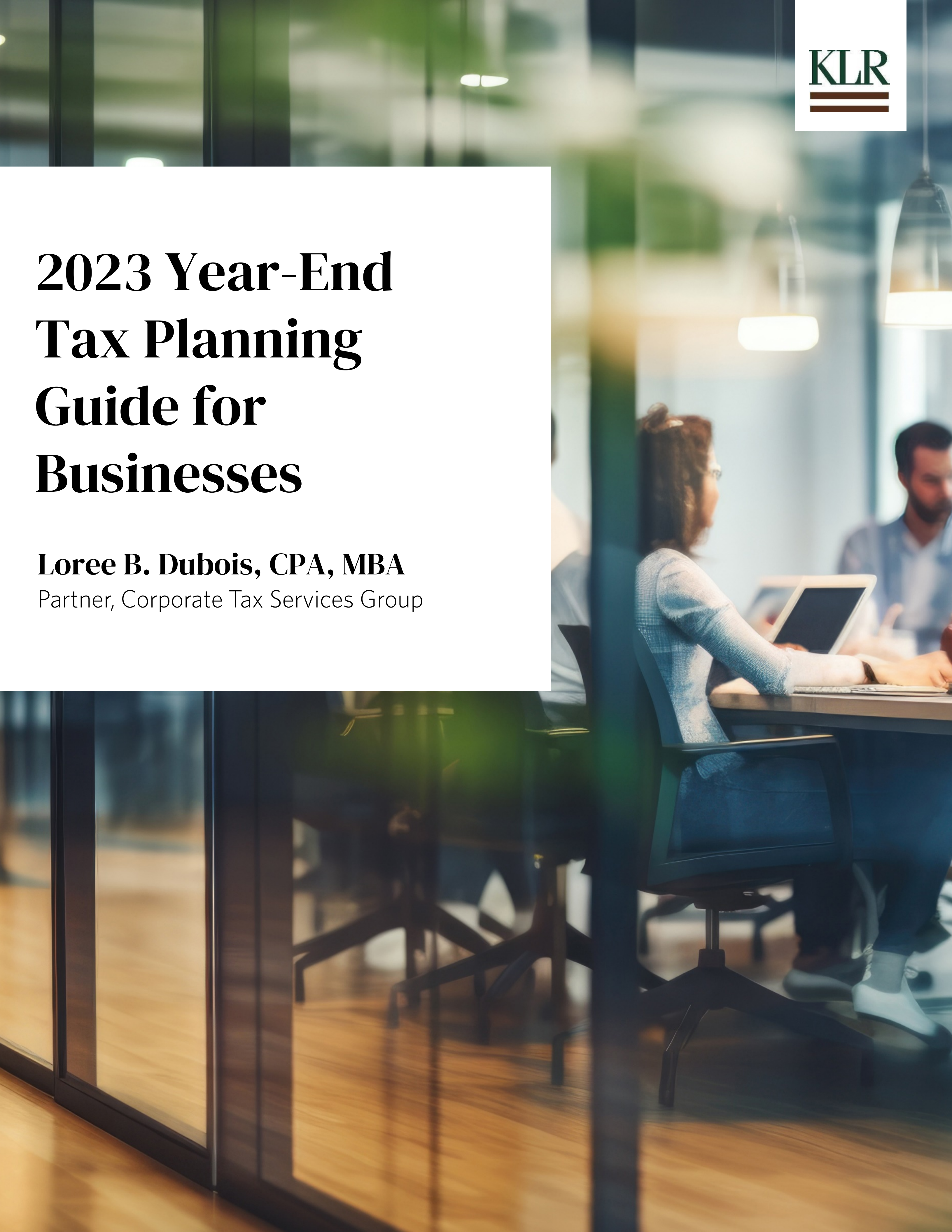

KLR

2023 Year-End Tax Planning Guide for Businesses

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Year in Review

2023 has been a challenging year for most businesses. The U.S. stock markets have been volatile, and U.S. corporate bankruptcies have surged. To combat inflation, the Federal Reserve Bank increased the federal funds target rate 425 basis points in 2022 and another 100 basis points through November 2023, bringing the cost of borrowing to its highest level since 2001. In addition to rising interest rates, access to affordable commercial and industrial loans has been curtailed as the banking industry tightens lending and liquidity policies in the wake of several high-profile bank failures in 2023.

Regardless of whether their businesses are publicly traded or closely held, owners continue to face unprecedented uncertainty and stress. The effects vary from business to business, so there's no universal tax planning strategy that's right for all organizations.

Limited Tax Law Changes

Political gridlock in Congress has resulted in few tax law changes in 2023. But a few provisions of the Inflation Reduction Act (IRA) will affect certain businesses starting in 2023. Examples of business-related tax changes under the new law include:

- Tax incentives for green commercial construction and renewable energy investments,
- A two-year extension of the limitation on business losses,
- A 1% excise tax on corporate stock buybacks, and
- An increase in the small business payroll tax credit for research costs.

The IRA also includes a 15% corporate minimum tax for companies that report over $1 billion in profits. However, this change is expected to affect only about 150 of the largest, most profitable U.S. companies.

The silver lining of the congressional stalemate over tax law changes is that corporations and owners of pass-through entities have more certainty related to tax planning for 2023. Most business tax breaks provided under the Tax Cuts and Jobs Act (TCJA), including reduced tax rates and brackets, are expected to remain on the books for 2023 and 2024.

CFO Concerns

Federal monetary policy edged out attracting and retaining skilled workers as the top CFO concern in the third-quarter results of "The CFO Survey," a collaboration of Duke University's Fuqua School of Business and the Federal Reserve Banks of Richmond and Atlanta. The survey found that higher interest rates have cut back capital and non-capital spending at approximately 40% of companies.

Higher borrowing costs aren't the only reason for reduced spending. CFOs also cited economic and geopolitical uncertainty, rising costs, lackluster demand, and hiring difficulties as additional reasons for cutting back. Most CFOs are taking a cautious approach toward capital investment and waiting to see whether the Fed holds steady or implements additional rate hikes late this year or next year.

Although the shortage of qualified labor has fallen to second place among CFO concerns, it remains a major challenge for most businesses. To help attract and retain skilled workers, some have increased wages and expanded benefits. Others have cut their hours of operation or outsourced more work to third parties. Businesses short on cash may resort to creative solutions — such as flexible scheduling, share-based awards and discounted benefit offerings that are paid for by employees — to help reduce employee turnover.

Despite economic volatility, there's a bright spot: CFOs are increasingly optimistic about the future of the U.S. economy and their own business prospects.

Stock market returns are expected to rebound in 2024, and on average, CFOs projections of their companies' revenue growth have increase from 3% in 2023 to 6.5% in 2024.

As year end approaches, fewer economists expressed recessionary concerns than earlier in the year. Currently, the chance that the U.S. economy could contract within the next 12 to 18 months has fallen from 64% in the first quarter of 2023 to only 46% in the third quarter of 2023, according to Bankrate's "Third-Quarter Economic Indicator Survey."

Tax-Saving Moves

In light of ongoing economic uncertainty, waning demand and rising costs, business owners are aggressively seeking ways to lower their tax obligations for 2023. The traditional strategy of *deferring* revenue recognition and *accelerating* deductible expenses will be the right approach for most businesses that use cash-basis accounting for 2023. Cash-strapped businesses might not be in a position to make leasehold improvements or purchase equipment and vehicles to take advantage of first-year depreciation breaks for 2023.

However, if your business is fortunate enough to have excess cash on hand and strong growth prospects for 2024, you might decide to take advantage of limited-time tax-saving opportunities before they expire. But remember that assets must be placed in service *before* year end to take advantage of bonus depreciation and Sec. 179 expensing.

