

Year-end Tax Planning for Individuals & Small Businesses

Hey Abo and Company! Didn't we just finish the 2025 tax returns extended to September 15th and October 15th? Yep, but the end of tax year 2026 is almost upon us, so it's a good time to think about things you can do to reduce your personal and/or business 2026 federal taxes. Last year's 2025 Act, commonly called the One Big Beautiful Bill, or OB3, extended and enhanced many taxpayer-friendly provisions.

With that said, here are things to think about before the end of the year. Look over the parts that might apply to you or just pass along to a friend or colleague who could benefit. They will appreciate it but so would we.

LET'S LOOK AT INDIVIDUALS FIRST AND THEN TALK SMALL BUSINESS

Check Your Tax Withholding and Estimated Payments

If the Federal Income Tax (FIT) withheld from your paychecks plus any estimated tax payments for 2026 aren't at least equal to your 2025 tax liability [110% of that amount if your 2025 AGI was more than \$150,000 (\$75,000 if you file MFS)] or, if less 90% of your 2026 tax liability, you will be subject to an underpayment penalty for 2026. Making an estimated tax payment reduces any underpayment from the time the payment is made. However, FIT withheld from wages is considered paid ratably over the year. So, if it turns out you had unexpected income or gains early this year and haven't made sufficient estimated tax payments to avoid the penalty, you can increase your withholding for the rest of the year to reduce or eliminate your underpayment from earlier quarters. We can help you project your 2026 tax and adjust your withholding to eliminate (to the extent possible) an underpayment penalty. We can also help you see what your remaining 2026 tax bill next April will look like.

Consider Bunching Itemized Deductions

Each year, you can deduct the greater of your itemized deductions (mortgage interest, charitable contributions, medical expenses, and state and local taxes) or the standard deduction. The 2026 standard deduction is \$16,100 for singles and married individuals filing separately (MFS), \$32,200 for married couples filing jointly (MFJ), and \$24,150 for Heads of Household (HOH). If your total itemized deductions for 2026 will be close to your standard deduction, consider "bunching" your itemized deductions so they exceed your standard deduction every other year. Paying enough itemized deductions in 2026 to exceed your standard deduction will lower this year's tax bill. Next year, you can always claim the standard deduction, which will be increased for inflation.

For example, if you file a joint return and your itemized deductions are steady at around \$32,200 per year, you will end up claiming the standard deduction for 2026. But if you can bunch expenditures so that you have itemized deductions exceeding \$32,200 in 2026, you could itemize in 2026 and get a larger itemized deduction versus a \$32,200 standard deduction. In 2027, your itemized deductions may be below the standard deduction (which, adjusted for inflation, will be at least \$33,000, depending on inflation adjustment factors). So, for 2027, you

would claim the standard deduction. If you manage to exceed the standard deduction every other year, you'll be better off than if you just settle for the standard deduction each year.

Note: For 2026, itemizers in the 37% bracket, deductions may be reduced by 5.4% of the lesser of total itemized deductions or taxable income above the applicable 37% bracket threshold, after other itemized deduction limitations are considered.

For home acquisition debt acquired after 12/15/17, deductible mortgage interest is limited to the interest up to \$750,000 of qualified acquisition indebtedness (\$375,000 if married filing separately). Higher limits may apply for certain grandfathered debts incurred before 12/16/17. Interest on home equity debt is deductible only to the extent the proceeds are used to buy, build, or substantially improve the home securing the debt.

To a certain extent, you can also choose the year you pay state and local income and property taxes. Taxes that are due in early 2027 (such as fourth quarter estimated income tax payments in many states) can be paid in 2026. Likewise, property tax bills are often sent out before year-end but not due until the following year. However, note that the deduction cap for state and local taxes increased to \$40,400 (\$20,200 if you file MFS) (phase-out floor is \$10,000 (\$5,000 if you file MFS)). So, if your state and local tax bill is close to or over that limit, prepaying taxes may not affect your total itemized deductions. The deduction is reduced (but not below \$10,000) by 30% of Modified Adjusted Gross Income (MAGI) in excess of \$505,000 (\$252,500 MFS).

Warning: Prepaying state and local taxes can be a bad idea if you owe Alternative Minimum Tax (AMT), since those taxes aren't deductible under the AMT rules. If you are subject to AMT in 2026 and think you won't be in 2027, it's better to pay the taxes in 2027, when you have a chance of deducting them.

