DHS ADVISORS

Corporation Year-End Tax Planning Letter

December 1, 2025

Dear Client:

As the end of the year approaches, it is time to consider planning moves that may help lower your tax bill and stay compliant with various reporting requirements.

General Information
Business records and documents should be up-to-date. You should have prepared minutes for your board meetings. The minutes should describe the nature of the meeting and include any compensation to the shareholder(s), including bonuses. Loans from the corporation should be documented in the minutes, as well as rents paid and any other financial transactions between the corporation and shareholder(s). If you have accumulated earnings and profits, you should determine if dividends should be paid or create a memorandum stating why excess amounts are reasonable. If you have inventories, you should take a physical count on December 31. Please remember that the due date for filing copy A of Form(s) W-2 and W-3, as well as Form 1099-NEC is February 2, whether you file using paper forms or electronically. While the 1099-NEC filing threshold has been increased to $2,000 as part of the One Big Beautiful Bill Act, this increased filing threshold goes into effect beginning in 2026, and remains at $600 for 2025. Form 1099-MISC is due on paper by March 2, and electronically by March 31. If you file 10 or more information returns (W-2, 1099, etc.), you must file those forms electronically with the IRS.

Capitalization Regulations
Please review and update your asset capitalization policy. Businesses may be able to take advantage of the "de minimis safe harbor election" to expense the cost of lower-cost assets, materials, and supplies. The amount allowed to be expensed depends on whether the taxpayer has written accounting procedures in place and, if so, whether the taxpayer has an applicable financial statement. If the taxpayer has a *written* accounting procedure and issued applicable financial statements, costs can be expensed up to $5,000 per item. If a taxpayer does not issue financial statements but has a written accounting policy, expenditures cannot exceed $2,500 per item, beginning in 2016.

Business Asset Depreciation and Expense Deduction
Under the One Big Beautiful Bill Act (OBBBA), a 100% first-year deduction is allowed for qualified new and used property acquired and placed in service between January 19 and December 31 of 2025. Qualified new property placed in service between January 1 and January 18 is eligible for a 40% first-year deduction under the Tax Cuts and Jobs Act (TCJA). After 2025, federal bonus depreciation will remain at 100% permanently under the OBBBA.

You should consider making expenditures for qualifying Code Section 179 property. The 2025 maximum amount that may be expensed under Code Section 179, for federal purposes, is $2,500,000. The expense deduction is reduced dollar-for-dollar to the extent eligible Section 179 property placed in service for the year exceeds $4,000,000. No Section 179 expense is allowed if eligible property additions exceed $6,500,000 in 2025.

The federal maximum depreciation allowance for passenger automobiles is decreased to $12,200 for the year the vehicle is placed in service, if bonus depreciation is not claimed. For passenger automobiles eligible for first-year bonus depreciation, the first-year depreciation allowance is

increased by $8,000, resulting in a total of $20,200. Trucks and vans (including minivans and SUVs) with a gross vehicle weight exceeding 6,000 pounds are treated as transportation equipment and are not subject to the bonus depreciation limitations. The Section 179 deduction for any SUV rated at 14,000 pounds gross vehicle weight or less is limited to $31,300.

California does not conform to the federal bonus depreciation deduction or the Code Section 179 limits and passenger automobile depreciation changes.

Beneficial Ownership Information (BOI) Reporting
As discussed in previous communications, the Financial Crimes Enforcement Network (FinCEN) required entities that register with state or tribal government agencies to report Beneficial Ownership Information (BOI) by the initial due date of January 1, 2025. On March 26, 2025, FinCEN published an interim rule that redefined entities required to report BOI to include only those formed under the law of a foreign country that have registered to do business in a U.S. state or tribal jurisdiction.

Retirement Plan Contributions
Please confirm the contributions that you have made to your plan so far in 2025. Contributions of employee elective deferrals to SIMPLE IRA and SIMPLE 401(k) plans are due 30 days after the month of the payroll deferral, making the final deposit due by January 30, 2026. Contributions of employee elective deferrals to 401(k) plans are due 15 business days after the month of the payroll deferral, making the final deposit due by January 15, 2026. The maximum contribution allowed for SIMPLE plans is $16,500 ($20,000 if you are age 50 or older). The maximum contribution allowed for 401(k) plans is $23,500 ($31,000 if you are age 50 or older). Any matching contributions or non-elective contributions are due by the due date of your return, including extensions.

