

2026 / 2027

TAX PLANNING GUIDE

Year-round strategies to make the tax laws work for you



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Ron Marshall
Tax Practice Leader



Dear Clients and Friends,

Although you can't avoid taxes, you can take steps to minimize them. This requires proactive planning — estimating your tax liability, looking for ways to reduce it and taking timely action. In 2026, however, tax planning is more complicated than usual. The legislation commonly known as the One Big Beautiful Bill Act (OBBBA) that was signed into law last year is still having a significant impact, and some of its provisions are just going into effect this year. As a result, you'll likely need to adjust at least some of your tax planning strategies.

To help you identify strategies that might work for you in 2026, we're pleased to present this tax planning guide. It features many "What's new!" sidebars summarizing some of the most significant tax law changes that go into effect this year and their potential impact on tax planning. It also highlights other important tax law changes throughout. Finally, it explains how various approaches apply to different situations, using charts and case studies to illustrate specific tax planning concepts.

Understanding the ins and outs of federal tax law — including the latest changes under the OBBBA — and determining which steps to take can be difficult. That's why it's important to work with an advisor who understands the complexities of the new law and is well-versed in the full range of ways you can save tax. Based on our deep knowledge of tax law and our years of experience helping clients like you minimize taxes, we can provide the advice you need.

We'd welcome the opportunity to help you map out a plan that takes full advantage of the tax-reduction strategies available to you while remaining compliant with tax law. Most strategies must be implemented by Dec. 31 — and some even sooner. So please contact us at your earliest convenience to discuss how we can assist you with developing a plan for 2026 and beyond.

We look forward to working with you to maximize your tax savings.

Best regards,

Ron Marshall
Tax Practice Leader

How can you minimize your taxes in 2026?



Last year, the legislation commonly known as the One Big Beautiful Bill Act (OBBBA) was signed into law. It made permanent many provisions that help reduce tax liability and had been scheduled to expire Dec. 31, 2025. But it also made permanent the reduction or elimination of certain tax deductions that otherwise would have resumed after 2025.

That's not all: The OBBBA introduced some new tax deductions (though many are temporary) and enhanced some existing tax breaks. However, it put new limits on some deductions and terminated many breaks related to clean energy.

Most of these changes went into effect last year, but some of them go into effect in 2026. To keep your taxes to a minimum, you need to know the impact on your specific situation. Then you have to implement strategies that allow you to take maximum advantage of the tax savings opportunities available to you while staying in compliance with tax law.

This guide provides an overview of some of the key tax provisions you need to be aware of. It offers a variety of strategies for minimizing your taxes in the current tax environment. Use it to identify the best ones for your particular situation with your tax advisor, who also can keep you apprised of any new tax law developments that might affect you.

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Make the most of tax deductions and other breaks



Maximizing your tax savings begins with knowing which breaks apply to your situation. Reviewing the deductions, exclusions and other tax-saving opportunities available this year can help you implement planning strategies to keep more of what you earn.

Standard deduction vs. itemizing

Taxpayers can either itemize certain deductions or take the standard deduction for their filing status. Itemizing saves tax when the total will be larger than the standard deduction, but it makes filing more complicated.

The approximate doubling of the standard deduction for each filing status that went into effect back in 2018 is now permanent, with annual inflation adjustments. (See Chart 1 for the 2026 amounts.)

Because of the higher standard deduction, fewer taxpayers are itemizing these days. But some taxpayers may benefit from a "bunching" strategy, where they bunch deductible expenses into alternating years, itemizing deductions in those years and claiming the standard deduction in the other years.

Beginning in 2026, the OBBBA limits the tax benefit of itemized deductions for taxpayers in the top (37%) bracket. If you'll be affected, your benefit will generally be as if you were in the 35% bracket.

SALT deduction

For nearly a decade, there's been a cap on the itemized deduction for state and local taxes — including property tax and the greater of income or sales tax. For 2025, the OBBBA increased the cap from $10,000 to $40,000 (from $5,000 to $20,000 for separate filers).

When modified adjusted gross income (MAGI) exceeds a certain threshold, the cap is gradually reduced — but not below $10,000 ($5,000 for separate filers). The cap and the MAGI threshold will increase 1% annually through 2029, after which the $10,000 limit is scheduled to return. The 2026 amounts are $40,400 and $505,000, respectively (half those amounts for separate filers).

Deducting sales tax instead of income tax may be beneficial if you reside in a state with no, or low, income tax or you purchased a major item, such as a car or boat.

Home-related breaks

Consider both deductions and exclusions in your tax planning:

Property tax deduction. As noted earlier, your property tax deduction is subject to the SALT deduction limit.

Mortgage interest deduction. You generally can claim an itemized deduction for interest on mortgage debt incurred to purchase, build or improve your principal residence and a second residence. Points paid related to your principal residence also may be deductible.

The mortgage debt limit of $750,000 ($375,000 for separate filers) for most debt incurred after Dec. 15, 2017, is now permanent. So is the elimination of the home equity interest deduction for debt that wouldn't qualify for the mortgage interest deduction, such as home equity debt used to pay off credit cards. But the OBBBA generally makes mortgage insurance premiums deductible as mortgage interest beginning in 2026.

What's new!

Charitable giving tax breaks are changing in 2026



Generally, donations to qualified charities are deductible up to certain adjusted gross income (AGI)-based limits if you itemize deductions. But beginning in 2026, a 0.5% of AGI floor also applies. So, if your AGI is $100,000, your first $500 of charitable donations for the year won't be deductible.

For large donations, discuss with your tax advisor which assets to give and the best ways to give them. For example, you might save more tax by giving appreciated securities instead of cash.

There's good news for nonitemizers: The OBBBA created a nonitemizer charitable deduction of up to $1,000 ($2,000 for joint filers) that goes into effect this year. Only cash donations qualify.

Chart 1
2026 standard deduction

Filing status	Standard deduction[1]
Single or married filing separately	$16,100
Heads of household	$24,150
Married filing jointly	$32,200

[1] *Taxpayers who are age 65 or older or blind can claim an additional standard deduction: For 2026, $2,050 ($1,650 per spouse if married). For taxpayers both over 65 and blind, the additional deduction is doubled.*

Home office deduction. If you're an employee and work from home, home office expenses aren't deductible. Why? They're considered unreimbursed employee business expenses, and the OBBBA made permanent the suspension of the miscellaneous itemized deduction for such expenses. (If you're self-employed, you may still be able to deduct home office expenses; see page 11.)

Personal casualty and theft loss deduction. The OBBBA made permanent the suspension of this deduction except if the loss was due to an event declared a federal disaster by the President. But, beginning in 2026, it expands the exception to include certain state-declared disasters.

Personal casualty losses not related to a disaster can be deducted to the extent of any personal casualty gains. Such gains occur if you receive more from insurance or other reimbursements than the cost or adjusted basis of the property.

Rental income exclusion. If you rent out all or a portion of your principal residence or second home for 14 days or less during the year, you don't have to report the income. But expenses directly associated with the rental, such as advertising and cleaning, won't be deductible.

Home sale gain exclusion. When you sell your principal residence, you can exclude up to $250,000 of gain ($500,000 for married couples filing jointly) if you meet certain tests. Legislation has been proposed that would exclude from tax more — or perhaps even all — gain on the sale of a principal residence. Check with your tax advisor for the latest information.

Loss deduction. If you sell your home at a loss and part of your home is rented out or used exclusively for your business, the loss attributable to that portion (factoring in depreciation taken) may be deductible.

Moving expense deduction. The OBBBA made permanent the suspension of the deduction for work-related moving expenses except by active-duty members of the Armed Forces who move because of a military order that calls for a permanent change of station. But, beginning in 2026, the OBBBA expands the exception to include certain intelligence employees and appointees. (If you *are* eligible, you don't have to itemize to claim this deduction.)

