

ClientLine®

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SUMMER TAX PLANNING FOR SMALL BUSINESSES

Tax planning isn't just for the end of the year or your review at the beginning of a new year. Being proactive and reviewing your tax strategy mid-year can give you a competitive edge and prepare you for success during the 2026 tax season.

WHAT TO LOOK AT

During the summer months, review your deductible business expense records.

Every expense you document — travel, meals, entertainment, office supplies, equipment, etc. — can reduce your taxable income. Check your contributions to tax-advantaged retirement accounts. Can you increase them? Doing so may help you take advantage of potential tax deductions and credits.

Ensure your business's quarterly tax reports are filed and paid to the IRS.

Review your business's financial situation and project income for the rest of 2026. Estimating your tax liability and making timely payments helps prevent any tax surprises.

MAXIMIZE DEDUCTIONS AND CREDITS

Consider organizing a summer team-building event or a client appreciation outing. The costs for these activities might be deductible. Keep thorough records and receipts to substantiate these expenses.

If you have a legitimate business reason

to travel somewhere that can be combined with a family vacation, you might be able to deduct your individual business-related expenses, but not those of the family.



Business renovations and improvements are often most effective during the summer months. Consider if this summer is the right time to tackle those projects. Before starting, ensure you know which expenses — like

energy-efficient improvements — qualify for tax deductions or credits. This could help lower your potential 2026 tax bill.

ESTIMATE YOUR TAX LIABILITY

One common mistake business and personal taxpayers make during the summer, more than any other season, is underestimating their potential tax liability come year-end.

Underestimating your income can lead to underpayment and potential penalties. Relying solely on online tax calculators or generic tax advice might cause you to overlook opportunities for tax savings. That's why many tax experts recommend you secure professional guidance.



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HIGHER CONTRIBUTION LIMITS

The IRS has raised 401(k) contribution limits for 2026, giving savers more room to grow retirement funds. The new elective deferral limit is \$24,500, letting employees contribute an extra \$1,000 pre-tax or Roth — perfect for maximizing tax-advantaged growth.

For individuals age 50 and older, the catch-up contribution jumps to \$8,000, so totals can reach \$32,500. Some plans offer a "super" catch-up of \$11,250 for ages 60–63. If your wages exceed \$150,000 in 2025, all 2026 catch-up contributions must be Roth. This shifts immediate tax advantages but provides tax-free qualified withdrawals later.

Review eligibility, explore Roth options, and adjust contributions early in 2026 to make the most of these increases and strengthen your retirement strategy.

CLIENT PROFILE

Meet Sarah Jones, a 55-year-old marketing director in New York. Her employer (a mid-sized tech firm) paid her \$165,000 in salary and reported it on her 2025 Form W-2. This exceeds the IRS-adjusted threshold of \$150,000 for the prior year.



The standard elective deferral limit is \$24,500, and as someone over 50, Sarah qualifies for an \$8,000 catch-up contribution. Her regular \$24,500 deferral can still be pre-tax (reducing 2026 taxable income) or Roth at her choice. However, because her 2025 FICA wages from this employer topped \$150,000, any catch-up amount (the extra \$8,000) must be designated as Roth (after-tax). She pays income tax on that \$8,000 in 2026, but qualified withdrawals (including growth) are tax-free in retirement.

Sarah reviews her plan documents, and luckily, it includes a Roth 401(k) option. She updates her contribution election to allocate the catch-up amount to Roth. Without Roth accounts in the plan, she wouldn't be able to make the catch-up contribution at all.

This change means high earners like Sarah won't get an immediate tax deduction on catch-ups, but it creates tax-free growth for the future.

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

TAX-SAVING COLLEGE FUNDING OPTIONS

If you meet income and other requirements, a variety of grants and tax breaks can help you reduce higher education costs. Examples include:

Grants. The federal Pell Grant offers up to \$7,395 for 2026-2027. The Federal Supplemental Educational Opportunity Grant (FSEOG) may provide up to \$4,000 each year, depending on the availability of the grant at the school.

Most colleges or secondary schools offer grants from various private organizations. Two examples include grants aimed at specific groups of students, such as future teachers and children of veterans. To qualify for almost any grant or loan, you must fill out the Free Application for Federal Student Aid (FAFSA) form.

Tax Breaks. Get tax credits—which you subtract from taxes owed—from the American Opportunity Tax Credit and the Lifetime Learning Credit. The American Opportunity Tax Credit is for undergraduate expenses up to \$2,500 per student per year. The Lifetime Learning Credit provides up to \$2,000 per student per year. You cannot claim both credits in the same tax year for the same student, nor can the student be declared a dependent by someone else.

And, if you meet income requirements, you may deduct student loan interest of up to \$2,500 from your taxable income.