Finally, consider accelerating elective medical procedures, dental work, and vision care into 2026. For 2026, medical expenses can be claimed as an itemized deduction to the extent they exceed 7.5% of your Adjusted Gross Income (AGI).

Seniors Age 65 or Older? The 2025 Act provides a temporary deduction for seniors age 65 or older of \$6,000 (\$12,000 MFJ if both spouses qualify), effective for tax years 2025–2028. This deduction is in addition to the standard deduction and is available to both itemizers and non-itemizers. The deduction is subject to limitations based on MAGI (the deduction amount is reduced, but not below zero, by 6% as income exceeds \$75,000 (\$150,000 MFJ)).

Qualified Passenger Vehicle Loan Interest Deduction

Beginning with automobile purchases in 2025–2028, if you purchased a new vehicle on financing, you may be eligible for the qualified vehicle loan interest deduction. Individuals, decedent's estates, and Nongrantor trusts may deduct the Qualified Passenger Vehicle Loan Interest Deduction (QPVLI). If, at the time the loan is taken out, you plan to use the vehicle for personal purposes for more than 50% of the time, a deduction of up to \$10,000 in annual interest may be deducted, regardless of status as an itemizer or nonitemizer.

The deduction is phased out \$200 for each \$1,000 or portion thereof of MAGI above \$100,000, or \$200,000 for joint filers.

QPVLI does **not** include any amount paid or incurred on—

- leases;
- loans to finance fleet sales, the purchase of vehicles with salvage title, or the purchase of vehicles intended to be used for scrap or parts;

- indebtedness to repay “negative equity” on a trade-in vehicle, or to purchase collision and liability insurance; or
- any cash proceeds the borrower receives from the lender.

Note: Used or pre-owned vehicles do not qualify.

Schedule 1-A, Qualified Tips and Overtime Pay Deductions

Starting in 2025–2028, you may be eligible for additional deductions for qualified tips and qualified overtime compensation. These deductions are available whether you itemize your deductions or take the standard deduction. Keep Forms W-2, Forms 1099, pay stubs, and tip records to take advantage of these valuable deductions. To qualify for the tips deduction, tips must be received in an occupation that regularly and customarily receives tips before 2025.

Before considering any phase-out based on income (phase-out begins at \$150,000 (single filers) and \$300,000 (joint filers) of wages), the tip deduction is the lesser of \$25,000 or the qualified tips that are included on certain statements furnished to workers (such as a Form W-2 or a Form 1099-NEC, 1099-MISC, or 1099-K and attached statements) as required. Qualified tips also include tips that the individual reports on Form 4137 (Social Security and Medicare Tax on Unreported Tip Income).

You may deduct up to \$12,500 per year in qualified overtime compensation (\$25,000 MFJ). The deduction phases out by \$100 for every \$1,000 of modified adjusted gross income (MAGI) above \$150,000 (single filers) or \$300,000 (joint filers). This is also an above-the-line deduction available to taxpayers regardless of whether they itemize deductions or take the standard deduction. The overtime deduction does not apply to amounts already deducted as qualified tips, discussed above.

Take a Look at Your Investment Portfolio

It's a good idea to look at your investment portfolio with an eye to selling before year-end to save taxes. Note that selling investments to generate a tax gain or loss doesn't apply to investments held in a retirement account [such as a 401(k)] or IRA, where the gains and losses are not currently taxed.

If you are looking to sell appreciated securities, it's usually best to wait until they have been held for over 12 months, so they will generate a long-term, versus short-term, capital gain. The maximum long-term capital gain tax rate is 20%, but for many individuals, a 15% rate applies. The 3.8% Net Investment Income Tax (NIIT) can also apply at higher income levels. Even so, the highest tax rate on long-term capital gains (23.8%) is still far less than the 37% maximum tax rate on ordinary income and short-term capital gains. And, to the extent you have capital losses that were recognized earlier this year or capital loss carryovers from earlier years, those losses can offset any capital gains if you decide to sell stocks at a gain this year.

You should also consider selling stocks that are worth less than your tax basis in them (typically, the amount you paid for them). Taking the resulting capital losses this year will shelter capital gains, including short-term capital gains, resulting from other sales this year. But consider the wash sale rules. If the wash-sale rules apply, any loss is disallowed currently and generally added to the basis of the replacement securities, which can defer recognition of the loss until the replacement securities are disposed of.