Health care breaks

If medical expenses not paid via tax-advantaged accounts or reimbursable by insurance exceed 7.5% of your adjusted gross income (AGI), you can claim an itemized deduction for the amount exceeding that "floor." Eligible expenses may include health insurance premiums, long-term-care insurance premiums (limits apply), medical and dental services, and prescription drugs. Mileage driven for health care purposes also can be deducted (20.5 cents per mile driven Jan. 1 through June 30, 2026, and 23.5 cents per mile driven July 1 through Dec. 31, 2026).

Consider whether there are any medical services and purchases you could bunch into alternating years (without risking harm to your health, of course). This could save tax if it would help you exceed the 7.5% of AGI floor and you'd have enough total itemized deductions to benefit from itemizing.

You may be able to save taxes without claiming the medical expense deduction by contributing to one of these accounts:

HSA. If you're covered by a qualified high-deductible health plan, you can contribute pretax income to an employer-sponsored Health Savings Account — or make deductible contributions to an HSA you set up yourself. The 2026 contribution limits are $4,400 for self-only coverage and $8,750 for family coverage (plus $1,000 if you're age 55 or older). HSAs can bear interest or be invested, growing tax-deferred similar to IRAs. Withdrawals for qualified medical expenses are tax-free, and you can carry over a balance from year to year, allowing the account to grow. After age 65, you can take penalty-free distributions to use for nonmedical expenses, but they'll be taxable.

FSA. You can redirect pretax income to an employer-sponsored Flexible Spending Account up to an employer-determined limit — not to exceed $3,400 in 2026. The plan pays or reimburses you for qualified medical expenses. (If you have an HSA, your FSA is limited to funding certain permitted expenses.) What you don't use by the plan year's end, you generally lose — though your plan might give you a 2½-month grace period to incur expenses to use up the previous year's contribution. Or it might allow you to roll over up to $680 to 2027.

Temporary deductions

The OBBBA created four new deductions that went into effect for 2025. You don't have to itemize deductions to claim them. But these deductions are available only through 2028, unless lawmakers extend them:

Tips income. If eligible, you can deduct up to $25,000 of qualified tips income, subject to a phaseout that begins when MAGI exceeds $150,000 ($300,000 for married couples filing jointly). You must be in an occupation that customarily and regularly receives tips. (Payroll taxes and any applicable state taxes still apply to this income.)

Overtime pay. If eligible, you can deduct up to $12,500 ($25,000 for joint filers) of qualified overtime pay, with a phaseout beginning when MAGI exceeds $150,000 ($300,000 for joint filers). Qualified overtime pay is generally additional compensation required under Section 7 of the Fair Labor Standards Act that's in excess of your regular hourly rate. (Payroll taxes and any applicable state taxes still apply to this income.)

Car loan interest. If eligible, you can deduct up to $10,000 of qualified passenger vehicle loan interest expense on the purchase of certain American-made vehicles. The deduction begins to phase out when MAGI exceeds $100,000 ($200,000 for joint filers).

"Senior" deduction. If you're age 65 or older, you can claim a deduction of up to $6,000 ($12,000 if your spouse is also 65 or older and you file jointly). The deduction begins to phase out when MAGI exceeds $75,000 ($150,000 for joint filers).

Additional rules apply to these deductions.

More considerations

Other types of taxes could affect you and should be factored into your planning, such as the alternative minimum tax (AMT). The OBBBA made permanent higher AMT exemption amounts and income phaseout ranges. (See Chart 7 on page 16.) But other OBBBA changes to the phaseouts could increase AMT risk for some taxpayers beginning this year.

Your tax advisor can help you determine if you're among the small number of taxpayers who still need to plan for the AMT — or if there are other special considerations for your specific situation.

Parents and students have many ways to save taxes in 2026 and beyond



A variety of tax breaks can help parents offset the costs of raising children. Several breaks are also available to help fund education — whether your children's, your grandchildren's or your own. And some new opportunities take effect this year. With a little planning, you can claim all the credits and deductions you're eligible for and contribute to the tax-advantaged savings vehicles that best fit your family's needs.

Child, dependent and adoption credits

You may be eligible for one or both of these two tax credits for families:

1. CTC. The Child Tax Credit is $2,200 for 2026 and annually adjusted for inflation (though it didn't increase for 2026). You may be able to claim the CTC for each qualifying child under age 17 at the end of the tax year. The CTC phases out for higher-income taxpayers. (See Chart 2.) The phaseout income ranges aren't annually adjusted for inflation.

2. COD. The $500 Credit for Other Dependents is now permanent, but it isn't annually adjusted for inflation. You may be able to claim the credit for each qualifying dependent other than a qualifying child (such as a dependent child over the age limit or a dependent elderly parent). But the COD is subject to the same income-based phaseout as the CTC.

If you adopt in 2026, you may qualify for the adoption credit — or for an employer adoption assistance program income exclusion. Both are $17,670 for 2026 and annually adjusted for inflation. They're also subject to an income-based phaseout. (See Chart 2.)

Care-related breaks

A couple of tax breaks can offset the costs of dependent care:

Child and dependent care tax credit. You may be eligible for this credit if you pay for care for children under age 13 or other qualifying dependents so you can work. For middle- and higher-income taxpayers, the credit generally equals 20% of the first $3,000 of qualified expenses for one child or dependent or 20% of up to $6,000 of such expenses for two or more. But beginning in 2026, for certain middle-income taxpayers, the percentage may be between 20% and 35%.

Child and dependent care FSA. For 2026, you can contribute up to $7,500 pretax to an employer-sponsored child and dependent care Flexible Spending Account — up from $5,000 for previous years. The plan pays or reimburses you for these expenses. (Your contributions will reduce your qualified expenses for purposes of the tax credit.)

Kiddie tax

The "kiddie tax" generally applies to unearned income beyond $2,700 (for 2026) of children under age 19 and of full-time students under age 24 (unless the students provide more than half of their own support from earned income). Such income is generally taxed at the parents' tax rate.

Chart 2

2026 child and education breaks

Tax break	Modified adjusted gross income phaseouts	
	Single / Head of household[1] filer	Joint filer
CTC & COD	$200,000 – $244,000[2]	$400,000 – $444,000[2]
Adoption breaks	$265,080 – $305,080	$265,080 – $305,080
ESA contribution	$ 95,000 – $110,000	$190,000 – $220,000
AOTC & LLC	$ 80,000 – $ 90,000	$160,000 – $180,000
Student loan interest deduction	$ 85,000 – $100,000	$175,000 – $205,000

[1] *These ranges also apply to married taxpayers filing separately, except that separate filers generally aren't eligible for the adoption breaks, AOTC, LLC or student loan interest deduction.*

[2] *The top of the range is for the CTC only (the top for the COD is lower) and assumes one child. The top increases depending on the number of eligible children.*

529 plans

If you're saving for education expenses, consider a Section 529 plan. You can choose a prepaid tuition plan to secure current tuition rates or a tax-advantaged savings plan to fund education expenses:

- Although contributions aren't deductible for federal purposes, any growth is tax-deferred. (Some states offer tax breaks for contributing.)
- Distributions used to pay the following expenses of the beneficiary are income-tax-free for federal purposes and potentially also for state purposes, making the tax deferral a permanent savings:
  - Qualified postsecondary school expenses, such as tuition, mandatory fees, books, supplies, computer equipment, software, internet, generally room and board — and now also certain credentialing expenses,
  - Qualified elementary and secondary school expenses of up to $20,000 per year (up from $10,000 in 2025) — these now include not only tuition but also various other expenses such as books, instructional materials and certain fees, and
  - Up to $10,000 of student loan debt per beneficiary.
- The plans usually offer high contribution limits, and there are no income limits for contributing.
- You can front-load five years' worth of gift tax annual exclusions and make up to a $95,000 contribution (or $190,000 if you split the gift with your spouse) per beneficiary in 2026.
- There's generally no beneficiary age limit for contributions or distributions.
- You can control the account, even after the beneficiary is of legal age.
- You can make tax-free rollovers to a 529 plan for another qualifying family member.
- Unused 529 plan funds can be rolled into a Roth IRA for the beneficiary, subject to various rules and limits.

