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Changes are coming to tax laws. Proper planning can save money for you and your business

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The fourth quarter of the year is always a good time to plan for the upcoming year. This should include strategic planning that incorporates the direction the company is going, such as expected sales, costs, hiring decisions and expansion decisions, to name a few.

One area that is included in that planning involves expected taxes for the next year and what planning can be done to avoid or defer taxes. If taxes can be minimized, there can be more net income to reinvest in the growth of the company, which makes this planning critical.

This year is especially important because of the uncertainty of what is happening politically in Washington, D.C., along with a new President in the White House.

No one can adequately predict what Congress will write in the form of laws to be sent to the President to sign. There are many proposals that have been put forth. While we may not know what the impact amounts may finally be, or the final tax rate, some of these answers may lie in areas where there are discussions on raising taxes for businesses and individuals making over a certain amount of income, generally considered, wealthy. This includes some business owners of course.

Here are a few major areas where there is an interest in making changes and could affect your taxes and bottom line:

1. Business owners have been making gifts of their stock in their companies to the next generation. To do this, business owners may use up the balance of their lifetime exemption for federal estate tax purposes, which, now, amounts to $11.7 million per taxpayer. The proposals want to lower the amount of the lifetime exemption to $5.0 million or less.

2. When a person dies, under current law, there is a new cost basis for what the decedent left behind. Their assets that may be subject to federal estate taxes are repriced as of date of death. This is called a stepped-up basis.

As a result, whether there is an estate tax or not, the stepped-up basis, which is probably higher than what the decedent paid for the asset, becomes the new cost basis. When the asset is sold by their estate or the beneficiary, there is often little to no gain on the sale, effectively precluding capital gains taxes.

The proposals on the table currently want to tax the gain of the difference between the fair market value as of date of death and the original cost of the decedent, in addition to paying estate taxes.

3. There are proposals to change the rate of capital gains taxes. President Joe Biden had proposed a tax rate of 43.8% interest for people earning more than $1 million. The House Ways and Means Committee proposed a rate of 25% plus the 3.8% investment tax on top of that.

What that means to a business owner who sells their business and has a gain on the sale, is that you will pay 28.8% effective rate on your gain, plus the state income tax rate. This is a substantial amount of the gain from the sale of the business.

There are many additional provisions besides these that have been proposed and can cause major changes to the tax system. As the tax proposals become more firmed up, this is the time to start planning.

Even though your eyes may glaze over normally talking about taxes, this is a year that you need to pay attention, as these tax changes will adversely impact you and you will need to plan for it to protect your assets as best as possible.

Work with a professional CPA and/or attorney who understands the laws as well as how businesses operate, so they can help you figure your way through all the upcoming changes.

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