

TaxBrief

Keeping you informed

Mid-Year Check-in for Businesses

Mid-year bookkeeping clean-up

Summer is the perfect time to clean up your books. Tidy up messy records, reconcile neglected accounts and set yourself up to enjoy the holidays instead of searching for missing receipts. Start by reconciling bank accounts, credit cards and loans through June 30. Unreconciled accounts can conceal errors that become harder to resolve over time. While you're at it, review your transaction categories. A \$600 dinner coded as "office supplies" should be fixed now, not explained during an audit later.

Review your accounts receivable aging report and decide how to handle invoices that are 90 days or more overdue. You can either write them off or send them to collections. Keeping uncollectible receivables on the books can overstate your income and increase your tax liability. Spending a few hours on bookkeeping this summer can save you significant stress in January.

Business use of your vehicle

If you use a vehicle for business, the IRS gives you two options: the standard mileage rate or the actual expense method. Each has its own requirements, and the choice you make in the first year often locks you in. The standard mileage rate for 2026 is 72.5 cents per mile for business use. It's simpler, but it requires a contemporaneous mileage log that records the date, destination, business purpose and miles for every trip. "I drive a lot for work" is not documentation.

Note, as of this publication, the IRS has not increased the standard mileage rate for the year. If they decide to do so, I will have that information when we meet.

The actual expense method lets you deduct a portion of gas, insurance, repairs, depreciation and other vehicle costs based on the percentage of business use.

It can produce a larger deduction, but it requires more record-keeping. What happens if you can't document it? The IRS can disallow the deduction entirely. If your mileage log is not up to date, now is the time to get it in order.

Hiring your children or spouse

Putting family members on payroll can create real tax savings, but the rules must be followed carefully to withstand IRS scrutiny. If your business is a sole proprietorship or a partnership where both partners are parents, wages paid to your children under 18 are exempt from Social Security and Medicare taxes. The wages are also deductible as a business expense, and because children are typically in a lower tax bracket, the income may be taxed at a lower rate or not at all if it stays within the standard deduction.

The work must be real; the pay must be reasonable for the work performed, and you must keep payroll records just as you would for any other employee. Paying your 10-year-old \$50,000 a year to answer the phone will not hold up.

Hiring a spouse creates a different set of considerations. Wages paid to a spouse are subject to payroll taxes, but a spouse on payroll may become eligible for employee benefits such as retirement plan contributions and health insurance coverage, which can produce their own deductions. If you're thinking about adding a family member to payroll, contact us before you start so we can help you set it up correctly.

Self-employed retirement plan options

One of the most valuable tax strategies for self-employed individuals is contributing to a retirement plan. Contributions reduce your taxable income now and allow tax-deferred growth for the future. A SEP-IRA (Simplified Employee Pension) allows contributions of up to 25% of net self-employment income, up to \$72,000 for 2026. It's easy to set up,

and contributions can be made as late as the tax filing deadline, including extensions.

A Solo 401(k) is available to self-employed individuals with no employees other than a spouse. For 2026, employee elective deferrals can be up to \$24,500. It allows both employee and employer contributions, with a combined limit of up to \$72,000 for 2026. Those ages 50 and older can contribute an additional \$8,000, those ages 60 through 63 may be eligible for a higher catch-up contribution of \$11,250. The Solo 401(k) must be established by Dec. 31 of the year for which you want to make contributions.

A SIMPLE IRA (Savings Incentive Match Plan for Employees) is designed for businesses with 100 or fewer employees. Employee contribution limits are \$17,000 for 2026, with a \$4,000 catch-up contribution for those 50 and older. Employers are required to make either matching or non-elective contributions. If you don't already have a retirement plan in place, mid-year is a good time to evaluate your options before year-end deadlines arrive.

Stay on top of estimated tax payments

If you're self-employed or your business generates income not subject to withholding, you're generally required to make estimated tax payments four times a year. Missing or underpaying those installments can result in a penalty even if you pay your full balance by April 15.

Deadlines:

- Quarter 1 due April 15
- Quarter 2 due June 15
- Quarter 3 due Sept. 15
- Quarter 4 due Jan. 15, 2027

To avoid an underpayment penalty, you generally need to pay the lesser of 90% of your current-year tax liability or 100% of your prior-year tax liability (110% if your prior-year adjusted gross income exceeded \$150,000).

If your income has changed significantly compared to last year, either higher or lower, your estimates may need to be adjusted. Now is the right time to recalibrate before Q3 comes due. Contact us if you're not sure whether you're on track.

Deducting subscriptions versus capitalizing technology

How you pay for software determines how you deduct it, and the distinction matters more as businesses spend more on technology. Software subscription services (i.e., monthly or annual fees for cloud-based tools such as accounting software, project management platforms or design tools) are generally deductible as ordinary business expenses in the year paid. There's no depreciation schedule; the deduction is immediate.

Software purchased outright, along with hardware and other technology assets, may need to be capitalized and depreciated over time instead of being deducted in the year of purchase. In many cases, however, Section 179 expensing and bonus depreciation let businesses deduct the full cost in the year the asset is placed in service, subject to applicable limits and eligibility rules.

The line between a deductible subscription and a capitalized asset isn't always obvious, especially as more businesses migrate to hybrid licensing models. If you've made significant technology purchases this year, let's review them together to make sure they're being treated correctly on your return.