The biggest downside of 529 plans may be that your investment options — and when you can change them — are limited.

ESAs

Coverdell Education Savings Accounts are similar to 529 savings plans in that 1) contributions aren't deductible for federal purposes, 2) plan assets can grow tax-deferred and 3) distributions used to pay qualified education expenses are income-tax-free. ESAs are worth considering if you'd like to have direct control over how your contributions are invested or you want to fund elementary or secondary education expenses beyond what a 529 plan allows.

But the $2,000 contribution limit is low, and the amount a taxpayer is allowed to contribute is phased out based on income. (See Chart 2.) Also, contributions can generally be made only for beneficiaries under age 18. When the beneficiary turns age 30, the ESA generally must be distributed within 30 days, and any earnings may be subject to tax and a 10% penalty.

Education credits

If you have children in college now or are currently in school yourself, you may be eligible for a credit:

AOTC. The American Opportunity Tax Credit covers 100% of the first $2,000 of tuition and related expenses and 25% of the next $2,000 of expenses. The maximum AOTC, *per student*, is $2,500 per year for the first four years of postsecondary education in pursuit of a degree or recognized credential.

LLC. If you're paying postsecondary education expenses beyond the first four years, you may benefit from the Lifetime Learning Credit (up to $2,000 *per tax return*).

Income-based phaseouts apply to these credits. (See Chart 2.) If your income is too high for you to be eligible, your child might be.

What's new!

A new, tax-advantaged way to save for children is now available



Beginning this year, parents can set up Section 530A accounts (also known as Trump Accounts) for their eligible children. An account can be set up for anyone under age 18 at the end of the tax year who has a Social Security number.

Annual contributions of up to $5,000 can be made until the year the beneficiary turns age 18. In addition, U.S. citizen children born from Jan. 1, 2025, through Dec. 31, 2028, can potentially qualify for an initial $1,000 government-funded deposit.

Contributions aren't deductible, but earnings grow tax-deferred as long as they're in the account. The account must be invested in exchange-traded funds or mutual funds that meet certain requirements.

Withdrawals can't be taken until the child turns age 18, when the account generally becomes subject to the rules governing traditional IRAs. Distributions will be at least partially taxable, and IRA early withdrawal penalties could also apply.

Talk with your tax advisor about how you might use these new accounts along with other accounts, such as 529 plans (see left), to best achieve your planning goals.

Student loan breaks

If you're paying off student loans, you may be able to deduct up to $2,500 of interest (per tax return). An income-based phaseout applies. (See Chart 2.)

If your employer pays some of your student loan debt, you may be eligible to exclude up to $5,250 from income (annually inflation-adjusted after 2026). Student loan interest payments for which the exclusion is allowable can't be deducted.

Under the OBBBA, beginning in 2026, only student loan debt forgiven due to the death or total and permanent disability of the student will be excluded from taxable income. But this exclusion is permanent.

ABLE accounts

Achieving a Better Life Experience accounts offer a tax-advantaged way to fund qualified disability expenses for a beneficiary who became blind or disabled before age 46. Until this year, the blindness or disability had to have occurred before age 26. As a result, many individuals who weren't previously eligible can benefit from ABLE accounts beginning in 2026. For federal purposes, tax treatment is similar to that of 529 savings plans.

Now permanent is the ability to roll over 529 plan funds to an ABLE account without penalty if the ABLE account is owned by the beneficiary of the 529 plan or a member of the beneficiary's family. Such rolled-over amounts count toward the ABLE account annual rollover and contribution limit ($20,000 for 2026).

Factoring taxes into your investment planning



Taxes shouldn't drive your investment decisions. Your financial goals, time horizon and risk tolerance are all critical to consider when deciding when to buy, sell or hold an investment. But factoring in the tax treatment of capital gains, losses, dividends and interest can help increase your after-tax returns.

Capital gains tax and timing

Although time, not timing, is generally the key to long-term investment success, timing can have a dramatic impact on the tax consequences of investment activities. Your marginal long-term capital gains rate can be as much as 20 percentage points lower than your ordinary-income tax rate.

The long-term gains rate applies to investments held for more than 12 months. The applicable rate depends on your income level and filing status and the type of asset you've sold. (See Chart 3.)

Holding on to an investment until you've owned it more than one year may help substantially reduce the tax on any gain. Keeping it even longer can also make tax sense. But be sure to look at your specific situation. Finally, be aware that the NIIT could apply to both short-term and long-term gains. (See page 7.)

The 0% rate

The 0% rate generally applies to most long-term gains that would be taxed at 10% or 12% based on the taxpayer's ordinary-income rate. If you have adult children in one of these tax brackets, consider transferring appreciated or dividend-producing assets to them. They can sell the assets or reap the dividends and enjoy the 0% rate, which also applies to qualified dividends. This strategy can be even more powerful if you'd be subject to the 3.8% NIIT or the 20% long-term capital gains rate if you sold the assets.

But the 0% rate applies only to the extent that capital gains "fill up" the gap between your child's taxable income and the top end of the 0% bracket. For 2026, the 0% bracket for singles tops out at $49,450 ($950 less than the top of the 12% ordinary-income tax bracket).

Warning: If your child will be under age 24 on Dec. 31, first make sure he or she won't be subject to the "kiddie" tax. (See page 4.) Also consider any gift tax consequences. (See page 14.)

Being tax-smart with losses

Losses aren't truly losses until they're realized — that is, generally until you sell the investment for less than what you paid for it. So while it's distressing to see an account statement that shows a large loss, the loss won't affect your current tax situation as long as you still own the investment.

Chart 3

2026 capital gains tax rates

Type of gain	Maximum rate[1]
Short-term (assets held 12 months or less)	Taxpayer's ordinary-income tax rate
Long-term (assets held more than 12 months)	15%
Some key exceptions:	
Long-term gain of certain higher-income taxpayers	20%[2]
Most long-term gain that would be taxed at 10% or 12% based on the taxpayer's ordinary-income rate	0%
Long-term gain on collectibles, such as artwork and antiques	28%
Long-term gain attributable to certain recapture of prior depreciation on real property	25%

[1] *In addition, the 3.8% net investment income tax (NIIT) applies to net investment income to the extent that modified adjusted gross income exceeds $200,000 (singles and heads of households), $250,000 (married filing jointly) or $125,000 (married filing separately).*

[2] *The 20% rate applies to those with taxable income exceeding $545,500 (singles), $579,600 (heads of household), $613,700 (joint filers), $306,850 (separate filers) or $16,250 (estates and trusts).*

Case Study 1

Think twice about buying equity mutual funds close to year end



Evan purchases 200 shares of an equity mutual fund on Dec. 1, 2026, at $100 per share, for a total investment of $20,000. The next week, the fund makes a capital gains distribution of $15 per share.

Evan's $3,000 capital gains distribution ($15 × 200 shares) is reportable on his 2026 tax return. It doesn't matter whether the actual value of the shares has increased or even decreased since Evan purchased them, or whether he reinvests the proceeds back into the same fund.

The distribution itself is a taxable event. If capital gains distributions from the mutual fund are reinvested in the fund, the distribution itself doesn't change Evan's value in the fund. It simply increases the number of shares he owns — now at a lower per-share value.

On the plus side, capital gains distributions from mutual funds can absorb capital losses. This may be beneficial if Evan's portfolio has a net loss for the year that exceeds the amount that can be deducted from his ordinary income.

