

ERC Refund in 2026: One Great Way to Handle It

If your business receives an Employee Retention Credit (ERC) refund in 2026 for wages paid in 2020 or 2021, you may have an important tax planning opportunity.

Many businesses filed ERC claims years after they filed their original income tax returns. Because the IRS took so long to process many claims, some refunds are only now being paid, even though the related tax years are closed.

To address this situation, the IRS currently allows taxpayers to report the ERC refund as taxable income in the year they receive it. Following this guidance can help you avoid unnecessary disputes with the IRS.

At the same time, you may want to protect your rights. Some tax professionals believe the IRS's position could ultimately be rejected by the courts. If that happens, taxpayers who paid tax on their ERC refunds may be entitled to a refund.

One way to preserve that opportunity is to file a protective refund claim after reporting the income on your 2026 return.

This approach complies with current IRS guidance while keeping the door open to recover the tax if the law changes in your favor.

The 2026 Section 199A Calculation

Beginning in 2026, the Section 199A qualified business income deduction becomes a permanent part of tax planning for pass-through business owners.

This deduction can allow owners of sole proprietorships, partnerships, S corporations, and certain other pass-through businesses to deduct up to 20 percent of their qualified business income. C corporations do not qualify.

The 2026 rules bring several favorable changes. First, the deduction no longer expires after 2025. Second, the income phase-in ranges increase, which may allow more taxpayers to receive at least a partial deduction. For 2026, the threshold is \$201,775 for single filers and heads of household, and \$403,500 for married couples filing jointly.

If your taxable income is at or below these amounts, the deduction is generally straightforward, and most types of pass-through businesses can qualify.

If your taxable income exceeds the threshold, planning becomes more important. W-2 wages, qualified business property, retirement plan contributions, and business structure may affect the amount of your deduction. Certain service businesses, such as law, health, accounting, consulting, and financial services, may face additional limits at higher income levels.

The new rules also create a \$400 minimum deduction for some taxpayers with at least \$1,000 of qualified business income from an active trade or business.

2026 Health Insurance for S Corporation Owners

If you own more than 2 percent of an S corporation, the good news is that the rules for deducting your health insurance remain unchanged for 2026. By following a few important steps, you can continue to deduct the cost of coverage for yourself, your spouse, your dependents, and your children under age 27.

To qualify, your S corporation must either pay your health insurance premiums directly or reimburse you for them. The corporation must then include the premium amount as taxable wages in box 1 of your Form W-2, but not in boxes 3 or 5. You can then claim the self-employed health insurance deduction on your individual tax return if you meet the eligibility requirements.

One of the most common mistakes involves compensation. Your deduction cannot exceed your box 5 Medicare wages. If you take little or no salary, you may lose part or all of the deduction, even though the premiums appear on your W-2.

Another trap affects family members who work in the business. Under the tax law's family attribution rules, certain relatives may be treated as shareholders even if they own no stock directly. This can change how their health insurance must be reported and deducted.

Finally, be careful if you reimburse non-owner employees for individually purchased health insurance. Doing so outside an approved arrangement can trigger substantial IRS penalties.

The Home-Office Deduction for Three Square Feet

Many business owners assume they cannot claim a home-office deduction because their home is too small. In fact, the tax law says otherwise. A home office does not have to be an entire room. If you use a clearly defined area of your home exclusively for business, you may qualify for the deduction—even if that space is only a few square feet.

The biggest benefit often isn't the deduction for home expenses. Instead, a qualifying home office can make your home your principal place of business. That can convert trips between your home office and other work locations from non-deductible commuting into deductible business mileage.

To qualify, you must use the space exclusively and regularly for administrative or management activities such as bookkeeping, billing customers, scheduling appointments, ordering supplies, or preparing reports. You also cannot have another fixed location where you perform substantial administrative work.

This strategy remains available in 2026 for self-employed individuals, partners, and S corporation owners whose corporations properly reimburse business expenses. Unfortunately, W-2 employees generally cannot claim a home-office deduction under current law.

If you operate a business from your home—even occasionally—it may be worthwhile to review whether you qualify for this valuable deduction. A small amount of dedicated space could produce meaningful tax savings.

Tax Deduction for Classic or Antique Cars Used in Business

If you use a classic or antique car in your business, you may be able to deduct it just as you would a newer business vehicle.

The key requirement is business use. A vehicle must be subject to wear and tear, decline, or exhaustion, and you must use it in your trade or business. Courts have allowed depreciation deductions for valuable antique assets used in business, even when those assets appreciated in value.

This can make using a classic car for business an interesting alternative to using a new vehicle.

For example, a 1972 Pontiac GTO used in business may qualify for depreciation just like a 2026 Lexus IS. Current law generally treats new and used vehicles the same for depreciation purposes.

However, passenger automobiles remain subject to the luxury-auto depreciation limits. For vehicles placed in service in 2026 and eligible for bonus depreciation, the first-year deduction is capped, so you generally cannot deduct the full purchase price in Year One.

The potential advantage of a classic car is economic. While repairs and operating costs may be higher, the vehicle may hold or increase its value far better than a new car.

Turn Suspended Passive Losses into Tax Deductions

If you own rental real estate, you may have passive losses that have been suspended for years. Although you cannot currently deduct these losses, they are not lost forever. With proper planning, you may be able to unlock them and use them to reduce your taxes.

One common way to free suspended passive losses is to sell your entire interest in a rental activity. Once released, these losses can offset other income, potentially producing significant tax savings.

But not every sale works. Selling a rental property to a family member or to a corporation controlled by you or your family generally does not release suspended losses. Likewise, giving the property away can permanently reduce the tax benefit of those losses.

Another important planning consideration for 2026 is the excess business loss limitation. Even if you free a large amount of suspended losses through a sale, the law may limit how much you can deduct in the current year, with the remainder carried forward to future years.

Because the tax consequences depend on how your properties are grouped, who buys them, and the timing of the sale, advance planning is essential.

Myth: Rent Furniture to Your Corporation and Save on Taxes

Many business owners believe they can save on taxes by personally buying office furniture and then renting it to their S or C corporation. While this strategy sounds appealing, it generally does not produce any additional tax savings.

In most cases, the corporation receives the same depreciation deduction whether it buys the furniture directly or rents it from you.

Current tax law allows both new and used business furniture to qualify for 100 percent bonus depreciation when eligible, so the tax deduction is generally the same either way.

Personal ownership can also create unnecessary complications. Renting furniture to your corporation may require additional tax reporting, increase the burden of record keeping, and (in some situations) expose the furniture rental income to self-employment tax. Attempting to expense the furniture under Section 179 can add even more hurdles.

For most business owners, the simplest and most tax-efficient approach is to have the corporation purchase the furniture directly. This allows the corporation to claim the deduction without the added paperwork or potential tax traps associated with a personal property rental arrangement.