Supplement to J.K. Lasser's Small Business Taxes 2026

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THIS SUPPLEMENT REFLECTS CHANGES THROUGH FEBRUARY 1, 2026.

This year's book, *J.K. Lasser's Small Business Taxes 2026,* covers the tax rules as they stood on October 1, 2025. Since then, Congress passed two minor tax measures: The Internal Revenue Service Math and Taxpayer Help Act (which requires the IRS to provide plan language explanation of return errors and other information in notices issued to taxpayers) and the Disaster Related Extension of Deadlines Act (which treats the extension of time for making refund claims the same as for filing returns by disaster victims). But due to enactment of the One Big Beautiful Bill Act in July 2025, the IRS has issued a lot of guidance on various provisions in this law. The IRS has also issued guidance on other matters. And there have been some court decisions of note.

The changes (and a few corrections) in this Supplement are listed according to the chapters in which the subject matter appears. I've attempted to include an answer to every notation in the book that said: "see the Supplement." Some information covered in this Supplement may apply to 2025 returns; some is only for 2026 and is included for purposes of figuring 2026 estimated taxes as well as planning ahead. For changes in 2026, only an overview is provided, with more details to come in the next edition of this book, *J.K. Lasser's Small Business Taxes 2027*.

Introduction

Forms and schedules. When this edition was published, final versions of all forms and schedules were not yet available. Find final versions of forms and schedules here.

Chapter 1—Business Organization

Self-employment tax on S corporation owner-employees? While there have been proposals to treat these individuals the same as partners for purposes of self-employment tax, there has been no legislation enacted on point.

Beneficial ownership information (BOI) reporting. On December 16, 2025, a unanimous federal appellate court upheld the constitutionality of the Corporate Transparency Act, a measure that created beneficial ownership information (BOI) reporting for certain entities. FinCEN had previously said it would not require *domestic* entities to do any reporting, and that it will destroy data from domestic reporting companies that has previously registered. Was the data destroyed? Will this court decision change BOI reporting for domestic entities?

Chapter 2—Tax Year and Accounting Method

Tax year. The user fee accompanying Form 1128 for changing your tax year is unchanged in 2026.

Gross receipts test. For 2026, the gross receipts test used to determine whether C corporations can use the cash method of accounting is $32 million in average annual gross receipts in the 3 prior years. Businesses that qualify under this test for the first year must file for a change in accounting method; it's an automatic change.

Installment sale—sale of farmland. See Chapter 20.

Chapter 4—Income or Loss from Business Operations

Payments in digital assets. This is not new; it's a reminder that businesses must disclose on 2025 income tax returns whether they engaged in any digital asset transactions as follows:

- Sole proprietors: Page 1 of Form 1040 or 1040-SR
- Partnerships: Line 30, Schedule B of Form 1065
- S corporations: Line 16, Schedule B of Form 1120-S
- C corporations: Line 27 of Schedule K of Form 1120

Income from farming. An executive order in December 2025 directed the U.S. Attorney General to take steps to reschedule medical marijuana from Schedule I (no medical use and a high potential for abuse) to Schedule III (lower-risk). When this is done, cannabis businesses dealing with marijuana (e.g., growers; dispensaries) may be able to take business deductions and credits. They will no longer be trafficking in a controlled substance, deductions for which are barred under Code Sec. 280E. Watch for developments about the tax implications of rescheduling of marijuana.

Income from government programs. The SBIR/STTR programs expired on September 30, 2025, halting new funding unless Congress reauthorizes them. But the Department of Energy (DOE) still lists the deadline as February 25, 2026, for certain applications, which are contingent on reauthorization of the programs.

Basis shifting transactions of partnerships. In the summer of 2025, the IRS posted a notice of intent withdraw Basis Shifting TOI Regulations. As of yet, this has not been done, but penalty relief continues to apply.

Excess business losses. Noncorporate taxpayers (e.g., owners of pass-through entities) are subject to a limit on the amount of losses claimed on the current return. An excess business loss is the amount by which the total deductions attributable to all of your trades or businesses exceed your total gross income and gains attributable to those trades or businesses plus a threshold amount adjusted for cost of living. For taxable years beginning in 2026, the threshold amounts are $256,000 or $512,000 in the case of a joint return) (*down* from $315,000 and $626,000, respectively, in 2025).

Partnerships and S corporations—basis shifting for partnerships. While the IRS indicted in April 2025 its intention to withdraw partnership basis-shifting regulations, to date no action has been taken.

Income earned abroad. The earned income exclusion for 2026 is capped at $132,900 (up from $130,000 in 2025).

The foreign residency or physical presence test is treated as having been met if residency was interrupted in certain specified countries. The IRS has yet to announce which countries warrant waivers and applicable dates apply for 2025. Typically, this is something the IRS does in March each year, so check if this is relevant to you.

Usually, if an election to exclude foreign earned income is revoked, it cannot be reelected within 5 years unless the IRS grants permission. The IRS, in a private letter ruling, allowed a reelection within this period for an individual who changed employers and began work in a country with a lower tax rate.

