

Year-End Tax Strategies for Accrual-Basis Taxpayers



The last month or so of the year offers accrual-basis taxpayers an opportunity to make some timely moves that might enable them to save money on their 2016 tax bill.

Record and recognize

The key to saving tax as an accrual-basis taxpayer is to properly record and recognize expenses that were incurred this year but won't be paid until 2017. This will enable you to deduct those expenses on your 2016 federal tax return. Common examples of such expenses include:

- Commissions, salaries and wages,
- Payroll taxes,
- Advertising,
- Interest,
- Utilities,
- Insurance, and
- Property taxes.

You can also accelerate deductions into 2016 without actually paying for the expenses in 2016 by charging them on a credit card. (This works for cash-basis taxpayers, too.) Accelerating deductible expenses into 2016 may be especially beneficial if tax rates go down for 2017, which could happen based on the outcome of the November election. Deductions save more tax when tax rates are higher.

Look at prepaid expenses

Also review all prepaid expense accounts and write off any items that have been used up before the end of the year. If you prepay insurance for a period of time beginning in 2016, you can expense the entire amount this year rather than spreading it between 2016 and 2017, as long as a proper method election is made. This is treated as a tax expense and thus won't affect your internal financials.

Miscellaneous tax tips

Here are a few more year-end tax tips to consider:

- Review your outstanding receivables and write off any receivables you can establish as uncollectible.
- Pay interest on all shareholder loans to or from the company.
- Update your corporate record book to record decisions and be better prepared for an audit.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.