# Nagel on Finances: A refresher on deducting losses

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If you own a business, then this is a good time to begin to look to year end and think about 2023.

As our economy starts to correct from rising costs, supply chain issues and work force disruption, demand on cash reserves will be high. Soon cash reserves, assuming you had any to begin with, may be totally depleted.

Drawing on that line of credit has always been a difficult decision for most of our small business owners. Interest rates are now much higher than recent years. I certainly know that self-funding, as opposed to bank funding, while hard and sacrificial, has paid big dividends.

As the economy softens, short term lines of credit might be harder to come by. Ask your banker now. Double check your trade credit. Target certain vendors for new terms in exchange for loyalty.

Here's an example of unexpected demands on cash, that I recently encountered.

One vendor offered a 16% price concession if I prepaid for all of 2023 orders! That is tempting. Another key vendor recently offered substantial price concessions to prevent me from moving to the competition, with guaranteed limits on inflationary price increases for the next three years. The catch? Prepaid subscriptions fees, 18 months in advance.

That one was a no brainer for all kinds of reasons. But it was a significant drain on cash reserve.

Your industry is likely to experience similar adjustments and opportunities. But, they will not come to you, you have to seek them out.

So, "scrub" your books and records, now. Do not wait for yearend planning. Prepare a five-year trend analysis and look for costs that have continually risen. They stand out, remarkably. Prepare to use your cash wisely to plan for costs saving for 2023 and beyond.

If you extend this logic to its natural conclusion, you may end up with unexpected losses, instead of profits for the year. If so, pay close attention.

The government will not always allow you to fund those losses with tax savings.

New loss limitation rules became effective clear back with the Tax Cuts and Jobs Act (TCJA) of 2017. I say new, because they were first effective in 2018 when the economy was booming. There were fewer losses suffered at that time.

Then came the Pandemic and the rules were lifted, or rather, deferred, by the CARES Act.

The TCJA loss limitation rules were reactivated for 2021.

Operating Losses in excess of $540,000 for joint filers ($270,000 for single filers) can no longer be used to offset other sources of income.

Furthermore, Net Operating Losses from prior years cannot be carried back to recoup prior year tax and can only be used to offset up to 80% of current year income if they arose after 2017. Of course, The CARES Act allowed special temporary rules for COVID Relief.

+Those rules have now lapsed.

If you are an investor in a Pass Through Entity (PTE), like a Partnership or S-corporation, you must also be aware of loss limitations caused by insufficient Tax Basis and Passive Activity Rules.

Complicated? You bet. Welcome to my world.

These rules clearly make forward planning difficult. Allow yourself plenty of time and engage your tax advisors soon.

That's why we are here.

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