The contributions you make to each employee's SEP-IRA cannot exceed the lesser of 25% of compensation or $70,000. Self-employed individuals involved in incorporated businesses use the shareholder's W-2 compensation for their personal contribution and follow the previously stated criteria. Contributions for SEP-IRA plans are due by the due date of the employer's return, including extensions. Additional information on retirement plans for small businesses can be located in IRS Publication 560.

Taxable Fringe Benefits
Generally, the value of non-cash fringe benefits must be determined no later than January 31 of the following year. However, we recommend you consider the impact of the fringe benefits you provide during December to avoid penalties for not making timely payroll tax deposits.

Before you prepare W-2 forms for your employees' 2025 compensation, please review the following:
Benefits, including holiday bonuses and amounts paid in cash or cash equivalents, such as gift cards, are included in payroll, regardless of the amount. De minimis fringe benefits, such as personal use of business equipment, gifts, etc., must be small in value and infrequent. These can be excluded from payroll.

If you paid for group-term life insurance over $50,000 for an employee or a former employee, you must report the taxable cost of excess coverage in box 12 of Form W-2, with code C. The amount to report is determined by using IRS Publication 15-B.

Contributions made by an employer to an employee's health savings account (HSA) are excluded from federal wages and not subject to federal employment taxes. No exclusion from wages or taxes is allowed for California payroll reporting. The 2025 contribution limits are $4,300 for a self-

only HSA and $8,550 for a family HSA. An additional contribution of $1,000 is allowed if the employee is age 55, or older, at year-end.

To comply with the Affordable Care Act, employers are required to report the cost of health benefits provided in box 12 of the form W-2 with code DD.

Please remember to check Form W-2, box 13, retirement plan, if your employee is an active participant in your company's retirement plan. This includes qualified retirement plans, annuities, SEP, and SIMPLE plans.

There are restrictions associated with shareholder-employees who participate in Section 125 plans. Payments to the Section 125 plan for key employees, including shareholder-employees, are limited to a maximum of 25% of the total payments to the plan. Please check the total of shareholder-employee contributions to make sure that you are in compliance with this restriction.

Employee Use of Company Vehicles - If you provide a vehicle to an employee (including yourself, if you are an employee of your own corporation) that was used for both business and personal use, the value of the personal use must be included on the employee's W-2 and is subject to payroll taxes.

Written records must indicate the time and place of travel, the business purpose of the expense or use, and the mileage traveled for all employee use of business vehicles.

The following is a brief description of the four different methods that can be used to determine the value of the auto provided to the employee and what records need to be kept. For more detailed information, see IRS Publication 15-B.

1. **General Valuation Rule --** Under this rule, the value of an employer-provided vehicle to be included on the employee's W-2 is its fair market value (FMV). The FMV of the vehicle is the amount an employee would have to pay a third party in an arm's-length transaction to lease the vehicle in the geographic area where the employee uses the vehicle. Neither the amount the employee considers to be the value nor the cost you incur to provide the vehicle determines its FMV. The FMV is multiplied by the ratio of personal miles to total miles driven, and the result is reduced by reimbursements, if any, received from the employee to determine the amount to include in the employee's income.

2. **Cents-Per-Mile Rule --** Under this rule, the value of an employer-provided vehicle to be included on the employee's W-2 is determined by multiplying the standard mileage rate by the total miles the employee drives the vehicle for personal purposes. The standard mileage rate for 2025 is 70 cents per mile, if you provide fuel. (If you did not provide fuel, you can reduce the rate to 64.5 cents per mile).

   The cents-per-mile rate includes the value of insurance and maintenance (even if not actually provided during the period).

   The cents-per-mile rule may be used for an employer-provided vehicle (including cars, vans, and trucks), first made available to an employee for personal use in calendar year 2025, with a maximum value of $61,200.

