Timing strategies could become more powerful in 2017, depending on what happens with tax reform

Projecting your business income and expenses for this year and next can allow you to time when you recognize income and incur deductible expenses to your tax advantage. Typically, it’s better to defer tax. This might end up being especially true this year, if tax reform legislation is signed into law.

Timing strategies for businesses

Here are two timing strategies that can help businesses defer taxes:

1. Defer income to next year. If your business uses the cash method of accounting, you can defer billing for your products or services. Or, if you use the accrual method, you can delay shipping products or delivering services.

2. Accelerate deductible expenses into the current year. If you’re a cash-basis taxpayer, you may make a state estimated tax payment before December 31, so you can deduct it this year rather than next. Both cash- and accrual-basis taxpayers can charge expenses on a credit card and deduct them in the year charged, regardless of when the credit card bill is paid.

Potential impact of tax reform

These deferral strategies could be particularly powerful if tax legislation is signed into law this year that reflects the nine-page “Unified Framework for Fixing Our Broken Tax Code” that President Trump and congressional Republicans released on September 27.

Among other things, the framework calls for reduced tax rates for corporations and flow-through entities as well as the elimination of many business deductions. If such changes were to go into effect in 2018, there could be a significant incentive for businesses to defer income to 2018 and accelerate deductible expenses into 2017.

But if you think you’ll be in a higher tax bracket next year (such as if your business is having a bad year in 2017 but the outlook is much brighter for 2018 and you don’t expect that tax rates will go down), consider taking the opposite approach instead — accelerating income and deferring deductible expenses. This will increase your tax bill this year but might save you tax over the two-year period.

Be prepared

Because of tax law uncertainty, in 2017 you may want to wait until closer to the end of the year to implement some of your year-end tax planning strategies. But you need to be ready to act quickly if tax legislation is signed into law. So keep an eye on developments in Washington and contact us to discuss the best strategies for you this year based on your particular situation.