

2025 S-Corporation Annual Update Letter

S-Corporation Due Date & Extensions

2025 S-corporation tax returns are due **March 16, 2026** (the 15th falls on a Sunday). Remember that there is a failure to file penalty of \$245 per month per shareholder for failing to file by the March deadline. The quickest and most accurate way for us to complete your tax return on time is for you to provide us with all the information we have requested from the beginning. If you are going to require an extension to file your tax return you must contact our office before the due date of 3/16/26. We will not automatically file an extension for your business unless we have been contacted by you to do so.

****UPDATE** BOI REPORTING REQUIREMENT ELIMINATED FOR U.S. COMPANIES!**

Corporate Transparency Act Update

In March 2025, the Financial Crimes Enforcement Network (FinCEN) issued an interim final rule that **eliminated the beneficial ownership information (BOI) reporting requirement for all U.S. companies, including S-Corporations and LLCs.** This is a notable change from the 2024 requirements. U.S. domestic companies and their beneficial owners are now exempt from CTA reporting obligations. Only foreign entities registered to do business in the United States are still required to file BOI reports. If you previously filed a BOI report, no action is needed.

NEW! Tip and Overtime Reporting Requirements for 2025

The One Big Beautiful Bill Act, passed in July 2025, created new temporary tax deductions for employees and independent contractors who receive **tips or overtime pay**. These deductions are available for tax years 2025 through 2028. To help your employees and contractors claim these valuable deductions, employers should provide separate reporting of these amounts.

Tip Income Deduction:

- Employees and self-employed individuals in tipped occupations can deduct up to \$25,000 in qualified tips
- Applies to occupations listed by the IRS as customarily receiving tips (bartenders, waitstaff, hairdressers, nail technicians, hotel staff, delivery drivers, etc.)
- Tips must be reported on Form W-2 (for employees) or Form 1099-NEC (for independent contractors)

Overtime Pay Deduction:

- Employees can deduct the "extra" portion of overtime pay (e.g., the "half" in "time-and-a-half" pay)
- Maximum deduction: \$12,500 per individual (\$25,000 for joint filers)
- Applies only to FLSA-qualified overtime compensation
- Must be reported on Form W-2 (for employees) or Form 1099-NEC (for independent contractors)

Important Information for Employers:

2025 is a Transition Year: The IRS has announced that Forms W-2 and 1099 will NOT be updated for the 2025 tax year. The IRS is providing penalty relief for employers who do not separately report tips and overtime compensation on 2025 forms.

Voluntary Reporting Encouraged: While not required to avoid penalties in 2025, employers are strongly encouraged to provide employees and contractors with separate accountings of cash tips and qualified overtime compensation. This can be done through:

- Box 14 of Form W-2 (for employees)
- Additional written statements
- Online employee portals or payroll systems

Starting in 2026: The IRS will update forms and fully enforce separate reporting requirements for tips and overtime compensation. Employers should begin preparing now for full compliance in 2026.

If you have employees or independent contractors who receive tips or overtime pay, contact our office to discuss how to properly report these amounts and help your workers maximize these new tax benefits.

Nebraska Paid Sick Leave - Action Required!

The Nebraska Healthy Families and Workplaces Act went into effect on October 1, 2025. This law requires most Nebraska employers to provide paid sick time to eligible employees. Here are the key requirements you need to know:

Who is Covered?

- Employers with 11 or more employees must comply (employers with 10 or fewer employees are exempt)
- Employees who work at least 80 hours in Nebraska during a calendar year are eligible
- Exempt: seasonal/temporary agricultural workers, railroad employees, and employees under age 16

Accrual Requirements:

- Employees earn 1 hour of paid sick time for every 30 hours worked
- Accrual begins after an employee works 80 consecutive hours in Nebraska
- Small businesses (11-19 employees): can cap accrual at 40 hours per year
- Large businesses (20+ employees) can cap accrual at 56 hours per year

Carryover and Usage:

- Unused paid sick time must carry over to the following year
- Employers can limit annual usage to the caps above (40 or 56 hours), even if more has been carried over
- Paid sick time provided between January 1, 2025, and September 30, 2025, counts toward 2025 obligations

Required Employer Actions:

- 1. Provide written notice to all employees** (model notice available at dol.nebraska.gov/LaborStandards)
- 2. Display required poster** in the workplace or provide electronically for remote workers
- 3. Track and document** sick leave hours accrued and used
- 4. Include on pay stubs:** amount of paid sick time available, amount taken, and pay received as sick time

Nebraska Pass Through Entity Tax Legislation

Nebraska's Pass-Through Entity Tax (PTET) law allows a pass-through entity, such as a partnership, LLC or S-Corporation, to make a voluntary election to directly pay the Nebraska income tax generated by the entity's activity. This tax is paid on behalf of the entity's owners. The main advantage is that payments of state and local income taxes by the pass-through entity constitute a deductible business expense for federal income tax purposes. Even with the higher SALT cap of \$40K for 2025 it still makes sense to take advantage of this election. Call our office if you'd like more information about this great tax-saving legislation.