Notably, Congress passed legislation in 2022 that increases funding for the IRS by $80 billion over the next 10 years. Some of these funds will be spent on additional staffing and technology that would increase the likelihood that your business will be audited. This underscores the importance of using a qualified tax professional to prepare your tax return to help substantiate any tax breaks claimed in 2023 and beyond.

We Can Help

As we head into 2024, an underlying tone of uncertainty remains. Strategic planning is difficult under these conditions. We continue to monitor tax law developments and encourage you to maintain an open line of communication with us.

Each situation is unique. Talk to your tax advisor about what's right for you and your business in light of your current and expected income, future spending plans, relevant tax laws and legislative developments.

The following is a brief summary of tax planning opportunities for your business to consider before year end, as well as links to relevant blogs we've posted in 2022 and 2023

"As 2023 comes to a close, business owners face a number of challenges due to rising interest rates, ongoing impacts of volatile market conditions, the skilled labor shortage and Inflation Reduction Act provisions set to take effect in 2024. Continuous planning for these challenges will be paramount for businesses as they look ahead to the new year. The good news is, most business tax breaks provided under the Tax Cuts and Jobs Act including reduced tax rates and brackets are expected to remain on the books for 2023 and 2024. Our Year End Tax Planning Guide for Businesses dives into smart tax saving moves in light of these challenges and opportunities, tax developments coming in 2024, ongoing impact of the SECURE Act 2.0 and more."

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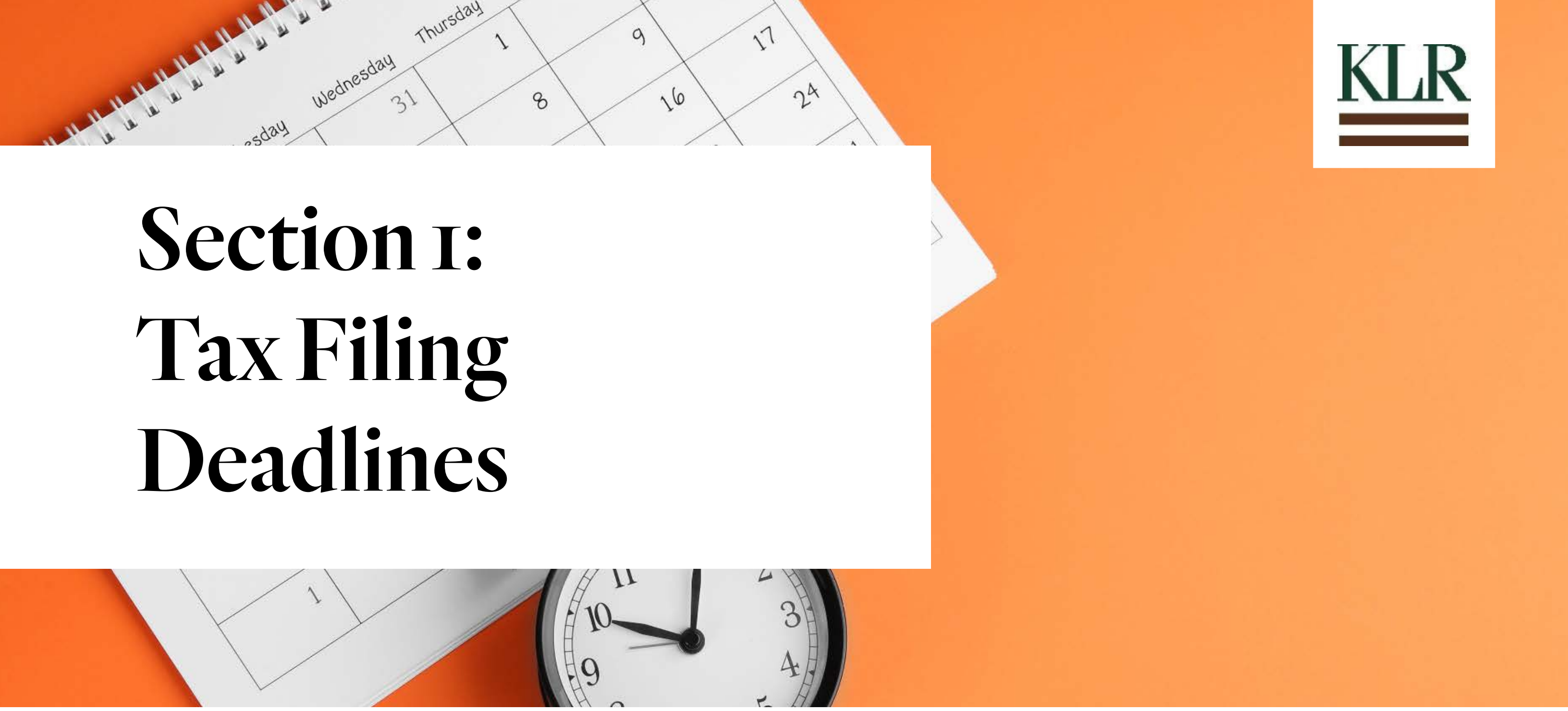


Section 1: Tax Filing Deadlines

Tax Filing Deadlines for Calendar-year businesses – When Are Your 2023 Business Tax Returns Due?

Type of Return	Due Date for 2023 Original Returns
Form 1120 for C corps	Monday, April 15, 2024
Form 1065 for Partnerships	Friday, March 15, 2024
Form 1120S for S corporations	Friday, March 15, 2024

Note: Due to state holidays, residents of Maine and Massachusetts will have until April 17, 2024. This extended deadline applies to sole proprietorships that file in these states.

Not a Calendar Year Entity?

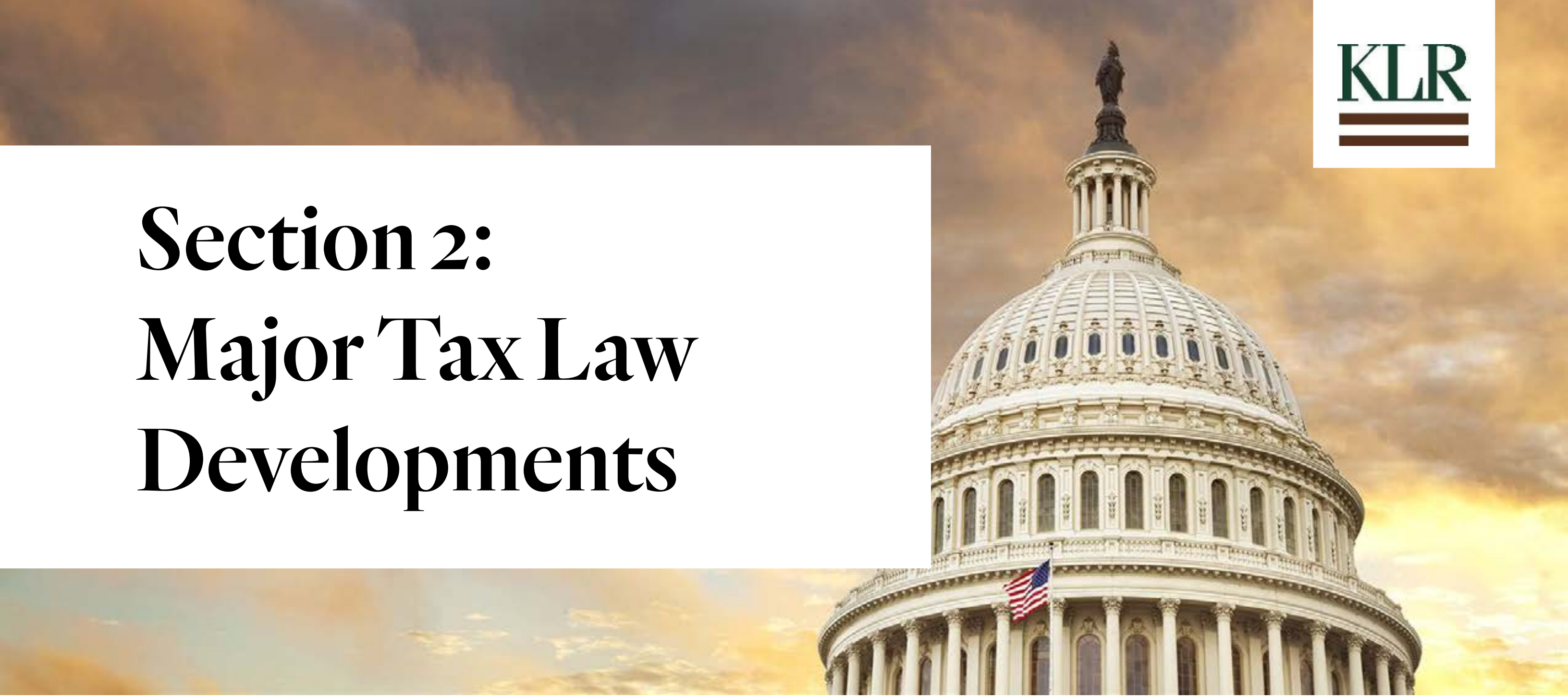
Companies that use a fiscal year end face the following deadlines for tax years beginning in 2016 or later:

