Mid-Year Tax Planning for Small Businesses: How to Reduce Your 2026 Tax Bill

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If you're like most small-business owners, taxes probably aren't even a blip on your radar screen right now. After all, you just filed your tax returns on April 15, so why bring up taxes less than two months later?

The reason? Summer is the best time to take a fresh look at your business tax situation. With several months remaining in the year, you have time to make adjustments that could reduce your 2026 tax bill, improve cash flow, reduce tax liabilities, and help you avoid unpleasant surprises next spring. The important thing is to act before year-end. Many of the most effective tax-saving and wealth-building strategies work best when implemented well in advance, not in a last-minute scramble in December.



Recently, we presented forward-looking advice for saving on personal income taxes. In this SWC singlette, we shift our attention to helping small-business owners keep more of their hard-earned profits. The following tax-saving strategies and tactics can help you identify opportunities and evaluate your options, as well as position your business for a better financial finish to 2026.

Maximize Your Qualified Business Income (QBI) Deduction

One of the most valuable tax breaks available to many business owners is the Qualified Business Income (QBI) deduction. It allows many owners of pass-through businesses to deduct up to

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20 percent of their business income right off the top. For example, if your business generates $100,000 in qualified business income, you may be able to deduct up to $20,000 and pay federal income tax on the remaining $80,000. Pass-through businesses (income passes through the business to the owners) include:

- Sole proprietorships
- Single-member limited liability companies (LLCs)
- Partnerships
- Multi-member LLCs
- S corporations

Here are a few key details about the QBI deduction:

- Beginning in 2026, some taxpayers with at least $1,000 of qualifying income may be eligible for a minimum $400 deduction.
- The income ranges before certain deduction limits kick in have been expanded, making the deduction more accessible.
- Investors may also qualify for a QBI deduction on certain real estate investment trust (REIT) dividends and publicly traded partnership (PTP) income.

> **Important:** Large depreciation deductions may reduce your QBI deduction, so look at the big picture. Here at SWC — Southern California's independently owned tax planning and financial strategies advisory firm for entrepreneurs and small business owners, real estate investors, and high-net-worth individuals — we help our clients examine tradeoffs like these and make the best choices for their situation. If you need guidance or support, we can be reached by phone or email [(858) 487-4580 | admin@swc.cpa], and you can always reach us using the form on our website's Contact page. We're here to help!

Supercharge Your Tax Savings with Strategic Asset Purchases

The tax code continues to offer powerful incentives for businesses that invest in equipment, vehicles, building improvements, and other assets. With several enhanced depreciation provisions now in place, the right purchase at the right time could generate substantial tax savings. Before making a major investment, however, you should understand which rules apply and how they fit into your overall tax strategy. Here, we explain your options.

Get Bigger Up-Front Write-Offs with Section 179 Deductions

The Section 179 deduction allows many businesses to immediately deduct the full cost of qualifying assets rather than depreciating them over several years. Key highlights for 2026 include the following:

- The maximum deduction has increased to $2.56 million.
- Phaseout begins when qualifying purchases exceed $4.09 million.
- The deduction applies to many types of equipment, machinery, furniture, computers, and off-the-shelf software

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You can also claim Section 179 deductions for Qualified Improvement Property (QIP) up to the maximum annual Section 179 deduction allowance. QIP includes improvement to an interior portion of a commercial (non-residential) building after the date the building was first placed in service, except for costs related to enlargement of the building, to elevators or escalators, or to the building's internal structural framework. Section 179 deductions can also be claimed for expenditures for the following improvements to commercial real estate:

- Roof replacements
- HVAC systems
- Fire protection and alarm systems
- Security systems

You may also be able to claim 179 deductions for personal property used predominantly to furnish a lodging facility, such as a hotel, motel, apartment house, dormitory, or other facility where sleeping accommodations are provided and rented out. For example, you may be allowed to claim a 179 deduction for the cost of furniture, kitchen appliances, and other equipment used in the living quarters of such a facility.

The rules and limitations that govern Section 179 deductions can be tough to navigate. We can help you maximize your deductions with confidence that you're not breaking any rules.

Take Advantage of Full Bonus Depreciation

The new law permanently restores 100 percent bonus depreciation for eligible property acquired after Jan. 19, 2025. In many cases, this means you can deduct the entire cost of qualifying new or used business assets in the year they're placed in service. Potentially eligible assets include the following:

- Equipment and machinery
- Computers and technology
- Furniture and fixtures
- Business vehicles

> **Caution:** Bigger deductions aren't always better. Large depreciation write-offs can reduce taxable income enough to affect other tax benefits, including the QBI deduction. We can crunch the numbers and tell you which option would give you the biggest tax savings.

