



Expecting a big revenue year? Consider tax moves before year end

For most small business owners, strong revenue growth is something to celebrate. But a profitable year can also significantly increase your income tax liability. If your business is on track for a banner year, now is the time to evaluate tax-reduction strategies. Here's some guidance for sole proprietors and owners of pass-through entities (such as partnerships, S corporations and most limited liability companies).

Start with a year-end tax projection

Many owners focus on revenue growth without estimating the resulting tax impact. A year-end projection can help identify potential tax obligations while there's still time to respond.

Your projection should address factors such as:

- Year-to-date revenue and expenses,
- Expected results for the remainder of the year,
- Significant asset purchases,
- Owner compensation and distributions, and
- Other sources of income reported on the owner's tax return.

Business growth can also create new compliance responsibilities, including state and local tax filing requirements. Evaluate how operational changes, such as adding employees or expanding into new markets, may affect your 2026 tax situation.

Prepare for higher estimated tax payments

Next, evaluate whether estimated tax payments you've made throughout the year will be sufficient. Your fourth payment for the 2026 tax year is due on January 15, 2027. You may need to increase this payment to potentially avoid (or minimize) underpayment penalties. However, increasing your final payment won't necessarily eliminate penalties for earlier underpayments. Special rules may provide relief if your income increased significantly late in the year.

Even if you make enough estimated tax payments for 2026 to avoid penalties, you may still owe tax when you file your return. Waiting until tax season to address your tax liability can create cash flow challenges. Be sure to set aside funds for both your January 15 estimated tax payment and the amount you expect to owe when you file next year.

However, strong profits don't automatically translate into strong cash flow. If your growing business is short on cash, you might need to balance certain year-end moves — such as paying year-end bonuses, distributing cash to owners, and investing in new vehicles and equipment — with impending tax obligations and ongoing operating costs.

Make tax-smart moves before year end

Once you've assessed your current tax and cash flow position, you're ready to explore strategies to reduce your 2026 tax bill. Common examples include:

Deferring taxable income. Some businesses may have flexibility in when they recognize taxable income and deduct certain expenses, depending on their accounting method. The traditional approach is to accelerate deductible expenditures into the current year and defer taxable income into next year. In general, this will reduce your 2026 tax obligation.

However, if you expect strong performance to continue next year, you could be in an even higher tax bracket for 2027. In that case, you might take the opposite approach by timing revenue and expenses to accelerate taxable income into this year. That way, more of your business income will be taxed at this year's lower rate instead of at next year's higher rate.

Taking advantage of the QBI deduction. You may be eligible for a deduction of up to 20% of your qualified business income (QBI). This deduction is subject to a limit of 20% of taxable income. Additional limits may apply if taxable income for the year exceeds the applicable threshold. These limitations are phased in and are especially important to consider in a big revenue year.

For 2026, the income-based limits begin when taxable income exceeds \$201,750 (double that amount for married couples filing jointly). Starting in 2026, the phase-in ranges have been expanded, allowing larger QBI deductions than in previous years for some taxpayers. The limits are fully phased in when taxable income exceeds \$276,750 (double that amount for joint filers).

Taxpayers who are affected by these limitations may be able to salvage some or all of the QBI deduction (or be subject to a smaller deduction phaseout) by deferring income or accelerating deductions to keep income under the dollar thresholds. You may also be able to increase the deduction by increasing W-2 wages before year end. The rules are complex, so consult us before acting.

Leveraging first-year depreciation write-offs. If your business is planning to purchase equipment, machinery, vehicles, computers or other qualifying assets, you may be able to write off most or all of the purchase price on your 2026 return. But the asset must be placed in service by December 31, 2026, to provide a 2026 deduction.

Qualified improvement property and many other assets with recovery periods of 20 years or less may qualify for 100% bonus depreciation and Section 179 expensing. The latter is subject to an annual limit (\$2.56 million for 2026) that begins to phase out when eligible purchases for the year exceed the phaseout threshold (\$4.09 million for 2026).

Immediately deducting qualifying costs can significantly reduce your 2026 tax bill, but tax savings alone shouldn't drive purchasing decisions. You should also consider your operational needs and available cash flow. If revenue growth continues to accelerate and pushes you into a higher tax bracket in the future, you may save more tax in the long run by deferring purchasing assets (or placing them in service) or by following normal depreciation schedules that spread deductions over multiple years.

Contributing to retirement accounts. If your business offers a qualified retirement plan, you may be able to increase deductible contributions to reduce current-year taxable income. In addition to potentially lowering taxes, retirement plan contributions can help support long-term financial goals.

If your business doesn't currently sponsor a retirement plan, consider establishing one in time to make deductible 2026 contributions. You can adopt and fund some types of tax-favored qualified employee retirement plans as late as the federal income tax return due date (including any extension) for the adoption year.

Turn growth into a tax-planning opportunity

A successful year can create both opportunities and tax challenges. By proactively reviewing your tax position, you may be able to identify strategies that reduce uncertainty, improve cash flow management and support your long-term business goals. However, tax-planning moves require careful coordination. For example, you might inadvertently reduce your allowable QBI deduction if you claim significant first-year depreciation deductions or make sizable deductible retirement plan contributions.

Contact us to discuss these and other tax-smart moves for the 2026 tax year. We can help you avoid tax-filing surprises and develop a plan tailored to your situation.

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