- Form 1120 for C corps: the 15th day of the fourth month after the close of the corporation's tax year.
- Form 1065 for partnerships and Form 1120S for S corporations: the 15th day of the third month after the close of the partnership's tax year.

For C corporations with a June 30 year end, these deadlines aren't effective until the 2026 tax return (remain due on September 15).

Disaster Relief

The IRS is providing various types of tax relief for victims of Hurricanes Idalia and Lee, the Hawaii wildfires, and other natural disasters, as well as for taxpayers, including businesses and nonprofits, affected by the terroristic action in the State of Israel. If you do business in affected areas, we can help you understand the extended tax filing deadlines and other tax relief provisions that may apply for 2023.



Section 2: Major Tax Law Developments

Congress has passed few tax law changes in 2023, so there's some tax-planning certainty as you prepare for the 2024 tax filing season.

However, one noteworthy development is SECURE 2.0, which passed in December 2022 and builds on the retirement-savings improvements under the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. Several provisions of SECURE 2.0 will affect employers that offer retirement plans and may require amendments to your company's existing plan. However, many of the provisions that impact plan sponsors haven't yet gone into effect.

Another noteworthy law that passed in 2023 is the Corporate Transparency Act. This new law will require most existing and new U.S. corporate entities to file reports with the federal government regarding their beneficial owners, starting January 1, 2024. Failure to comply with the new reporting obligations will result in a civil fine of $500 per day while the violation continues and possible criminal punishment of $10,000 and up to two years in prison.

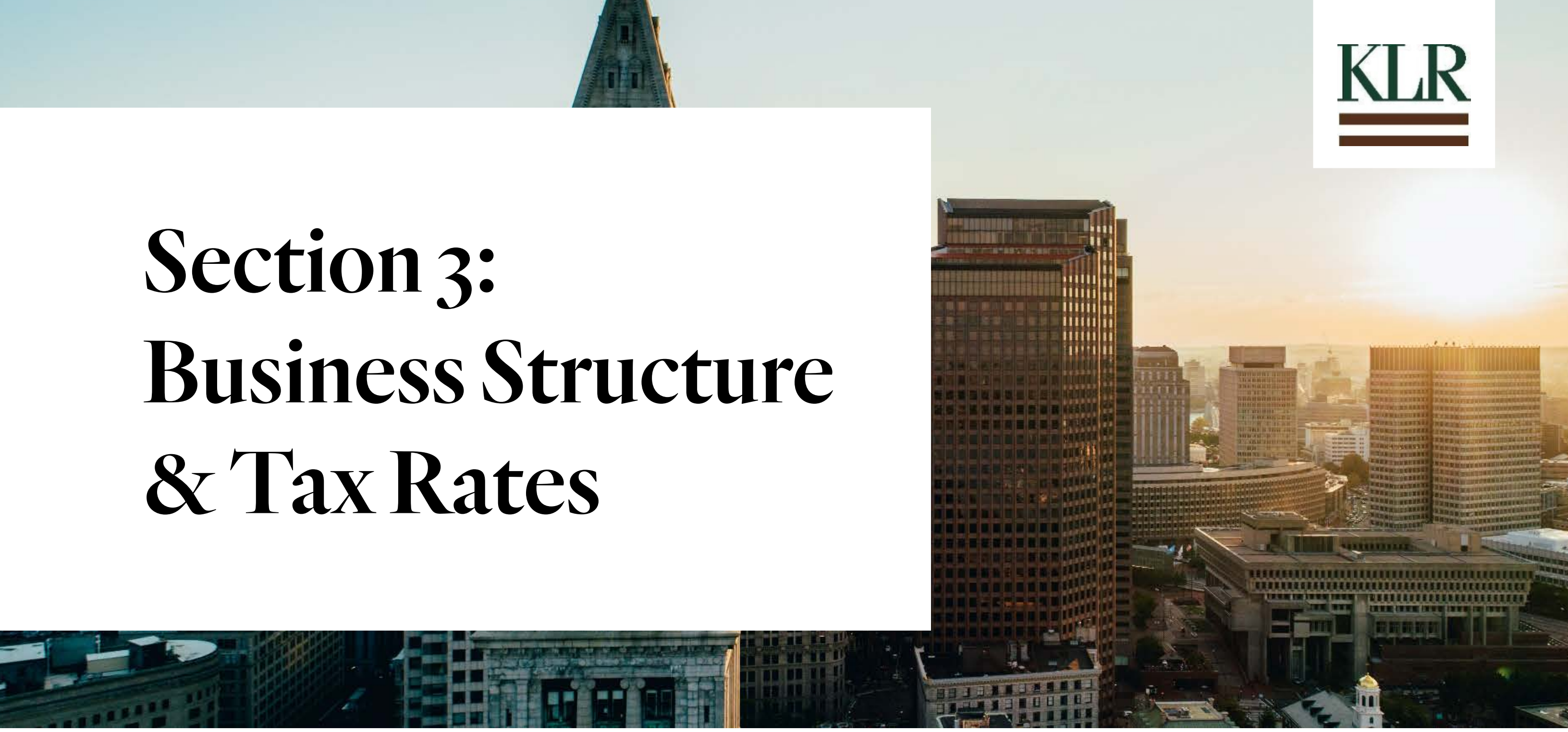
The Inflation Reduction Act (IRA) allows for clean energy tax credit transferability whereby clean energy developers can now sell federal tax credits obtained on projects to C corporations that can utilize such federal credits at a discount. KLR can help in determining if purchasing such tax credits will benefit your business.

Under the American Rescue Plan, the 1099-K threshold was set to decrease to $600 in 2023, affecting many businesses. In late 2022, the IRS delayed that change for the 2022 tax year. On November 21, 2023, the IRS announced that it will once again delay the new $600 Form 1099-K reporting threshold for third-party settlement organizations for calendar year 2023. So, for 2023, reporting won't be required unless the taxpayer receives over $20,000 and has more than 200 transactions. The IRS is planning for a threshold of $5,000 for tax year 2024 as part of a phase-in to implement the $600 reporting threshold enacted under the American Rescue Plan.

