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8 Year-End Tax-Saving Strategies for Business Owners in 2026



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If you own or manage a business, you're probably spending time thinking about taxes, especially as the end of the year approaches. With 2026 drawing to a close, now is a good time to review your business finances with your CPA and consider opportunities to reduce your federal income tax liability before Dec. 31, 2026.

The One Big Beautiful Bill Act (H.R. 1) — see "What the Passage of the One Big Beautiful Bill Mean for You and Your Business" on the SWC Blog — extended several business-friendly tax provisions and expanded others. Signed into law in July 2025, these changes create opportunities to reduce taxable business income and make decisions that may benefit your business.

Here at SWC, we hate to see business owners pay more in taxes than they're legally obligated to. That's why we encourage our clients to schedule year-end tax projection appointments while there's still time to make adjustments that could reduce their 2026 tax bills.

In our recently published blog post, "2026 Year-End Tax Checklist: 12 Ways to Save Before December 31," we covered tax-saving strategies for individual taxpayers. In this SWC singlette, we're focusing on eight opportunities specifically for business owners and those who manage businesses, starting with retirement plan considerations.

Tip No. 1: Establish a Retirement Plan or Increase Your Contributions

If your business doesn't already offer a retirement plan, establishing one may be among the most effective ways to reduce taxable income while helping you and your employees save for retirement. Several retirement plan options are available to businesses, and the best choice depends on your business structure and the number of employees you have.

Here are three common choices:

1. **SEP IRA (Simplified Employee Pension Individual Retirement Account):** If you're self-employed, you may be able to contribute up to 20 percent of your net self-employment income. If you're employed by your own corporation, contributions may reach 25 percent of your compensation. The maximum contribution for 2026 is $72,000.
2. **401(k) plan:** For 2026, employees can defer up to $24,500 of their compensation.

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Those age 50 or older may qualify for an additional $8,000 catch-up contribution, while participants ages 60 through 63 may qualify for a higher $11,250 catch-up contribution. Employer contributions may increase the total amount contributed, subject to applicable limits.

3. **SIMPLE IRA (Savings Incentive Match Plan for Employees):** This option may appeal to smaller businesses looking for a retirement plan with relatively simple administration. For 2026, the employee contribution limit is $17,000, with an additional $4,000 catch-up contribution for those age 50 or older. Participants ages 60 through 63 may qualify for a higher $5,250 catch-up contribution.

Choosing the right retirement plan requires considering more than the maximum contribution allowed. For example, a SEP IRA may be attractive to a self-employed business owner with no employees, while a 401(k) plan may offer more flexibility for a business with employees who want to contribute through payroll deductions. Employer contribution requirements and administrative costs should also be part of the decision.

SWC Recommends: If you already have a retirement plan, review your contributions before year-end to determine whether you can increase them. If you haven't established a plan, contact us to discuss which option may provide the greatest tax benefit for your business. (Phone: (858) 487-4580 | Email: admin@swc.cpa.) Certain retirement plans can be established and funded after the end of the tax year, provided the applicable deadlines are met. We can also help you review the timing requirements.

Tip No. 2: Take Advantage of Business Equipment and Property Deductions

Purchasing equipment or making improvements to business property may provide an opportunity to reduce your 2026 taxable income. Under federal tax law, businesses recover the cost of equipment and certain property improvements through depreciation deductions over several years. However, Section 179 of the U.S. Internal Revenue Code, which focuses on expensing and bonus depreciation, may allow your business to deduct much or all of an eligible purchase in the year the property is placed in service.

Section 179 Expensing

For tax years beginning in 2026, businesses may deduct up to $2.56 million in qualifying property costs. Eligible purchases may include machinery and equipment used in your business, qualifying off-the-shelf software, and certain improvements to nonresidential buildings.

Other qualifying improvements may include roofs and HVAC systems installed in existing nonresidential buildings, as well as certain fire protection and security systems. The Section 179 deduction begins to phase out when qualifying property purchases exceed $4.09 million during 2026 and is fully phased out at $6.65 million in qualifying purchases. Section 179 deductions are also subject to business income limitations, so the amount you can deduct may depend on your company's taxable income.

