SEPTEMBER 2026 NEWSLETTER

Schedule C Deductions: Maximize Your Business Deductions Safely

Why This Matters Right Now

As we enter the final quarter of 2026, self-employed professionals and business owners need to understand which expenses qualify for Schedule C deductions. Many leave legitimate deductions unclaimed—or claim ones that cannot be supported. This month we cover what the IRS allows, the record-keeping needed to document deductions, and the payroll rules that affect Schedule C filers.

KEY EVENTS - SELF-EMPLOYMENT TAX COMPLIANCE

✓ Q3 ESTIMATED TAX PAYMENT - SEPT 15, 2026 (DEADLINE PASSED)
To avoid an underpayment penalty, self-employed filers generally need to have paid the smaller of 90% of their 2026 tax or 100% of their 2025 tax by the required due dates (110% of 2025 tax if 2025 adjusted gross income exceeded $150,000). If you missed the Sept 15 payment, paying as soon as possible limits the penalty, which accrues from the due date until paid. Reference: **IRS Publication 505**.

✓ 1099 PREPARATION - TRACKING BEGINS NOW
If you pay contractors, track payments now. For payments made in 2026, Form 1099-NEC is generally required for payments of **$2,000 or more** in the year to a non-employee for services (the threshold was $600 for earlier years). Forms are due to recipients and the IRS by Jan 31, 2027. Reference: **Instructions for Forms 1099-MISC and 1099-NEC**.

✓ SOLO 401(K) / SEP-IRA - PLAN NOW FOR 2026
For 2026, total annual additions to a Solo 401(k) are limited to the lesser of 100% of compensation or **$72,000** (employee deferrals up to $24,500, plus catch-up if eligible). A SEP-IRA contribution is generally limited to 20% of net self-employment earnings, up to the same $72,000 cap. Employer-side contributions can generally be made up to the tax filing deadline (including extensions), but Solo 401(k) employee deferrals are generally elected by Dec 31, so begin Q4 planning now. Reference: **IRS Publication 560** and **IRS Notice 2025-67**.

SEGMENT A: TAXATION FOCUS

Understanding Schedule C Deductions

Schedule C (Profit or Loss from Business) is where self-employed individuals report income and expenses. According to **IRS Publication 334 (Tax Guide for Small Business)**, a deductible business expense must be both ordinary (common in your industry) and necessary (helpful and appropriate for your business), and reasonable in amount.

Deductible Expense Categories

According to IRS Pub 334, common deductible business expenses include: advertising, car and truck expenses, commissions, depreciation, office supplies, professional services (accounting, legal, tax preparation), rent or lease payments, repairs and maintenance, utilities, wages paid to employees, and business insurance. If you use the standard mileage rate, it is **72.5¢ per mile for Jan 1–Jun 30, 2026 and 76¢ per mile for Jul 1–Dec 31, 2026** (IRS Notice 2026-10 and IR-2026-29; see also Pub 463).

What You CANNOT Deduct

IRS Pub 334 explains that you generally cannot deduct: personal, living, or family expenses; commuting between home and your regular place of business; the principal portion of a home mortgage payment (home office deductions follow separate rules in IRS Pub 587); and contributions to political candidates. Key principle: the expense must be business-related, not personal.

SEGMENT B: BOOKKEEPING & ACCOUNTING REQUIREMENTS

IRS Record-Keeping Requirements

Per IRS Publication 334: you must keep records that support the items on your tax return, including gross receipts, purchases, and expenses. The IRS does not require a particular record-keeping system, but your records must clearly show your income and deductible expenses.

Mileage: Documentation Requirements

IRS Publication 463 requires adequate records or sufficient evidence to support vehicle deductions. A log kept at or near the time of each trip showing date, destination, business purpose, and miles driven is the strongest support. Without adequate records, the IRS may disallow the deduction.

Record Retention Timeline

Per IRS Publication 334 (retention periods follow the limitations period for your return): keep records for **3 years** from the date you filed; **6 years** if you did not report income that is more than 25% of the gross income shown on your return; **7 years** if you claim a loss from worthless securities or a bad debt deduction; and **indefinitely** if you do not file a return or file a fraudulent one. Keep employment tax records for at least 4 years.

SEGMENT C: PAYROLL & COMPLIANCE ALERTS

Schedule C Filers with Employees

Per IRS Publication 15 and the Instructions for Form 941: employers file Form 941 (Employer's Quarterly Federal Tax Return) quarterly, due by the last day of the month following the quarter. **The Q3 2026 Form 941 (July–September) is due October 31, 2026**; if all deposits for the quarter were made on time and in full, the filing date extends to November 10, 2026. Late filing and late deposits can trigger penalties and interest, and employment tax penalties are not deductible.

COMPLIANCE SPOTLIGHT: MILEAGE TRACKING

Per IRS Publication 463: keep a contemporaneous mileage log with date of trip, destination, business purpose, miles driven, and total business miles for the year. Vehicle deductions are a common area of IRS scrutiny precisely because the substantiation rules are specific. Practical solution: use a mileage-tracking app or keep a notebook in the car and log trips immediately rather than reconstructing them later.

Questions? Let's Talk
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IMPORTANT NOTICE: This newsletter is based on IRS Publications 334, 463, 505, 560, and 15, IRS Notices 2026-10 and 2025-67, and the Instructions for Forms 941 and 1099-NEC (as of October 2026). Tax situations are unique. We recommend

reviewing your specific Schedule C filing with a qualified tax professional or consulting with Pasari Consulting to ensure compliance and that you are claiming all legitimate deductions allowed by the IRS.

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