Chapter 5—Capital Gains and Losses

Taxable income breakpoints for capital gain rates in 2026. Owners of pass-through entities who are individuals pay tax on their share of capital gains. The following table (an update to Table 5.1 in the book) shows the break points for capital gain rates for 2026; this Table does *not* apply to 2025 returns.

Rate	**Married filing jointly (and surviving spouse)**	**Head of household**	**Single**	**Married filing separately**
0%	Up to $98,900	Up to $66,200	Up to $49,450	Up to $49,450
15%	$98,901 - $613,700	$66,201 - $579,600	$49,451 - $545,500	$45,451 - $306,850
20%	Over $613,700	Over $579,600	Over $545,500	Over $306,850

Sale of qualified small business stock (QSBS). Correction: The $15 million exclusion limitation and the $75 million asset threshold will be indexed for inflation starting in 2027 (not 2026).

Stock redemptions. Stock redemptions (repurchases) can disqualify otherwise eligible QSBS for an owner if the redemptions of an owner or related party exceed a de minimis amount within a certain period:

- *De minimis limit*: Over $10,000 or exceeding 2% of the shareholder's stock.
- *Time period*. If a redemption exceeds the de minimis limit, then any new stock issued to the shareholder within 2 years before or after the buy back (a 4-year period) is no longer QSBS. If the corporation redeems more than the de minimis amount or 5% of its total stock, all stock issued within one year before or one year after (a 2-year period) is no longer QSBS.

Certain redemptions are exempt from these rules: redemptions because of the death (within 3 years and 9 months of death), disability, or mental incapacity of the shareholder; purchases incident to divorce of the selling shareholder; and on account of the termination of services by an employee or director.

Chapter 6—Gains and Losses from Sales of Business Property

QOZs. For 2026 estimated tax purposes, remember that all deferred capital gains under pre-2027 QOZ programs must be recognized for tax purposes on December 31, 2026.

QOZBs. There have been no developments on whether cannabis businesses can be Qualified Opportunity Zone Businesses (QOZBs), but see developments under Chapter 4.

Information reporting. There has been no guidance on the new reporting requirements for QOZBs in 2026.

Chapter 7—Employee Compensation

Compensation—other types of deductible compensation. The IRS did not designate any disaster in 2025 warranting special tax treatment for leave-based donations.

Adoption assistance. For planning purposes, the dollar limit on the exclusion for employer assistance for adoption costs is \$17,670 for 2026 (up from \$17,280 in 2025).

Dependent care assistance. For planning purposes, the dollar limit on the exclusion for employer-provided dependent care assistance in 2026 is \$7,500 (up from \$5,000 in 2025).

Meals. Starting in 2026 (not for 2025 returns), meals provided on the premises for an employer's convenience (e.g., meals during a working lunch or for short meal periods) are not deductible. The same is true for employers' expenses for operating a cafeteria or dining room. The cost of meals incurred during business travel or with customers and clients remain 50% deductible. And the cost of company picnics and holiday parties will still be 100% deductible.

Flexible spending accounts (FSAs). For planning purposes, the maximum elective deferral for health FSAs in 2026 is \$3,400 (up from \$3,300 in 2025). The maximum carryover permitted from unused 2025 health FSAs to 2026 is capped at \$680; the carryover applies only if the plan adopts it and does not use a grace period. For health FSAs with a grace period, unused expenses from 2025 must be spent by March 15, 2026 (or within 2½ months after the end of the 2025 plan year for a fiscal-year plan).

The maximum elective deferral for dependent care FSAs in 2026 is \$7,500 (up from \$5,000 in 2025). The same grace period for health FSAs applies for dependent care FSAs. Dependent care FSAs cannot have a carryover for unused 2025 amounts to 2026.

Employee use of company car. For planning purposes, in valuing employee use of a company car in 2026 or for purposes of reimbursements under accountable plans, the IRS standard mileage rate is 72.5¢ per mile (up from 70¢ per mile in 2025).

The fixed and variable rate allowance (FAVR) in 2026 is limited to vehicles with a fair market value not exceeding \$61,700 for cars, trucks, and vans (up from the limit in 2025 of \$61,200).

Car and truck values taken into account by employers using the cents-per-mile valuation rule or the fleet valuation rule for valuing personal use of a company vehicle in 2026 are capped at $61,700.

Qualified transportation fringe benefits. Employers cannot deduct these fringe benefits, but if they choose to provide the benefits or arrange for employees to pay for these costs on a pre-tax basis, employees can exclude up to $340 per month for free parking, transit passes, and van pooling for 2026 (up from $325 per month in 2025).

New fringe benefits. Employers may consider some new employee benefits:

- AI literacy and development given to employees may be treated as a tax-free working condition fringe benefit.
- Employer contributions (within limits) to Trump accounts for employees' eligible children starting mid-2026 will be tax free. These are called Section 128 employer contributions.