3. **Commuting Rule --** Under this rule, the value of a vehicle provided to an employee for commuting is determined by multiplying each one-way commute (that is, from home to work or from work to home) by $1.50. If more than one employee commutes in the vehicle, this

value applies to each employee. This amount must be included in the employee's wages if not reimbursed by the employee.

The commuting rule can be used if you require the employee to commute in the vehicle, and you have a written policy against using the vehicle for personal purposes, other than commuting. However, you cannot use it for a corporate officer, a director, or certain categories of control or highly compensated employees.

4. **Annual Lease Value Rule --** Under this rule, the value of an automobile provided to an employee is determined by its annual lease value. For an automobile provided only part of the year, use either its prorated annual lease value or its daily lease value.

   Instead of excluding the non-personal value, you can include the entire annual lease value of the car in the employee's wages. The employee can then claim any deductible business expense for the car as a miscellaneous itemized deduction on his or her personal California income tax return. However, employee business expenses are no longer deductible on the employee's federal income tax return.

   The annual lease value includes the value of insurance and maintenance (even if not actually provided during the period). It does not include the value of fuel for personal use. If fuel for personal use is provided, then it must be included separately in the employee's wages. The fuel may be valued at FMV, or at 5.5 cents per mile.

   To determine the annual lease value of an automobile, you must first determine the FMV of the automobile on the first date it is available to any employee for personal use, and then find the lease value. The annual lease value table can be found on page 27 of IRS Publication 15-B. A link has been provided for your convenience: https://www.irs.gov/pub/irs-pdf/p15b.pdf

For employees who are more than 5% owners, the compensatory nature of the personal use of the auto provided by the corporation should be well documented, in order to avoid dividend treatment.

Safe Harbor Rules -- Employers may implement written policy statements of "no personal use" or "commuting use only" of a company vehicle that will qualify as sufficient evidence corroborating an employee's own statement, without the need for a second set of records.

Nondeductible Parking Benefits

OBBBA permanently eliminated an employer's income tax deduction for expenses incurred in providing qualified transportation fringe benefits (parking, commuter transportation, transit passes). However, this change did not affect the employee's fringe benefit treatment. The amount of qualified parking excludable from an employee's income is limited to $325 per month for 2025.

The IRS released guidance in Notice 2018-99 clarifying that a portion of taxpayers' "parking expenses" is considered nondeductible as a qualified transportation fringe benefit. This has significantly expanded the number of taxpayers who will need to calculate the nondeductible portion of their parking expenses. Now, all employers that own or lease a parking lot where their employees park will need to consider if an add-back to taxable income is required. This provision applies to expenses incurred or paid after December 31, 2017.

Other Reporting Requirements under the Affordable Care Act (ACA)
Applicable Large Employers, generally employers with 50 or more full-time employees in the prior year (including full-time equivalent employees), are subject to the ACA employer mandate, and must report "minimal essential coverage" (MEC) for their health plans.

Form 1095-C must be prepared and provided to each full-time employee. The due date to furnish Form 1095-C to individuals is March 2, 2026. Form 1094-C is used to report summary information and to transmit Forms 1095-C to the IRS. These forms must be electronically filed no later than March 31, 2026. These forms fall under the revised electronic filing requirement, where 10 or more forms in the aggregate must be filed electronically.

Employers that offer employer-sponsored self-insured coverage also use Form 1095-C to report information to the IRS and to employees. There are additional reporting requirements for self-insured employers. Penalties will be charged for noncompliance with the employer mandate as well as the compliance reporting.

Harassment Training
Employers with five or more employees must provide at least two hours of classroom or other effective interactive training and education regarding sexual harassment to all supervisory employees and at least one hour of classroom or other effective interactive training and education regarding sexual harassment to all nonsupervisory employees in California within six months of their assumption of a position. This training must be provided once every two years.

More information is available at: https://www.calcivilrights.ca.gov/shptfaq-employer/

Limitations and restrictions exist on the information provided, so please feel free to contact us with any questions you might have regarding these or any other year-end tax strategies that we can assist you with or develop for you.

Sincerely,

DHS Advisors