

8 Year-End Tax-Savings Steps for Business Owners

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If you own, operate, or participate in the managements of a business, taxes are always on your mind, especially at the end of every quarter, when estimated payments are due, and the end of the year, when you file your return. As tax year 2025 comes to a close, we at SWC are committed to helping you avoid any surprises while taking full advantage of all the tax breaks your business qualifies for.

Our recent blog post, [“10 Year-End Tax-Savings Tips for 2025 for Individual Filers”](#) revealed ways that any individual taxpayer can trim their tax bill. In this SWC singlette, we focus our attention on tax-savings strategies specifically for business owners, starting with the often overlooked review of your businesses estimated tax payments.



1. Review Your Estimated Tax Payments

Finding out your business owes thousands, or tens of thousands of dollars, in taxes because it didn't pay sufficient estimated taxes over the course of the year, and then having to pay a penalty on top of that, is one of the nasty surprises we want to help you avoid. You have one last chance to correct any shortfall. Here are a couple easy ways to calculate the amount of estimated tax you're likely to owe:

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- **Use last year's percentage:** If the business earned about the same amount of money this year as you did last year, look at the percentage of its income paid in taxes last year (federal, state, and local), and multiply that percentage by the company's projected income for this year. For example, if the business earned about \$200,000 last year and this year and paid 35 percent in combined income tax and self-employment tax last year, expect to pay about 35 percent this year. For a more accurate estimate, subtract business expenses from gross income before multiplying the percentage.
- **Use an online tax estimator:** You can find plenty of federal income tax estimators online. However, most are helpful only for estimating the amount of federal income tax you're likely to owe. The estimate is not likely to include your self-employment tax or state and local taxes. Many calculators are designed only for estimating taxes on employment income, not business income.

After estimating the total income and self-employment tax the business is likely to owe, subtract the amount of estimated tax you have already paid to determine the balances owed to the US Treasury and state and local tax agencies, and then pay those balances by Jan. 15, 2026.

2. Reduce Business Income with Business Expenses

Business expenses are one of the most effective tools for reducing taxable business income because they directly lower net profit (the amount the Internal Revenue Service (IRS) uses to calculate your company's tax bill). Deductible expenses include the following:

- Office supplies, software, and subscriptions
- Equipment purchases
- Vehicle expenses/mileage
- Utilities, rent, phone, and internet
- Contractor payments

Be sure to take advantage of Section 179 expensing, which enables businesses to immediately deduct the full cost of qualifying equipment and certain improvements in the year they're placed in service instead of having to depreciate them over the course of several years.

For tax years beginning in 2025, your business can immediately deduct up to \$2.5m of qualifying business property placed in service. This covers most equipment, off-the-shelf software, and certain improvements to commercial buildings (known as Qualified Improvement Property, or QIP).

Be aware of the following limitations:

- For purchases made between Jan. 1 and Jan. 19, 2025, the business is only allowed to deduct 40 percent of the cost right away using bonus depreciation. But for anything purchased after Jan. 19, 2025, you can usually deduct 100 percent of the cost in the first year, as long as the asset is placed in service during 2025.

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- Section 179 cannot create a business loss.
- The deduction phases out once total qualifying purchases exceed \$4 million, disappearing completely at \$6.5 million.
- Rules get more complex for partnerships, S corporations, and LLCs taxed as either, so professional guidance from the pros here at SWC may be needed.

Contact us for details on how the limits work and whether they will affect you or your business entity.

3. Set Up a Retirement Plan for Your Business (If You Haven't Already)

If you don't have a retirement plan for your business, you could be missing out on one of the most powerful tax-savings and wealth-building tools available. These plans allow you to make sizable tax-deductible contributions.

Most small businesses use *defined contribution plans*, such as the following, which are easier to manage than traditional pension plans:

- SEP IRA (Simplified Employee Pension Individual Retirement Account) is a common choice for the self-employed. In 2025, you can contribute up to 20 percent of net self-employment income (or 25 percent of wages if you're paid through your own corporation), with a maximum deduction of \$70,000.
- Solo 401(k) allows for even larger contributions because you can make both employer and employee contributions. For 2025, employee deferrals can reach \$23,500, or \$31,000 if you're 50 or older.
- SIMPLE IRA (Savings Incentive Match Plan for Employees Individual Retirement Account) may work well for businesses with modest income. It allows contributions of up to \$16,500 (\$20,000 for those 50 and up). SIMPLE IRAs also allow younger employees, including working children, to participate, unlike SEPs and 401(k)s, which require participants to be at least 21 years old.

The combined annual limit for each participant across all plans is \$70,000.

4. Time Business Income and Deductions to Minimize Tax Liability

If your business is structured as a sole proprietorship, partnership, S corporation, or LLC, your share of the business income and deductions are taxed at your individual rates. The most tax-efficient approach for timing your business income and deductions depends on whether you expect to be in a higher or lower tax bracket next year.

If you expect to be in the same or a lower tax bracket next year:

- Defer income into 2026 (delay invoicing, consider installment sales, or use like-kind exchanges).
- Accelerate expenses into 2025 (prepay bills, buy needed supplies/equipment, make deductible payments).

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- If yours is a cash-basis business, pay bonuses before year-end.
- If yours is an accrual-basis business, finalize bonus obligations by year-end and pay them by March 15, 2026.