Leave-based donation programs. Despite numerous federal disasters in 2025, the IRS did not designate any of them for special treatment under leave-based donation programs. This means that employees are taxed on their contributions to the programs.

Frequent flyer miles. The IRS has not made changes to the rule that allows the personal use of frequent flyer miles generated by business flights to be a tax-free fringe benefit.

Employment-related tax credits. For purposes of FUTA, the only credit reduction state for 2025 is California (see details in Chapter 30 of this supplement).

Work opportunity credit. This credit was not extended beyond 2025. In view of various proposals to do so, monitor developments in this regard.

Employee retention credit. There is still a backlog of thousands of outstanding refund claims, even after 3 years. The National Taxpayer Advocate's report to Congress in January 2026 recommended that the IRS commit to completing all remaining ERC claims.

Chapter 8—Travel, Meals, and Gift Expenses

Business travel per diem rates. The standard federal per diem rate set by the General Services Administration (GSA) for travel starting October 1, 2025, through September 30, 2026, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $178 per day ($111 per day for lodging and $68 per day for M&IE). These rates are unchanged from the previous fiscal year.

The high-low substantiation rates set by the IRS for areas within CONUS for the period October 1, 2025, through September 30, 2026, are $319 per day for travel to high-cost localities and $225 per day for travel to all other areas within CONUS. Of these rates, the meal portion is $86 per day for high-cost areas and $74 per day for all other areas within CONUS. These rates are unchanged from the previous fiscal year. The list of high-cost areas also remains changed.

Chapter 9—Car and Truck Expenses

Section 179 deduction and bonus depreciation. For 2026 (not for 2025 returns), the first-year expense allowance (Section 179 deduction) applies to equipment purchases up to $2,560,000 (up from $2,500,000 in 2025). This dollar limit phases out dollar for dollar when purchases of Section 179 property for 2026 exceed $4,090,000. As a result of the phase-out, no expensing deduction can be claimed in 2025 if equipment purchases are $4,380,000 million or more.

Heavy SUVs are not subject to the annual dollar limits on depreciation for vehicles, but the first-year expense deduction is limited to $32,000 in 2026 (up from $31,300 in 2025).

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving: for 2026 it is 72.5¢ per mile (up from 70¢ per mile for 2025).

Those who own their vehicles and use the standard mileage rate for 2026 must reduce the vehicle's basis by 35¢ per mile (up from 33¢ in 2025).

Dollar limits on depreciation. The dollar limits on the deduction for depreciation of business vehicles placed in service in 2026 are not yet available.

Inclusion amounts. If the actual expense method is used to deduct the cost of business driving and the vehicle is leased, the total annual lease payment is deductible. But if the vehicle is first leased in 2026 and its value is more than a set amount, you must reduce the deduction for lease payments by an inclusion amount. The inclusion amounts for these leased vehicles first leased in 2026 have not yet been announced. Inclusion amounts for vehicles first leased in 2025 are in Rev. Proc. 2025-16.

Credits for clean vehicles. Proposed regulations concerning the incremental cost used to figure the credit for commercial clean vehicles have not finalized. The credit ended for acquisitions after September 30, 2025.

Chapter 10—Repairs, Maintenance, and Energy Improvements

Energy-efficient commercial buildings deduction. In 2026 (not for 2025 returns), the deduction is $0.59 sq. ft. increased (but not above $1.19 sq. ft.) by $0.02 sq. ft. for each percentage point by which the total annual energy and power costs for the buildings are certified to be reduced by a percentage greater than 25%. The applicable dollar value used to determine the increased deduction amount for property is $2.97 sq. ft. increased (but not above $5.94 sq. ft.) by $0.11 sq. ft. for each percentage point by which the total annual energy and power costs for the building are certified to be reduced by a percentage greater than 25%. In both instances, the higher dollar limit applies when wage and apprenticeship (W&A) rules are met.

But the deduction will only apply for projects for which construction begins on or before June 30, 2026.

Chapter 13—Taxes and Interest

State and local income taxes. The SALT cap for 2026 (not for 2025 returns) is $40,400 ($20,200 for married persons filing separately).

Check for state Pass-Through Entity Tax (PTET) options; rules differ by location. Check for expirations and whether new elections are required for 2026.

Luxury taxes. On January 1, 2026, Washington implemented an 8% tax on vehicles over $100,000.

Self-employment tax. The Social Security wage base limit, which applies for self-employment taxes, is $184,500 in 2026 (up from $176,100 in 2025). The tax rate for the Social Security portion of self-employment tax is unchanged 12.4% on 92.35% of net earnings up to this dollar limit. The tax rate for the Medicare portion of self-employment tax is unchanged 2.9% on 92.35% of all net earnings. The tax deduction is limited to one-half of the self-employment tax.