If you sell enough loss stock that capital losses exceed your capital gains, the resulting net capital loss for the year can be used to shelter up to \$3,000 (\$1,500 if MFS) of 2026 ordinary income from salaries, self-employment income, interest, etc. Any excess net capital loss from this year is carried forward to next year and beyond. Having a capital loss carryover into next year and beyond could be a tax advantage. The carryover can be used to shelter both short-term and long-term gains. This can give you some investing flexibility in future years because you won't have to hold appreciated securities for over a year to get a lower tax rate on any gains you trigger by selling, to the extent those gains will be sheltered by the capital loss carryforward.

Planning Tip: Nontax issues must be considered when deciding to sell or hold a security. If you have stock that has fallen in value, but you think it will recover, you might want to keep it rather than trigger the capital loss. If, after considering all factors, you decide to take some capital gains and/or losses to minimize your 2026 taxes, make sure your investment portfolio is still allocated to the types of investments you want based on your investment objectives. You may have to rebalance your portfolio. When you do, be sure to consider investment assets held in taxable brokerage accounts as well as those held in tax-advantaged accounts, such as IRAs and 401(k) plans.

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Make Your Charitable Giving Plans

You can reduce your 2026 taxable income by making charitable donations. Nonitemizers can deduct up to \$1,000/\$2,000 (MFJ) for cash contributions to eligible charitable organizations beginning in 2026. Itemizers can deduct contributions exceeding 0.5% of their Adjusted Gross Income (AGI) where all itemized deductions exceed the standard deduction. If you are close to the itemized deduction point, consider bunching future 2027 donations into 2026 to take advantage of a larger itemized deduction.

If you don't have a charity or charities that you are comfortable making large donations to, you can contribute to a donor-advised fund (also known as *charitable gift funds* or *philanthropic funds*) instead. This is a public charity or community foundation that uses the assets to establish a separate fund to receive grant requests from charities seeking distributions from the advised fund. Donors can suggest (but not dictate) which grant requests should be honored. You claim

the charitable tax deduction in the year you contribute to the donor-advised fund but retain the ability to recommend which charities will benefit for several years.

Another tax-advantaged way to support your charitable causes is to donate appreciated assets that were held for over a year. If you give such assets to a public charity, you can deduct the donated asset's fair market value and avoid the tax you would have paid had you sold the asset and donated the cash to the charity. Charitable gifts of appreciated property to a private nonoperating foundation are generally only deductible to the extent of your basis in the asset. But qualified appreciated stock (generally, publicly traded stock) donated to a private nonoperating foundation can qualify for a deduction equal to its fair market value.

If you are age 70½ or older, consider a direct transfer from your IRA to a qualified charity [known as a *Qualified Charitable Distribution* (QCD)]. While you can't claim a charitable donation for the amount transferred to the charity, the QCD does count toward your Required Minimum Distribution (RMD). If you don't itemize, that's clearly better than taking a fully taxable RMD and then donating the amount to charity with no corresponding deduction. Even if you do itemize and would be able to deduct the full amount transferred to the charity, the QCD does not increase your Adjusted Gross Income (AGI), while a RMD would. Keeping your AGI low can decrease the amount of your taxable Social Security benefits and minimize the phaseout of other favorable tax provisions based on AGI.

Caution: If you are over age 70½ and still working in 2026, you can contribute to a traditional IRA. But if you're considering a QCD for 2026 (or a later year), making a deductible IRA contribution for years you are age 70½ or older will affect your ability to exclude future QCDs from your income.

Planning Tip: To get a QCD completed by year-end, you should initiate the transfer before December 31. Talk to your IRA custodian about making the transfer no later than December 2026. The QCD limit for 2026 is \$111,000 per IRA owner.

Convert Traditional IRAs into Roth Accounts

Since you are required to pay tax on the conversion of a traditional IRA as if it had been distributed to you, converting makes the most sense when you expect to be in the same or higher tax bracket during your retirement years. If that turns out to be true, the current tax cost from a conversion this year could be a relatively small price to pay for completely avoiding potentially higher future tax rates on the account's post-conversion earnings. In effect, a Roth IRA can insure part or all of your retirement savings against future tax rate increases.

