

Tax Planning Strategies Every Business Owner Should Consider

THREE AREAS WHERE STRATEGIC PLANNING MAY UNLOCK MEANINGFUL TAX SAVINGS



Taxes are once again at the top of many people's minds. Some are pressed to meet the October 15 filing extension deadline, and many still need to take action to impact their tax liabilities for the current year. As such, we find this is a good time to connect with our clients and make sure they are working with their tax advisors to take full advantage of tax planning opportunities for the current year and beyond.

Here are just a few examples of planning strategies for business owners to consider.

01 | Hiring Your Children in a Family Business

OVERVIEW

If you're interested in providing your children some work experience, or maybe even starting to mentor them to take a future role in your family business, you may be able to do so while also shifting some income from your higher tax bracket to their lower tax bracket.

In 2026 the standard deduction for single taxpayers is \$16,100 — and this rate applies to the earned income (e.g., W-2 wages) of most minor children. This means that they can earn up to \$16,000 and pay no federal income taxes. And if you or both you and your spouse are the only partners or owners of a sole proprietorship, single-member LLC or partnership (but not a C or S corporation), your company does not need to pay Social Security or Medicare taxes when employing your child under the age of 18.

ROTH IRA BENEFITS FOR CHILDREN

You can potentially further maximize the tax benefits from hiring your children by taking advantage of Roth IRA accounts. Two requirements for making contributions to Roth IRAs exist — both of which your child would likely meet: first, having earned income, and second, having income below applicable thresholds (\$153,000 for single taxpayers in 2026). This means your child could contribute up to the lesser of \$7,500 (based on 2026 contribution limits) or their total earned income each year to a Roth IRA, thereby benefiting from both tax-free income and the tax-free growth thereafter of their Roth IRA contributions.

It's also worth noting that your child doesn't necessarily need to contribute the money. You could allow them to keep all their employment income, while separately contributing your own money into a Roth IRA account for their benefit, so long as you have not already used up your annual gift tax exclusion limit (in 2026, \$19,000 per recipient; \$38,000 for married couples).

IMPORTANT CONSIDERATIONS

- You should also consider state income taxes.
- Your company may still owe state unemployment taxes on your child's income.
- Your child should receive a W-2 from your company and may need to file a federal tax return to get a refund if any excess amounts were withheld (the full amount would be refunded if their employment income is fully offset by the standard deduction).
- Your child must do real work. Emptying trash cans, cleaning, answering the phones or other office work all count, but remember that the work must be appropriate for your child's age. For example, a 5-year-old cannot handle most work responsibilities.
- You must pay your child a reasonable wage. Paying \$6,000 for five hours of work, for example, is not reasonable.
- All rules that apply to other employees, such as those for retirement plans, apply to your child. However, if you make simplified employment pension (SEP) plan contributions and have no other employees, you should be able to exclude your child from needing to participate by leaving typical "no participation if under 21 rules" in place.

02 | Qualified Business Income (199A) Deduction Strategies

OVERVIEW

The Tax Cuts and Jobs Act of 2017 created IRC §199A, which allows individuals to deduct up to 20% of qualified business income (QBI) from pass-through business or rental income. The deduction became available for the 2018 tax year. Originally scheduled to expire after 2025, the QBI deduction was made permanent by the One Big Beautiful Bill Act (OBBBA) in 2025. In the simplest example, a \$100,000 QBI could translate to a \$20,000 deduction. However, the actual deduction is more complex, as several factors may limit it, including:

1. The taxpayer's taxable income (TI)
2. How the income was generated (e.g., specified service trade or business issues)
3. The pass-through business having sufficient wages and/or qualified property

KEY DEFINITIONS TO KNOW

- **What is a pass-through business?** Pass-through businesses include partnerships, LLCs, S corporations, sole proprietorships and real estate rentals.
- **What is qualified business income (QBI)?** With certain exceptions, QBI is the net amount of income earned by your pass-through business. QBI does not include investment income (such as dividends, interest and capital gains), wages paid to S corporation shareholders, or guaranteed payments paid to partners or LLC members. If the amount of QBI from all your businesses for a tax year is less than zero (i.e., a loss), the loss is treated as a loss from qualified businesses in the next year.

- **What is a specified service trade or business (SSB)?** Whether or not your business is considered an SSB impacts your ability to take the deduction. An SSB performs services in:
 - The fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services and brokerage services; or
 - Any trade or business of which the principal asset is the reputation or skill of one or more of its owners or employees (engineering and architecture are not included in the definition of SSB); or
 - Any business that involves the performance of services that consist of investing and investment managing, trading, or dealing in securities, partnership interests, or commodities.

