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Tax-Saving Tips

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Employee Retirement Plan Coverage: 2026 Options and Credits

If your business has employees, or soon will, now is a good time to review your retirement plan options for 2026.

Check If Your State Requires a Plan

Fifteen states now require employers to either sponsor a qualifying plan or enroll workers in a state-run program. California and Oregon apply the rule to employers with just one W-2 employee. Penalties typically range from $100 to $250 per employee per year.

The rules follow your employees so that a single remote hire can trigger the obligation. Even if you already have a plan, you may need to register your exemption on the state portal to avoid penalty notices.

A Good Plan Does Not Require a Big Company

Options range from a basic SEP-IRA or SIMPLE IRA to a safe-harbor 401(k) with profit sharing, which allows up to $72,000 per participant in 2026. Standard features such as Social Security integration and cross-testing can direct more of the employer's contribution to owners.

A cash balance (defined benefit) plan can produce much larger deductions for owners who are older than their staff.

Federal Tax Credits Can Cover Much of the Cost of a New Plan

Small employers that begin new plans may claim credits for startup and administration costs as well as employer contributions. There's also a tax credit for all plans that add automatic enrollment.

If you operate as an S corporation, remember that you base your contributions on your W-2 wages, not distributions. A low salary saves on payroll taxes but also caps how much you can save for retirement.

Reasonable Compensation Horror Stories: The Tax Man Cometh

If you own an S corporation and work in the business, the IRS expects you to pay yourself a

reasonable salary before taking the rest of your profits as distributions.

With wages subject to a combined 15.3 percent payroll tax up to the $184,500 Social Security wage base in 2026, it is tempting to keep that salary low or skip it entirely. That strategy carries real risk.

When the IRS finds a salary too low, it can recharacterize your distributions as wages and collect the payroll taxes your S corporation should have paid, plus interest and penalties.

The IRS takes this issue seriously enough to pursue return preparers too. In one case reported by tax attorney Eric L. Green, the IRS assessed a CPA $130,000 in preparer penalties because 13 of his S corporation clients took little or no salary, even though he had urged the clients for years to pay themselves properly.

In that audit, the IRS agent repeatedly asked for a written report justifying the salary. That report is your best protection too. We recommend that you do the following:

- Set your salary before year-end, based on the work you actually perform.
- Obtain a written reasonable compensation report that documents how you arrived at the figure.
- Keep the report with your corporate records.

This report does not guarantee a win, but it answers the first question an auditor will ask: Where's the evidence?

Health Insurance Application Does Not Control Your Tax Deduction

If you are self-employed and buy your own health insurance, you may have noticed fine print on the application stating that the policy is not employer-sponsored and that you will not deduct the premiums on your tax return.

That language can be alarming, but it does not take away your tax deduction.

The statement exists because Affordable Care Act rules penalize employers that improperly pay employees' individual insurance premiums. It is an insurance rule about who sponsors the coverage, not a tax rule, and an insurance application cannot override the tax code.

Here is how the deduction actually works:

- If you're a sole proprietor or a partner, you are not an employee of the business. You buy the policy as an individual and deduct the premiums on your Form 1040.
- If you are an S corporation owner (more than 2 percent), have the corporation pay or reimburse the premium and report it as W-2 wages. You then deduct it on your Form 1040. For health insurance purposes, the tax code treats you as a partner.

The following rules really can limit your self-employed health insurance deduction:

- The deduction cannot exceed your net earnings from the business. A loss year, or a

zero S corporation salary, means no deduction.

- No deduction is allowed for any month you, your spouse, a dependent, or your child under age 27 is eligible for a subsidized employer plan, even if you or they decline that employer coverage.

- The deduction reduces income tax, not self-employment tax.

You Can Have an Office in the Home and an Office Downtown

If you are self-employed and also have access to an office elsewhere, you may assume you cannot deduct a home office. Many people believe this, and IRS auditors sometimes raise it. But the law says otherwise, and the IRS's own guidance backs you up.

Your home office qualifies as your principal place of business when you

- use it exclusively and regularly for administrative or management tasks, such as billing, recordkeeping, and scheduling; and

- have no other fixed location where you conduct substantial administrative or management activities.

IRS Publication 587 confirms that you can have more than one business location, including your home. It also states that having suitable space outside your home does not disqualify you if you choose to do that work at home instead.

You may have heard about the *Soliman* case, in which an anesthesiologist lost his home-office deduction. Congress overturned that result for tax years beginning after 1998, and the IRS now uses this case's facts as an example of a qualifying home office.

Two points to keep in mind for 2026:

1. W-2 employees can no longer deduct a home office, and this change is permanent. If you operate your business as a corporation, have the corporation reimburse your home office so you have a corporate deduction instead.

2. For the self-employed, when your home office is your principal place of business, trips from home to other work locations become deductible business mileage rather than commuting.

Commission Rebates in 2026: Cut Your Fee, Don't Cut a Check

If you offer customers a rebate or discount on your commission, how you handle it can affect your taxes. Here is what to know for 2026.

The Best Approach: Reduce Your Commission at Closing

When the discount comes off your commission before you are paid, your Form 1099-NEC shows the lower amount. There is nothing to deduct, nothing to document, and no question about the

payment. Money that never reaches you is never income to you.

If You Write a Check, Write It to the Buyer

The IRS treats a rebate from the buyer's agent to the purchaser as a reduction in the purchase price, not income to the buyer. You issue no Form 1099, and the buyer reduces their basis in the home.

How you treat the payment on your own return is less settled, because the IRS has suspended part of its guidance on deducting rebates. That's another reason to reduce the commission instead.

Employees Face a Harsher Result

A W-2 employee who rebates commissions still reports the full commission and, under current law, gets no deduction for the rebate. Independent contractor agents who file Schedule C are not affected by this rule.

Check your state's law. About 10 states prohibit commission rebates. In those states, the rebate is an illegal payment, and illegal payments are generally not deductible.

Refinancing a Rental: Avoid a Bad Interest-Deduction Trace

If you refinanced a rental property and took cash out, or if you plan to do so, how you spend that money determines whether you can deduct the interest.

Tax law follows the money, not the property securing the loan.

If you use the refinancing cash for personal purposes, the interest on that portion is non-deductible personal interest even though your rental secures the loan. The part of the loan that replaced your original rental mortgage remains rental debt, and that interest stays deductible.

There is good news. IRS rules require that principal payments pay off the personal portion of a loan first. Every principal payment you have made after the refinance reduces the non-deductible portion before touching the rental portion.

Once you have repaid an amount equal to the personal cash-out, the entire remaining balance is rental debt again. If you refinanced in a prior year, you may have been deducting too little interest. If you refinance in the future, take these steps:

- Deposit the proceeds in a new, separate account, and spend directly from it for the intended purpose.
- Avoid depositing loan proceeds into your existing checking account. Under IRS rules, the IRS treats any spending from that account as coming from the loan proceeds first, which can turn deductible interest into personal interest.