The year's realized capital losses are netted against realized capital gains to determine capital gains tax liability. If net losses exceed net gains, you can deduct only $3,000 ($1,500 for married taxpayers filing separately) of losses per year against ordinary income (such as wages, self-employment and business income, interest, dividends, and taxable retirement plan distributions). If year-to-date you have a net loss, it could provide an opportunity to divest yourself of appreciated investments in a tax-efficient way.

If you don't have enough gains to absorb losses, you could be left with losses in excess of the annual ordinary-income deduction limit. But you can carry forward excess losses until death, and building up losses for future use can be beneficial. This may be especially true if you own a closely held business that might generate substantial future gains. Building up losses could also be advantageous if you have a large investment portfolio or real estate holdings — or if tax rates increase.

Because of the tax benefits capital losses can provide, you generally should avoid giving investments that have lost value to loved ones or charity. Instead, sell the investments so you can use the tax loss yourself and then gift or donate the proceeds of the sale. Or gift or donate appreciated investments instead, which the recipient may be able to sell tax-free.

Mutual funds

Investing in mutual funds is an easy way to diversify your portfolio. But beware of a few tax pitfalls.

First, mutual funds that trade frequently and have high turnover rates can create income that's taxed at ordinary-income rates. Choosing funds that provide primarily long-term gains can save you tax dollars because of the lower long-term gains rates.

Second, mutual fund earnings are often reinvested. If the resulting increases in your cost basis aren't properly accounted for, you may report too much gain when you sell the fund. For funds acquired after 2011, brokerage firms are required to track (and report to the IRS) your cost basis.

Third, equity mutual funds often make capital gains distributions toward year end, which can make buying such shares late in the year costly taxwise. See Case Study 1 to learn why.

Income investments

Certain investments produce income in the form of dividends or interest. Here are some tax consequences to consider:

Dividend-producing investments. Qualified dividends are taxed at the favorable long-term capital gains tax rate rather than at your higher ordinary-income tax rate.

Interest-producing investments. Interest income generally is taxed at ordinary-income rates. So stocks that pay qualified dividends may be more attractive tax-wise than other income investments, such as CDs and taxable bonds. But also consider nontax factors, such as investment risk, rate of return and diversification.

Bonds. These also produce interest income, but the tax treatment varies:

- Bonds (except U.S. savings bonds) with original issue discount build up "interest" as they rise toward maturity. You're generally considered to earn a portion of that interest annually — even though the bonds don't pay this interest annually — and you must pay tax on it.
- Corporate bond interest is taxable for federal and state purposes.
- Interest on U.S. government bonds is taxable on federal returns but exempt on state and local returns.
- Interest on state and local government bonds is excludable on federal returns. If the bonds were issued in your home state, interest also may be excludable on your state return, depending on the state.
- Tax-exempt interest from certain private-activity municipal bonds can trigger or increase the alternative minimum tax (AMT), but the AMT now occurs much more rarely.

State and municipal bonds usually pay a lower interest rate. But their rate of return may be higher than the after-tax rate of return for a taxable bond, depending on your tax rate. To compare apples to apples, calculate the tax-equivalent yield, which incorporates tax savings into the state or municipal bond's yield. The formula is simple:

Tax-equivalent yield = actual yield / (1 - your marginal tax rate)

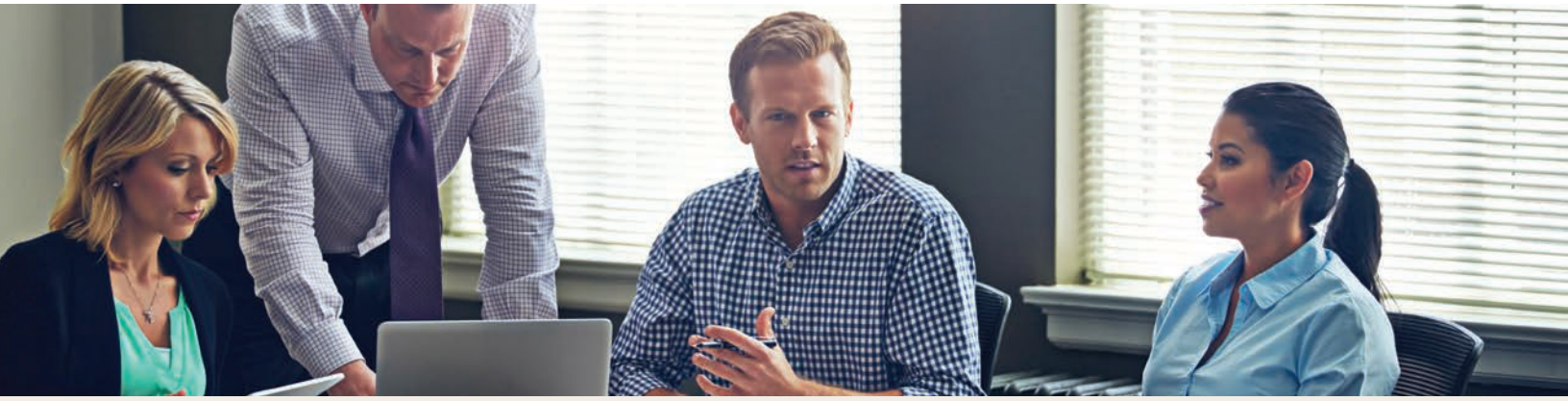
Finally, be aware that interest and dividends can also be subject to the NIIT.

3.8% NIIT

Taxpayers with modified adjusted gross income (MAGI) over $200,000 ($250,000 if married filing jointly and $125,000 if married filing separately) may also owe the net investment income tax. The NIIT equals 3.8% of the lesser of your net investment income or the amount by which your MAGI exceeds the applicable threshold. Net investment income can include capital gains, dividends, interest, passive business income, rental income and other investment-related income. (It doesn't include business or self-rental income from an active trade or business.)

Many of the strategies that can help you save or defer income tax on your investments can also help you avoid or defer NIIT liability. And because the threshold for the NIIT is based on MAGI, strategies that reduce your MAGI could also help you avoid or reduce NIIT liability.

Business tax strategies to put to work in 2026



Taxes can affect everything from your business's cash flow to your long-term growth. Many tax-saving opportunities depend on the decisions you make throughout the year. With careful planning, you can take advantage of available tax breaks while supporting your business goals. This year brings expanded opportunities for reducing taxes but also some new tax pitfalls to watch out for.

Business structure

Income taxation and owner liability are the main factors that differentiate business structures. Many owners choose entities that combine pass-through taxation with limited liability, namely limited liability companies (LLCs) and S corporations.

For nearly a decade, a flat corporate rate of 21% — substantially lower than the top individual rate of 37% — has provided sizable tax benefits to C corporations and mitigated the impact of double taxation. But at the same time, the powerful 199A QBI deduction was introduced for many owners of pass-through entities. The OBBBA retained these tax rates and made the 199A QBI deduction permanent, with some enhancements for 2026. (See "What's new!")

For tax or other reasons, a structure change may sound like a good idea. But it could have unwelcome tax consequences in certain situations. Consult your tax advisor if you'd like to explore whether a structure change could benefit you.

199A QBI deduction

The OBBBA made permanent the Section 199A qualified business income deduction for sole proprietorships and owners of pass-through entities, such as partnerships, S corporations and, usually, limited liability companies (LLCs). The deduction generally equals 20% of QBI, not to exceed 20% of taxable income. QBI is generally defined as the net amount of qualified income, gain, deduction and loss from a qualified U.S. trade or business.

However, if your income falls within the applicable range (see "What's new!"), the deduction becomes limited to the greater of your share of:

- 50% of the amount of W-2 wages paid to employees by the qualified business during the tax year, or
- The sum of 25% of W-2 wages plus 2.5% of the cost (not reduced by depreciation taken) of qualified property, which is the depreciable tangible property (including real estate) owned by a qualified business as of year end and used by the business at any point during the tax year to produce QBI.