Effective September 14, 2023, the IRS stopped processing new employee retention credit (ERC) claims at least through the end of the year, due to a surge in fraudulent claims. The IRS recently announced a new withdrawal process for those who filed an ERC claim and are now doubting their eligibility and have yet to receive a refund. If you believe that you still qualify for unclaimed credits, it may be possible to file an ERC claim in 2024 if the IRS lifts its moratorium.

Congress could pass legislation before year end that would extend certain provisions of the tax code that had previously expired or include tax provisions in an omnibus spending package. However, no major changes are expected, given the current political gridlock in Congress. Nonetheless, it's important to stay in contact with us and be ready to respond to any changes up until year end.

> **"Since the inception of the government's economic stimulus programs to combat the COVID-19 pandemic, we have continuously stressed to business owners and executives to make good business decisions and properly document in your files the rationale for the company's eligibility along with support for amounts calculated under the programs.**
>
> **Hard to believe that years later we are continuing to advise clients on proper eligibility and still applying for funds under these programs, but we have also moved into the next phase – assisting with audit representation. The new year will bring more government inquiries upon companies into past claims made under these programs. As always, we'll keep you updated."**
>
> -Anthony J. Mangiarelli, CPA, MST, Partner, Enterprise Solutions Group



Section 3: Business Structure & Tax Rates

To Pass Through or Not to Pass Through?

Business Structure

Many small businesses operate as sole proprietorships, partnerships, S corporations and other so-called "pass-through entities" to lower taxes. The TCJA temporarily levels the playing field between pass-through entities and C corporations, causing some businesses to question their current business structure.

Under the TCJA, a maximum effective tax rate of only 29.6% applies to pass-through entities that qualify for the full deduction for qualified business income (QBI). But not all entities will qualify for the full amount.

What's Your Income Tax Rate for 2023?

C Corporations vs. **Pass-Through Entities**

C Corporations

- Federal income tax rate is *permanently* cut to a flat 21%.
- Tax rate cut is extended to personal service corporations.
- Corporate AMT is *permanently* repealed. Corporations with an average annual adjusted financial statement income exceeding $1 billion for the preceding three years will owe a 15% AMT for tax years beginning after December 31, 2022.
- Corporate income is still double taxed: 1) at the entity level, and 2) when income is distributed to shareholders.

Pass-Through Entities

- Federal income tax rates for individual owners are slightly lower through 2025.
- Income thresholds for application of individual rates increased slightly through 2025.
- Fewer individuals who own pass-through entities will be subject to the AMT through 2025.
- Owners may be eligible for the QBI deduction through 2025.
- No federal income tax is paid at the entity level.

Global businesses face complex tax rules since enactment of TCJA. The GILTI rules (Global Intangible Low-Taxed Income) require a 10% or greater U.S. shareholder of a controlled foreign corporation (CFC) to include in current income the shareholder's pro rata share of the GILTI income of the CFC. These rules apply to C and S corporations, partnerships and individuals.

New in 2023:

Starting in 2023, the Inflation Reduction Act imposes a nondeductible 1% excise tax on the value of stock repurchases of a "covered corporation" (during the taxable year), net of new issuances of stock. A "covered corporation" is a domestic corporation that's traded on an "established securities market". Certain purchases of stock of publicly traded nondomestic corporations by their domestic subsidiaries will also apply. Special purpose acquisition companies may be unexpectedly subject to this excise tax. However, stock repurchases of $1 million or less for the taxable year are exempt from this new tax. Other exceptions and rules apply.

SALT Workaround

Since TCJA was passed, there has been a $10,000 limit on state and local tax (SALT) deductions on personal tax returns. The IRS and Treasury have signaled their approval of certain state workarounds for this limitation.

There are currently 36 states, including Connecticut, Massachusetts, New Jersey, New York and Rhode Island, that have implemented a mandatory or voluntary pass-through entity (PTE) level state tax. Opting into these state taxes can provide a big federal tax benefit to the individual taxpayers. Maine, Pennsylvania and Vermont have proposed PTE tax bills that have yet to be passed by their state legislatures.

Are You Taking Full Advantage of the QBI Deduction?

Pass-through businesses may deduct up to 20% of their QBI. If taxable income for 2023 exceeds $364,200 for married couples filing jointly (half that amount for others), the deduction may be phased out based on:

- Whether the taxpayer is engaged in a service-type business,
- W-2 wages paid by the business, and/or
- The unadjusted basis of qualified property.

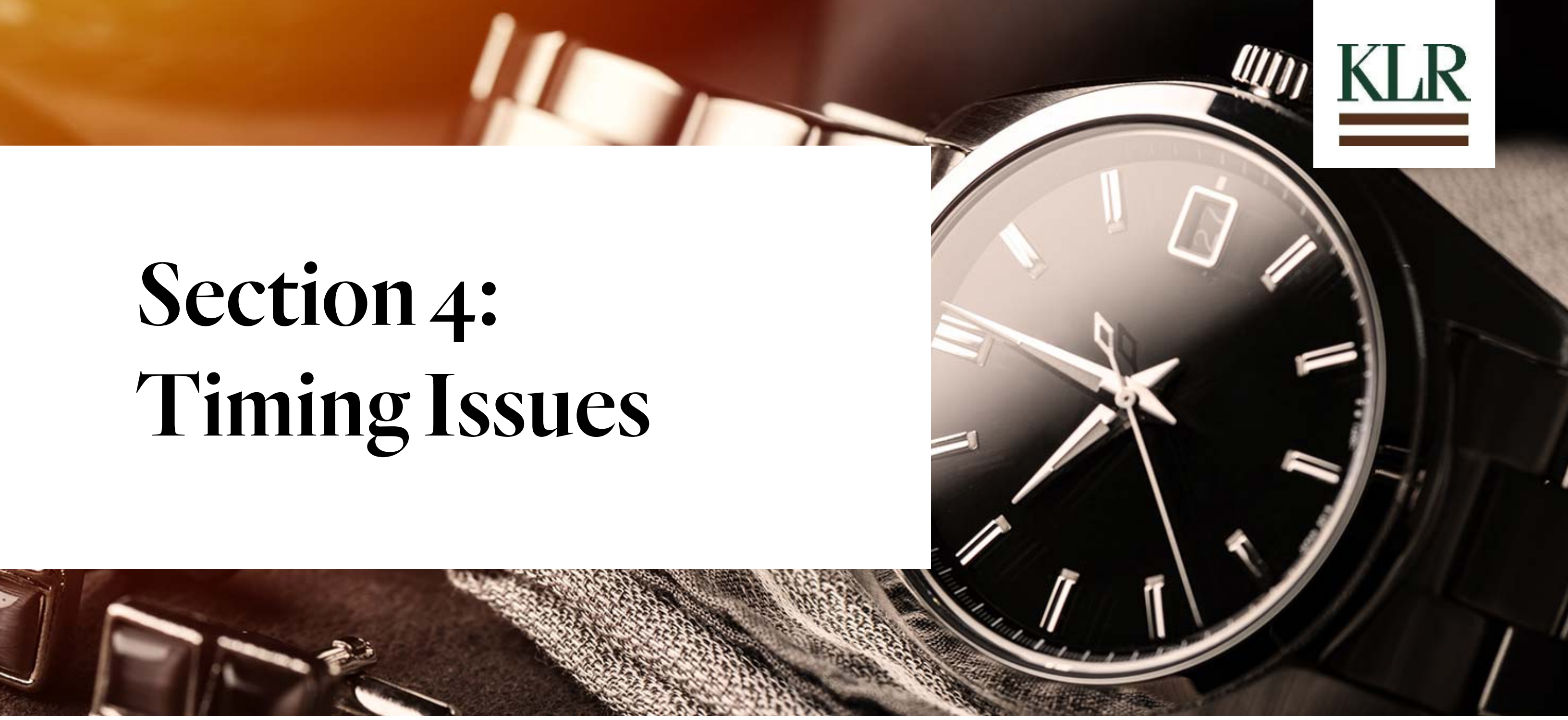
These limits fully apply when 2023 taxable income exceeds $464,200 for married couples filing jointly (half that amount for others).

