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Tax-Saving Tips

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2026 Section 199A: Proprietorship or S Corporation?

If you operate as a sole proprietor or single-member LLC, earn a good income, and have no payroll and little depreciable property, you may be losing most of the Section 199A 20 percent deduction. Switching to an S corporation can fix that.

Here is the problem: Once your 2026 taxable income exceeds $276,750 (single) or $553,500 (married), the deduction depends on your W-2 wages or your depreciable property. With no payroll and no property, your deduction collapses to the new $400 statutory minimum, no matter how profitable the business is.

Consider a single taxpayer with $400,000 of proprietorship net income and $370,000 of taxable income, not in an out-of-favor specified service field. As a proprietor, the taxpayer receives the Section 199A deduction of $400.

But what if that same taxpayer incorporates, elects S corporation status, and takes a reasonable salary of $100,000? Two things happen.

First, payroll taxes drop. For the proprietorship, self-employment tax plus the additional Medicare tax runs about $35,116. With the S corporation, payroll taxes on the $100,000 salary run roughly $15,800—a savings of about $19,316.

Second, the salary creates W-2 wages, which unlocks the deduction. The calculation produces a $50,000 deduction, worth about $17,500 in the 35 percent bracket.

Together, the switch adds roughly $36,676 of after-tax cash. And because Congress repealed the Section 199A sunset, this is now an every-year result rather than a temporary one.

Two cautions: This strategy does not help if you are in an out-of-favor specified service business—doctors, lawyers, accountants, and similar fields. And the salary must be reasonable based on your facts.

2026: Get the Government to Pay You for Hiring Your Child

If you have children and you own a business, here is a strategy worth your attention: hire them.

Consider one example: A business owner pays her 13-year-old $16,100 in 2026 to work in her

Schedule C business. The child owes zero federal income tax because the 2026 standard deduction for a single taxpayer is $16,100. Meanwhile, that $16,100 wage deduction reduces federal and state taxes and puts roughly $6,614 back in the owner's pocket.

The family keeps the full $22,714 (the child has $16,100, the owner has $6,614).

You can go further. Add a $7,500 deductible traditional IRA contribution to the child's wages of $16,100, and the child can earn $23,600 with no federal tax at all. Better yet, if the wages stay at or below the standard deduction, put the money in a Roth instead—a deduction is worth nothing to a child paying zero tax, whereas the Roth grows and comes out tax-free.

Your choice of operating entity matters. In a proprietorship or a spouse-only partnership, wages to your under-age-18 child escape Social Security and Medicare tax, and wages to a child under age 21 escape federal unemployment tax.

A corporation gets no such break, which costs the family roughly $2,500 on $16,100 in wages. Even so, this is a valuable strategy for the family with the corporation.

One caution on Section 199A: Wages to your child reduce your qualified business income and shrink that deduction. But if your income is high enough that the W-2 wage limitation applies, the wages can actually increase your deduction.

Finally, do the paperwork. One attorney lost nearly all her wage deductions and drew negligence penalties because she had no W-2s, no payroll records, and no time sheets. Pay by W-2 payroll check, require a time sheet, and document a reasonable rate of pay.

Drive Time Increases Odds of Deducting Rental Property Losses

If you own rental properties, you know the frustration: your losses do you no good until you qualify as a tax law–defined real estate professional and materially participate in the properties. Both of these tests turn on hours, and the real estate professional test alone requires 750 hours.

Here is a source of hours that many owners overlook: your drive time to and from the rentals.

The IRS says in an old audit guide that travel time should not count. But that guide dates to 2005, states on its face that it may not be cited as a technical position, and rests on a single summary opinion that by law cannot serve as precedent.

And the Tax Court has done the opposite. In the *Leyh* case, the court allowed the owner's drive time to her rentals and let the couple deduct a $69,531 loss. In another matter, the IRS relented and allowed the drive time once the taxpayer surfaced her home office.

That home office is the key. When your home office qualifies as your principal place of business for the rental activity, trips from home to your properties become business trips. You gain three things: the home-office deduction, vehicle deductions on mileage that would otherwise be non-deductible commuting, and hours toward both participation tests.

One warning: Drive time helps only if you can prove it. Log each trip as you go—date, destination, miles, time, purpose, and which spouse drove. Reconstructed logs invite trouble.