Also, if your income falls within the applicable range and the QBI is from a specified service trade or business (SSTB), the deduction is reduced — and it's eliminated if income exceeds the top of the range. Examples of SSTBs include businesses that provide investment-type services and most professional practices (other than engineering and architecture).

Chart 4

2026 income tax differences based on business structure

Pass-through entity or sole proprietorship	C corporation
One level of taxation: The business's income passes through to the owner(s).	Two levels of taxation: The business is taxed on income, and then shareholders are taxed on any dividends they receive.
Losses pass through to the owner(s).	Losses remain at the corporate level.
The top individual tax rate is 37%, but, for eligible taxpayers, up to 20% of qualified business income is deductible.	The flat corporate tax rate is 21%, and the top rate on qualified dividends is 20%.

Depreciation

For assets with a useful life of more than one year, you generally must depreciate the cost over a period of years. In most cases, the Modified Accelerated Cost Recovery System

What's new!

Larger 199A QBI deduction for some pass-through business owners this year



Under the OBBBA, beginning in 2026, the income ranges over which the 199A QBI deduction limits phase in (see page 8) have widened. As a result, some taxpayers may enjoy a larger deduction this year.

Instead of the distance from the bottom of the phase-in range (the threshold) to the top (the amount at which the limit fully applies) being $50,000 ($100,000 for joint filers), it's now $75,000 ($150,000 for joint filers). For 2026, the ranges are generally $201,750 – $276,750 (up from $197,300 – $247,300 for 2025), double those amounts for married couples filing jointly. These ranges will continue to be annually adjusted for inflation.

Also beginning in 2026, the OBBBA provides a minimum deduction of $400 for taxpayers who materially participate in an active trade or business if they have at least $1,000 of QBI from it. These amounts will be annually adjusted for inflation after 2026.

(MACRS) will be preferable to other methods because you'll get larger deductions in the early years of an asset's life. But if you make more than 40% of the year's asset purchases in the last quarter, you could be subject to the typically less favorable midquarter convention.

Other depreciation-related breaks may be available that can substantially increase your tax savings for the current year:

Bonus depreciation. This additional first-year depreciation is available for qualified assets, which include new or used tangible property with a recovery period of 20 years or less (such as equipment and office furniture), off-the-shelf computer software, QIP (see above right), and water utility property.

Bonus depreciation had gradually been dropping below 100% for a few years and had been scheduled to disappear for 2027 and future years. But the OBBBA returned bonus depreciation to 100% for assets acquired and placed in service after Jan. 19, 2025, and made 100% bonus depreciation permanent. (The previous, lower depreciation percentages generally apply to assets acquired on Jan. 19 or earlier even if they're placed in service after that date.)

Bonus depreciation generally is automatically applied to all qualified assets. You can elect out, but only for an entire asset class, such as all five-year property or all seven-year property.

However, in some cases, a business may not be eligible for bonus depreciation. Contact your tax advisor for details.

Section 179 expensing. This election allows you to currently deduct the cost of purchasing eligible new or used assets. Examples include equipment, furniture, off-the-shelf computer software, QIP (see right) and certain personal property used predominantly to furnish lodging. The following improvements to nonresidential real property are also eligible: roofs, HVAC equipment, fire protection and alarm systems, and security systems.

For qualifying property placed in service in 2026, the expensing limit is $2.56 million. The break begins to phase out dollar-for-dollar when asset acquisitions for the year exceed $4.09 million. These amounts were substantially increased last year under the OBBBA and are now annually adjusted for inflation.

Sec. 179 expensing isn't automatic, and it can be applied on an asset-by-asset basis — or even to only part of an asset's cost. This flexibility can be a planning advantage over bonus depreciation. However, you can claim the expensing election only to offset net income, not to reduce it below zero to create an NOL. (See "What's new!" on page 10.) Depending on the situation, this may be a disadvantage compared to bonus depreciation.

QIP deduction. Qualified improvement property is an improvement to an interior portion of a nonresidential building after the building was placed in service. QIP has a 15-year MACRS recovery period and qualifies for bonus depreciation and Sec. 179 expensing. But internal structural framework, enlargement of a building, and elevators and escalators don't count as QIP and usually must be depreciated over 39 years.

Deduction for qualified production property. This OBBBA-created deduction is 100% and generally applies to nonresidential real property used in manufacturing that's placed in service after July 4, 2025, and before Jan. 1, 2031.

Case Study 2

Maximizing vehicle-related deductions



Lisa is considering buying a new vehicle for her business this year. She consults her tax advisor about available tax breaks. He tells her that business-related vehicle expenses can be deducted using the mileage-rate method (72.5 cents per business mile driven Jan. 1 through June 30, 2026, and 76 cents per business mile driven July 1 through Dec. 31, 2026) or the actual-cost method (total out-of-pocket expenses for fuel, insurance and repairs, plus depreciation).

If Lisa chooses to use the actual-cost method and purchases a new or used vehicle, she may be eligible for Section 179 expensing — and may want to buy a large truck or SUV to maximize her deduction. The normal Sec. 179 expensing limit (see above) generally applies to vehicles with a gross vehicle weight rating of more than 14,000 pounds. For 2026, a $32,000 limit applies to vehicles (typically SUVs) rated at more than 6,000 pounds but no more than 14,000 pounds.

But even if Lisa prefers to buy a smaller vehicle, she can still potentially enjoy a valuable first-year deduction. Vehicles rated at 6,000 pounds or less are subject to the passenger vehicle limits, and for 2026 the first-year depreciation limit is $20,300 ($12,300 plus $8,000 bonus depreciation).

Lisa's advisor also explains that, if she uses a vehicle for business and personal purposes, the associated expenses, including depreciation, must be allocated between deductible business use and nondeductible personal use. He also warns her that, if business use is 50% or less, she'll have to use the straight-line depreciation method.

R&E expense deduction

The OBBBA permanently allows the deduction of domestic Section 174 research and experimental (R&E) expenses in the year incurred. (For 2022 through 2024, businesses generally were required to amortize such costs over five years.) A taxpayer that also claims the research credit (see page 11) generally must reduce the deduction by the amount of the credit.

Businesses that incurred domestic R&E expenses in 2022 through 2024 can elect to accelerate the remaining deductions for those expenditures over a one- or two-year period, rather than amortizing them over the full five years.

R&E expenses incurred outside the country must still be amortized over 15 years. The difference between a current deduction and 15-year amortization makes domestic R&E activities particularly advantageous tax-wise. So relocating foreign research activities to the United States may be beneficial for some businesses.

What's new!

Pass-through entity "excess" business loss rules tighten



A loss occurs when a business's expenses and other deductions for the year exceed its revenue.

The deductions for current-year business losses incurred by noncorporate taxpayers generally can offset income from other sources (such as salary, self-employment income, interest, dividends and capital gains) only up to an annual limit. The OBBBA made this limit permanent and *lowered* it beginning this year. For 2026, such losses can't offset more than $256,000 of income from other sources — *down* from $313,000 for 2025. These amounts are doubled for joint filers, and the 2026 amounts will be indexed for inflation going forward.

Excess losses are carried forward to later tax years and can then be deducted under the net operating loss (NOL) rules. NOL deductions can generally offset a maximum of 80% of taxable income. NOLs usually can't be carried back to an earlier tax year — but they can be carried forward indefinitely.

Interest expense deduction

Generally, interest paid or accrued by a business is deductible only up to 30% of adjusted taxable income (ATI). The OBBBA essentially increased the deduction beginning in 2025 by changing the definition of ATI to earnings before interest, taxes, depreciation and amortization (EBITDA). It previously was earnings before interest and taxes (EBIT). For 2026, taxpayers with average annual gross receipts of $32 million or less for the three previous tax years generally are exempt from the limitation.

