KUHN & ASSOCIATES

2026 MID-YEAR TAX PLANNING LETTER (BUSINESSES)

Introduction

The less hectic summer season is a good time to consider steps to cut your 2026 tax bill. This year, midyear planning is especially important because the One Big Beautiful Bill, (The 2025 Act), enacted in July 2025, made several business tax law changes that generally begin taking effect in 2025 and 2026. Some of these changes create new opportunities for deductions and exclusions, while others may affect reporting obligations, charitable giving strategies, and the timing of income and deductions. Here are some planning strategies to consider for your 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. 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 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 contribution of $72,000 for 2026.

Other small business retirement plan options include the 401(k) plan, which can be set up for just one person; the defined benefit pension plan; and the SIMPLE-IRA, which can be a good choice if your business income is modest or if you want a plan that is easier to administer than a traditional 401(k) plan.

Under the SECURE 2.0 Act, SIMPLE-IRA and SIMPLE 401(k) plans can be more attractive than they used to be because of higher allowable contribution and catch-up limits available for certain small employers. For most SIMPLE plans, the 2026 salary deferral limit is $17,000, with an additional $3,850 catch-up contribution allowed for employees who are age 50 or older. However, for qualifying small employers, generally those with 25 or fewer employees who received at least $5,000 of compensation in the preceding calendar year, the higher limits apply automatically. For these employers, the 2026 salary deferral limit is $18,000, and the catch-up contribution limit is $4,000.

Eligible employers with between 26 and 100 employees may also be able to use the higher limits, but only if an election is made and the employer agrees to provide higher employer contributions. If matching contributions are used, the employer match can be increased to as much as 4% of the employee's salary reduction contributions, instead of the regular 3% limit. If nonelective contributions are used instead, the employer must generally contribute 3% of eligible compensation, instead of the regular 2%, regardless of whether the employee elects to make salary reduction contributions.

__Observation:__ The higher SECURE 2.0 contribution limits can make SIMPLE plans more appealing for small business owners and key employees. Because the increased limits allow more tax-deferred retirement savings, some employers may find that a SIMPLE-IRA remains a practical choice longer before moving to a more complicated retirement plan.

It Might Not Be Too Late to Establish a Plan and Make a Deductible Contribution for Last Year

The general deadline for setting up a tax-favored retirement plan, such as a SEP or 401(k) plan, is the extended due date of the tax return for the year you or the plan sponsor wants to make the initial deductible contribution. For instance, if your business is a sole proprietorship or a single-member LLC that is treated as a sole proprietorship for federal income tax purposes, you have until 10/15/26 to establish a plan and make the initial deductible contribution if you extended your 2025 individual tax return. However, to make a SIMPLE-IRA contribution for the 2026 tax year, you generally must have set up the plan by October 1, 2026. So, if the SIMPLE-IRA option is appealing, establish the SIMPLE-IRA and make the initial contribution by October 1 of this year.

Evaluate Your Options

Contact us for more information on small business retirement plan alternatives, including whether your business qualifies for the higher SIMPLE-plan contribution limits. Also be aware that if your business has employees, you may have to cover them too.

Maximize the Qualified Business Income Deduction

The deduction based on qualified business income, or QBI, from pass-through entities was a key element of 2017 tax reform. The 2025 Act made the QBI deduction permanent and also added a guaranteed minimum deduction for some taxpayers beginning in tax years after 12/31/25.

The QBI deduction can generally be up to 20% of a pass-through entity owner's QBI, subject to restrictions that can apply at higher income levels and another restriction based on the owner's taxable income. For QBI deduction purposes, pass-through entities include sole proprietorships, single-member LLCs that are treated as sole proprietorships for tax purposes, partnerships, LLCs that are treated as partnerships for tax purposes, and S corporations.

Beginning with tax years after 12/31/25, taxpayers with at least $1,000 of qualifying income may be eligible for a guaranteed minimum $400 QBI deduction. In addition, the phase-out ranges that apply to certain QBI deduction limitations are increased to $75,000, for single filers, or $150,000 for joint returns.

