

Small business tax credits and deductions you should know about

Congress routinely showers small businesses with tax preferences. And now is the time to think about them, since the tax-filing deadlines for calendar-year corporate returns are fast approaching—March 15 for S corps and April 18 for C corps.

Snag: There are at least 24 different definitions of a small business in the tax code (we counted!), so check with your tax pro if you're not sure whether your business qualifies.

Tax credits vs. tax deductions

The end result of taking tax credits and tax deductions is basically the same: You will pay less tax.

But there is a difference between the two:

- **Tax deductions** reduce your taxable income.
- **Tax credits** reduce your tax liability or increase your tax refund.

You can use both, provided you don't double dip. Any item you take as a tax credit can't be used again as a tax deduction.

Most tax credits are part of the IRC § 38 general business credit. Unused credits may be carried back one year and forward for up to 20 years. Point your browser [here](#) for a list of the general business tax credit components.

IRC § 179 deduction for depreciable business assets



Normally, when you buy a piece of office equipment, you must depreciate it over the number of years of its useful life. IRC § 179 puts money in your pocket by letting you take a full tax deduction instead.

For 2023, you can deduct up to \$1.16 million of the cost of qualified property—machinery, equipment, standardized computer software, and improvements to nonresidential buildings—placed into service in 2023. Remaining costs are written off using the appropriate depreciation schedule.

This deduction is subject to two limitations:

- **Investment limitation.** The amount at which the maximum deduction begins to phase out is based on your total expenditures. In 2023, this amount is \$2.89 million.
- **Your taxable income.** The maximum deduction you can take can't exceed your taxable income. Deductions exceeding your income may be carried forward for up to 20 years.

IRC § 41 refundable research credit

IRC § 41 allows you to claim a tax credit for qualified research expenses above a base amount. The credit is intended to approximate how much you would invest in qualified research in the absence of the credit.

The research tax credit is generally nonrefundable and is part of the IRC § 38 general business credit.

For certain small businesses, however, the credit is effectively **refundable**, depending on the size of their payroll. For tax years beginning after Dec. 31, 2022, businesses with less than \$5 million in gross receipts in the current tax year and no receipts in tax years preceding the previous five years may offset up to \$500,000 in unused research tax credits against their current year payroll tax liability.

IRC § 45R nonrefundable credit for employee health insurance

Small employers contributing to employees' group health insurance may take a nonrefundable tax credit. This credit is part of the IRC § 38 general business credit.

The credit equals 50% of the lesser of:

- The total amount of your contributions for qualified group plans offered through a state-based health insurance marketplace.
- The total amount of the contributions you would have made if each employee had enrolled in a qualified group plan with a premium equal to the average premium for the small-group market in the rating area where the employees receive coverage.

There are some significant limitations to this credit:

- It's only available for two consecutive years.
- In 2023, employers with 25 or fewer full-time employees whose average annual compensation is \$55,600 or less can benefit in varying amounts from the credit; the full credit may be claimed only by employers with 10 or fewer full-time employees whose average annual compensation is \$30,700 or less.