Planning Tip: If the conversion triggers a lot of income, it could push you into a higher tax bracket than expected. One way to avoid that is to convert smaller portions of the traditional IRA over several years. Of course, that delays getting funds into the Roth IRA where they can potentially earn tax-free income. There is no one answer here. But keep in mind that you do not have to convert a traditional IRA into a Roth all at once. We can help you project future taxable income and the effect of converting various amounts of your traditional IRA into a Roth IRA.

Spend any Remaining Funds in Your Flexible Spending Accounts

If you participate in an employer-sponsored medical or dependent care flexible spending plan, be sure to look at your plan closely. Generally, funds not spent before the plan's year-end are forfeited (the use-it-or-lose-it rule). There are a few exceptions. Employers can allow their employees to carry over up to \$680 from their 2026 medical FSA into their 2027 account. FSA plans can offer a grace period (up to 2 ½ months after the plan's year-end) during which

employees can incur new claims and expenses and be reimbursed. Plans can (but don't have to) have either a carryover or a grace period, but not both.

FSAs can also have a run-out period (a specific period after the end of the plan year during which participants can submit claims for eligible expenses incurred during the plan year). The run-out period can be in addition to a carryover or a grace period. The runout period differs from a grace period because a runout period only extends the time for submitting claims. A grace period, in effect, extends the plan year so that expenses incurred during the grace period are treated as incurred before the plan year-end. It's important to know how your FSA(s) work so that you can make sure you don't lose any funds. If there is no grace period, be sure you incur qualified expenses before year-end and submit eligible claims by their due date.

Take Advantage of the Annual Gift Tax Exclusion

The basic credit amount for estate tax in 2026 is \$5,945,800, which offsets tax on cumulative transfers of \$15 million (\$30 million for married couples) in 2026. The 2025 Act permanently increased the estate and gift tax applicable exclusion amount and the generation-skipping transfer tax exemption. If you think your estate may be taxable, annual exclusion gifts (perhaps to children or grandchildren) are an easy way to reduce your taxable estate. The annual gift exclusion allows for tax-free gifts that don't count toward your lifetime exclusion amount. For 2026, you can make annual exclusion gifts up to \$19,000 per donee, with no limit on the number of donees.

In addition to potentially reducing your taxable estate, gifting income-producing assets to children (or other loved ones) can shift the income from those assets to someone in a lower tax bracket. But if you give assets to someone who is under age 24, the Kiddie Tax rules could cause some of the investment income from those assets to be taxed at your higher marginal federal income tax rate. The Kiddie Tax can apply to a child's unearned income if the child is under age 18, is age 18 with earned income not exceeding one-half of support or is a full-time student age 19–23 with earned income not exceeding one-half of support.

If you gift investment assets, avoid gifting assets worth less than what you paid for them. The basis for recognizing a loss is the lower of your basis or the property's FMV at the date of the gift. So, in many cases, the loss that occurred while you held the asset may go unrecognized. Instead, you should sell the securities, take the resulting tax loss, and then give the cash to your intended donee.

Remember, estate planning involves more than avoiding the Federal estate tax. Sound estate planning ensures that your assets go where you want them, considering your desires, family members' needs, and charitable giving, among other things. Please contact us if you would like to discuss your estate plan.

Trump Account—Child Born in 2025/2026

The 2025 Act introduced a new type of tax-deferred investment custodial savings account, similar to a 529 plan or IRA, for minors called the Trump Account. Beginning in 2026, parents and guardians can open a new tax-deferred account for each eligible child and contribute up to \$5,000 (indexed for inflation) per year in after-tax dollars for each child until they reach the age of 18. For children born between 2025–2028, the federal government will contribute a one-time deposit of \$1,000 to each account, which does not count against that year's \$5,000 limit. Contributions to Trump Accounts begin on 7/4/26. Parents should plan to open the account and secure the government benefits for children born in 2025 and 2026.

Children born in 2025–2028 must have a Social Security number, which can be obtained when filling out the child's birth certificate if the child is born in a hospital, and can claim the \$1,000 contribution by filing an election with the IRS.

Note: Employers can contribute up to \$2,500 per employee per year for an employee's dependent under the age of 18. However, the employer's contribution counts against the maximum \$5,000 annual limit per child.