Some other taxpayers are also exempt. For example, larger real property businesses can *elect* to fully deduct their interest. But then they're required to use the alternative depreciation system for real property used in the business and can't claim bonus depreciation.

Meals, entertainment and transportation

Businesses used to commonly claim deductions for a wide variety of meal, entertainment and transportation expenses, as well as employee reimbursements of such expenses. But the rules have changed over the last several years, reducing or eliminating some of these deductions:

Meals. Business-related meal expenses, including those incurred while traveling, remain 50% deductible. From 2018 through 2025, the 50% disallowance also applied to meals provided via an on-premises cafeteria or otherwise on the employer's premises for the employer's convenience. (Previously, such meals were 100% deductible.)

The deduction for such on-premises meals generally is eliminated beginning in 2026. But the OBBBA created some limited exceptions that qualify for a 100% deduction. Meal expenses also generally can be 100% deducted if the meals are *sold* to employees at market prices.

Entertainment. The elimination of the deduction for entertainment expenses that went into effect in 2018 remains in place.

Transportation. Transportation expenses for business travel are still 100% deductible, provided they meet the applicable rules. Employers can't, however, deduct qualified employee transportation fringe benefits (for example, parking allowances, mass transit passes and van pooling). But those benefits are still tax-free to recipient employees.

Before 2018, employees could also exclude from taxable income qualified bicycle commuting reimbursements, and this break was scheduled to return in 2026. However, the OBBBA permanently eliminated it.

What's new!

2 employee benefits enhanced beginning in 2026



The OBBBA helps reduce the cost of two employee benefits by enhancing related tax breaks:

1. Employer-provided child care credit. An employer can claim a tax credit for a portion of its qualified expenses for providing child care for employees. Beginning in 2026, the OBBBA permanently raises what had been a 25% credit to 40%, up to $500,000 per year (previously $150,000). For eligible small businesses, the 2026 amounts are 50% and up to $600,000, respectively. The maximum dollar amount will be adjusted annually for inflation after 2026. (An additional 10% credit for qualified resource and referral expenses continues to be available.)

2. Family and medical leave credit. This tax credit is available to qualifying employers that provide paid family and medical leave to their employees. The credit is equal to a minimum of 12.5% of the employee's wages paid during that leave (up to 12 weeks per year) and can be as much as 25% of wages paid. This credit was scheduled to expire Dec. 31, 2025, but the OBBBA made it permanent. Beginning in 2026, the OBBBA gives employers the option to claim the credit for a portion of premiums paid for family and medical leave insurance rather than for actual wages paid to qualifying employees on leave.

Employee benefits

Offering a variety of benefits not only can help you attract and retain the best employees, but also may save tax because you generally can deduct your contributions:

Qualified deferred compensation plans. These include pension, profit-sharing, SEP and 401(k) plans, as well as SIMPLEs. (For information on the benefits to employees, see page 12.) Eligible small employers may also claim a tax credit when setting up a retirement plan.

Fringe benefits. Certain fringe benefits aren't included in employee income, yet the employer can still deduct the portion, if any, that it pays and typically also avoid payroll taxes. Examples are employee discounts, group term life insurance (up to $50,000 per person) and health insurance.

Be aware that you still might be penalized for not offering health insurance in compliance with the Affordable Care Act. It can in some cases impose a penalty on "large" employers if they don't offer full-time employees "minimum essential coverage" or if the coverage offered is "unaffordable" or doesn't provide "minimum value."

HSAs, FSAs and HRAs. If you provide employees with a qualified high-deductible health plan (HDHP), you can also offer them Health Savings Accounts. (See page 3.) Regardless of the type of health insurance you provide, you can offer Flexible Spending Accounts for health care. (See page 3.) You can also offer FSAs for child and dependent care. (See page 4.)

A Health Reimbursement Account reimburses an employee for medical expenses up to a maximum dollar amount. Unlike an HSA, no HDHP is required. Unlike an FSA (other than when an exception applies), any unused portion can be carried forward to the next year. But only the employer can contribute to an HRA.

Student loan payments. The OBBBA made permanent the exclusion from gross income (for employees) and from wages for employment tax purposes (for employees and employers) of payments employers make toward employees' student loans. Currently, the maximum annual exclusion is $5,250, but the OBBBA adjusts the limit annually for inflation after 2026.

Tax credits

Tax credits reduce tax liability dollar-for-dollar, making them particularly beneficial. Here are some potentially valuable tax credits:

Research credit. This credit gives businesses an incentive to *increase* their investments in research. Certain start-ups (in general, those with less than $5 million in gross receipts) can, alternatively, use the credit against their payroll tax. While the credit is complicated to compute, the tax savings can be significant. (There's also the *deduction* for R&E expenses. See page 10.)

New Markets credit. This gives investors who make "qualified equity investments" in certain low-income communities a 39% credit over a seven-year period. This credit was scheduled to expire Dec. 31, 2025, but the OBBBA made it permanent.

Be aware that the OBBBA affected other tax credits as well. For example, it didn't extend the Work Opportunity credit, and that credit expired Dec. 31, 2025 — though a retroactive extension is possible. The OBBBA also terminated some energy-related credits. For example, the Section 30C alternative fuel vehicle refueling property credit isn't available for property placed in service after June 30, 2026, and the clean commercial vehicles credit isn't available for vehicles acquired at any time in 2026.

Additional rules and limits apply, and other credits may be available to you. Contact your tax advisor to learn more.

Business sale or acquisition

The tax consequences of the sale or acquisition of a business can have a major impact on the transaction's success or failure. Consider installment sales, for example. A sale might be structured as an installment sale if the buyer lacks sufficient cash or pays a contingent amount based on the business's performance.

An installment sale also may make sense if the seller wishes to spread the gain over multiple years. This could be especially beneficial if it would allow the seller to stay under the thresholds for triggering the 3.8% NIIT or the 20% long-term capital gains rate. (See Chart 3 on page 6.) But an installment sale can backfire on the seller. For example, depreciation recapture must be reported as gain in the year of sale, no matter how much (or how little) cash the seller receives. Also, if tax rates increase, the overall tax could wind up being more.

Generally another key consideration is whether the deal should be structured as an asset sale or a sale of stock (or another form of ownership interest). Each structure can have very different tax consequences for both buyers and sellers.

Deductions for the self-employed

Self-employed taxpayers generally must make estimated tax payments during the year because tax isn't being withheld from their self-employment income. Fortunately, along with the extra tax-paying responsibilities come some additional tax deductions.

First, while you have to pay both the employee and employer portions of employment taxes on your self-employment income, the employer portion (6.2% for Social Security tax and 1.45% for Medicare tax) is deductible "above the line." So you don't have to itemize to claim the deduction. Above-the-line deductions reduce your adjusted gross income (AGI) and, depending on the specific deduction, your modified AGI (MAGI). This is valuable because AGI and MAGI can trigger various tax-break phaseouts (see previous sections) and the NIIT (see page 7).

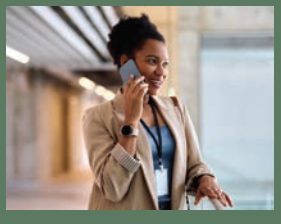
In addition, you can deduct eligible business expenses and 100% of health insurance costs for yourself and, if applicable, your spouse and dependents, up to your net self-employment income. You also can take an above-the-line deduction for contributions to a retirement plan you set up (see page 12) and, if you're eligible, an HSA (see page 3).

You also may be able to deduct home office expenses from your self-employment income. Generally, you'll be eligible if your home office is your principal place of business (or used substantially and regularly to conduct business) and that's the only use of the space.

Finally, depending on your income level, you may qualify for the 199A QBI deduction. (See page 8.)

What's new!