The QBI deduction can also be claimed for up to 20% of income from qualified Real Estate Investment Trusts (REIT) dividends and 20% of qualified income from Publicly Traded Partnerships, or PTPs. So, the deduction can potentially be a big tax saver.

Because of the various limitations 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 deduction, you must be careful in making tax planning moves. We can help you put together strategies that give you the best overall tax results.

Take Advantage of Generous Depreciation Tax Breaks

Current federal income tax rules allow generous first-year depreciation write-offs for eligible assets that are placed in service in your business's current tax year. The new law makes these rules even more favorable in several important ways.

Section 179 Deductions

The 2025 Act significantly increased Section 179 expense limits. For qualifying property placed in service in tax years beginning in 2026, the maximum Section 179 deduction was increased to $2.56 million, with the deduction beginning to phase out once the cost of Section 179 property placed in service during the year exceeds $4.09 million. These amounts will be adjusted for inflation.

Most types of personal property used for business are eligible for Section 179 deductions, and off-the-shelf software costs are eligible too.

Section 179 deductions can also be claimed for certain real property expenditures called Qualified Improvement Property, or QIP, up to the maximum annual Section 179 deduction allowance. There is no separate Section 179 deduction limit for QIP expenditures, so Section 179 deductions claimed for QIP reduce the maximum Section 179 deduction allowance dollar for dollar.

> ***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 enlargement of the building, 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. In addition, Section 179 deductions can be claimed for personal property used predominately to furnish lodging or in connection with the furnishing of lodging. Examples include furniture, kitchen appliances, lawn mowers, and other equipment used in the living quarters of a lodging facility or in connection with a lodging facility, such as a hotel, motel, apartment house, dormitory, or other facility where sleeping accommodations are provided and rented out.

Warning: *Section 179 deductions can't cause an overall business tax loss, and deductions are phased out if too much qualifying property is placed in service in the tax year. The Section 179 deduction limitation rules can get really tricky if you own an interest in a pass-through business entity, such as a partnership, an LLC treated as a partnership for tax purposes, or an S corporation. Contact us for details on how the limitations work and whether they will affect you or your business entity.*

Full Bonus Depreciation

The new law makes 100% bonus depreciation permanent for eligible business property acquired after 1/19/25. That means your business may be able to write off the entire cost of qualified new or used property placed in service in 2026. This creates a major planning opportunity. If you are considering acquiring equipment, machinery, furniture, computers, or other eligible depreciable property, placing the property in service before year end may produce a substantial 2026 deduction. However, you should generally evaluate Section 179 deductions and bonus depreciation together to determine the best overall tax result.

In some cases, claiming the biggest possible first-year write-off is not the best move. For example, large depreciation deductions can reduce qualified business income (QBI) and may reduce your allowable QBI deduction. They can also reduce current-year income that might otherwise be taxed at a lower rate than income in a later year. Contact us before making major asset purchases so we can help you determine the most tax-efficient approach.

New 100% Depreciation Election for Certain Production Real Property

The new law also created a special 100% depreciation deduction election for qualified production property. Qualified production property generally means nonresidential real property used in the manufacturing, production, or refining of tangible personal property. The provision does not generally apply to buildings used for preparing food or beverages when the food or beverages are sold at that location. To qualify, construction of the property must begin after 1/19/25 and before 1/1/30, and the property must be placed in service before 1/1/31. The election applies to property placed in service after 7/4/25.

If your business is planning to build or expand a manufacturing, production, or refining facility, this new provision could be very valuable. However, the rules are technical, and the timing requirements are important. Please contact us early in the planning process so we can help you determine whether the property may qualify.