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Take Advantage of 100 Percent Bonus Depreciation

Businesses may also qualify for 100 percent first-year bonus depreciation on eligible new or used property acquired and placed in service during 2026. This provision allows qualifying businesses to deduct the full cost of certain assets in the year they're placed in service, although the eligibility requirements and limitations differ from those governing Section 179.

If your business is considering major equipment purchases, the availability of 100 percent bonus depreciation may affect the timing of those investments. A business that expects substantial taxable income in 2026 may benefit from placing qualifying equipment in service before year-end, while another business may benefit from spreading deductions over future years.

A Special Deduction for Manufacturing and Production Facilities

Businesses involved in qualifying manufacturing or production activities may also benefit from a new provision allowing 100 percent depreciation on certain nonresidential real property used in those activities. This deduction has specific requirements involving construction dates and when the property is placed in service. Special election and recapture rules also apply.

Because these requirements can affect whether a facility qualifies, and if you're considering a construction or expansion project, you should review the rules before making major commitments. While the potential deduction may be substantial, the property's intended use and the timing of the project will influence the available tax treatment.

> **SWC Recommends:** Before making a substantial equipment purchase or beginning a facility improvement project, talk with us about the potential tax consequences. We'll help you evaluate whether Section 179 expensing, bonus depreciation, or another available deduction provides the better result. Keep in mind that qualifying property must meet the applicable placed-in-service requirements. That means that simply ordering equipment or making a deposit before Dec.

Tip No. 3: Time Business Income and Expenses to Reduce Your Tax Bill

The timing of business income and deductible expenses can have a significant effect on how much tax you owe. If your business operates as a sole proprietorship, partnership, S corporation, or qualifying limited liability company (LLC), your share of its taxable income generally flows through to your individual income tax return. This means changes in your personal tax bracket may affect the best approach to year-end business planning.

If you expect to be in the same or a lower tax bracket in 2027, consider these tax planning strategies:

- **Defer income into 2027.** Depending on your businesses accounting method, you may be able to delay invoicing or arrange qualifying transactions that postpone taxable income.
- **Accelerate deductible expenses into 2026.** Pay eligible business expenses before

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year-end when the applicable deduction rules allow it.

- **Consider needed equipment purchases.** Qualifying assets placed in service during 2026 may generate deductions under Section 179 or bonus depreciation.

If you expect to be in a higher tax bracket in 2027, accelerating income into 2026 and postponing certain deductions may produce a better result. For example, if your business anticipates significantly higher profits next year, preserving deductions for 2027 could be more beneficial than claiming them in 2026. The right approach depends on your projected income and the tax provisions that apply to your business.

Review the Timing of Employee Bonuses

Year-end bonuses may also provide opportunities to manage taxable income. If your business uses the cash method of accounting, bonuses must be paid before Dec. 31, 2026, to qualify for a 2026 deduction.

If your business uses the accrual method, you may be able to deduct bonuses for 2026 even when they're paid in early 2027. To qualify, the bonus obligation must satisfy the applicable accrual requirements, and payment must occur within 2½ months after year-end. For calendar-year businesses, that means paying qualifying bonuses by March 15, 2027.

The timing of bonuses can become more complicated when payments involve business owners or related parties. Before finalizing bonus arrangements, we recommend reviewing the proposed payments to determine when the deductions will be available and whether special rules apply. If you need assistance with us, drop us a note using the contact form on our website. We're happy to help.

Review Research and Experimental Expenses

If your business conducts qualifying research activities, you may also benefit from provisions allowing eligible domestic research and experimental expenditures to be deducted. This can be especially helpful for businesses developing products or improving production processes, although the available treatment depends on the nature of the expenditures.

Businesses that have incurred substantial research costs during 2026 should review how those expenditures have been classified and recorded. The potential deduction should be considered alongside other year-end expenses when estimating the business's overall taxable income. Here too, if you need help, consult your tax planning professional or CPA.