For those with net earnings over the applicable threshold amount of $200,000 for singles and $250,000 for joint filers (these dollar limits are not adjusted annually for inflation), there is also a Medicare surtax of 0.9% on excess earnings. This applies only to the so-called employee portion, so it is *not* deductible.

Employment taxes—FICA. The wage base limit for the Social Security portion of FICA in 2026 is $184,500 (up from $176,100 in 2025). The rate for the employee's Social Security portion of FICA is unchanged at 6.2%.

Employment taxes—FUTA tax. Non-credit reduction states pay a net FUTA rate in 2025 of 0.6%; credit reduction states have a higher net FUTA rate. For purposes of FUTA in 2025, California is the only credit reduction state at a 1.2% net FUTA rate. (U.S. Virgin Islands has a net FUTA rate in 2025 of 4.5%.)

State benefit funds—state family and medical leave programs. Check for changes in your location in 2026.

Interest expense payments. "Small businesses" are automatically exempt from the net interest expense limit. For 2026, these are businesses with average annual gross receipts for the 3 prior years not exceeding $32 million (up from $31 million in 2025).

Form 8990. There is an updated version of Form 8990 (Rev. December 2025).

Chapter 14—First-Year Expensing, Depreciation, Amortization, and Depletion

First-year expensing. The expensing limit for 2026 is $2,560,000 (up from $2,250,000 in 2025). The limit phases out when purchases for 2026 exceed $4,090,000. Thus, no expensing can be used in 2026 if purchases for the year are $6,650,000 million or more. There are proposals to increase these limits, so monitor developments

Bonus depreciation. The IRS gave guidance on 100% bonus depreciation and planned to issue proposed regulations that align with the guidance. You can make the following elections:

- To deduct 40% instead of the 100% rate for qualified property placed in service during the first tax year ending after January 19, 2025,
- To deduct bonus depreciation for one or more specified plants,
- To treat certain acquired or self-constructed components of larger self-constructed property as generally eligible for bonus depreciation, and
- Not to deduct the additional first year depreciation for a qualified sound recording production (discussed next).

Sound recording productions. Businesses can deduct up to $150,000, for production costs only if the production commences before January 1, 2026. Of course, bonus depreciation can be used for sound recording equipment.

Research and experimentation costs. Due to changes in the One Big Beautiful Bill Act, R&E costs can be fully expensed. As a reminder (details are in the text of the book), small businesses that had R&E costs in 2022, 2023, and 2024, can file amended returns to expense these costs and obtain a return. Businesses of any size can opt to deduct unamortized R&E costs from these years in full on 2025 returns or half on 2025 and half on 2026 returns.

The IRS has made it clear that a change to expensing is an automatic change in accounting method.

Expensing for qualified production activity structures. To date, the IRS has not issued any guidance on this expensing opportunity.

Existing structures. Costs related to existing structures may qualify for expensing if acquired after January 19, 2025, and before January 1, 2029 (based on a writing binding contract specifying an acquisition date), and the following conditions are met:

- The property was not used by anyone for a qualified production activity between January 1, 2021, and May 12, 2025 (e.g., the property was a shuttered office building or a vacant retail space.
- The property must not have been used by you prior to acquisition.
- The property must now be used by you as an integral part of a qualified production activity
- The property must be located in the U.S.
- The property must be placed in service before January 1, 2031

Chapter 16—Retirement Plans

Contribution limits. Various limits have been increased for 2026. The following applies to 2026 (not to 2025 returns):

- *401(k) plan elective deferrals*: $24,500, plus $8,000 for those who are age 50 and older by December 31, 2025 (the limits were $23,500 and $7,500 respectively in

2025). For those age 60, 61, 62, or 63 in 2026, the catch-up limit remains at $11,250.

- *Savings incentive match plan for employees (SIMPLE) elective deferrals*: $17,000, plus $4,000 for those who are age 50 and older by December 31, 2026 (the limits were $16,500 and $3,500 respectively in 2025). For employees in companies with 25 or fewer employees or more than 25 but not more than 100 and that makes a 4% matching contribution or a 3% nonelective contribution, the basic limitation is $18,100, with a catch-up contribution of $3,850. For 2026, there is an even higher catch-up limit for those age 60, 61, 62, and 63: $5,250 in addition to the basic limit of $17,000 or $18,100, whichever is applicable.
- *Defined contribution plans (profit-sharing plans and simplified employee pension plans [SEPs])*: the limit in 2026 is $72,000 (up from $70,000 in 2025).
- *Defined benefit (pension) plans*: the limit is $290,000 (up from $280,000 in 2025).
- *Starter 401(k)s*: The elective deferral limit remains at $6,000 (unchanged from 2025), with a permissible catch-up amount of $1,100 for those 50 and older by the end of 2026 ($100 more than in 2025).
- *Compensation taken into account in figuring contributions and benefits*: the limit in 2026 is $360,000 (up from $350,000 in 2025).
- *IRAs and Roth IRAs*: the contribution limits for 2026 increases to $7,500, plus $1,100 for those age 50 or older by December 31, 2026 (up from $7,000 and $1,000 respectively in 2025). The adjusted gross income limits for making deductible contributions for those who are active participants in qualified retirement plans as well as limits for contributing to Roth IRAs have been increased slightly.

