

ClientLine®

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SAVE FOR RETIREMENT, REDUCE YOUR TAX BILLS

One simple step can lower your tax bill and boost your retirement savings. The actions you take today to prepare for retirement will influence your financial situation in later years. Contributing to an eligible retirement account by the April 15, 2025, income tax deadline will reduce your 2025 taxable income by the amount you contribute.

INDIVIDUAL RETIREMENT ACCOUNT

An Individual Retirement Account (IRA) gives you the flexibility to choose from various investments to hold in your account. For 2025, you can contribute up to \$7,000—or \$8,000 if you're 50 or older. In 2026, the contribution limit increases to \$7,500—or \$8,600 if you're 50 or older. You must have "earned income," including money from wages, salaries, tips, bonuses, commissions, or self-employment income, to contribute to an IRA. Your spouse can also contribute to an IRA.

SIMPLE IRA

A Savings Incentive Match Plan for Employees, or SIMPLE IRA, is a retirement savings plan designed for small businesses with 100 or fewer employees.

Employers must match employee contributions dollar-for-dollar—up to 3% of an employee's compensation—or make a fixed 2% contribution for all eligible employees, even if an employee chooses not to contribute. Employers may also

make additional nonelective contributions beyond the standard 2% nonelective or 3% matching contributions.



If you're aged between 60 and 63, you can make a catch-up contribution of up to \$5,250 in 2025 and 2026.

As with a traditional IRA, you can contribute to a SIMPLE IRA until April 15th following the end of the tax year and benefit from the tax deduction.

SOLO 401(K)

Solo 401(k) plans are designed for a business owner with no employees and their spouse. You can

make elective deferrals of up to 100% of your earned income or the annual contribution limit, plus employer non-elective contributions of up to 25% of compensation.

Contributions can be made until the company's tax return deadline, including extensions. Financial and tax professionals can help you determine which plan is right for you.



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DEDUCTIONS AND CREDITS

Small businesses have unique characteristics and needs. Hence, the IRS has some tax provisions that are designed for or may be particularly beneficial to smaller companies. Let's take a look one in particular.

BONUS DEPRECIATION

Businesses must generally write off the costs of assets over their "useful life"—a set number of years based on the kind of asset. With bonus depreciation, businesses can immediately deduct those costs, subject to certain limits.

Under the TCJA, 100% bonus depreciation was only allowed through 2022, subject to a phaseout that would allow a deduction for 80% of costs in 2023 and 60% in 2024.

Under OBBBA, the 100% bonus depreciation provision is made permanent.

CLIENT PROFILE

Ellen, a solo entrepreneur, projects a net profit of \$100,000 in her first year. The big question: keep her single-member LLC as a default sole proprietorship or elect S-Corp taxation?



As a sole proprietorship, she pays 15.3% self-employment tax on nearly the entire \$100,000 plus income tax after the 20% qualified business income (QBI) deduction, for a total federal tax bill of about \$21,630.

By electing S-Corp status and paying herself a reasonable \$50,000 salary, only the salary is subject to payroll taxes (\$7,650 total FICA). The remaining \$50,000 flows as a tax-free distribution. After the same QBI deduction and slightly higher income tax, her total federal taxes drop to about \$15,850.

Bottom line: the S-Corp route saves her roughly \$5,800 in year one, even after minor payroll service costs.

For profits over roughly \$60,000, S-Corp almost always wins for active owner-operators. At \$100,000, the choice is clear—electing S-Corp puts thousands more in Ellen's pocket from day one.

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Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

TAX CREDITS FOR NEW RETIREMENT PLANS

Small businesses can significantly benefit from tax incentives that encourage the creation of employee retirement plans. Recent updates show that small business owners starting a new retirement plan can claim a tax credit of up to \$5,000 annually for the first three years. This credit offsets the costs of setting up and administering these plans, making it easier for small businesses to provide valuable retirement benefits to their employees.

AUTOMATIC ENROLLMENT

Businesses that implement automatic enrollment for new hires can qualify for an extra \$500 tax credit per year, for up to three years. The One Big Beautiful Bill Act (OBBBA) has enhanced this incentive by increasing the credit to cover up to 100% of plan startup costs, a significant increase from the previous 50% limit.

For plans with auto-enrollment, the maximum contribution in the first year is set at 10% of an employee's compensation. Employees must have the option to opt out of this automatic enrollment to maintain flexibility and choice. After the first year, safe harbor plans can incrementally increase contributions up to 15% of compensation, with the opt-out option still available. This structure encourages consistent retirement savings while respecting employee choice.