COMPARE THE CREDITS

2026 TAX INFORMATION	AMERICAN OPPORTUNITY TAX CREDIT	LIFETIME LEARNING CREDIT
Income Limit Filing Single	\$90,000	\$90,000
Income Limit Filing Jointly	\$180,000	\$180,000
Eligible Programs	Student must be pursuing a recognized educational credential	Student needn't be pursuing recognized educational credential
Enrollment Requirements	At least half-time	One or more courses
Years Available	Four per student	Unlimited

COMBINING BUSINESS AND PERSONAL TRAVEL

If you run your own company and travel for business, you might be tempted to mix work with pleasure. That's fine as long as you follow tax rules. Your tax professional can advise you on what you can or cannot do.

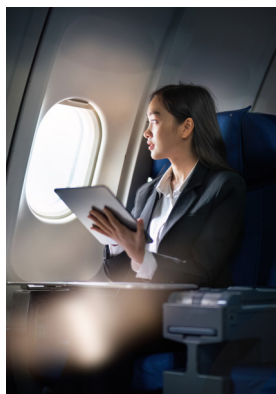
TAX-SMART TRAVEL

Generally, businesses can deduct the costs of airfare, lodging, car rentals, and meals from taxable income when they are used for legitimate business purposes.

However, when you combine personal and business travel, it becomes more complicated. You can still deduct transportation costs for yourself, but not for any family members. Additionally, you may only deduct the reasonable cost of lodging, which would be single or double occupancy in this case. You can also deduct the cost of shipping materials needed for your business, dry cleaning, and tips. However, you cannot deduct any expenses related to family activities.

SEPARATE EXPENSES

It's important to keep detailed records,



including the days, locations, times, names of people you meet, and your business purpose. Remember that the IRS probably won't allow deductions for a day when you have a 15-minute meeting and spend the rest of the day with your family at a theme park.

You need to allocate all of your expenses for tax purposes. For example, you can deduct the cost (including gas) of renting a car only on the days when you conduct business. So, if you spend \$500 for a 10-day rental and work for five of those days, you can deduct half of that as a business expense.

Finally, you will need to recognize the personal expenses paid by the company as an owner's draw and part of your income.

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What are estimated tax payments?

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Estimated tax payments are paid quarterly to the IRS and often to your state to cover your expected income taxes for the year. The U.S. tax system uses a "pay-as-you-go" method, so taxes are due as you earn or receive income.

Estimated taxes include federal income tax, self-employment tax (Social Security and Medicare), and, sometimes, the alternative minimum tax. These payments are mainly for those whose income isn't automatically withheld, like self-employed people, investors, and retirees. Underpayment can result in a penalty, even if you get a refund later.

MID-YEAR TAX CHECKUP

June is the ideal time to review your year-to-date (YTD) financial performance, allowing proactive adjustments that prevent unpleasant tax surprises next spring. By mid-year, roughly half of the year's income and expenses are known, providing a clear snapshot for projecting annual results and fine-tuning strategies.

WITHHOLDING ACCURACY

Compare YTD pay stubs with projected annual income to confirm that federal and state withholdings align properly. If under-withheld, clients risk penalties or large April bills; if over-withheld, they miss interest-free cash flow.

ESTIMATED TAX PAYMENTS

With the Q2 deadline on June 15, you

should verify that you have the correct vouchers or access to the IRS Direct Pay portal to submit payments on time and avoid underpayment penalties.

LIFE EVENTS

Have you experienced any major life events this year? Such as marriage, divorce, a new child, or a home purchase, which can significantly alter tax

liability. These changes often require immediate W-4 adjustments or other steps to stay compliant and optimized.

This mid-year review empowers you to course-correct early, ensuring a smoother tax season ahead.



ESTATE STRATEGIES IF YOU HAVE NO APPARENT HEIRS

Whether your family is small or you simply lack direct descendants, with a bit of creativity and careful planning, you can ensure your wealth is allocated according to your wishes and has a lasting impact.

Take Care of Yourself First. Since you may not have anyone to rely on for long-term care, make sure you provide for any future medical care you may need.

Give to Charity. Think about causes you're passionate about—be it education, healthcare, or environmental conservation. Establishing a charitable trust or foundation not only allows you to support those causes but can also offer significant tax advantages.

Remember Friends or Key Mentors.

You might designate them as beneficiaries of your assets or even include them in your decision-making process. This approach allows you to meaningfully distribute your wealth and express gratitude to those who've contributed to your life.

Plan for Pets. A pet trust can ensure they receive proper care and financial support when you're no longer around.

Lastly, keep in mind that your estate strategy isn't a one-and-done deal. As your life circumstances change, so might your needs. Be sure to touch base regularly with your trusted advisor to review your strategy.



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