1099 reporting simplified



Before 2026, businesses had to issue a Form 1099-MISC to any payee (and to the IRS) when transactions reached $600 in a calendar year. And businesses that paid $600 or more for services rendered by an independent contractor had to issue a Form 1099-NEC, "Nonemployee Compensation."

Beginning in 2026, these thresholds generally rise to $2,000. They'll be adjusted for inflation in subsequent years. This change simplifies compliance and reduces the risk of penalties for missed 1099 filings. However, businesses must continue to maintain accurate records of all payments.

How to make tax-wise retirement account decisions



Retirement accounts can reduce taxes while building long-term financial security. Choosing the right accounts for your situation, maximizing contributions, and planning withdrawals to avoid unnecessary taxes and penalties can help you achieve your goals. Review your retirement accounts and strategy at least annually to stay on track and avoid costly mistakes.

401(k)s and other employer plans

Contributing to a traditional employer-sponsored defined contribution plan is usually a good first step:

- Contributions are typically pretax, reducing your taxable income.
- Plan assets can grow tax-deferred — meaning you pay no income tax until you take distributions, hopefully in retirement when your tax rate may be lower.
- Your employer may match some or all of your contributions.

Chart 5 shows the 2026 employee contribution limits. Because of tax-deferred compounding, increasing your contributions sooner rather than later can have a significant impact on the size of your nest egg at retirement. If your employer offers a match, contribute at least the amount necessary to get the maximum match so you don't miss out on that "free" money.

Employees age 50 or older can also make "catch-up" contributions. Certain taxpayers in their early 60s are allowed to make larger catch-up contributions. (See Chart 5.) But be aware that higher-income tax-payers are now subject to a new rule on their catch-up contributions. (See "What's new!")

More tax-deferred options

In certain situations, other tax-deferred saving options may be available:

You're a business owner or self-employed. You may be able to set up a profit-sharing plan, Simplified Employee Pension (SEP) or defined-benefit plan that allows you to make much larger contributions than you could make to an employer-sponsored plan as an employee. You might not have to make 2026 contributions, or even set up the plan, before year end. But many requirements may apply.

Your employer doesn't offer a retirement plan. Consider a traditional IRA. You can likely deduct your contributions, though your deduction may be limited if your spouse participates in an employer-sponsored plan. You can make 2026 contributions until the 2026 income-tax-return-filing deadline for individuals, *not* including extensions. (See Chart 5 for the annual contribution limits.)

Roth alternatives

A potential downside of tax-deferred saving is that you'll have to pay taxes when you make withdrawals at retirement. Roth plans, however, allow tax-free distributions; the tradeoff is that your contributions don't reduce your current-year taxable income. Estate planning advantages are an added benefit: Unlike traditional plans, Roth plans

Chart 5

Retirement plan contribution limits for 2026

Retirement plan type	Regular contribution	Catch-up contribution
Traditional and Roth IRAs	$ 7,500	$ 1,100[1]
401(k)s, 403(b)s, 457s and SARSEPs[2]	$ 24,500	$ 8,000[1] $ 11,250[3]
SIMPLEs[4]	$ 17,000	$ 4,000[1] $ 5,250[3]

[1] *For taxpayers age 50 or older by the end of the tax year.*

[2] *Includes Roth versions where applicable.*

[3] *For taxpayers age 60, 61, 62 or 63 at the end of the tax year.*

[4] *The limit for Savings Incentive Match Plans for Employees can be 10% higher in certain circumstances. Check with your employer.*

Note: *Other factors may further limit your maximum contribution.*

don't require you to take distributions during your lifetime. So you can let the entire balance grow tax-free for the benefit of your heirs. Here are some Roth options:

Roth IRAs. The annual IRA contribution limit applies to Roth and traditional IRAs on a combined basis. (See Chart 5.) But an income-based phaseout may reduce or eliminate your ability to contribute to a Roth IRA.

Roth conversions. If you have a traditional IRA, a conversion to a Roth IRA can allow you to turn tax-*deferred* future growth into tax-*free* growth and take advantage of a Roth's estate planning benefits. The converted amount is taxable in the year of the conversion. Doing partial conversions over multiple years can be more tax efficient because it may prevent you from being pushed into a higher tax bracket or experiencing negative tax consequences triggered by a higher adjusted gross income (AGI) or modified AGI (MAGI). Discuss with your tax advisor whether a conversion makes sense for you and, if it does, how to best spread it out over time.

"Back door" Roth IRA contributions. If your income is too high to make Roth IRA contributions and you (and your spouse, if you're married) don't have funds in a traditional IRA, consider setting up a traditional account and making a nondeductible contribution to it. You can then immediately convert the contributed amount to a Roth account with minimal or no tax impact.

Roth 401(k), Roth 403(b) and Roth 457 plans. Employers may offer one of these in addition to the traditional, tax-deferred version. No income-based phaseout applies.

Early withdrawals

Early withdrawals from retirement plans should be a last resort. With a few exceptions, distributions before age 59½ are subject to a 10% penalty on top of any income tax that ordinarily would be due on a withdrawal. Additionally, you'll lose the potential tax-deferred future growth on the withdrawn amount.

If you must make an early withdrawal and you have a Roth account, consider withdrawing from that. You can withdraw up to your contribution amount without incurring taxes or penalties.

Another option: If your employer-sponsored plan allows it, take a plan loan. You'll have to pay it back with interest and make regular principal payments, but you won't be subject to current taxes or penalties.

What's new!

Some taxpayers face a new Roth requirement on catch-up contributions



While the OBBBA generally didn't make changes to retirement plans, the SECURE 2.0 Act, signed into law at the end of 2022, includes a provision affecting "catch-up" contributions to employer-sponsored retirement plans, such as 401(k)s, beginning this year.

Specifically, SECURE 2.0 allows certain higher-income employees to make catch-up contributions *only* to Roth accounts. The requirement applies to employees who earned wages in excess of a specific threshold in the previous year — for 2026, it's wages of more than $150,000 in 2025. (The threshold will be annually indexed for inflation.)

If you're affected by this limit and your employer plan *doesn't* offer a Roth option, you can't make 2026 catch-up contributions to your employer plan.

If you'd been making pretax catch-up contributions in prior years, you need to plan for the impact of the potential increase to your taxable income, adjusted gross income (AGI) and modified AGI (MAGI) this year. Not being able to make pretax contributions not only means that more of your compensation will be subject to tax but also that your higher AGI and MAGI could trigger — or increase the impact of — various tax-break phaseouts (see previous sections) and the NIIT (see page 7).

Leaving a job

When you change jobs or retire, avoid taking a lump-sum distribution from your employer's retirement plan because it generally will be taxable, plus potentially subject to the 10% early-withdrawal penalty. To avoid current income tax and penalties, consider staying put (if your plan allows), rolling over to your new employer's plan, or rolling over to an IRA.

If you choose a rollover, request a direct rollover from your old plan to your new plan or IRA. Otherwise, you'll need to make an indirect rollover within 60 days to avoid tax and potential penalties. If you don't do a direct rollover, the check you receive from your old plan may be net of 20% federal income tax withholding. Your subsequent indirect rollover must be of the gross amount (making up for the withheld amount with other funds) or you'll be subject to income tax — and potentially the 10% penalty — on the difference.

RMDs

Generally, you must begin taking required minimum distributions annually from your traditional IRAs and defined contribution plans (but not Roth accounts) once you reach a certain age. If you don't comply, you can owe a 25% penalty on the amount you should have withdrawn but didn't. But if the failure is corrected in a "timely" manner, the penalty drops to 10%.

At what age must RMDs begin? Historically, taxpayers had to start taking their annual RMDs after reaching age 70½. Several years ago, the age was raised to 72. In 2023, the age was raised to 73. It's currently scheduled to rise one more time, to 75, on Jan. 1, 2033.