Distributions from the plan—mandatory cashout. The DOL has a list of best practices for finding missing participants at https://tinyurl.com/mr42abeb. (The link in the book is no longer working.)

PBGC premiums. For planning purposes, in 2026 the flat-rate premium for each participant is $111 (up from $106 in 2025). The variable rate premium for underfunded plans in 2026 is $52 per $1,000 of unfunded benefits per employee (the same as in 2025), with a cap in 2026 of $751 per participant (up from $717 in 2025).

Plan amendments. The IRS usually publishes a list each year of required amendments for individually-designed retirement plans. The list includes updates to pre-approved defined benefit plans (see Notice 2025-60). Check the 2025 Required Amendments List. The deadline for these amendments varies, depending on the amendment involved. The IRS extended the deadline for certain plan amendments to December 31, 2027. If you use a prototype plan, which is one provided to you by the financial firm with which you maintain your plan, you will automatically receive documents reflecting plan amendments; you do not have to do anything other than retain the revised documents in your records.

Form 5500-EZ. A sample of the 2025 version of the form is at https://www.dol.gov/sites/dolgov/files/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing/form-5500/2025-form-5500-ez.pdf.

Chapter 17—Casualty and Theft Losses

Disaster losses. Find a list of all federal disaster areas for 2025 from FEMA. Designated disasters in 2026 will also be listed by FEMA. Losses from governor-declared state disasters obtain the same tax treatment as federal disasters after 2025 if the event is recognized by the IRS.

Qualified disaster losses. For purposes of deducting losses for non-business property as a deduction from gross income (no itemizing required), a qualified disaster loss is one resulting from a major disaster that was declared by the President during the period between January 1, 2020, and September 2, 2025. Also, this disaster must have an incident period that began on or after December 28, 2019, and on or before July 4, 2025, and must have ended no later than August 3, 2025.

Chapter 18—Home Office Deduction

Simplified method. The IRS has not made any change to the dollar amount of the simplified method for the home office deduction. For 2025 (and for 2026 unless this changes), it is $5 per square foot up to 300 square feet for a home office (maximum deduction of $1,500).

Simplified method worksheet. The 2025 version of the simplified method worksheet is the same as the 2024 version in the book, with the update for unallowed carryovers: "Carryover of unallowed expenses from a prior year that are not allowed in 2025."

Chapter 19—Medical Expenses

Self-employed individuals—premium tax credit for 2026. As yet, the premium tax credit applies only to those with household income up to 400% of the federal poverty line. The waiver of this limitation applied only through 2025.

Qualified small employer health reimbursement arrangements (QSEHRAs). These reimbursement plans are a way for small employers to help employees pay for the cost of health coverage. For 2026, reimbursements to employees are capped at $6,450 for self-only coverage and $13,100 for family coverage (up from $6,350 and $12,800, respectively, in 2025).

Health savings accounts (HSAs). Take note of changes in HSA rules for 2026. For example, bronze and catastrophic coverage and direct primary care providers are HDHP compliant and won't disqualify contributions to HSAs. And telehealth and remote care services provided without a deductible are permissible for HDHPs; this is a permanent change.

Small employer health care credit. Small employers can take this tax credit only if average annual payroll is below a set amount. This amount has been adjusted for inflation so that the full credit applies if the average annual payroll in 2026 is $34,100 (up from $33,300 in 2025).

Flexible spending arrangements (FSAs). The maximum amount that employees can add to a health FSA in 2026 is $3,400 (up from $3,300 in 2025). The carryover from 2026 to 2027 is limited to $680 (up from the 2025 carryover amount of $660 to 2026).

Chapter 20—Deductions for Farmers

Marijuana businesses. See development in Chapter 4 of this Supplement.

Sale of farmland. Farmers who sold their farms in 2025 and are eligible to spread their gain over 4 years are not penalized for failing to include the gain from the first installment in estimated taxes for 2025.

Chapter 21—Qualified Business Income Deduction

Qualified trade or business—statutory employees. See IRS FAQs at https://www.irs.gov/newsroom/tax-cuts-andjobs-act-provision-11011-section-199a-qualified-business-income-deduction-faqs (Q26).

Taxable income. Just to be clear, taxable income for individuals who are owners of pass-through entities means taxable income figured the usual way on Form 1040 or 1040-SR reduced by net capital gains.

Taxable income threshold for 2026. The taxable income thresholds for the QBI deduction are:

Filing status	***Threshold amount***	***Phase-in range amount***
Married filing jointly	$403,500	$553,500
Married filing separately	$201,775	$276,775
All other filers	$201,770	$201,770

Loss tracking worksheet. The 2025 version of the Loss Tracking Worksheet is on page 10 of the instructions to Form 8995 at https://www.irs.gov/pub/irs-pdf/i8995.pdf.

