Guide · Taxes for owners 8 min read

Small Business Tax Deductions You're Probably Missing in 2026

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The short answer

The deductions small business owners miss most are the home office, business vehicle use (72.5 cents a mile in 2026), self-employed health insurance, retirement contributions, the QBI deduction, and full expensing of equipment. Each depends on good records, so the real fix is bookkeeping that captures them as they happen.

Deductions that are often missed

Home office

If part of your home is used regularly and exclusively for business, you can deduct it. The simplified method is $5 per square foot up to 300 square feet. The regular method uses actual expenses (rent or mortgage interest, utilities, insurance, depreciation) in proportion to the space. Two catches: depreciation claimed on a home you own is taxed when you sell the home, even if the rest of the gain is tax-free, and S corp owners can't claim the deduction on their own return; the company reimburses them under an accountable plan instead.

Vehicle

Business miles are deductible at the standard rate of 72.5 cents per mile for 2026, or you can deduct the business share of actual costs. Commuting doesn't count. A contemporaneous mileage log is essential. Choose carefully in

the first year: if you start with actual costs, you generally can't switch that vehicle to the standard rate later.

Self-employed health insurance

Premiums for you, your spouse and dependents are deductible above the line if you're self-employed and not eligible for an employer-subsidized plan, including through your spouse's job. The deduction can't exceed your business profit. S corp owners with more than 2% ownership need the premiums on their W-2 to claim it.

Retirement contributions

Solo 401(k) and SEP-IRA contributions can shelter large amounts: up to $72,000 of total additions in 2026, plus catch-up contributions. This is often the single biggest deduction available to a profitable owner. Keep two things in mind: pre-tax contributions defer tax rather than eliminate it, and for a sole proprietor they also trim the QBI deduction, so each dollar saves tax on roughly 80 cents. Whether pre-tax or Roth is better depends on your bracket now versus in retirement.

The QBI deduction

Up to 20% of qualified business income, now permanent. Above $201,750 of taxable income ($403,500 joint) it becomes limited by wages paid and by specified service business rules.

Equipment and property

100% bonus depreciation was permanently restored for qualifying property acquired after January 19, 2025, and the Section 179 limit rose to $2.5 million (indexed for inflation). Most business equipment, furniture and software can be deducted in the year it's placed in service. Deducting everything at once isn't always best: in a low-income year the deduction may be worth more spread over later, higher-income years, and assets you expensed are taxed again (recaptured) if you sell them.

The rest of the list

- Business share of phone and internet
- Software subscriptions and professional dues
- Education that maintains or improves skills in your current business
- Business meals (50%) with a documented business purpose
- Bank fees, merchant fees and interest on business debt

Hiring your children at a reasonable wage for real work, with timesheets. Wages to children under 18 escape payroll tax only in a sole proprietorship or a partnership owned by the parents; in an S corp they're subject to FICA

An accountable plan for S corp owners to reimburse home office and phone costs tax-free

A deduction is a discount, not free money

A deduction saves tax at your marginal rate. In the 24% bracket, spending $1,000 on something you don't need saves $240 in tax and costs you $760. The deductions worth chasing are for money you would spend anyway, or spending that earns a return.

What the IRS expects you to keep

Every deduction depends on records: receipts, mileage logs, calendars and a clear business purpose. Keep them for at least three years after filing, and longer for property and depreciation records.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

Want this applied to your situation? Book a free 30-minute call with Akanchya Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

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