Caution: During a child's "growth period," Trump account assets may be invested only in a narrow class of eligible mutual funds or Exchange Traded Funds (ETFs), creating significant new responsibilities for account fiduciaries.

NOW ON TO YEAR-END TAX PLANNING FOR SMALL BUSINESS

Establish a Tax-favored Retirement Plan

If your business doesn't already have a retirement plan, now might be the time to take the plunge. Current rules allow for significant deductible contributions. Most small businesses choose to go with a "defined contribution plan" (of which there are several types) rather than a traditional pension plan.

For example, if you are self-employed and set up a SEP plan for yourself, you can contribute up to 20% of your net self-employment income, with a maximum tax-deductible contribution of \$72,000 for 2026. If you are employed by your own corporation, up to 25% of your salary can be contributed, with a maximum tax-deductible contribution of \$72,000 for 2026.

A 401(k) plan can be especially attractive for self-employed and small corporations because, in addition to the contribution of up to 20% (25% if you are employed by your own corporation) of compensation, the plan can allow matching contributions, meaning more before-tax money goes into the plan. For 2026, 401(k) plans have an employee elective deferral limit of \$24,500. A plan may allow catch-up contributions of up to \$8,000 for employees age 50 and older, but participants age 60–63 may instead be eligible for the higher \$11,250 catch-up limit.

A SIMPLE IRA is another option that can be a good choice if your business income is modest. The SIMPLE-IRA plan also allows for tax-deductible contributions (in 2026, up to \$17,000, with an additional \$4,000 for employees age 50 and older, and for participants age 60–63 they are eligible for a higher catch-up limit of \$5,250). SIMPLE IRAs are often easier and less expensive to administer compared to SEPs or 401(k)s.

The options can seem a little complicated, but we can sit down and discuss how to take advantage of a retirement plan or plans to reduce current taxes and establish a strong financial plan for your later years. Note that even if you adopt multiple plans, the total contribution limit is \$72,000 per participant.

Take Advantage of Generous Tax Breaks for Adding Fixed Assets

Current federal income tax rules allow generous first-year tax write-offs for eligible assets.

Section 179 Deductions. You can expense up to \$2,560,000 worth of qualifying business property placed in service in tax years beginning in 2026 using what's called a Section 179 deduction. Most types of equipment, as well as off-the-shelf software used for business, are eligible for Section 179 deductions. Section 179 deductions can also be claimed for certain real property expenditures, called *Qualified Improvement Property* (QIP), up to the maximum annual Section 179 deduction allowance, phase out beginning at \$4,090,000 with full phase out at \$6,650,000 in 2026.

Note: QIP includes any improvement to an interior portion of a nonresidential building that is placed in service after the date the building is first placed in service, except for expenditures attributable to the building's enlargement, any elevator or escalator, or the building's internal structural framework.

Section 179 deductions can also be claimed for qualified expenditures for roofs, HVAC equipment, fire protection and alarm systems, and security systems for nonresidential real property. To qualify, these items must be placed in service after the nonresidential building has been placed in service.

First-year Bonus Depreciation. Full (100%) bonus is available for qualified new and used property that is acquired and placed in service in calendar year 2026. Depending on timing, your business might be able to write off 100% of the cost of some or all of your 2026 asset additions on this year's return. Qualified property includes personal property, some real property, such as QIP (see above), and land improvements.

Bottom Line: With 100% bonus depreciation remaining fully available for the foreseeable future, barring any legislative changes, now is an ideal time to think beyond year-end purchases and begin long-term planning for asset acquisitions. Section 179 expensing and bonus depreciation can significantly reduce taxable income, and the ability to rely on full bonus depreciation in future years opens the door to multi-year tax planning strategies.

Qualified Production Property Deduction. For businesses involved in manufacturing and production, a 100% depreciation deduction for qualifying nonresidential real property used as an integral part of the qualified production activity is available in 2026. This provision has detailed construction, placed-in-service, election, and recapture rules that should be reviewed before starting any major facility projects.