Owners of pass-through entities who employ tax deferral strategies — such as claiming first-year depreciation deductions or making large deductible retirement plan contributions — can inadvertently reduce their allowable QBI deduction. While tax deferral merely creates a timing difference, the QBI deduction is a use it-or-lose-it proposition.

To maximize owners' QBI deductions, before year end, a business might need to:

- Increase W-2 wages, or
- Purchase additional assets

If you're thinking about buying or selling a business, taxes are an important consideration. M&A deals should be timed and structured to minimize taxes. Asset vs. stock sale, and timing in 2023 or 2024 are key considerations.



Section 4: Timing Issues

Have you projected Income and Expenses for 2023 and 2024?

Traditionally, it's better to defer tax. But, if you expect tax rates to be higher next year, it might be better to shift income into the current tax year. However, this strategy might not be realistic for businesses with limited cash on hand to pay extra taxes for 2023.

Under current tax law, corporate and individual tax rates are expected to remain stable. However, some TCJA provisions are only temporary.

Compared to historical levels, the current rates are relatively low. If you believe that rates will remain stable through 2024, it makes sense to **delay income recognition** until next year and **accelerate deductible expenses** into the current year. This will lower taxable income for 2023.

4 Ways to Minimize Taxable Income for 2023

1. Defer billing for products or services (cash-basis businesses).
2. Defer delivery of products or services (accrual-basis businesses).
3. Charge expenses on a credit card (deductible in the year charged regardless of when the bill is paid).
4. Accrue bonuses for certain employees and pay them within 2.5 months of the tax year end (accrual-basis businesses).

If you believe that certain favorable tax provisions are likely to be reversed or the tax benefits will be reduced in 2024, consider taking the **reverse timing strategy** to maximize business income that will be taxed at today's favorable rates.

Have You Projected Income and Expenses for 2023 and 2024?

For pass-through entities, income deferral strategies may reduce an owner's QBI deduction. In some cases, it may be necessary to boost W-2 wages and purchase additional fixed assets at year end to maximize your QBI deduction. The rules are complex. We can help evaluate your company's specific tax situation to determine the optimal timing for revenue and expense recognition.

Got NOLs?

The TCJA limited deductions for net operating losses (NOLs) to 80% of taxable income (determined without regard to the deduction). The TJCA also repealed the two-year carryback provision (except for certain farming businesses) for losses incurred after 2017, but it generally allows NOLs to be carried forward indefinitely. In addition, there are unfavorable (but temporary) changes to the rules for deducting pass-through business losses. Under the IRA, the limitation on pass-through business losses is extended for two additional years, through 2028.

Small businesses with a loss for 2023 might consider reporting a small amount of taxable income for 2023 utilizing tax planning strategies such as by electing out of bonus depreciation, rather than take an NOL. Doing so can reduce the base for your 2024 estimated tax installments.

To avoid an underpayment penalty, you generally must make estimated quarterly payments equal to the lesser of:

- 90% of the current year's tax.
- 100% of the previous year's tax (assuming prior year tax was greater than zero).

Section 5: Last-Minute Capital Investments

Should You Buy Equipment and Other Assets Before Year End?

Section 179 Expensing

Sec. 179 expensing allows businesses to immediately deduct the cost of eligible new or used assets, such as equipment and furniture. You may be able to lower taxable income by accelerating depreciation on assets placed in service before year end. But, remember, it's not enough to simply purchase these assets by year end; they must be up-and-running in 2023 to qualify for Sec. 179.

$1.16 million is the Sec. 179 expensing limit for 2023.
The Sec. 179 phaseout limit for 2023 starts at $2.89 million.

Bonus Depreciation

Under the bonus depreciation program, companies can deduct 80% of the cost of certain *new and used* capital expenditures that are placed in service in 2023. You should generally write off as much as you can using Sec. 179 deductions before taking advantage of 80% first-year bonus depreciation. However, this break isn't subject to any spending limits or income-based phaseout thresholds.

Bonus depreciation will be gradually phased out, unless Congress extends it. For assets placed in service in 2024, the bonus depreciation percentage decreases to 60%. If you're thinking about acquiring qualifying assets, getting them placed in service in 2023, rather than 2024, will allow you to benefit from the higher bonus depreciation rate.

Important: Not all states allow for bonus depreciation or the higher Section 179 limits.

First-Year Bonus Depreciation Percentages

2018-2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

If you're planning to purchase assets within the next year, you might want to act before year end to take advantage of the bonus depreciation program. Starting in 2024, bonus depreciation is scheduled to fall to 60% of the cost of most qualifying assets. We can help evaluate what's right for your business.

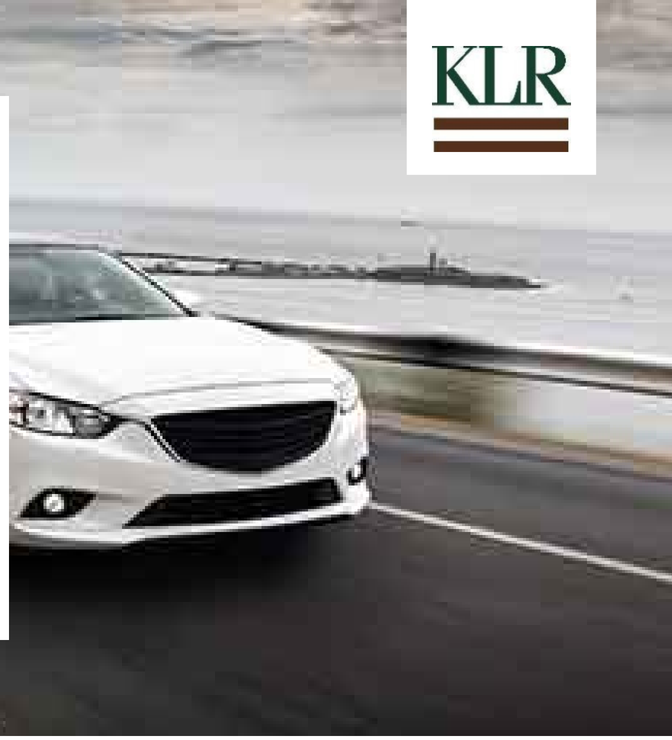
Commercial buildings generally don't qualify for bonus depreciation or Section 179 expensing. But a cost segregation study can identify building components that qualify for these breaks. By carving out certain shorter-lived components — like cubicles, carpeting, decorative lighting, signage and parking lots — you can help reduce taxable income.

Financing Considerations

The TCJA limited interest expense deductions to 30% of adjusted taxable income (ATI). The limitation applies to C corporations with average annual gross receipts above $29 million for the three-tax-year period ending with the preceding tax year. Other exceptions for auto dealers, farmers and real estate businesses apply.

This limitation also applies to pass-through entities (such as partnerships and S corporations). It applies to these entities if there are losses in the current year being allocated more than 35% to limited partners or limited entrepreneurs (even if the entity's average income is under $29 million).

The limitation on deducting business interest could affect your after-tax cost of capital and may cause you to lease (rather than purchase) assets.



Section 6: Special Rules for Vehicle Purchases

Do You Know the Limits that Apply to Deductions and Fleet Expansions?