Two more 2026 items: Consider electing to treat all your rentals as a single activity, and note that the excess business loss cap is now $256,000 ($512,000 joint) and permanent.

2026 Section 199A: Is Your Service Business Out of Favor?

If you operate your business as a proprietorship, a partnership, or an S corporation, tax code Section 199A can give you a deduction of up to 20 percent of your qualified business income. And here's the good news: the deduction is now permanent, and beginning in 2026, the rules are friendlier than before.

For 2026, if your taxable income is $403,500 or less (married, filing jointly) or $201,750 or less (single or head of household), you qualify for the deduction regardless of your type of business.

Above those thresholds, the tax code splits businesses into two camps: in-favor businesses, which can still qualify, and out-of-favor "specified service trades or businesses" (SSTBs), such as consulting, which lose the deduction entirely once taxable income exceeds $553,500 (married) or $276,750 (single).

There is one bright spot: the phase-in range between those numbers is now 50 percent wider, so a partial deduction survives at higher incomes than before.

If your business mixes in-favor and out-of-favor activities, two de minimis rules can rescue you:

1. If out-of-favor receipts are less than 10 percent of gross receipts (5 percent if receipts exceed $25 million), the entire business is treated as in favor.
2. You can operate two trades or businesses—one in favor, one out of favor—by keeping separate books, separate invoices, and ideally separate employees for each activity.

In short, careful bookkeeping can turn a zero deduction into a substantial one. Also note that the new $400 minimum deduction does not help a pure SSTB above the ceiling, which is one more reason to carve out a genuine in-favor business where possible.

2026 Paid Family Leave Credit: Does the Owner Qualify?

The paid family and medical leave tax credit is now a permanent part of the tax code, and the 2026 rules changed enough that it deserves a fresh look even if you considered it before and passed.

Here is what the credit does: If you have a written leave policy in place, you earn a credit ranging from 12.5 percent to 25 percent of qualifying leave pay, depending on how much of normal wages your policy replaces. A policy paying 100 percent of normal wages earns the full 25 percent.

Three changes matter most for 2026.

First, a new premium method lets you compute the credit on insurance premiums rather than on leave wages—which means you can earn a credit in a year when no employee takes a single day of leave.

Second, if you operate in a state with a paid leave mandate, state-required and state-paid leave now count toward whether your policy provides enough leave. That change alone can move you from ineligible to eligible. You still compute the credit only on the leave pay you fund yourself.

Third (and this may be the most important point for you), whether your own leave earns a credit depends entirely on your entity structure. The credit requires FUTA wages. If you operate as an S corporation or a C corporation and draw a W-2 salary, your own leave can generate a credit, provided your prior-year compensation was $96,000 or less. If you operate as a proprietorship or partnership, it cannot—no amount of planning changes that.

One caution: Document your own leave exactly as you would an employee's, with dates, the leave purpose, payroll records, and a policy in place before the leave begins.

2026 Tax Guide to Deducting Long-Term Care Insurance

Long-term care insurance protects you against the financial consequences of chronic illness or disability. Medicare covers no more than 100 days of skilled or rehabilitation care, and Medicaid requires low income to qualify.

Long-term care premiums are not cheap, but the tax code may let you write off some or all of the cost.

How much you deduct depends on your choice of business entity. A full deduction is available in two situations.

If you operate as a C corporation, have the corporation provide the coverage as a tax-free fringe benefit and pay the carrier directly.

If you operate as a sole proprietorship or single-member LLC and your spouse is your only employee, have the business buy a qualified policy covering your spouse-employee, with you covered as the employee's spouse, and pay the carrier directly. That deduction goes on Schedule C, where it also reduces your self-employment tax.

Otherwise, you face age-based caps. For 2026, they run from $500 at age 40 and below to $6,200 at age 71 and over. Two points worth knowing: the limits apply per insured person (so a married couple both over 70 can count $12,400), and your age is your age at year-end (so if you turn 61 in December, you use the $4,960 limit for the whole year).

S corporation owners and partners deduct on Form 7206 subject to those caps, after the entity pays or reimburses the premiums and reports them properly.

Three cautions:

1. Buy a qualified policy.
2. Most hybrid policies (life plus long-term care) produce no deduction unless the issuer separately states a qualified premium.
3. If you have a Health Savings Account, it can pay these premiums tax-free up to the same caps.