THE VIP CPA

Tax-Saving Tips

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Twitchco: This Court Case Gives Your ERC Protective Claim Teeth

If you received an Employee Retention Credit (ERC) refund in 2026 for wages paid in 2020 or 2021, you may have an opportunity to recover the tax you pay on that refund.

The IRS currently says that if you failed to reduce your wage deductions in the original years, you should report the receipt of an ERC refund in 2026 as taxable income in 2026. We have previously recommended following that guidance and filing a protective refund claim to preserve your rights while the legal issues are resolved.

A recent court case, *Twitchco*, gives that strategy additional support.

In *Twitchco*, a federal court ruled that the IRS could not use the "tax benefit rule" to tax an improper deduction from a tax year that was already closed by the statute of limitations. That reasoning may apply to many ERC recipients because the wage deductions became improper in 2020 or 2021—not when the refund check arrived in 2026.

This does not mean every taxpayer will win their ERC protective refund claim. The legal authority is limited; other courts have reached different conclusions, and the IRS is expected to defend its position aggressively. Your filing dates, the jurisdiction you live in, and the specific facts of your ERC claim can all affect the strength of your case.

For that reason, the protective refund claim remains the most prudent strategy for most taxpayers. It allows you to comply with current IRS guidance while preserving your right to a refund if the courts ultimately reject the IRS's position.

Sell Now, Pay the IRS Later: Defer Capital Gains for Decades

If you're planning to sell highly appreciated real estate, a closely held business, or private company stock, don't let the tax consequences become an afterthought. There may be a way to defer the capital gains tax for years—even decades—but only if you plan before the sale.

One strategy worth considering is a deferred sales trust. Instead of selling your asset directly to the buyer, you first sell it to an independent trust in exchange for an installment note. The trust then completes the sale to the buyer. Because you receive payments over time rather than all at once, you generally pay the capital gains tax as those payments are received.

The biggest advantage is that the full pre-tax sale proceeds can remain invested instead of immediately being reduced by taxes. That allows more money to compound over time and may provide a steady stream of retirement income.

Unlike a Section 1031 exchange, a deferred sales trust does not require you to purchase replacement real estate within strict deadlines. It can also provide greater investment flexibility if you're ready to move beyond real estate.

This strategy, however, is not for everyone. Because the IRS scrutinizes these transactions, they require careful planning before you sign a binding sales agreement, and the trust must be genuinely independent. In addition, unlike a 1031 exchange, a deferred sales trust generally does not preserve the step-up in basis that heirs may receive when appreciated real estate is held until death.

How to Find Your 2026 Section 199A Deduction with Multiple Businesses

If you own more than one business, you may be missing out on a larger Section 199A deduction without even realizing it.

The Section 199A deduction allows many owners of sole proprietorships, partnerships, and S corporations to deduct up to 20 percent of their qualified business income. Even better, Congress has now made this deduction permanent, which means proper planning is more valuable than ever.

When you own multiple businesses, the calculation becomes much more complicated. Depending on your taxable income, you may have the opportunity to combine, or "aggregate," certain businesses for purposes of computing the deduction. In the right circumstances, aggregation can substantially increase your tax savings.

Taxpayers with higher incomes can enhance the deduction by the amount of W-2 wages paid or business property owned. One business may have plenty of wages but little income, while another has strong profits but few wages. If the businesses qualify for aggregation, combining them can produce a significantly larger deduction than what results from calculating each business separately.

Businesses that generate losses require special attention as well. A loss from one business can reduce the deduction available from your profitable businesses, making accurate calculations especially important.

The rules governing aggregation are highly technical, and not every business qualifies. In addition, if you elect to aggregate, you generally must continue using that approach in future years unless the facts change.

Protect Your Home-Office Deduction from Spouse, Second Business

The home-office deduction can produce substantial tax savings, especially when it converts what would otherwise be commuting miles into deductible business mileage. But many business owners accidentally put this valuable deduction at risk.

If you use your home office for more than one purpose, each use must qualify under the tax rules. A single non-qualifying use can jeopardize the deduction.

One of the biggest traps involves W-2 employment. Federal law now permanently denies employees a home-office deduction on their personal tax returns. That means if you use the same office for both your self-employed business and your W-2 job, your employee use can threaten the deduction for your business.