Purchase a Business Vehicle, Get a Tax Break

Business vehicle purchases continue to receive favorable tax treatment. Be sure to place the vehicle in service before the end of this tax year to claim the deduction on your 2026 federal tax return. Tax breaks differ depending on the type of vehicle:

Pickups, Vans, and Heavy SUVs

Vehicles with a gross vehicle weight rating (GVWR) above 6,000 pounds may qualify for accelerated depreciation, including Section 179 deductions and bonus depreciation. (You can

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usually find a vehicle's GVWR on the manufacturer's label on the driver's side door jamb or the edge of the driver's door.) Examples include:

- Large pickup trucks
- Full-size SUVs
- Commercial vans

Cars, Light SUVs, Light Trucks, and Light Vans

For smaller vehicles used more than 50 percent for business, "luxury auto depreciation" limits apply:

- **Year 1:** $20,300 if you claim first-year bonus depreciation or $12,300 if you don't claim bonus depreciation
- **Year 2:** $19,800
- **Year 3:** $11,900
- **Year 4 and thereafter (until the vehicle is fully depreciated):** $7,160

Consider Building or Expanding Manufacturing or Production Facilities

Businesses involved in manufacturing, production, or refining activities may qualify for a special election that allows 100 percent depreciation of certain production facilities. This provision may create significant savings for businesses planning to:

- Build a new facility
- Expand an existing operation
- Invest in production infrastructure

Because qualification and timing rules are complex, early planning is essential.

Time Business Income and Deductions to Maximize Tax Savings

If your business operates as a sole proprietorship, partnership, LLC, or S corporation, it's a pass-through entity (aka, flow-through entity), meaning income generally flows through the business to your personal tax return. So, the timing of income and deductions can have a meaningful impact on your tax bill. Here are some general guidelines for timing income and deductions to lower your taxes:

- If you expect the same or lower tax rate next year, consider delaying income and accelerating deductions to reduce this year's tax bill.
- If you expect a higher tax rate next year, consider accelerating income into this year (so it's taxed at a lower rate this year) and postponing deductions to next year (when they can help reduce next year's taxable income).
- Be careful with large write-offs. Electing out of bonus depreciation or limiting Section 179 deductions can sometimes produce a better overall outcome.

The best strategy depends on several factors, including your projected tax bracket, cash flow needs, and QBI deduction eligibility. We can analyze your situation and provide guidance on

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what's best for your situation.

Consider Employing Family Members

Putting family members on the payroll can be a smart way to shift income and reduce your overall tax obligations — provided they perform legitimate work for the business. Potential benefits include the following:

- Wages paid to family members are generally deductible as a business expense.
- Hiring your children may create additional tax savings because a portion (or all) of their earnings can be sheltered by their standard deduction.
- In some cases, wages paid to children under age 18 by a sole proprietorship are exempt from federal employment taxes — Social Security, Medicare, and Federal Unemployment Tax (FUTA).

> **Caution:** Family members must be bona fide employees. Be sure to follow normal payroll procedures, keep accurate records, and pay reasonable compensation for the work they perform.

Don't Let Large Business Losses Go to Waste

If your business is structured as a sole proprietorship, partnership, LLC, or S corporation, business losses can provide valuable tax relief, but you may be limited in how much you can deduct in any given year. Limitations often come into play when a business does any of the following:

- Claims large depreciation deductions
- Has significant startup or expansion costs
- Experiences an unusually unprofitable year

If losses exceed the allowable limit, you generally need to carry the excess forward to future years instead of deducting it immediately.

Save Taxes on the Sale of Qualified Small Business Stock

If you own stock in a qualifying small-business C corporation, you may be eligible for one of the most generous tax breaks available: the Qualified Small Business Stock (QSBS) gain exclusion. Under the prior law, tax payers could exclude all or a portion of their QSBS gain if they held the qualifying stock for at least five (5) years.

Recent legislative changes make the exclusion even more attractive for QSBS issued after July 4, 2025:

- Hold qualifying stock for at least three (3) years and exclude up to 50 percent of the gain
- Hold qualifying stock for at least four (4) years and exclude up to 75 percent of the gain
- Hold qualifying stock for at least five (5) years and exclude up to 100 percent of the gain

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The law also increases the maximum gain eligible for the exclusion, creating even greater potential tax savings for founders and investors.

QSBS can dramatically reduce or even eliminate tax on the sale of qualifying stock, but the rules are complex, and a company can lose eligibility if it doesn't meet certain requirements. If you own stock in a small-business C corporation or are planning to, we can help you evaluate your options. We can be reached by phone or email, or you can use the form on our website Contact page: (858) 487-4580 | admin@swc.cpa.