Tip No. 4: Consider a Pass-Through Entity Tax Election

If you own a partnership or S corporation, a Pass-Through Entity Tax (PTET) election may help reduce the federal income tax consequences of the state and local tax deduction cap. For 2026, the federal State and Local Tax (SALT) deduction cap is $40,400, or $20,200 for married taxpayers filing separately. The deduction may be reduced for taxpayers whose modified adjusted gross income exceeds certain thresholds, which can limit the federal tax benefit of state income taxes paid personally.

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A PTET election allows an eligible pass-through business to pay qualifying state income taxes at the business level. Because these taxes are paid by the business entity, they may be deductible when calculating the business income passed through to its owners. California is among the states that offer a PTET election, although eligibility requirements and filing procedures must be reviewed separately.

For example, suppose you're a partner in a California business and your share of state income taxes would otherwise be subject to the federal SALT deduction cap. If the partnership qualifies and makes a PTET election, paying the applicable state tax at the entity level may reduce the income reported on your federal return. Depending on your circumstances, that reduction could produce federal income tax savings.

> **SWC Recommends:** If you own an interest in a partnership or S corporation, ask us whether a PTET election makes sense for 2026. State eligibility requirements and election deadlines vary, and the decision should account for the business's circumstances and the tax positions of its owners.

Tip No. 5: Maximize Your Qualified Business Income Deduction

If your business operates as a sole proprietorship or pass-through entity, you may qualify for a federal income tax deduction of up to 20 percent of Qualified Business Income (QBI). The QBI deduction can reduce the taxable income reported on your individual return, potentially producing substantial tax savings.

Keep in mind that eligibility and the amount you can deduct depend on several factors, including your taxable income and the type of business you operate. For 2026, the income thresholds are:

- **Married filing jointly:** Limitations begin to apply when taxable income exceeds $403,500 and are fully phased in at $553,500.
- **All other filers:** Limitations begin to apply when taxable income exceeds $201,750 and are fully phased in at $276,750.

Above these thresholds, the deduction may be limited based on the W-2 wages your business pays and the cost of certain qualifying business property. Additional restrictions apply to specified service businesses, including accounting practices and law firms.

A New Minimum QBI Deduction for 2026

Beginning in 2026, eligible taxpayers with at least $1,000 of aggregate QBI from active qualified trades or businesses may qualify for a minimum QBI deduction of $400, subject to the applicable requirements. This provision may benefit smaller business owners whose calculated QBI deduction would otherwise be relatively modest.

Business owners should also consider how other tax-saving decisions affect their QBI deduction. For example, claiming a large depreciation deduction may reduce business income enough to lower the amount eligible for the 20 percent QBI deduction. Accelerating other deductible

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expenses into 2026 could have a similar effect, depending on the business's circumstances.

A year-end tax projection appointment with your CPA can help you estimate how much of the QBI deduction you may be eligible to claim. It can also help you determine whether accelerating expenses or making equipment purchases will produce the tax result you expect.

Tip No. 6: Explore Tax Benefits for Qualified Small Business Stock

If you own a C corporation or are considering establishing one, the expanded Qualified Small Business Stock (QSBS) rules may offer significant tax benefits. QSBS refers to stock issued by certain qualifying C corporations. When the applicable requirements are met, shareholders may exclude some or all of their gains from federal income tax when they sell their shares.

The One Big Beautiful Bill Act expanded the QSBS rules for qualifying stock issued after July 4, 2025. The available exclusion depends on how long the shareholder holds the stock. For example:

- **At least three years:** 50 percent of qualifying gains may be excluded
- **At least four years:** 75 percent of qualifying gains may be excluded
- **At least five years:** 100 percent of qualifying gains may be excluded

The legislation also increased the qualifying corporation's aggregate asset limit from $50 million to $75 million for stock issued after July 4, 2025. For qualifying stock issued after that date, the per-shareholder / per-issuer gain exclusion limit increased from $10 million to $15 million, subject to the applicable rules.

These changes may make the C corporation structure more attractive for certain businesses, particularly those involved in manufacturing or selling tangible products. However, QSBS eligibility depends on several requirements involving the corporation's activities and the circumstances under which the shares were acquired.