Changes to the QBI deduction. Starting in 2026 (not for 2025 returns), there is a minimum QBI deduction of $400 for businesses with at least $1,000 of QBI.

Chapter 22—Miscellaneous Business Deductions

Education incentives. There are several changes for 2026 (they do not impact 2025 returns:

- *Deductible expenses.* The mileage rate for business travel costs to and from school is 72.5¢ per mile.

- *Employer-paid education.* The ability of employers to pay student loan interest through an educational assistance plan is permanent.
- *Personal education incentives:*
    - *Student loan interest*. The 2026 modified adjusted gross income range over which the deduction limit up to $2,500 of interest is phased out is $175,000 to $205,000 on a joint return; for singles it is $85,000 to $100,000.

Charitable contribution deductions. To repeat what is explained in the book, there are no changes for 2025. For 2026:

- *Corporate changes.* Contributions equaling 1% of taxable income for C corporations are not deductible.
- *Changes for owners of pass-through entities.* Contributions equaling 0.5% of adjusted gross income for those who itemize deductions are not deductible. Owners who do not itemize can deduct up to $1,000 ($2,000 for joint filers) of cash contributions.
- *Special deduction for whaling captains.* Whaling expenses up to $60,000 are deductible in 2026 (up from $10,000 in 2025).

Subscriptions and dues. Can you deduct the cost of a subscription to SiriusXM radio? The IRS hasn't ruled specifically on this expense, but it has said that no deduction is allowed for a cost if the taxpayer is merely receiving a general business benefit. Truck drivers who use their radios for updates on weather and traffic could argue a specific business benefit. Again, there is no IRS ruling on this possible deduction.

Legal and professional fees. If you win a dispute with the IRS in which the government was not substantially justified, you may be able to recover costs up to a set dollar amount. For 2026, the dollar amount is $260 per hour (up from $250 per hour in 2025).

Meal costs for daycare providers. For 2026, the daily rates for standard meals and snack rates in all localities have increased. They are:

Breakfast:

- States other than Alaska and Hawaii: $1.70
- Alaska: $2.72
- Hawaii: $2.19

Lunch and dinner:

- States other than Alaska and Hawaii: $3.22
- Alaska: $5.22
- Hawaii: $4.18

Snacks:

- States other than Alaska and Hawaii: $0.96
- Alaska: $1.55
- Hawaii: $1.24

Foreign housing deduction. The deduction is based on the foreign income exclusion, which is $132,900 in 2026 (not for 2025 returns).

Chapter 23—Roundup of Tax Credits

Work opportunity credit. The credit applied only for those who began work by December 31, 2025. To date, the credit has not been extended. There are several proposals to extend the credit, so monitor developments.

Family and medical leave credit. Employers providing paid leave may be eligible for a tax credit. In 2026, this applies not only to self-insured plans (where employers simply continue wages under the terms of the plans), but also to insurance premiums paid to provide benefits. The credit in 2026 is only for paid leave for non-highly compensated employees—those who earned less than $96,000 in 2025.

Employment taxes. In 2025, the IRS gave relief for certain employment tax and reporting obligations related to state paid family and medical leave programs with respect to third-party sick pay for the portion of benefits under these programs. The IRS extended this relief through 2026.

Credit for employer-provided childcare facilities and services. This is a reminder that there are changes in the credit limit in 2026, as explained in the book.

Chapter 29—Alternative Minimum Tax

Exemption amounts. The AMT exemption amounts for 2026 (not for 2025 returns) are:

Filing status	***2026 exemption***
Married filing jointly/surviving spouse	$140,200
Single/head of household	$90,100
Married filing separately	$70,100

Exemption phase-out. The exemption amounts for 2026 start to phase out when alternative minimum taxable income (AMTI) exceeds $1,280,400 for married filing jointly and surviving spouses and $640,200 for other filers.

Chapter 30—Other Taxes

State income taxes. Check for tax changes that may affect 2025 and 2026 business tax returns. Note that a number of states have *not* adopted some changes made by the One Big Beautiful Tax Act. For example, Delaware S corporations and partnerships cannot use full bonus depreciation (immediate expensing) for machinery and equipment.

According to the Tax Foundation, 43 states have notable tax changes for 2026, with 4 states cutting the corporate income tax. Check with state tax departments for all locations in which you do business to learn if there have been any tax changes impacting your business.

Employment and self-employment taxes. The 2026 wage base limit for the Social Security tax portion of FICA and self-employment tax is $184,500 (up from $176,100 in 2025).

Self-employment tax on limited partners. While the IRS had promised proposed regulations adopting the Tax Court's functional analysis inquiry to be used in determining when limited partners and limited liability company members would be subject to self-employment tax on their distributive shares, they have not been issued. On January 16, 2026, a federal appellate court in a 2-1 decision rejected the Tax Court's approach, saying that a limited partner is one with limited liability. This means limited partners are not subject to self-employment tax (at least in Louisiana, Mississippi, and Texas where the appellate court decision applies) on their distributive shares. They can still be subject to self-employment tax on guaranteed payments. At this time, a similar case is pending in another federal appellate court.

