

Year-end tax planning ideas for your small business



Now that Labor Day has passed, it's a good time to think about making moves that may help lower your small business taxes for this year and next. The standard year-end approach of deferring income and accelerating deductions to minimize taxes will likely produce the best results for most businesses, as will bunching deductible expenses into this year or next to maximize their tax value.

If you expect to be in a higher tax bracket next year, opposite strategies may produce better results. For example, you could pull income into 2022 to be taxed at lower rates, and defer deductible expenses until 2023, when they can be claimed to offset higher-taxed income.

Here are some other ideas that may help you save tax dollars if you act before year-end.

2023 limits for businesses that have HSAs — or want to establish them

No one needs to remind business owners that the cost of employee health care benefits keeps going up. One way to provide some of these benefits is through an employer-sponsored Health Savings

Account (HSA). For eligible individuals, an HSA offers a tax-advantaged way to set aside funds (or have their employers do so) to meet future medical needs. Here are the key tax benefits:

- Contributions that participants make to an HSA are deductible, within limits.
- Contributions that employers make aren't taxed to participants.
- Earnings on the funds in an HSA aren't taxed, so the money can accumulate tax-free year after year.
- Distributions from HSAs to cover qualified medical expenses aren't taxed.
- Employers don't have to pay payroll taxes on HSA contributions made by employees through payroll deductions.

Eligibility and 2023 contribution limits

To be eligible for an HSA, an individual must be covered by a “high deductible health plan.” For 2023, a “high deductible health plan” will be one with an annual deductible of at least \$1,500 for self-only coverage, or at least \$3,000 for family coverage. (These amounts in 2022 were \$1,400 and \$2,800, respectively.) For self-only coverage, the 2023 limit on deductible contributions will be \$3,850 (up from \$3,650 in 2022). For family coverage, the 2023 limit on deductible contributions will be \$7,750 (up from \$7,300 in 2022). Additionally, annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits for 2023 will not be able to exceed \$7,500 for self-only coverage or \$15,000 for family coverage (up from \$7,050 and \$14,100, respectively, in 2022).

An individual (and the individual's covered spouse, as well) who has reached age 55 before the close of the tax year (and is an eligible HSA contributor) may make additional “catch-up” contributions for 2023 of up to \$1,000 (unchanged from the 2022 amount).

Employer contributions

If an employer contributes to the HSA of an eligible individual, the employer's contribution is treated as employer-provided coverage for medical expenses under an accident or health plan. It's also excludable from an employee's gross income up to the deduction limitation. Funds can be built up for years because there's no “use-it-or-lose-it” provision. An employer that decides to make contributions on its employees' behalf must generally make comparable contributions to the HSAs of all comparable participating employees for that calendar year. If the employer doesn't make comparable contributions, the employer is subject to a 35% tax on the aggregate amount contributed by the employer to HSAs for that period.

Making withdrawals

HSA withdrawals (or distributions) can be made to pay for qualified medical expenses, which generally means expenses that would qualify for the medical expense itemized deduction. Among these expenses are doctors' visits, prescriptions, chiropractic care and premiums for long-term care insurance.

If funds are withdrawn from the HSA for other reasons, the withdrawal is taxable. Additionally, an extra 20% tax will apply to the withdrawal, unless it's made after reaching age 65, or in the event of death or disability.

HSAs offer a flexible option for providing health care coverage and they may be an attractive benefit for your business. But the rules are somewhat complex. Contact us if you have questions or would like to discuss offering HSAs to your employees.