TIME

Business owners also have flexibility in timing. You can establish a retirement plan and claim the related tax credit for the

previous year as late as the due date of your company's tax return, including extensions. This extended timeline allows businesses to make strategic profit-sharing contributions and maximize tax benefits. These credits and flexible options make 2026 an ideal time for small businesses to explore or expand their retirement plan offerings.

PLAN COMPLIANCE

To support new deductions and credits, businesses may face additional documentation rules, including: Enhanced reporting for employee wage types (e.g., tip income, overtime tracking), verification for green or domestic-use incentives, and additional due diligence standards for tax preparers. Additionally, fines and penalties for non-compliance with ERISA requirements have increased annually, ranging from a few hundred dollars to several thousand dollars.

Consult your trusted advisors to ensure compliance and maximize these opportunities for your business and employees.



MAKING CHARITABLE CONTRIBUTIONS IN 2026

OBBBA introduced several significant changes for individuals who deduct charitable contributions. Starting in 2026, you may deduct itemized charitable contributions if the total exceeds 0.5% of your adjusted gross income (AGI). This change effectively limits the deductibility of smaller contributions, particularly for lower- and middle-income taxpayers.

However, OBBBA also brings some good news for individual donors. It makes permanent the 60% AGI limit for cash contributions to public charities, a provision originally enacted by the Tax Cuts and Jobs Act (TCJA). TCJA increased the AGI limit from 50% to 60%, allowing taxpayers to deduct cash contributions to public charities up to 60% of their AGI in a single year.

Without the change under OBBBA, the limit would have gone back to 50% of AGI after 2025.



When donating to a charity, ensure the organization is qualified by searching the IRS database, <https://www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations>. Only donations qualified by the IRS are eligible for tax deductions.

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What's the difference between a single-member LLC and an S-Corp?

A

A single-member LLC is taxed as a sole proprietorship by default: all profits are subject to 15.3% self-employment tax. An S-Corp, however, allows the owner to pay themselves a reasonable salary (subject to payroll taxes) while taking the remaining profits as tax-free distributions. This split can save thousands in taxes once profits exceed about \$50–60k annually.

The trade-off? S-Corps require formal payroll, annual filings, and stricter IRS rules, making them a better option for higher-earning businesses seeking tax efficiency.

TAX DAY IS COMING: TIPS TO STAY AHEAD

In 2026, there are some changes to the credits related to families and children, most notably the Child Tax Credit and the Child and Dependent Care Tax Credit. These credits include a phase-out structure based on certain income thresholds.

Tax Day 2026 is on April 15, and early preparation can lead to a stress-free tax filing experience. Begin by organizing important documents, including W-2s, 1099s, receipts, and records of deductible expenses. Avoid last-minute panic by gathering these items now.

Review your previous year's return to identify potential deductions or savings. Major life changes—such as a new job, buying a home, or investments—may impact your taxes. Consult a tax professional to maximize credits and minimize liabilities.

Check your withholdings and estimated payments to prevent surprises. Set up direct deposit for faster refunds or plan early payments to avoid penalties. If you owe taxes, consider setting up a payment plan.

Stay informed about 2026 tax law updates that could affect your deductions or credits. By staying organized and proactive, you'll approach Tax Day with confidence, potentially saving money and reducing stress. Start now to ensure a smoother filing process.



CAN YOU CLAIM THESE NON-ITEMIZED DEDUCTIONS?

OBCCA also introduced several deductions for 2026 that you can claim in addition to the standard deduction without having to itemize your deductions.

Charitable Contributions. This permanent deduction lets you claim up to \$2,000 (married filing jointly) or \$1,000 (single) in cash qualified charitable deductions.

Student Loan Interest of up to \$2,500 remains deductible in 2026, with a phase-out between \$170,000 and \$200,000 MAGI for joint filers and between \$85,000 and \$100,000 for single filers. However, starting with the 2026 tax year, forgiven student loan debt

generally becomes taxable income again.

Vehicle Loan Interest of up to \$10,000 a year can be deducted, effective for 2025 through 2028. You must purchase the vehicle for personal use and meet other eligibility criteria.

Additional Deduction for Seniors. If you're age 65 or older, you're eligible for an additional deduction of \$6,000 (single) or \$12,000 (married filing jointly). The deduction phases out for taxpayers

with income over \$75,000 (single) and \$150,000 (married filing jointly).

Qualified Tips. For tax years 2025 through 2028, you can deduct up to \$25,000 in tips received. To qualify, these tips must be received in occupations that customarily and regularly receive tips. The deduction phases out for single taxpayers with modified adjusted gross income (MAGI) over \$150,000 and married couples (filing jointly) with income over \$300,000.

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