Maximize Tax Benefits for Research and Development

Recent tax law changes simplify the process of deducting the costs of domestic research and development (R&D). Potentially deductible expenses include the following:

- Employee wages related to R&D
- Materials and supplies
- Patent-related costs
- Certain overhead expenses
- Research-related travel
- Depreciation of assets used in R&D activities

You may have an opportunity to amend prior year returns and claim refunds for research expenses that were previously required to be amortized (deducted gradually over several years). However, the deadline to amend 2022 – 2024 returns is July 6, 2026.

> **Tip:** You may have the option to claim an R&D deduction or credit. (A deduction reduces your taxable income, whereas a credit is a dollar-for-dollar reduction in the tax you owe.) The best choice depends on your specific circumstances, so carefully evaluate both options before filing. We can help.

Establish a Retirement Plan and Save on Taxes at the Same Time

If your business doesn't already have a retirement plan, now may be the perfect time to start one. Contributions to plans such as a Simplified Employee Pension Individual Retirement Account (SEP-IRA), Savings Incentive Match Plan for Employees IRA (SIMPLE IRA), or pension plan can provide substantial tax deductions while helping you and any employees build retirement savings. Here are some of the benefits:

- Lower current year taxes through deductible contributions
- Tax-deferred growth on retirement savings
- Enhanced contribution opportunities for some SIMPLE plans under recent law changes

Before choosing a plan, consider contribution limits, administrative requirements, and whether employees must be included. We can help you compare your options and select the plan that best fits your business and retirement goals. For more about retirement plans, check out business brief, "Making Sense of Employer-Sponsored Retirement Plan Options."

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Revisit Corporate Charitable Giving Strategies

New rules beginning in 2026 may affect the timing and tax benefits of your business' charitable contributions. Key changes include the following:

- Corporations generally must contribute more than 1 percent of taxable income before receiving a current-year charitable deduction.
- The existing 10 percent-of-taxable-income limit on deductible contributions still applies.
- Contributions that can't be deducted because they fall below the 1 percent threshold or exceed the 10 percent limit can generally be carried forward for up to five years.

> **Tip:** If your corporation regularly makes charitable donations, review the timing and amount of those gifts. A little planning could help maximize the available tax benefit while continuing to support the causes that matter to your business.

Adjust to New 1099 Rules

Beginning in 2026, businesses will generally be required to issue a 1099 (for example, 1099-MISC or 1099-NEC) only for qualifying payments of $2,000 or more to non-employees, up from the previous $600 threshold. The $2,000 threshold will be adjusted for inflation.

While these changes may reduce paperwork, they do not eliminate report responsibilities. Good recordkeeping remains essential for both payers and recipients:

- Continue collecting W-9s from vendors and independent contractors.
- Maintain complete payment records, even if you're not required to issue a 1099.
- Income remains taxable regardless of whether a 1099 is issued or received.
- The higher reporting threshold for third-party platforms may reduce the number of 1099-Ks issued.

Explore Tax Credits for Paid Family and Medical Leave

Here's some good news for employers: The tax credit for providing paid family and medical leave is now a permanent part of the tax code. The new law also gives employers more flexibility by allowing certain insurance-based leave programs to qualify for the credit.

If your business offers paid family and medical leave (or is considering it), this credit may help offset the cost. A review of your leave policies and benefit structure could reveal valuable tax-saving opportunities that can also help you recruit and retain valuable employees.

Getting a Head Start on Your 2026 Business Taxes

Don't wait until year-end to start thinking about taxes. The earlier you plan, the more options you have, and the more time you have to put those options into play. If you'd like help identifying the strategies and tactics that make the most sense for your business and you haven't done so yet, please use the steps below to schedule your mid-year appointment with us here at SWC (complimentary for current clients).

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We would be happy to review your situation, answer your questions, and help you build a tax plan designed to keep more of your profits working for you.

To schedule your mid-year meeting as a phone or online meeting:

1. **Visit** the SWC Contact Page online
2. **Click** "Schedule an Appointment"
3. In the new window, **select** "Mid-Year Appointment (June – August)"
4. Next, **scroll to choose your preferred SWC team member** under "Select Staff"
5. **Select** a convenient date and time
6. **Enter** your contact information
7. **Click** "Book"

If you would like your mid-year meeting to be in person at our San Diego office, please contact us directly so we can help coordinate your appointment. We can be reached by phone or email, or you can use the form on our website Contact page: (858) 487-4580 | admin@swc.cpa.

Once your appointment is booked, our team will send a confirmation email with your meeting details and any additional information you may need. We'll also send reminder emails as your appointment date approaches.

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