U.S. Small Business Administration

How Working Families Tax Cuts Help Small Business Owners

October 2026

Maximize the savings for your small business by taking advantage of these five permanent benefits available as part of the Working Families Tax Cuts:

Permanent 20% Tax Deduction for Qualified Business Income (QBI)

Most small businesses operating as sole proprietors, partnerships, or S corporations can deduct up to 20% of their business income before taxes. (Tax Code Section 199A).

Immediate Write-Offs for Domestic R&E Expenses

Effective Jan. 1, 2025, businesses with domestic R&E spending can now fully deduct those expenses on their tax returns under a new immediate-expensing rule that replaces the five-year amortization. (Tax Code Sections 174 and new 174A).

Write-Offs for Certain Depreciable Business Property and Equipment

Whether it's a new or used device, machinery, software, office furniture, or a business vehicle, business owners can write off the entire purchase price on their 2026 tax return instead of depreciating it over a decade. The limit for expensing equipment placed in service after Dec. 31, 2024, has been raised to $2.56 million, with the phase-out threshold raised to slightly more than $4 million (both indexed for inflation after 2025). A separate, permanent 100% bonus-depreciation rule under Tax Code Section 168(k) applies to qualifying property acquired after January 19, 2025. (Tax Code Section 179).

Employer-Provided Child Care Credit – Supporting your Workforce

For tax year 2026 and later, eligible businesses (whose average annual gross receipts have not exceeded the applicable inflation-adjusted threshold, such as $32 million for 2026), can now claim a tax credit for up to 50% of the qualified childcare costs they provide to employees, with a higher annual cap of $600,000. This makes it more affordable to offer childcare benefits, which can help you attract and retain workers. (Tax Code Section 45F).

Expansion of Qualified Small Business Stock (QSBS) Gain Exclusion

Founders and investors in qualifying small C Corporations can sell QSBS and exclude some or all of the gain from federal capital gains tax if they meet certain rules. For stock acquired after July 4, 2025, in companies with aggregate gross assets up to $75 million (up from $50 million, and indexed for inflation), a tiered exclusion applies: 50% of the gain is excluded if the stock is held at least 3 years, 75% if held at least 4 years, and 100% if held at least 5 years. The per-issuer cap on excludable gain has also increased from $10 million to $15 million (indexed for inflation), with the alternative 10-times-aggregate adjusted basis cap unchanged. (Tax Code Section 1202).

This document is for information purposes only and does not constitute legal or tax advice.