If you expect to be in a higher tax bracket next year, take the opposite approach:

- Accelerate income into 2025 (bill earlier, avoid deferring payments).
- Delay deductible expenses into 2026 when deductions will be worth more.
- If yours is a cash-basis business, delay bonus payments until Jan. 2026.
- If yours is an accrual-basis business, revise bonus plans so bonuses are paid after March 15, 2026.

5. Take Full Advantage of the Qualified Business Income (QBI) Deduction

If your business is structured as a pass-through entity (a sole proprietorship, partnership, S Corp, or qualified LLC), you may qualify for a 20 percent deduction on your business income. For 2025, QBI deduction limits may apply if your taxable income is over:

- \$394,600 if married filing jointly
- \$197,300 for all other filers

If your income exceeds these amounts, the deduction may be reduced or phased out based on:

- W-2 wages your business pays
- The cost of certain business assets (equipment, machinery)
- Whether your business is a specified service business (law, accounting, consulting, health, etc.)

If you have pass-through income from a business, take the following steps:

1. Estimate your 2025 taxable income to see whether you're above or below the QBI thresholds.
2. Adjust year-end moves (like bonus payments or equipment purchases) to keep taxable income within the range that maximizes the deduction.
3. Be cautious with large depreciation deductions because they may reduce QBI and shrink your 20 percent deduction.
4. Review payroll levels (paying reasonable W-2 wages can help preserve the deduction for high earners).

6. Work Around the State And Local Tax (SALT) Deduction Cap

The SALT deduction cap jumps to \$40,000 for 2025 (from \$10,000), increases 1 percent annually through 2029, and then drops back down to \$10,000 in 2030. If your modified adjusted gross income (MAGI) exceeds \$500,000, your SALT deduction cap may be reduced but never below \$10,000.

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If your itemized deductions are limited by the SALT cap, you may qualify for the following workaround:

1. Check whether your state allows a Pass-Through Entity Tax (PTET), because 36 states do, including California.
2. Consider making a PTET election for your partnership or S corporation. This election allows the business to pay the state income tax at the entity level, avoiding the personal SALT cap.

This workaround reduces your taxes in two ways (and a third way starting in 2026):

- Lowers your self-employment tax, because the state taxes paid by the entity reduce the business income passed to you.
- Increases your overall deductions, assuming the PTET reduces your itemized deductions below the standard deduction threshold.
- Starting in 2026, if the PTET pushes you into the standard deduction, you can also claim the above-the-line charitable deduction of \$1,000 for single filers and \$2,000 for married couples who file jointly.

7. Maximize Tax-Free Gains with Small-Business Stock

The One Big Beautiful Bill (H.R.1) expands the tax benefits for Qualified Small Business Stock (QSBS), allowing investors in certain C corporations to exclude part or all of their QSBS capital gains from federal tax. Here are the changes you need to know about for 2025:

- Gain exclusions based on holding period for stock issued after July 4, 2025 are as follows: 50 percent exclusion for shares held at least three years, 75 percent exclusion for shares held at least four years, and 100 percent exclusion for shares held at least five years.
- Higher business limits: QSBS eligibility now applies to corporations with up to \$75 million in assets (up from \$50 million).
- Higher exclusion per investor: Each shareholder can exclude up to \$15 million in gains per QSBS issuer (up from \$10 million)

To benefit from this tax break:

- If you're operating a C corporation or thinking of forming one, consider issuing QSBS to investors.
- Track your company's asset size, being careful not to exceed \$75 million if you want the new QSBS to qualify.
- Plan your stock sales carefully to take advantage of the exclusion.

8. Reduce Business Income by Employing Family Members

A great way to reduce the tax on your business income is hire family members to do some

of the work. You can **deduct wages** and benefits, including medical coverage, as a business expense, which may also reduce your self-employment tax.

The only catch is that any family members you hire must perform real work and be paid a fair wage, and your business must follow standard payroll practices (*i.e., track hours, file payroll forms, and document the work your family member(s) perform*).

Employing children under the age of 18 years delivers additional benefits:

- No federal employment taxes on their wages
- Wages are taxed at the child's lower rate
- Up to \$15,750 (the child's 2025 standard deduction) can be tax-free
- You can also contribute to a SIMPLE IRA for them

Start Saving Taxes and Building Wealth Now

Some of the year-end tax-savings strategies discussed in this post are relatively simple to execute; others are more complex; and some are most effective when approached from a multi-year perspective. We encourage you to consult a tax-planning specialist like the ones here at SWC to develop a personalized long-term tax-saving and wealth-building strategy.

Here at SWC, we help you stay current with the ever-changing tax code, and we make sure you're prepared to capitalize on opportunities hidden in the tax code that can minimize your tax burden and increase your net worth. If you're already an SWC client, [contact us](#) to schedule your year-end tax-planning meeting. If you're not a client, [contact us](#) to set up your initial consultation whenever you're ready to start saving on taxes and building long-term wealth.

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Keep in touch.

16875 W. Bernardo Drive, Suite. 290
San Diego, CA 92127

p: (858) 487-4580 | f: (858) 487-8033
w: www.SWC.cpa

Laura A. Stees, CPA

Co-founder | Partner | Business Strategist
Laura@SWC.cpa

Marni L. Walker, CPA

Co-founder | Managing Partner | Estate Strategist
Marni@SWC.cpa