Time Business Income and Deductions for Tax Savings

If you conduct your business as a sole proprietorship or use a pass-through entity (partnership, S corporation, or LLC classification), your share of the business's income and deductions are taxed at your individual rates. The individual federal income tax rates will be the same in 2026 as they were in 2025, with bumps in the rate bracket thresholds thanks to inflation adjustments. The 2025 Act made the Tax Cuts and Jobs Act (TCJA) rate brackets, including the provisions that index amounts for inflation, permanent. This is a taxpayer-friendly result because the TCJA expanded the income range for each tax rate bracket and eliminated most of the "marriage

penalty” in the individual tax rate structure by setting the joint filing tax brackets at twice the single tax bracket amounts, except for the top tax bracket. The TCJA also modified the breakpoints at which capital gains rates apply. There have been no tax rate changes for C corporations; income continues to be taxed at 21% in 2026 and 2027.

The traditional strategy of deferring income into next year while accelerating deductible expenditures into this year makes sense if you expect to be in the same or lower tax bracket next year. Deferring income and accelerating deductions will, at a minimum, postpone part of your tax bill from 2026 until 2027. And, after the inflation adjustments to 2026 rate bracket thresholds, the deferred income might be taxed at a lower rate. That would be nice!

On the other hand, if you expect to be in a higher tax bracket in 2027, take the opposite approach. Accelerate income into this year (if possible) and postpone deductible expenditures until 2027. That way, more income will be taxed at this year’s lower rate instead of next year’s higher rate. In addition to paying bills before year-end and deferring billing until 2027 (for cash-basis taxpayers), you can defer income by making like-kind exchanges of appreciated real estate instead of taxable sales and arrange for installment sales of property.

Timing Year-end Bonuses. Both cash and accrual basis taxpayers can time year-end bonuses for maximum tax effect. Cash basis taxpayers should pay bonuses before year end to maximize the deduction available in 2026 if you expect to be in the same or lower tax bracket next year. Cash basis taxpayers that expect to be in a higher tax bracket in 2027, because of significant revenue increases, should wait to pay 2026 year-end bonuses until January 2027, when their deduction for bonuses will offset income taxed at a higher rate. Accrual basis taxpayers deduct bonuses in the year that all events related to the bonuses are established with reasonable certainty. However, the bonus must be paid no later than 2½ months after the end of the tax year for a current year deduction. Calendar year taxpayers using the accrual method would have to pay bonuses by 3/15/27 to accrue and deduct the bonus in 2026. Accrual method employers who think they will be in a higher tax bracket in 2027 and want to defer deductions to 2027 should consider changing their bonus plans before year-end to set the payment date later than the 2½ month window.

Research and Experimental (R&E) Expensing. If your business has research or experimental expenditures, full expensing of domestic R&E costs is available for eligible small businesses in 2026.

State Income Tax Deduction Work-around

Recent legislation retroactively increased the State And Local Tax (SALT) deduction cap to \$40,400 (MFJ), \$20,200 (single or MFS) for 2026. The SALT cap limits the amount of state and local taxes that individuals can deduct on their federal Form 1040 income tax return. The cap is set to rise by 1% annually through 2029 before reverting to \$10,000 in 2030. For individual taxpayers with Modified Adjusted Gross Income (MAGI) over \$505,000 (MFJ) \$252,500 (single or MFS), the cap is reduced (but not below \$10,000 (MFJ), \$5,000 (single or MFS)), with MAGI thresholds increasing annually.

If you are above the cap, you should consider having your partnership or S corporation (called pass-through entities) make a Pass-through Entity Tax (PTET) election. This election is made

at the state (not federal) level, and it provides a way for business owners to mitigate the effects of the deduction cap. The PTET election allows pass-through businesses to elect to pay state income tax on their business income at the entity level. In other words, the entity elects to pay the state income tax that would otherwise be due from the owners on their share of the business' income. The SALT cap that applies to individuals doesn't apply to the pass-through entity.

There are two additional advantages to making the PTET election. First, the state income taxes reduce the business income that flows through to a partnership's partners. Less income reported to the partners will reduce self-employment tax at the individual taxpayer level. Reducing self-employment tax can result in huge tax savings for partners!

Second, if deducting state taxes at the entity level (rather than the owner) level causes an individual owner's remaining itemized deductions to fall below the standard deduction, making the PTET election increase the taxpayer's total deductions by taking advantage of the standard deduction.

Starting in 2026, individuals who don't itemize can claim a \$1,000 (\$2,000 if married filing jointly) deduction for most cash charitable contributions. If the PTET election causes a client's remaining itemized deductions to fall below the standard deduction, they can take advantage of both the standard deduction and the new above-the-line charitable deduction.