Depreciation Deductions for Heavy SUVs, Pickups, and Vans

The federal income tax depreciation rules favor new and used heavy vehicles used over 50% for business. That's because such heavy SUVs, pickups, and vans are treated for tax purposes as transportation equipment. That means they may qualify for Section 179 deductions and 100% bonus depreciation. However, this favorable depreciation treatment is only available when the SUV, pickup, or van has a manufacturer's Gross Vehicle Weight Rating, or GVWR, above 6,000 pounds.

The GVWR of a vehicle can be verified by looking at the manufacturer's label, which is usually found on the inside edge of the driver's side door where the door hinges meet the frame. If you are considering buying an eligible vehicle, doing so and placing it in service before the end of this tax year could deliver a significant write-off on this year's return.

Depreciation Deductions for Cars, Light SUVs, Light Trucks, and Light Vans

For so-called passenger autos, meaning cars and light SUVs, trucks, and vans that are used over 50% for business, the so-called luxury auto depreciation limitations apply. Thankfully, the limitations are not that strict. For passenger autos that are acquired and placed in service in 2026, the luxury auto depreciation limits are as follows:

$20,300 for Year 1 if first-year bonus depreciation is claimed, or $12,300 if bonus depreciation is not claimed.

- $19,800 for Year 2.
- $11,900 for Year 3.
- $7,160 for Year 4 and thereafter until the vehicle is fully depreciated.

Bottom Line: *To take advantage of favorable federal income tax depreciation rules, consider making eligible asset acquisitions between now and year end. Contact us for full details on applicable depreciation rules and the planning opportunities they might open up.*

Time Business Income and Deductions for Tax Savings

If you conduct your business using a pass-through entity, such as a sole proprietorship, S corporation, LLC, or partnership, your share of the business's income and deductions are generally passed through to you and taxed at your personal rates.

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.

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. One way to postpone deductible expenditures may be to elect out of bonus depreciation or to claim less than the maximum available Section 179 deduction. That way, more income may be taxed at this year's lower rate instead of next year's higher rate. The right strategy depends on your expected tax rate, cash flow, eligibility for the QBI deduction, and whether the excess business loss limitation affects you. Contact us for details on how to implement additional business income and deduction timing strategies.

Watch the Excess Business Loss Limitation

The new law makes the excess business loss limitation for noncorporate taxpayers permanent for tax years beginning after 12/31/26; a factor to keep in mind this year if your business losses are nearing $256,000 for single taxpayers or $512,000 married filing jointly.

Under this rule, certain business losses of noncorporate taxpayers are disallowed when they exceed a threshold amount. Disallowed losses are generally carried forward under the applicable net operating loss rules.

This limitation can affect owners of sole proprietorships, partnerships, LLCs treated as partnerships, and S corporations. It can be especially important when a business claims large depreciation deductions, incurs significant startup or expansion costs, or has a down year.

If you expect your business to generate a significant loss in 2026 or 2027, contact us before year end. Planning may be available to manage the timing of deductions, depreciation elections, and income recognition.

Consider the Expanded Qualified Small Business Stock Gain Exclusion

There is a federal income tax gain exclusion privilege for eligible sales of Qualified Small Business Stock, or QSBS of C corporations. Under prior law, noncorporate taxpayers that held eligible QSBS for more than five years could potentially exclude all or part of the gain realized on the sale or exchange of that stock from gross income.

The new law expands the QSBS exclusion for stock issued after the effective date. For tax years beginning after 7/4/25, the applicable gain exclusion percentage is:

- 50% for QSBS held for at least three years,
- 75% for QSBS held for at least four years, and
- 100% for QSBS held for at least five years.

The new law also increases the per-issuer gain exclusion limit to $15 million, or $7.5 million for married taxpayers filing separately. In addition, the aggregate gross asset limit for the issuing corporation is increased to $75 million. These dollar amounts will be adjusted for inflation for tax years beginning after 2026.

These changes may make QSBS planning more attractive for founders, investors, and owners of C corporations that qualify as small businesses. However, the QSBS rules are technical, and eligibility can be lost if the corporation does not satisfy all requirements. Contact us if you think you own stock that could qualify for the break or if you are considering establishing a new corporate business the stock of which might be eligible for the exclusion.

