TaxBrief

Keeping you informed

Get your small business ready for tax season

Tax season is right around the corner, so now's the time to get organized. Preparing early helps ensure your return is filed on time and that you pay only the tax you owe.

Know how you'll file

If you're a sole proprietor or single-member LLC, you'll report your business income and expenses on Schedule C (Form 1040). This form lists your total sales, costs and business deductions, ultimately determining your annual profit or loss for tax purposes. That number flows directly into your personal tax return. Along with income tax, you'll also pay self-employment tax, which represents both the employer and employee portions of Social Security and Medicare taxes. Even if you don't have employees, this applies to you, so setting aside funds for it now can prevent surprises later.

This is also a good time to review your entity structure if you are considering a change. For example, have you elected to treat your business as an S corporation? Or have you and a partner formalized a partnership, which requires a Form 1065, U.S. Return of Partnership Return?

Gather all income records

Start by collecting your gross receipts or sales for the year. This includes any cash payments, checks and deposits to your business account. Don't forget to include any Form 1099-NEC, *Nonemployee Compensation*, or Form 1099-K, *Payment Card and Third Party Transactions*, you received, as well as earnings through online platforms like PayPal or Stripe. Starting in 2026, the reporting thresholds have changed. The threshold for Form 1099-NEC increases to $2,000. If you have a minimum of 200 transactions and $20,000, you will receive a 1099-K. Even if you did not receive a reporting form because you did not meet the threshold reporting requirements, you will still need to report any cash or income you earn. Additionally, if you traded goods or services with another business, that barter income counts too. Don't forget to review your business bank statements against sales records to ensure that everything matches.

Finalize your cost of goods sold totals

If your business sells products, you'll need to calculate the cost of goods sold (COGS). This includes your beginning inventory on Jan. 1, what you purchased throughout the year, any direct labor costs and your ending inventory on Dec. 31. Keeping these numbers accurate helps ensure your deductions are correct and avoids underreporting or overstating income.

Organize your business deductions

Business expenses are the key to lowering your taxable income, but only if you have proper documentation. Common deductible categories include rent, utilities, internet, insurance, advertising, office supplies, repairs and professional fees.

If you use your car for business, you'll track mileage and expenses throughout the year. Don't forget to keep a written record, or some type of log to substantiate your mileage. You can choose between deducting actual vehicle expenses or using the IRS standard mileage rate.

You may also qualify for the home office deduction. To claim it, you must use a portion of your home exclusively and regularly for your business. Let us know if this might apply, and we'll guide you on what details to bring, like square footage, rent or utility costs.

If you purchased equipment, furniture or technology for your business, don't forget to bring those receipts to your appointment. These items may qualify for a deduction under §179 or bonus depreciation, depending on your situation. Reporting these correctly helps you maximize your deduction in the year the equipment was placed in service.

Reconcile year-end payroll and contractor payments

If you have employees, make sure your payroll records are accurate and that all required forms have been issued. W-2s, *Wage and Tax Statements*, for employees and 1099-NECs, *Nonemployee Compensation*, for contractors must be filed on time to avoid penalties. Verify that all wages, benefits and withholdings are accurately reflected in your business bank records.

If you pay contractors, confirm you've issued Form 1099-NEC to anyone you paid $600 or more during the year. It's easy to overlook, but these forms are critical for compliance and can help prevent IRS notices later.

Review your estimated tax payments

Self-employed individuals are responsible for making quarterly estimated tax payments. These payments cover both income and self-employment taxes. Review your records to confirm you made the correct payments each quarter. If you missed one or underpaid, don't worry: there may still be time to make adjustments or schedule a final estimated payment before filing.

Don't forget retirement and health plan deductions

Saving for retirement can also save you money on taxes. Contributions to plans like a SEP IRA, SIMPLE IRA or Solo §401(k) are generally deductible and help reduce your taxable income. Bring contribution statements or plan summaries to your appointment so we can ensure you get the full benefit.

If you offer a retirement or health plan for your employees, contributions you make as an employer may also be deductible. Bring those records too; we'll help you sort out what qualifies.

Health insurance premiums paid for yourself, your spouse or dependents may also be deductible. Keep premium statements and payment records ready. If you made contributions to a health savings account (HSA), those may be deductible, within annual limits.

Qualifying for the QBI deduction

The qualified business income deduction (QBID) allows eligible business owners to deduct up to 20% of their net business income. Qualification depends on your total income, type of business, and wages or property owned by the business. Because this deduction can be complex, gather your profit and loss statements early so we can determine your eligibility and plan accordingly.

Keep your records organized

Good recordkeeping makes tax preparation smoother and reduces the chance of an IRS issue later. Maintain copies of all receipts, invoices, bank and credit card statements, and electronic records. Organize them by categories such as income, expenses, assets and payroll. The IRS generally recommends keeping these records for at least three years; however, if you manage inventory or significant assets, holding them for six years offers greater protection.

Prior to March 26, 2025, U.S. business entities were required to report ownership under the *Corporate Transparency Act* (CTA). However, domestic reporting companies are now exempt from beneficial ownership reporting (BOI). This is one step that only foreign entities will need to comply with.

Electronic files should be easy to access and clearly show transaction details. Cloud storage or accounting software can make it easier to track and share with your tax professional when it's time to file.

Prepare these key documents before your appointment

To help make your tax appointment more efficient, have the following ready:

- Business name, address and employer identification number (EIN) (if applicable)
- Accounting method (cash or accrual)
- Total gross receipts and other income
- Records of expenses with receipts or proof of payment
- Vehicle mileage logs or business travel details
- Payroll reports and 1099 forms issued
- Retirement plan and health insurance records
- Loan or financing statements
- Equipment purchases or disposals
- Any correspondence received from the IRS or state tax agencies

The benefits of preparing early

Starting early means fewer surprises later. It gives us time to identify tax-saving opportunities like adjusting income, accelerating deductions or contributing to retirement accounts before the deadline. Early preparation also allows us to check for errors or missing documents without the rush that often comes in March or April.

Being proactive now also helps with cash flow management. Knowing your tax liability, or potential refund, in advance gives you more time to plan payments, avoid penalties and make smarter financial decisions for your business.

Let's get started. Reach out now to schedule your year-end tax planning appointment; we'll help you finish strong and file with confidence.