PKF O'CONNOR DAVIES
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Tax Notes

Federal 2022 Business Tax Returns and 2023 Planning

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As we gather information and documents for our 2022 business tax returns, it's a good time to review how recently enacted federal tax laws, as well as changes for the upcoming year built into the tax reform of 2017, may impact them. It's also a good time to plan an approach to our 2023 tax year. In this article, we will take you through changes which affect your 2022 and 2023 returns. As someone once said, "The best way to get something done is to begin." So, let's get started.

Bonus Depreciation Phaseout

Under the Tax Cuts and Jobs Act of 2017 (the TCJA), businesses were eligible to take 100% bonus depreciation on the qualified assets acquired and placed in service after September 27, 2017, and before January 1, 2023. This created a powerful incentive for investment in new assets. Starting in 2023, bonus depreciation begins to phase out – the percentage will drop by 20% every year until it is eliminated completely in 2027 (80% for 2023, 60% for 2024, 40% for 2025, 20% for 2026, and 0% for 2027 and later years). The impact of the changes in bonus depreciation is further discussed here.

Businesses are still eligible to take advantage of §179, expensing the cost of qualified assets in the year they are placed in service. The maximum deduction for §179, along with the phase out thresholds, are adjusted annually for inflation. Starting in 2023, the maximum deduction is adjusted for inflation to $1,160,000 and will start to phase out once qualified assets exceed $2,890,000. Once it reaches $4,050,000, the deduction phases out completely. This adjustment upward could provide some cushion for the loss of bonus depreciation. However, unlike bonus depreciation, a §179 deduction cannot generate a net operating loss, meaning the deduction is only beneficial in the current year if the business is profitable for income tax purposes.

Interest Expense Deduction Limit Gets Stricter

Under the TCJA, IRC §163(j) limits business interest expense deductibility to 30% of "adjusted taxable income." The limitation is not applicable for small businesses with three-year average gross receipts of $27 million or less for 2022 (a threshold that increases to $29 million for 2023). The TCJA built in a change in 2022 that makes the §163(j) limitation more restrictive in 2022.
Prior to 2022, the adjusted taxable income reflected the earnings before interest, taxes, depreciation, and amortization (EBITDA).

Starting in 2022, the addback of depreciation and amortization is disallowed – thus adjusted taxable income is based on earnings before interest and taxes (EBIT). This change reduces adjusted taxable income (potentially greatly if a business has significant depreciation and amortization), which consequently reduces a business' interest expense deductibility. Businesses with substantial interest expense should review the impact of these changes.

Research and Experimentation Expenditures Capitalization

Prior to the TCJA, businesses were allowed to deduct the cost of research and experimentation (commonly known as R&D) expenditures. Starting in 2022, the TCJA requires businesses to capitalize and deduct such expenses over five years (15 years for Foreign R&D expenses). This capitalization rule may increase the tax burden on businesses with significant R&D spend. Read our insight on this topic and meet our experts here.

Business Meals Deduction

The Consolidated Appropriations Act of 2020 temporarily allowed a 100% deduction of certain meals provided by restaurants for 2021 and 2022 tax years (increased from 50% under the TCJA). This temporary provision has expired, and deductibility has returned to 50% beginning January 1, 2023. A further discussion of the impact of the TCJA on the deductibility of meal expenses for businesses can be found here.

Corporate Alternative Minimum Tax (AMT) Returns – For a Few

The Inflation Reduction Act (IRA), passed last summer, includes a couple of new provisions that will affect businesses for tax years beginning after December 31, 2022. The IRA restores a corporate AMT, which was previously repealed by the TCJA, but in much more limited fashion. Starting in 2023, a 15% AMT will be imposed on corporations with average book income of over $1 billion (over a three-year period). The Joint Committee on Taxation (JCT) estimates that the new corporate AMT is only expected to apply to 150 companies.

New Excise Tax on Stock Repurchases

The IRA also introduced a non-deductible 1% excise tax on stock repurchases occurring after December 31, 2022. This applies to U.S. corporations whose stock is traded on an established securities market. This provision does not apply to repurchases under $1 million or less in fair market value.

PKF O'Connor Davies Observation

The tax law changes provide an opportunity to review and re-evaluate your tax planning. It is a great time to consider whether any of the provisions and changes may impact your business and discuss with your tax advisors.

Contact Us

PKF O'Connor Davies has a team of experts to answer any questions you may have related to these tax changes. Please contact your client engagement partner or either of the following;

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