Uncertainty exists for certain businesses that provide consulting services as to whether they are an SSB. Generally speaking, “consulting” doesn’t qualify for the 199A deduction, so the uncertainty often revolves around whether the business’ services meet the definition of “consulting” or something else that may qualify.

- **How the QBI Deduction Works**

- If your taxable income (TI) does not exceed a certain threshold amount, whether the pass-through entity income is from an SSB or not is irrelevant; the deduction is the lesser of 20% of your taxable ordinary income or QBI.
- If your taxable income exceeds a certain threshold, and the pass-through income was generated by an SSB, no deduction is available.
- If your taxable income exceeds a certain threshold amount and the pass-through income was not generated by an SSB, the deduction is generally the lesser of: 1) 20% of QBI; or 2) the greater of 50% of W-2 wages paid by the pass-through entity or 25% of the W-2 wages paid by the pass-through entity plus a 2.5% capital element based on qualified property. Furthermore, the deduction is limited to 20% of your taxable ordinary income.
- In 2026, the threshold amount starts at \$403,500 for married individuals filing jointly (\$201,750 for all other returns) and is phased out over the next \$150,000 for married individuals filing jointly (\$75,000 for all other filers).¹

Example QBI scenarios

EXAMPLE #1 — SSB WITH TAXABLE INCOME BELOW THRESHOLD

- Filing status is married filing jointly
- QBI = \$200,000
- QBI is from legal services
- TI = \$300,000, all ordinary income
- Since TI does not exceed the threshold of \$403,500, the business income qualifies for the deduction even though it is specified service trade or business income; the W-2 wage limitation and the basis of qualified property limitation don't apply.
- The deduction is calculated as follows:
 - TI = \$300,000
 - QBI = \$200,000
 - 20% of the lesser of QBI or TI = \$40,000 deduction

EXAMPLE #2 — SSB WITH TAXABLE INCOME ABOVE THRESHOLD

- Same facts as example #1, except that TI = \$500,000
- Since TI exceeds the maximum threshold, and since the business income is specified service trade or business income, no deduction is available.

EXAMPLE #3 — NON-SSB WITH TAXABLE INCOME BELOW THRESHOLD

- Same facts as example #1, except that the QBI is from manufacturing
- Since manufacturing is not SSB income, and since TI is below the threshold, the deduction calculation is the same and results in a \$40,000 deduction.

EXAMPLE #4 — NON-SSB WITH TAXABLE INCOME ABOVE THRESHOLD

- Filing status is married filing jointly
- QBI = \$200,000
- QBI is from manufacturing
- TI = \$500,000, all ordinary income
- W-2 wages paid by the qualified business to arrive at QBI = \$130,000
- Basis of qualified property = \$100,000
- Since TI exceeds the threshold of \$403,500, the 20% deduction is limited to the lesser of 20% of QBI, or the greater of 50% of W-2 wages or 25% of W-2 wages plus 2.5% of the basis of qualified property.
- The deduction is calculated as follows:
 - Lesser of 20% of QBI (\$40,000) or Greater of:
 - 50% of W-2 wages (\$65,000)
 - 25% of W-2 wages (\$32,500) plus 2.5% of basis of qualified property (\$2,500), totaling \$35,000 = **\$40,000 deduction**

03 | Tax Depreciation Strategies

BONUS DEPRECIATION

Property acquired and placed in service after January 19, 2025, is eligible for a full 100% bonus depreciation deduction, as the One Big Beautiful Bill Act (OBBBA) restored and made permanent 100% bonus depreciation. Property placed in service between January 1, 2025, and January 19, 2025, remains subject to the prior phase-down rules (40% deduction), consistent with the TCJA phase-out schedule in effect before the OBBBA.²

Here is a summary of the rules to help you consider if you could still take advantage of it:

- There is no dollar limit on the amount of bonus depreciation a business can take, which means a business can use it to create or increase a tax loss.
- Most types of personal property qualify, including computer software, computer hardware, machinery and equipment, furniture and fixtures, and qualified improvement property (mentioned below).
- Previously used property can also qualify, provided it is new to the taxpayer purchasing the property and meets the applicable acquisition and placed-in-service requirements.
- The acceleration of depreciation this provision affords may make the economics of certain potential acquisitions more appealing for buyers, as they may be able to immediately write off a significant portion, or all of the purchase price.