Note: Beginning in 2026, a corporation's annual charitable contribution deduction can't exceed 10% of the corporation's taxable income and is allowed only to the extent that the aggregate of all contributions exceeds 1% of the taxpayer's taxable income for that tax year. C corporations should consider the new 1% floor on deductible charitable contributions when timing charitable gifts.

Maximize the Qualified Business Income (QBI) Deduction

Taxpayers can take a Qualified Business Income (QBI) deduction of up to 20% of income from a qualified trade or business, in addition to 20% of the taxpayer's income from Real Estate Investment Trust (REIT) dividends and publicly traded partnerships. The QBI deduction is subject to limits based on the business owner's taxable income. Income derived from a business operated as a sole proprietorship (including a single-member LLC), as well as from partnerships, S corporations, or LLCs classified as a partnership or S corporation all potentially qualify for the deduction.

The deduction may be limited by the amount of W-2 wages paid by the business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the business. The wage limits for QBI deductions don't apply where taxable income is at or below the annually-adjusted threshold amount of \$403,500 for 2026, for taxpayers filing a joint return (about half that for all others). The limits are phased in and start to apply to joint filers when taxable income exceeds \$403,500 and are fully phased out when taxable income reaches \$553,500. The investment limit is phased in over a \$150,000 range. For all other filers, the limits start to apply when taxable income reaches \$201,750 and are fully phased in when taxable income reaches \$276,750. The QBI deduction is also limited if the taxpayer is engaged in a service-type business (including law, accounting, health, or consulting).

Note: Beginning in 2026, the new minimum deduction for active QBI is \$400 for taxpayers with at least \$1,000 of aggregate QBI from active qualified trades or businesses. **Caution:** Because of the various limits on the QBI deduction, tax planning moves (or non-moves) can have the side effect of increasing or decreasing your allowable QBI deduction. For example, claiming big first-year depreciation deductions can reduce QBI and lower your allowable QBI deduction. So, if you can benefit from the QBI deduction, you must be careful in making tax planning moves.

Claim 100% Gain Exclusion for Qualified Small Business Stock

The 2025 Act expanded the gain exclusion rules for Qualified Small Business Stock (QSBS), making the C corporation an attractive choice of entity, especially for businesses in the manufacturing and production industries or for businesses that sell tangible personal property. For stock issued on or after 7/4/25, 50% gain exclusion is available when the stock is held for at least three years, 75% gain exclusion for stock held at least four years, with 100% gain exclusion for stock held five or more years. For stock issued after 9/27/10 but before 7/4/25, QSBC shares must be held for more than five years to be eligible for the gain exclusion.

The aggregate asset limits increased for taxpayers to meet the Qualified Small Business Corporation (QSBC) rules as well. After 7/4/25 QSBCs lose their eligibility to issue QSBS when aggregate assets exceed \$75 million. Prior to 7/4/25, QSBCs lost the eligibility to issue QSBS when assets exceeded \$50 million. This will make it easier for taxpayers to take advantage of the QSBS exclusion.

The per-shareholder, per-QSBS-issuer gain exclusion limits increased under the 2025 Act as well. Shareholders may exclude up to \$15 million in gains on QSBS issued after 7/4/25, per QSBC investment. Prior to 7/4/25, the per-issuer gain exclusion was limited to \$10 million.

Employing Family Members

Employing family members can be a useful strategy to reduce overall tax liability. If the family member is a bona fide employee, the employer can deduct the wages and benefits, including medical benefits, paid to the employee on Schedule C or F as a business expense, thus reducing the business owner's self-employment tax liability. In addition, wages paid to your child under the age of 18 are not subject to federal employment taxes, are deductible at your marginal tax rate, are taxable at the child's marginal tax rate, and can be offset by up to \$16,100 (your unmarried child's maximum standard deduction for 2026). You may also set up a SIMPLE IRA for your child (see above). However, your family member must be a bona fide employee, and basic business practices, such as keeping time reports, filing payroll returns, and paying a reasonable amount based on the actual work performed, should be followed.

Conclusion

This letter only covers a few tax planning moves that could potentially benefit you individually or your business for this year. Please contact us if you have questions, want more information, or would like us to help in evaluating your best business tax planning options as 2026 draws to a close.