Remember to file Forms 1099-MISC & 1099-NEC for 2025

Penalties continue to be high and painful for those not filing forms 1099-MISC or 1099-NEC. Form 1099-NEC is used to report any compensation given to non-employees by a company. Any payments for other items such as rent and royalties continue to be reported on the 1099-MISC form. Remember that if you pay an individual or a non-corporate entity \$600 or more for services performed or for the rental of personal or real property, then you must issue them a 1099 form.

For the tax year 2025 you must furnish a copy of the 1099 to the recipient AND a copy to the IRS by January 31st, 2026. If you are late filing the 1099, the IRS may assess a penalty of anywhere from \$50 to \$630 per 1099 recipient depending on how late you were filing and the circumstances. Remember that an LLC is NOT a corporation, so you need to file a 1099 for payments made to one unless they indicate on their W-9 form that they are TAXED as a corporation.

If you, as an individual or a single member LLC, have commercial or residential rental properties, remember that you are required to issue 1099s to anyone that performs services on or for your properties. Failure to issue 1099s for services performed on your rentals may also result in the loss of the QBID as well.

Some examples of when you should be issuing a 1099-MISC form at year-end:

- Paying rent on office or storage space to an individual, a partnership or an LLC (that is not taxed as a corporation)
- Paying an individual or partnership who is not your employee to perform services for your company
- Paying a commission to an individual or unincorporated business to send you customers
- Paying an attorney for services rendered to your business (regardless of \$ amount)

One Big Beautiful Bill Changes For Businesses

Some important provisions of the OBBB that was passed in July of 2025:

- The 20% QBI (Qualified Business Income) deduction was made permanent with the passage of the OBBB. It was set to expire at the end of 2025.
- 100% Bonus depreciation was reinstated.

Self-Employed Health Insurance

If you are the owner of an S-Corporation and you wish to deduct your health insurance premiums, you may be able to do so if you are not eligible for coverage through a spouse or another job. If your corporation only has one shareholder and spouse and no other employees, you should be reimbursing yourselves for the premiums you pay or paying them directly out of the S-Corporation. These reimbursements will then be deductible as wages but aren't subject to FICA or unemployment taxes. Does your business employ other full-time employees besides your spouse? Please call our office to advise you how to deduct these premiums off your taxes.

What types of insurance qualify as self-employed health insurance?

- Regular health insurance premiums purchased, including those purchased through the ACA website
- Medicare premiums Parts A-D
- Long-term care premiums (up to a certain limit)
- Dental & vision premiums

If your S-Corporation employs other employees besides the owner/spouse, and you do not offer health insurance coverage to them, then you still need to reimburse yourself or pay the premiums directly out of the business. In this case they are still deducted as wages but will also be subject to FICA and unemployment taxes.

Nebraska Minimum Wage Increases

If you have employees, please pay attention to the current rates & scheduled increases in Nebraska's minimum wage.

- For 2025, the minimum wage increased to \$13.50 per hour.
- On January 1, 2026, the minimum wage will increase to \$15.00 per hour.
- After 2026, the rate will be adjusted annually based on cost-of-living increases.

Personal Vehicle Reimbursement

If you or one of your employees uses their personal vehicle for corporate business, then those business miles should be documented with a mileage log, and the corporation should be reimbursing you or your employee with a check under an accountable plan for actual miles driven. You should not be paying a flat fee to the employee or paying for actual expenses (such as fuel) for these vehicles. **For 2025 the business mileage rate is 70¢ per mile for miles driven in 2025.** If you want to deduct this on your corporate return for 2025, then reimbursement should occur in 2025 and be made by corporate check. Keep the mileage logs in your files to substantiate the deduction/reimbursement.

Entertainment Expenses Nondeductible!

Remember that entertainment expenses are no longer deductible. This includes the cost of tickets or club facilities at sporting events given to clients/customers. What are some of the exceptions to this rule?

- Meals provided for a potential client or customer where business is discussed - limited to 50% yet the meal cannot be at a nightclub, sports arena or lounge and cannot be extravagant
- Food & beverages for employees if there's a business purpose to the meeting
- Holiday parties & company outings are still 100% deductible
- Meals for subcontractors that are included in the income of that worker (on 1099-MISC)
- Food & beverage available to the general public as advertising
- Meals for employees at board meetings or bona fide business meetings where discussions are documented

Tax Return Copies/Financial Statements

Remember that we are not allowed to release any of your personal or tax information to a 3rd party without your written consent. Contact our office if you need a copy of this release form. If you would like an electronic copy of your tax return sent to you when it is completed, please let us know when you drop off your information and what email address you would like us to use.

As always, if you have more questions, please feel free to set up an appointment to discuss how these tax changes may affect your business.

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Happy Holidays!