Deducting Research and Development Expenditures

Under the 2025 Act, taxpayers can fully expense domestic R&E expenditures in the year paid. This is a change from the rule effective for tax years beginning after 2021 and before 2025, which required taxpayers to amortize domestic R&E expenditures over a 60-month period.

Costs that qualify for full deduction include labor costs, materials and supplies, cost recovery allowances on property used in research activities, patent costs, certain overhead costs, and travel costs related to research activities.

A small business election allows taxpayers to retroactively apply the new deduction rules by filing an amended return, which could result in a tax refund for deducting any remaining capitalized balance.

But the window to file these amended return refund claims for 2022, 2023, and 2024 tax years closes on July 6, 2026. Please reach out to us if you think you may have research and development expenses you continue to capitalize from these prior years.

There are opportunities to take an R&E credit, rather than a deduction, just one or the other; no double dipping. We can help you determine the best course of action for your business.

> ***Note:*** *The 2025 Act did not alter the treatment of foreign R&E expenditures, which must still be capitalized and amortized over 15 years (180 months) beginning at the midpoint of the tax year in which they are incurred.*

Review Corporate Charitable Giving Plans

For tax years beginning after 12/31/25, the new law imposes a 1% floor on corporate charitable contribution deductions. Under prior law, corporate charitable contributions were generally subject to a 10%-of-taxable-income limit but no floor. Under the new rule, a corporation generally will not receive a current deduction unless its charitable contributions exceed 1% of taxable income.

Charitable contributions that are disallowed either because they exceed the 10% maximum or because they fail to reach the 1% threshold can generally be carried forward for five years.

Prepare for Higher Information Reporting Thresholds

The 2025 Act increases the general Form 1099 information reporting threshold for certain business payments from $600 to $2,000 for payments made after 12/31/25. This change applies to certain payments that would otherwise be reported on forms such as Form 1099-MISC or Form 1099-NEC, including certain payments for services performed by non-employees. The $2,000 threshold will be adjusted for inflation.

This change may reduce the number of information returns some businesses must file. However, businesses should continue collecting Forms W-9 from vendors and independent contractors and maintain complete payment records. The higher threshold does not eliminate the need for proper documentation, and some payments may still be reportable under other rules.

The new law also reinstates the pre-American Rescue Plan Act Form 1099-K threshold for third-party settlement organizations. The threshold reverts to more than $20,000 in payments and more than 200 transactions. This change is effective retroactively to 2021, as if it had been included in the American Rescue Plan Act. Even with these higher thresholds, income remains taxable whether or not a Form 1099 is received. If your business receives payments through third-party networks or pays independent contractors, we can help you review your reporting obligations.

Evaluate Paid Family and Medical Leave Credit Opportunities

The employer credit for paid family and medical leave was scheduled to expire at the end of 2025. The new law makes the credit permanent for tax years beginning after 12/31/25.

The new law also allows an employer to choose the type of credit for a paid family and medical leave insurance policy. This may make the credit more useful for some employers that provide benefits through insurance arrangements rather than directly paying leave wages.

If your business currently offers paid family and medical leave, or is considering doing so, contact us to evaluate whether the credit may be available and whether changes to your written leave policies or insurance arrangements could improve the tax result.

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 taxpayer 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 proprietor's self-employment tax liability.

In addition, wages paid to your child under the age of 18 by a parent's sole proprietorship or certain partnerships are not subject to federal employment taxes, will be deductible at your marginal tax rate, are taxable at the child's marginal tax rate, and can be offset by up to $16,100, which is your child's maximum standard deduction for 2026.

However, your family member must be a bona fide employee, and basic business practices should be followed. That means keeping time reports, filing payroll returns, issuing Forms W-2 when required, and basing pay on the actual work performed.

Conclusion

This letter only covers a few tax planning moves that could potentially benefit 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 for 2026.

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