Transition relief for paid family and medical leave programs. See Chapter 23.

Special rules for tips. The proposed Service Industry Tip Compliance Agreement (SITCA) program, which the IRS proposed in 2023 to replace the Tip Rate Determination Agreement (TRDA) program, the Tip Reporting Alternative Commitment (TRAC) program, and the Employer Designed TRAC (EmTRAC) program has not yet been implemented. It's still referred to as "proposed" on the IRS website as of January 2026. If your business is in an industry where tipping is usual (other than gaming), continue to monitor developments on this proposed program. The tip reporting program for gaming is the Gaming Industry Tip Compliance Agreement (GITCA) program.

Franchise taxes. Check for changes in state franchises taxes effective in 2026.

Sales taxes. A number of states have changed sales tax rules for 2026. Check with your state finance/revenue/tax division.

Congress has not yet enacted proposals that would simplify sales taxes for online sellers on sales to out-of-state customers.

Excise taxes. The patient-centered outreach institute (PCORI) fee, which applies to certain health policies and self-insured health plans, is $3.84 per covered life beginning October 1, 2025, through September 2026.

Charging taxes to a credit card. The IRS proposed regulations that would enable taxpayers to charge taxes via a credit or debit card directly with the IRS so they wouldn't have to go through a card service provider have not been finalized as yet. As of February 1, 2026, taxpayers must continue to use an IRS-authorized payment processor and pay a fee.

Chapter 31—Filing Tax Returns, Paying Taxes, and Making Refund Claims

Filing deadline. For C corporations with a tax year ending June 30, 2026, the filing deadline is October 15, 2026 (in contrast to the due date of those with a tax year ending June 30, 2025, which had a due date of September 15, 2025).

Estimated taxes. While there have been proposals to change the due dates of these taxes, Congress has yet to take any action on the matter.

The Estimated Tax Worksheet for 2026 is not yet available. It is expected to be available about February 20, 2026.

EFTPS.gov. Individuals are no longer able to create new enrollments via EFTPS.gov. Individual taxpayers not enrolled in EFTPS.gov by October 17, 2025, can instead create an IRS Online Account for Individuals or use the IRS Direct Pay guest path. Individuals who are already enrolled in EFTPS.gov can continue to make payments using EFTPS.gov, but are encouraged to transition to the IRS Online Account for Individuals or IRS Direct Pay. All individuals will be required to transition from EFTPS.gov later in 2026. Businesses can continue to deposit employment taxes and make other tax payments through EFTPS.gov.

Credit card charges. As yet, the IRS does not accept credit card payments for taxes. Proposed regulations would allow it, but they have not been finalized. Taxpayers must use an IRS-authorized payment processor to pay taxes by credit card; there's a convenience free charged by the processor.

FIRE system. The tax year 2026 (the 2027 filing season) is the target date for the retirement of the FIRE system. FIRE will not be available for submissions in filing season 2027. The Information Returns Intake System (IRIS) will be the only intake system for information returns currently received through FIRE.

Chapter 32—Retirement and Succession Planning

2026 limits on earnings for those working while receiving Social Security benefits. There is no limit on those who have attained full retirement age. For those who receive benefits and are under full retirement age, the earnings limit in 2026 is $2,040 per month ($24,480 for the year). If earnings exceed this limit, then benefits are reduced by $1 for each $2 of excess earnings. For those who reach full retirement age in 2026, the earnings limit is $5,430 per month ($65,160 for the year). If earnings for the months prior to attaining full retirement age exceed the limit, benefits are reduced by $1 for each $3 of excess earnings.

Chapter 34—Handling Audits with the IRS

Audits in general. The IRS budget for enforcement in fiscal year 2026 ending September 30, 2026, is 34% less than in the prior fiscal year. This probably means that audits will be more targeted. In my opinion, the following areas for likely audits (in addition to those for large businesses and complex entities) are:

- High-income individuals, which includes owners of pass-through entities because they report their share of business income on their personal returns
- Digital asset transactions now that the IRS has information on them through Form 1099-DA
- Misclassification of workers that results in nonpayment of employment taxes

Chapter 35—Using IRS Services

IRS Online Account for Individuals. Making tax payments through EFTPS.gov is being phased out (no new accounts can be set up after October 17, 2025). No tax payments will be able to be made by individuals through EFPTS.gov later in 2026 (no date has been fixed). Individuals can make payments through Individual Online Accounts or through Direct Pay guest path.

Business tax accounts (BTAs). This is a reminder that Designated Officials (DOs)—individuals who have access the BTA on behalf of an entity—needed to revalidate their accounts by July 29, 2025. In the 2026 tax filing season, if revalidation was not timely done, they need to request access to the account again—as a Designated Official or other user type.