If you're considering a future sale, you should review QSBS eligibility well before a transaction is planned. The exclusion depends on satisfying requirements over time, and decisions made when shares are issued can affect the federal tax treatment of a later sale.

Tip No. 7: Consider Employing Family Members

Hiring family members to perform legitimate work for your business may create opportunities to reduce your overall family tax burden, even this late into the year. When a family member is a bona fide employee, the business can generally deduct reasonable wages paid for actual services performed. The family member reports the wages as income, potentially at a lower individual income tax rate.

Hiring your children may provide further tax benefits in certain circumstances. For 2026, an unmarried child may have a standard deduction of up to $16,100, depending on the applicable earned income rules. If your business qualifies for the special family employment tax rules, wages paid to your child under age 18 may also be exempt from certain federal employment taxes.

Keep in mind that these employment tax exemptions depend on your business structure. They

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tend to apply to qualifying employment by a parent's sole proprietorship or certain partnerships owned by the child's parents. Different rules apply when the employer is a corporation, so it's important to review the business's legal structure with your business attorney or CPA before assuming an exemption is available.

To qualify for the deductions, your family member must perform legitimate work and receive reasonable compensation. You should also follow normal payroll procedures, including:

- Keeping records of the hours worked
- Documenting the duties performed
- Paying reasonable wages for the work
- Filing the required payroll tax forms

Depending on the circumstances, you may also be able to establish a retirement account for an eligible family member employed by the business. This could allow the family member to begin saving for retirement while potentially providing another tax benefit.

> **SWC Recommends:** Before hiring a child or other family member, review your business structure and the proposed employment arrangement with us. Proper documentation and compliance with employment tax requirements are important in order to obtain the intended tax benefits.

Tip No. 8: Consider How Your Business Tax Strategies Affect One Another

When reviewing year-end tax-saving opportunities, it's important to consider how different deductions and elections affect your overall tax liability. A strategy that reduces one portion of your tax bill may also change your eligibility for another deduction, which can affect the total savings.

For example, purchasing equipment may generate a substantial depreciation deduction, but that deduction could also reduce your Qualified Business Income (QBI) deduction. If your business qualifies for both provisions, the amount of depreciation you claim may influence how much of the QBI deduction remains available.

The timing of income and expenses can create similar considerations. Accelerating deductible expenses into 2026 may reduce this year's taxable income, although postponing those deductions could be more beneficial if you expect higher taxable income in 2027.

Your business structure also influences how these decisions affect your taxes. Income from a sole proprietorship or pass-through entity generally appears on the owner's individual return, while a C corporation pays federal income tax at the corporate level. The federal corporate income tax rate is 21 percent for 2026, so the effect of accelerating income or deductions may differ from the result for a pass-through business owner.

Before committing to a major equipment purchase or making other significant year-end tax decisions, consider how the available tax planning strategies work together. Comparing the estimated tax results can help you identify which combination of deductions and elections may provide the greatest overall benefit.

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Start Planning Now to Reduce Your 2026 Business Taxes

As you can see, several tax-saving opportunities are available to business owners as 2026 comes to a close. Some involve relatively simple decisions about when to pay expenses or make retirement plan contributions. Others, such as PTET elections and QSBS planning, require a closer look at your business structure and long-term financial objectives.

Here at SWC, we help business owners understand the tax rules that apply to their circumstances and identify opportunities to reduce their tax burden. Our objective is to help you keep more of what your business earns and use those savings to increase your net worth.

Our 2026 Year-End Tax Projection Appointments provide an opportunity to review your projected business income and expenses before the year closes. We can estimate your potential tax liability and discuss which planning strategies may be appropriate for your circumstances. We can also consider how decisions made in 2026 may affect your finances in future years.

If you're already an SWC client and haven't scheduled your appointment, please contact us to arrange a meeting. We can be reached by phone at (858) 487-4580, or by email: admin@swc.cpa. If you're considering becoming a client, we'd be happy to discuss how our personalized tax-planning services can help you make informed decisions about your business and its financial future.

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