The TCJA expands the breaks for heavy vehicles (above 6,000 pounds). New and used vehicles placed in service between September 28, 2017, and December 31, 2026, are now eligible for 80% first year bonus depreciation, if they're used over 50% in your business. The limit for "luxury vehicles" has also been increased. For passenger vehicles acquired after September 27, 2017, and placed in service during 2023, you can deduct up to:

Year	Sec. 179	Bonus Depreciation	Total Deduction
1	$12,200	$8,000	$20,200
2	$19,500	-	$19,500
3	$11,700	-	$11,700
4 and beyond	$6,960	-	$6,960

Under current law, these allowances are adjusted annually for inflation. Additional restrictions may apply if the vehicle is used for both business and personal purposes. If a vehicle is used less than 100% for business, these allowances are cut back proportionately. If business use is 50% or less, you must use the straight-line method and can't opt for Sec. 179 expensing. In addition, the bonus depreciation program disappears after 2026, unless it's extended by Congress.

Important: Instead of deducting your actual vehicle expenses, such as fuel, insurance, repairs and depreciation, you can use the standard mileage rate. The inflation-adjusted standard rate for business mileage is 65.5 cents per mile for 2023.

Section 7: Research Expenditures

How Much Have You Spent on R&D?

Starting with the 2023 tax year, the maximum amount that a qualified small business can utilize from the Sec. 41 research credit (R&D credit) to offset certain payroll tax liabilities will be doubled from $250,000 to $500,000. Also beginning in 2023, a portion of the payroll tax credit can be used to offset an employer's portion of Medicare tax.

In 2022, the TCJA included a provision that requires companies to capitalize specified research or experimental costs and amortize them over five years for research conducted in the United States or 15 years for research conducted outside of the United States. Some legislators have proposed suspending this TCJA provision, however; unless Congress changes the tax law retroactively, you'll still need to continue to capitalize your research and experimental costs in 2023. Our tax advisors can help you monitor this major change and analyze related costs

Research Tax Credit

The research tax credit isn't just for high-tech companies and science labs. Qualified research expenditures (QREs) include a variety of activities that develop or enhance product performance or functionality, manufacturing processes, or information technology. But claiming this credit can be confusing.

Calculating Your Credit

20% of the Excess of Annual QREs Over a "Base Amount" + University Basic Research Credit + 20% of Qualified Energy Research Expenses Undertaken by an Energy Research Consortium

= **Research Tax Credit**

The credit is generally for **increasing** your research spending. So, the first step is to calculate a fixed-base percentage, and then multiply by annual gross receipts over the preceding four tax years to arrive at your base amount.

Calculating Your Base Amount for Established Firms

Total QREs 1984 – 1988 ÷ Gross Receipts 1984 – 1988

X Average Annual Gross Receipts 2019 – 2022

Base Amount for 2023

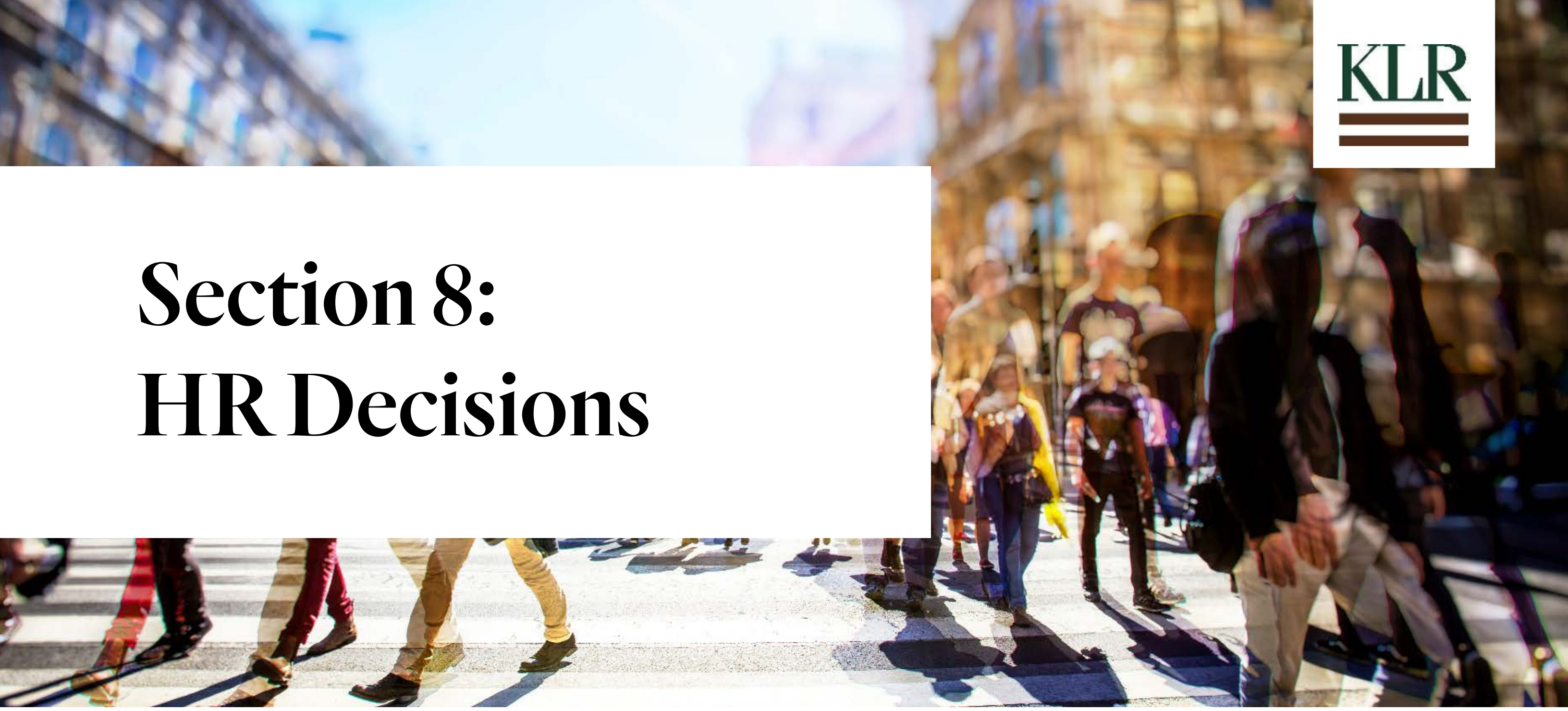
Numerous rules and restrictions apply to this calculation, especially for businesses not in existence during this time. Contact us for more information.

Looking for a simpler way to compute your research tax credit? Consider the alternative simplified credit. Contact us for more information.

Under prior law, businesses that were subject to the alternative minimum tax (AMT) generally couldn't offset the research credit against their AMT liability. Now, the TCJA has eliminated the corporate AMT, and caused fewer owners of pass-through entities to be subject to the individual AMT. So, unused research credits that have been carried forward from prior tax years can be offset against a corporation's tax liability and may even generate a refund (subject to certain restrictions).

Important: The Joint Committee on Taxation estimates that about 150 taxpayers will be subject to a 15% corporate minimum tax annually under the IRA. These large corporations may not be eligible to offset the research credit against their AMT liability.

For Companies with Annual Receipts of	Research Tax Credit Can Be Taken Against
≤ $50 million	Income or Alternative Minimum Tax (AMT) liabilities
< $5 million	Income taxes, AMT or up to $500,000 in payroll taxes annually for up to 5 years



Section 8: HR Decisions

Depending on where your business stands, current tax law includes various provisions related to compensation and benefits. Here are some of the major tax-related HR issues employers face today.

Paid Family and Medical Leave

Through 2025, businesses that offer paid family and medical leave may qualify for a credit of up to 25% of wages paid during leave, if they meet the IRS requirements.