SECTION 179 EXPENSING

This provision allows taxpayers to immediately deduct (i.e., not capitalize and depreciate) the cost of certain property as outlined below.

- **Qualifying Property:** The deduction is available for most tangible personal property, including computer software, computer hardware, machinery and equipment, furniture and fixtures. It is also available for the following types of nonresidential building improvements, provided the trade or business has net income: roofs, HVAC equipment, fire protection and alarm systems, security systems, and tangible personal property used to furnish lodging (i.e., a residential rental property treated as a trade or business or a hotel).
- **Income Thresholds:** The maximum Section 179 deduction in 2026 is \$2.56 million after which the deduction begins to phase out at annual purchases of \$4.090 million, at which point it is reduced, dollar for dollar, for additional purchases above this amount, until it is completely phased out.
- **Section 179 vs. Bonus Depreciation:** Electing bonus depreciation, which does not require net income from a trade or business, in lieu of a Section 179 deduction, which does, requires careful consideration. Taxpayers do have the option of using bonus depreciation on certain asset classes and a Section 179 deduction on others.



LISTED PROPERTY

Certain property is readily usable for personal use as well as business use, such as passenger vehicles, including most four-wheeled vehicles. This type of property is called “listed property” and has historically been subject to reduced annual depreciation limits.

For vehicles placed in service in 2025, the IRS passenger automobile depreciation limits have been updated under Section 280F. For passenger vehicles with a gross vehicle weight rating (GVWR) of 6,000 pounds or less, the maximum first-year depreciation is \$20,200 if bonus depreciation applies, or \$12,200 without bonus depreciation.³ These limits are adjusted annually and reflect the ongoing phase-down of bonus depreciation.

Vans, SUVs, and trucks weighing more than 6,000 pounds are treated differently. These heavier vehicles are generally not subject to the passenger auto luxury limits and may qualify for significantly larger first-year write-offs. In 2025, the Section 179 deduction for qualifying heavy SUVs is capped at \$31,300, with any remaining basis potentially eligible for bonus depreciation, subject to business-use requirements.

REPAIR REGULATIONS

Current repair regulations describe three types of expenditures that generally require capitalization (i.e., expensing over the lifetime of the asset): 1) betterment, which fixes a material defect, is a material addition, or is expected to increase productivity, efficiency, strength, quality, or output; 2) restoration, which restores to ordinary operating condition, rebuilds to a like-new condition or replaces a major component; or 3) adaptation, which adapts to a new or different use. A few relevant planning points:

- Nonmaterial enhancements can be deducted immediately; for example, costs paid to replace two out of 10 HVAC units are not considered material additions to the HVAC system or material increases in its capacity.
- Certain “refresh” costs are deductible. Refresh costs are commonly incurred between tenants and include costs such as relocating lighting, repainting interior walls, replacing damaged ceiling tiles and power-washing exterior walls.
- A de minimis safe harbor election to expense tangible personal property costing less than \$2,500 per item (\$5,000 with audited financial statements) is allowed if the taxpayer’s accounting policy is to expense those dollar amounts, and the items are also expensed on the taxpayer’s books and records.



FINAL THOUGHTS

If the above tax planning opportunities sound complex, that’s because they are. For example, managing your tax liabilities does not always mean taking all possible deductions immediately. Sometimes, the better option is spreading them out across tax years when higher tax brackets may apply. But this requires careful planning and analysis with your tax advisor.

Please contact us if we can assist you in any way. We enjoy collaborating with our business-owning clients and their tax advisors and can help connect you to any additional resources or advice you may need.



FOOTNOTES

¹ QBI deduction: The OBBBA brings permanent tax relief to Pass-Through. . . (2026, January 19). KLR. <https://kahnlitwin.com/blogs/tax-blog/qbi-deduction-the-obbba-brings-permanent-tax-relief-to-pass-through-businesses>

² Sompels, J. (2025, July 21). 100% bonus depreciation returns with the One, Big, Beautiful Bill. Our Insights | Plante Moran. <https://www.plantemoran.com/explore-our-thinking/insight/2022/08/the-tcja-100-percent-bonus-depreciation-starts-to-phase-out-after-2022>

³ U.S. Internal Revenue Service. (2025). Instructions for Form 2106: Employee business expenses Retrieved January 12, 2026, from <https://www.irs.gov/pub/irs-dft/i2106--dft.pdf>



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