One Boston Place, Suite 2600 Boston, MA 02108 <a href="mailto:agannon@thelargogroup.com">agannon@thelargogroup.com</a> 617-202-6674</p>
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