Fringe Benefits

Businesses can no longer deduct the costs of transportation fringe benefits and certain achievement awards provided to employees. The limits on deducting company vehicles also have increased significantly under the TCJA.

Under current law, businesses can generally deduct only 50% of the costs of meals provided on their premises. After 2025, the cost of meals provided through an on-premises cafeteria or otherwise on the employer's premises won't be deductible. However, any company outings, such as employee retreats, holiday parties and picnics, that you did host are still 100% deductible — if the entire staff was invited.

Employees must report moving expense reimbursements as taxable income. Consider grossing up moving allowances to account for the incremental taxes employees will owe.

Expense Reimbursement

Employees can no longer claim itemized deductions for unreimbursed business expenses. If you don't already have an accountable plan in place to reimburse your employees for out-of-pocket business expenses — including costs incurred while working from home offices— consider implementing one before year end.

Compensation Matters

Qualified employees can defer taxable income for up to five years from exercising a stock option or receiving restricted stock in certain cases by making a Section 83(i) election. Stock-based compensation can be an attractive perk, especially for firms that are strapped for cash.

Watch for state-specific guidance on telecommuting issues and how each state is responding to remote work assignments in terms of creating nexus for businesses, payroll issues, etc.

$1 million is the limit on annual officers' compensation for public companies under current law. Amounts above this limit generally aren't deductible for federal tax purposes. But there are no longer exceptions for excess compensation attributable to commissions and performance-based compensation.

Employers may need to revise their compensation and benefits packages to comply with current law and ensure their offerings remain competitive in today's tight labor market. Some benefits that aren't deductible under the TCJA may need to be discontinued.

Retirement Benefit Plans

Do you offer a tax-favored retirement plan to help owners and employees save for retirement? Current retirement plan rules allow for significant deductible contributions. From SEP-IRAs to 401(k) plans, there are a variety of options available, depending on the size and nature of your business.

The SECURE Act made changes to encourage employers to help workers save for retirement. Notably, the law requires employers to allow part-time workers who have either worked at least 1,000 hours in one year or three consecutive years of at least 500 hours to participate in retirement plans. It also increases the tax credits for eligible small employers that adopt a new qualified retirement plan, SIMPLE-IRA plan or Simplified Employee Pension (SEP) plan.

In addition, for tax years beginning after 2019, the SECURE Act creates a new tax credit of up to $500 per year for small employers that establish new 401(k) plans or SIMPLE IRA plans that include an automatic enrollment feature. This credit is also available to small employers that modify existing plans to include an automatic enrollment feature.

The SECURE Act also extends the deadline for setting up a retirement plan to the due date (including any extensions) for the employer's return for the tax year for which you want the plan to become effective.

There is one important exception: The deadline to establish a SIMPLE-IRA plan is still October 1 of the year for which the plan is to take effect.

Important: The IRS issued guidance in 2022 that extends the deadlines for amending a retirement plan or individual retirement account and answers other questions that plan sponsors may have under the SECURE Act.

In December 2022, Congress passed SECURE 2.0, which builds on the original SECURE Act. However, many of the provisions that affect employers who sponsor retirement plans don't go into effect in 2023. Here's a summary of the major changes for plan sponsor to consider going forward:

- Effective for new plans starting after December 31, 2024, 401(k) and 403(b) sponsors will be able to automatically enroll employees once they become eligible to participate in their company's retirement plan.

- Effective for 2025, part-time employees who work 500-999 hours for 2 consecutive years (down from 3) must be allowed to participate in their company's retirement plan.

- Effective 2024, employers may make payments to qualified plans that match qualified student loan payments made by employees.

In addition, SECURE 2.0 revised the rules for catch-up contributions, required minimum distributions and early withdrawals.

SECURE 2.0 also enhanced the retirement plan start-up cost tax credit for certain small employers. Starting in 2023, SECURE 2.0 increases the first-year credit rate from 50% to 100% for employers with 50 or fewer employees. The credit rate falls to 75% of eligible administrative costs for the second year, 50% for the third year and 25% for the fourth year. No credit is available beyond the fourth year. The new-and-improved credit isn't available for defined benefit pension plans, however.

Note: SECURE 2.0 doesn't change the rules for claiming a tax credit for retirement plan start-up costs incurred by an employer with 51 to 100 employees.

For employer matching and nonelective contributions made after December 29, 2022, SECURE 2.0 allows employers that offer 401(k), 403(b) and 457(b) plans to amend their plans to allow employees to choose to have all or part of these contributions put into the Roth IRA “bucket” in their employer sponsored plan.

Employers generally don’t need to make plan amendments until the end of the first plan year beginning on or after January 1, 2025. But plan sponsors must operate in accordance with the effective date of each provision

Do You Qualify for the Work Opportunity Tax Credit (WOTC)?

The WOTC can significantly reduce your tax bill, if you hire workers from certain "target" groups before year end. This break has been extended through 2025.

Common WOTC Target Groups

- Veterans
- Ex-felons
- Temporary Assistance for Needy Families (TANF) recipients
- Supplemental Security Income (SSI) recipients
- Supplemental Nutrition Assistance Program (SNAP) recipients
- Individuals who have been unemployed for at least 27 weeks

Credit Amounts

These dollar amounts apply for targeted individuals employed more than 400 hours. Some credits may apply for individuals working less than 400 hours.

$2,400 is the typical WOTC for each qualifying new hire.

$4,000 is generally available in the first year for hiring a long-term recipient of TANF.

$4,800 is generally the maximum WOTC for hiring a disabled veteran.

$5,600 is generally the maximum WOTC for hiring a nondisabled veteran who's been unemployed for six months or longer.

$9,600 is the maximum WOTC for hiring a disabled veteran who's been unemployed for six months or longer.

Section 9: ACA Compliance

Could You Be Hit With Shared-Responsibility Provision Penalties?

The Affordable Care Act (ACA) remains the law, despite several repeal attempts in recent years. It imposes a penalty on "large" employers if just one full-time employee receives a premium tax credit. This credit is available to people who enroll in a qualified health plan through a government-run Health Insurance Marketplace and meet certain income requirements — but only if:

1. They don't have access to "minimum essential coverage" from their employer, or
2. The employer coverage offered is "unaffordable" or doesn't provide "minimum value."

Shared-Responsibility Requirements in 2023

Full-time-employee (or equivalent) threshold for large employers	50
Percentage of full-timers that must be offered minimum essential coverage	95%

If You Fail to Provide Minimum Essential Coverage …
$2,880 is the 2023 penalty per full-time employee *in excess of 30*.

If the Coverage You Offer Is Unaffordable or Doesn't Provide Minimum Value …
$4,320 is the 2023 penalty per full-time employee who has received a credit — or $2,880 per full-time employee *in excess of 30*, if that amount is less.

When Are ACA Filings Due?

ACA Filings - Send 2023 Forms 1095-B, *Health Coverage*, and 1095-C, *Employer-Provided Health Insurance Offer and Coverage Insurance*, to individuals by March 4, 2024.

File 2023 Forms 1094-B, 1095-B, 1094-C and 1095-C with the IRS by February 28, 2024, if not filing electronically, or April 1, 2024, if filing electronically.

Do You Qualify for the Small-Business Health Care Credit?

Employers with 25 or fewer full-time equivalent employees (FTEs) may be eligible for the Small-Business Health Care Credit if certain conditions are met. Contact us to see if you qualify for 2023.

Various rules and restrictions apply

Other Health Benefits - In addition to offering health care coverage, employers might want to consider offering other health-related benefits to workers, such as:

- Health savings accounts (HSAs)
- Flexible spending accounts (FSAs)
- Health reimbursement accounts
- Wellness programs

Besides benefiting from a healthier, more productive workforce, employers who provide these benefits may reap various tax breaks.