Appendix A—Information Returns

Form 1099-NEC. The threshold for issuing this information return to independent contractors for payments in 2026 is $2,000 (up from $600 in 2025).

Reporting cash transactions. Do you have to report cash transactions over $10,000 online only? Proposed regulations required that this must be done electronically, but the IRS says it won't enforce this requirement under the regulations are finalized. To date, they have not been finalized.

Reporting health plans. The due date for furnishing the 1095s for 2025 to employees is March 2, 2026 (not March 1, 2026).

Reporting wages. There have been no changes to the 2025 Form W-2 to reflect the new rules for tips and overtime pay. The IRS said that employers will not face penalties for failing to provide a separate accounting of any amounts reasonably designated as cash tips or the occupation of the person receiving such tips. The same is true for qualified overtime compensation. This relief is only for 2025.

The 2026 Form W-2 has been revised as follows:

- New box 12, code TP, will be used to report the total amount of cash tips reported to the employer
- New box 14b will be used to report the Treasury Tipped Occupation Code(s)
- New box 12, code TT, will be used to report the total amount of qualified overtime compensation

Appendix B—Tax Penalties

Penalties on 2025 returns required to be filed in 2026 are listed in Appendix A beginning on page 591 of this book. The following penalties apply to 2026 returns required to be filed in 2027:

Failure to file a tax return. The penalty is the lesser of $535 or 100% of the amount required to be shown on the return.

Failure of a partnership to file a return. The penalty is $260 per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of partners during any part of the year.

The penalty for a failure to furnish a Schedule K-1 is $340 for each failure, up to a maximum of $4,191,500 ($1,397,000 for businesses with average annual gross receipts in the 3 most recent years of $5 million or less). The penalty is increased to $690 per failure, or, if greater, 10% of the aggregate amount of items required to be reported, if the failure is due to intentional disregard of the reporting requirement; there is no maximum annual limit.

Failure of an S corporation to file a return. The penalty is $260 per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of shareholders during any part of the year.

The penalty for a failure to furnish a Schedule K-1 is $340 for each failure, up to a maximum of $4,191,500 ($1,397,000 for businesses with average annual gross receipts in the 3 most recent years of $5 million or less). The penalty is increased to $690 per failure, or, if greater, 10% of the aggregate amount of items required to be reported, if the failure is due to intentional disregard; there is no annual cap.

First-time abatement program. The National Taxpayer Advocate had suggested that the IRS make the first-time abatement program automatic. Starting in 2026, the first-time abatement program will be automatic for some taxpayers (about 1 million low-income taxpayers) as of April 15, 2026. The IRS could roll out the automatic abatement to other taxpayers later on.

Appendix C—Dollar Limits and Amounts Adjusted for Inflation

Items Adjusted Annually for Inflation. The following adjustments apply for 2026 (and do not factor into the preparation of 2025 returns).

Adoption assistance—excludable employer-provided adoption assistance for employees ($17,670 for 2026).

Cash method of accounting—the gross receipts test for eligibility of C corporations and partnerships with C corporation partners to use the cash method of accounting is having average annual gross receipts in the 3 prior years not exceeding a set amount ($32 million in 2026).

Energy-efficient commercial buildings. The deduction for 2026 is up to $5.94 per square foot, depending on energy reduction and whether the wage and apprenticeship requirements are met (but only for projects begun on or before June 30, 2026).

First-year expensing (Sec. 179 deduction)—the dollar limit on the deduction, as well as the phase-out threshold on property placed in service for 2026 are $2,560,000 and $4,090,000, respectively.

Foreign earned income exclusion—the amount of wages or self-employment income earned abroad eligible for the exclusion is limited to $132,900 in 2026.

Medical flexible spending accounts (FSAs)—the most that employees can add annually on a pretax basis is capped at $3,400 for 2026.

Qualified business income (QBI) deduction—the taxable income limit for the 20% deduction before application of a formula is required (and a phase-out for owners in specified service trades or businesses) is $403,500 on joint returns, $201,775 for married persons filing separately, and $201,770 for other filers in 2026.

Small employer health insurance credit—the amount of average compensation, originally fixed at $25,000, is $34,100 for 2026.

Social Security wage base—the amount that is used to figure the Social Security portion of FICA and self-employment tax ($184,500 for 2026).

Transportation fringe benefits—the amount excludable for free parking, and the aggregate amount excludable for transit passes or van pooling is $340 per month in 2026.

Items set by the IRS. The following adjustments apply for 2026 (and do not factor into the preparation of 2025 returns):

Deemed depreciation for business vehicles—if the deduction for expenses for business use of a personal vehicle owned by the taxpayer is figured using the IRS's standard mileage allowance, then the basis of the vehicle is reduced by a set amount per mile (e.g., 35¢ per mile in 2026).

Mileage allowance—the rate per mile used to determine the deduction for business use of a personal vehicle instead of deducting the actual costs is 72.2¢ per mile in 2026.