The same caution applies if you operate multiple businesses from the same office. Each business must independently qualify for the home-office deduction. Likewise, if you share the office with your spouse, your spouse's use must also qualify—unless you split the room so each spouse uses a separate portion exclusively.

If your business operates as either an S or a C corporation, there is still a way to benefit from a home office. Rather than claiming the deduction personally, the corporation can reimburse your home-office expenses through an accountable plan.

The consequences of losing the home-office deduction can extend beyond the office itself. You may also lose valuable business mileage deductions if the IRS reclassifies your trips as non-deductible commuting.

S Corp. Owners: Don't Lose 2026 Dental, Vision, Medicare Breaks

If you own more than 2 percent of an S corporation, your dental, vision, and Medicare premiums can qualify for the same valuable tax treatment as your major medical insurance premiums.

To secure the deductions, follow the same three-step process for all qualifying premiums.

First, your S corporation must either pay the premiums directly or reimburse you after you provide proof of payment. Second, the corporation must include the premiums in box 1 of your Form W-2, but not in box 3 or 5. Third, you claim the combined medical, dental, vision, and qualifying Medicare premiums as the self-employed health insurance deduction on your individual tax return.

Qualifying Medicare costs can include Part B, Part D, Medicare Advantage, Medigap, and certain voluntarily paid Part A premiums. Even when Social Security deducts Medicare premiums directly from your benefits, your corporation can reimburse you if you provide documentation, such as your Form SSA-1099 or Medicare statement.

Two important limitations apply.

You generally cannot claim the deduction for any month when you or your spouse qualified for subsidized health coverage through another employer. In addition, your total deduction cannot exceed your box 5 Medicare wages from the S corporation. Therefore, your salary should be high enough to cover the combined amount of all medical, dental, vision, and Medicare premiums.

Qualifying premiums paid for relatives who work for the corporation may require the same W-2 treatment. The family attribution rules can apply even when those relatives own no stock directly.

Dealer or Investor? Deducting the Loss on Your First Flip

If your first house-flipping project ended in a loss, don't assume you're limited to deducting only $3,000 per year. Depending on your specific facts, you may qualify to deduct the entire loss in the current year.

The key issue is whether the IRS views you as a real estate dealer or as an investor. Investors generally face the $3,000 annual limit on capital losses. Dealers, however, report their activity as a business, allowing losses to offset ordinary income in full. In many cases, dealer treatment can also reduce self-employment tax.

Qualifying as a dealer depends on more than the number of properties you have sold. The IRS and the courts look at your overall business intent and activities. Factors include why you purchased the property, the extent of your rehabilitation work, how quickly you marketed the property for sale, and whether you conducted the activity in a businesslike manner.

But dealer status is not always an advantage. If future flips generate profits, those profits become ordinary income rather than capital gains. Dealer property also does not qualify for Section 1031 exchanges or installment-sale reporting.

If you intend to build a house-flipping business, good records are essential. Maintain a written business plan, keep separate books and bank accounts, track your time, and consistently report the activity as a business from year to year.

Tax Plan: Buy $500,000 of Goods on December 20 and Expense Them

If your business sells merchandise, there may be a valuable year-end tax planning opportunity that many small-business owners overlook.

Under today's tax rules, many qualifying small businesses can deduct the cost of inventory when it is purchased and paid for—even if the goods remain on the shelf at year-end. But there is one critical requirement: your bookkeeping must support that treatment.

The tax law allows businesses with average annual gross receipts of less than $32 million to use simplified inventory accounting methods. If your accounting records consistently expense merchandise purchases when they are made, your tax deduction can generally follow those books. That can produce a substantial deduction before year-end.

On the other hand, if your accounting system records purchases in an inventory asset account and deducts them only when the goods are sold, your tax deduction generally must wait until the sale occurs.
The key is consistency. You cannot change your accounting method in December simply to create a larger deduction. In fact, changing inventory accounting methods usually requires IRS approval. Likewise, purchases must be genuine business transactions—not simply exist to generate a tax deduction. The merchandise must be received and paid for before year-end, and the purchase must make business sense.

If your business expects a profitable year, reviewing your inventory accounting method before year-end could produce meaningful tax deferrals. While this strategy generally postpones taxes rather than permanently eliminate them, improving cash flow by delaying taxes can still provide a significant financial advantage.