Section 10: State Tax Issues

Do You Sell Products Online?

States have the right to require online businesses with no physical presence in the state to register as a vendor and collect sales tax on their sales. Most states have enacted these types of laws to generate additional tax revenue and achieve parity with brick-and-mortar retailers.

Each state sets its own rules for establishing nexus. We can help you comply with these evolving regulations and discuss ways to minimize your exposure to back taxes on Internet sales.

Multistate Tax Issues

If you do business in multiple states, ask yourself three questions:

1. Where do you derive sales and in which states do your customers benefit from the sale?
2. Where do your employees or subcontracted representatives or agents perform duties at your request?
3. Where do you own property?

To Conform or Not to Conform?

Many states model their tax laws on the federal tax laws. But some states have decided to decouple from certain provisions of current tax law. One area that federal and state tax laws may not sync for businesses is the expanded Sec. 179 expensing and bonus depreciation deductions. Other potential modifications are the Section 174 Research & Development capitalization rules and Section 163(j) disallowance of interest expense discussed earlier. Some deductions or income at the federal level may not necessarily apply at the state level.

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Recent State and Local Business Developments

Massachusetts

In 2022, the state of Massachusetts launched the HireNow grant program. It can provide employers up to $4,000 for each eligible employee hired after March 23, 2022.

In 2023, Massachusetts enacted the "Millionaires Tax" on individuals with Massachusetts income exceeding $1 million. The tax is an additional 4% on income exceeding the threshold. Pass-through business tax planning is essential for those Massachusetts residents.

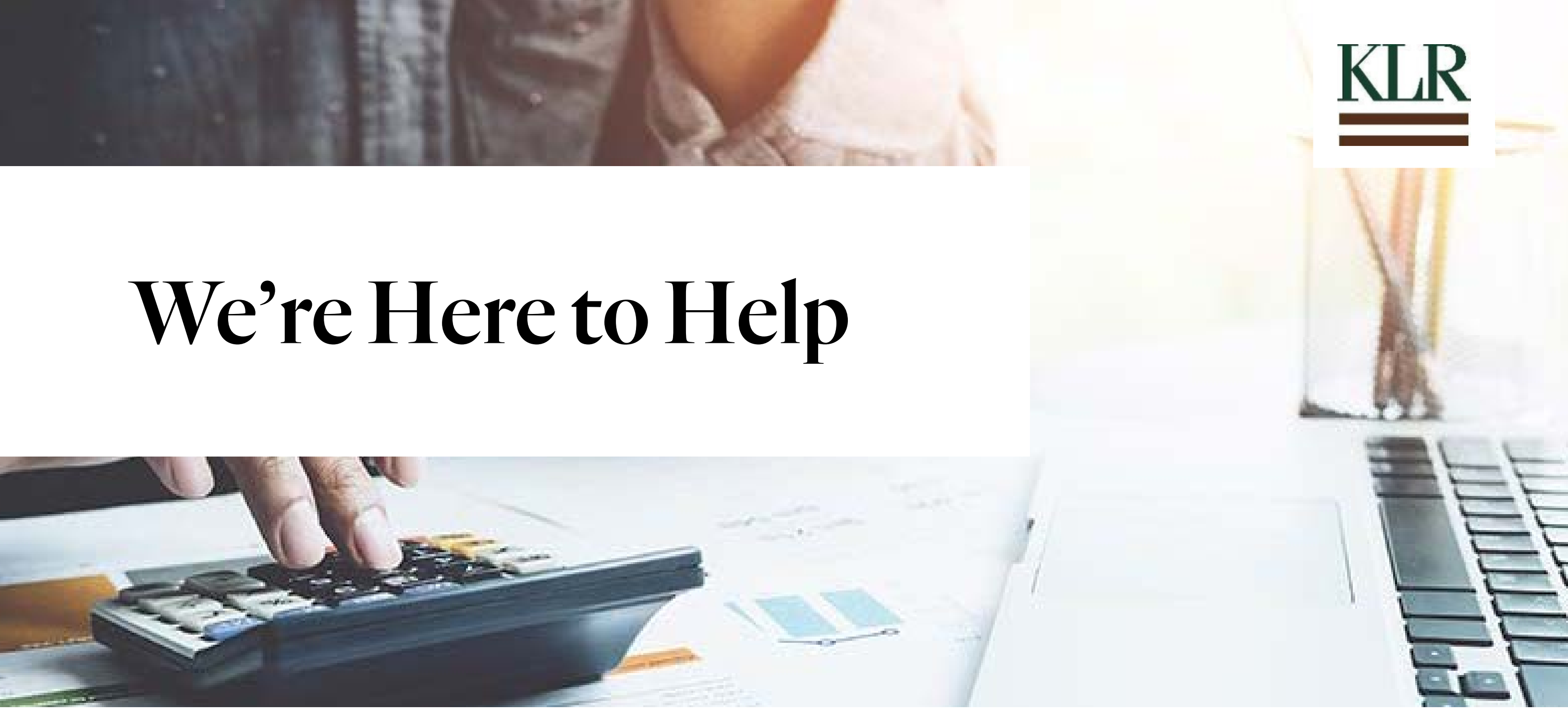
Rhode Island

Effective January 1, 2023, employers in Rhode Island must comply with an amended equal pay law. Similar laws already apply in many of the neighboring states, including Connecticut, Massachusetts and Vermont.

The sunset dates for the following Rhode Island state tax credits were extended to:

- June 30, 2023, for the Historic Preservation Tax Credits 2013 program, and
- December 31, 2023, for the Rebuild Rhode Island Tax Credit and tax credits related to the Rhode Island Qualified Jobs Incentive Act of 2015 program.

Important: Don't forget that large business registrant taxpayers in Rhode Island are now required to electronically file returns and remit taxes. There are penalties for noncompliance! Most businesses will be considered a "large business registrant" and should register for the RI Taxpayer Portal, found at www.taxportal.ri.gov.



We're Here to Help

December 31 is an important tax deadline that you might not be aware of: With a few exceptions, it's the date by which most of your tax planning strategies must be implemented to reduce your 2023 tax bill.

Important: Because December 31 falls on a Sunday this year, **December 29** is effectively the last business day of the 2023 tax year.

Contact our tax team to set up a meeting to brainstorm financial planning strategies to help your business succeed in the future — and minimize your tax obligations for 2023.

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Loree is Chair of the firm's Corporate Tax Group. She has been providing tax advisory services to closely held, medium sized and publicly held businesses for over 30 years.

Loree specializes in large corporate tax issues as well as tax planning. She assists clients with a variety of tax issues including tax compliance, tax accounting assistance, financial statement reporting under ASC 740, multi-state tax planning, and other general tax consulting.

KLR is one of New England's premier accounting and business advisory firms. With 280+ team members and offices in Boston, Geneva, Lausanne, Newport, Pawtucket, Providence, Shanghai and Waltham, KLR provides a wide range of services to both individuals and businesses.

Find out why KLR is so much more than an accounting firm at KahnLitwin.com.

Become Future Ready

Our mission, vision, & values are not just words on paper; they are the principles that help us become future ready. When we say, "Become Future Ready," we mean that we are in the business of not just keeping up with the times but leading them.

Our Mission

To help our clients and colleagues achieve success and drive growth by becoming future ready and embracing an innovative mindset in everything we do.

Our Vision

Our vision is to be the advisor of choice while remaining true to our core values, by empowering our colleagues to deliver exceptional insights, innovative strategies and solutions that foster success.

Integrity | Client-centric | Community | Collaboration | Innovation