Waiting as long as possible to take *nonrequired* distributions generally is advantageous because of tax-deferred compounding. But a distribution (or larger-than-required distribution) in a year your tax bracket is low may save tax in the long run. Be sure, however, to consider the lost future tax-deferred growth and, if applicable, whether the distribution could 1) cause Social Security payments to become taxable, 2) increase income-based Medicare premiums and prescription drug charges, or 3) affect other tax breaks with income-based limits.

If you've inherited a retirement plan, consult your tax advisor about the distribution rules that apply to you. The time period for distributions is only 10 years for beneficiaries — other than surviving spouses and certain others — inheriting plans after Dec. 31, 2019.

QCDs

Taxpayers age 70½ or older are allowed to make direct qualified charitable distributions from their IRA to qualified charitable organizations up to $111,000 in 2026. Also, eligible taxpayers can make a one-time QCD of up to $55,000 (for 2026) through a charitable gift annuity or charitable remainder trust.

A charitable deduction can't be claimed for QCDs, but these amounts aren't included in taxable income and can be used to satisfy an IRA owner's RMD. A QCD might be especially tax-smart if you won't benefit from the charitable deduction. (See "What's new!" on page 2.)

Taxes remain an important consideration in estate planning



Estate planning involves more than deciding who'll inherit your assets. The tax consequences of your planning decisions can affect both how much (if any) of your wealth goes to gift, estate and GST taxes rather than your loved ones and how much income tax they'll owe if they sell inherited assets. Tax-aware estate planning can help you preserve more of your wealth for future generations.

Estate tax

Several years ago, the estate tax exemption base amount was doubled from $5 million to $10 million, annually indexed for inflation. The exemption had been scheduled to return to an inflation-adjusted $5 million in 2026 (which would have been around $7 million). But the OBBBA permanently increased the exemption to $15 million for 2026 (up from $13.99 million for 2025), with annual inflation-indexing for future years.

This provides more certainty to taxpayers with large estates, but not complete certainty: "Permanently increased" just means there's no expiration date for the higher exemption. So lawmakers could still change the law to reduce the exemption in the future. The estate tax rate remains at 40%, so the tax is costly when it does apply.

Gift tax

The gift tax continues to follow the estate tax, so the gift tax exemption also was permanently increased by the OBBBA. (See Chart 6.) Any gift tax exemption used during your lifetime reduces the estate tax exemption available at death.

Under the gift tax annual exclusion, you can exclude from taxation certain gifts of up to $19,000 per recipient in 2026 (same as in 2025) — twice that if your spouse elects to split the gift with you or you're giving joint or community property — without depleting any of your gift and estate tax exemption. This can save significant taxes.

Warning: Each year you need to use your annual exclusion by Dec. 31. The exclusion doesn't carry over from year to year. For example, if you didn't make an annual exclusion gift to your child last year, you can't add $19,000 to your 2026 exclusion to make a $38,000 tax-free gift to that child this year.

GST tax

The generation-skipping transfer tax generally applies to transfers (both during your lifetime and at death) made to people more than one generation below you, such as your grandchildren. The GST tax exemption and rate are the same as those for the gift and estate tax, but the GST tax is applied *in addition to* any gift or estate tax due. The GST tax exemption also was permanently increased by the OBBBA to continue to match the gift and estate tax exemption. (See Chart 6.)

The GST tax exemption can be a valuable tax-saving tool for taxpayers with large estates whose children also have — or may eventually have — large estates. With proper planning, they can use the exemption to make transfers to grandchildren and avoid tax at their children's generation.

For example, by allocating your GST tax exemption to contributions to a dynasty trust, you can ensure that any future distributions or other transfers of trust assets to your grandchildren or subsequent generations will avoid GST taxes. This is true even if the value of the assets grows well beyond the exemption amount or the exemption is reduced in the future.

State taxes

Some states impose estate tax at a lower threshold than the federal government does. In some states, the difference is dramatic. To avoid unexpected tax liability or other unintended consequences, consult a tax advisor familiar with the law of your particular state.

Chart 6

2026 transfer tax exemptions and rates

	Estate tax	Gift tax	GST tax
Exemption	$15 million[1]	$15 million	$15 million
Rate	40%	40%	40%

[1] *Less any gift tax exemption already used during life.*

Exemption portability

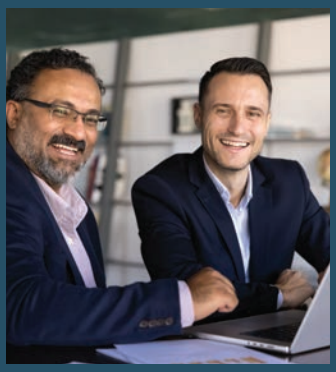
If part (or all) of one spouse's estate tax exemption is unused at that spouse's death, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining exemption. This exemption "portability" provides flexibility at the first spouse's death, but it has some limits. Portability is available only from the most recently deceased spouse, doesn't apply to the GST tax exemption and isn't recognized by many states.

And portability doesn't protect future growth on assets from estate tax like applying the exemption to a credit shelter (or bypass) trust does. Such a trust also offers creditor and remarriage protection, GST tax planning, and possible state estate tax benefits.

So married couples with large estates should still consider these trusts — and transferring assets to each other during their lifetimes as necessary to fully fund them at the first death. Such transfers aren't subject to gift or estate tax as long as the recipient spouse is a U.S. citizen.

Case Study 3

Valuation discounts can boost the power of the annual exclusion



Javier decides it's time to start succession planning for his business. When he meets with his tax and estate planning advisors, they recommend that he begin leveraging his gift tax exclusions and exemption by gifting ownership interests, which may be eligible for valuation discounts for lack of control and lack of marketability.

So, for example, in 2026 Javier could gift an ownership interest worth up to $25,333 (on a controlling basis) tax-free, assuming a combined discount of 25%. That's because the discounted value wouldn't exceed the $19,000 gift tax annual exclusion.

But he doesn't want to transfer ownership interests to his children who aren't active in the business. His advisors suggest that he can still potentially benefit from valuation discounts on transfers of other assets to them by setting up a family limited partnership. He can fund the FLP with public stock and real estate and then gift limited partnership interests.

Javier's advisors warn him that the IRS may challenge valuation discounts; they recommend a professional, independent valuation. The IRS also scrutinizes FLPs, so he must be sure to properly set up and operate his.

Tax-smart giving

Giving away assets now will help reduce the size of your taxable estate. Because lawmakers could reduce the estate tax exemption in the future, making gifts during your lifetime may be tax-smart even if you expect your estate to stay below the inflation-adjusted $15 million exemption. Here are some strategies for tax-smart giving:

Choose gifts wisely. Consider both estate and income tax consequences and the economic aspects of any gifts you'd like to make:

- To minimize *estate tax*, gift property with the greatest future appreciation potential.
- To minimize *your own income tax*, don't gift property that's declined in value. Instead, consider selling the property so you can take the tax loss and then gift the sale proceeds.
- To minimize *your beneficiary's income tax*, gift property that hasn't appreciated significantly while you've owned it.

You may want to hold on to highly appreciated assets that will benefit from the step-up in basis later, especially if your heirs are in one of the upper income tax brackets. If, for example, you gift highly appreciated stock to your kids, their taxable capital gains when they sell the stock will be determined based on your basis in the stock. Whereas, if your kids inherit the stock, the basis will be stepped up to the fair market value at your death. So their capital gains tax could be significantly lower if they inherit the stock rather than receive it as a gift.

Plan gifts to grandchildren carefully. Annual exclusion gifts are generally exempt from the GST tax, so they also help you preserve your GST tax exemption for other transfers. For gifts to a grandchild that don't qualify for the exclusion to be tax-free, you generally must apply both your GST tax exemption and your gift tax exemption.

Gift interests in your business or an FLP. You can leverage your gift tax exclusions and exemption by gifting ownership. (See Case Study 3.)

Pay tuition and medical expenses. You may pay these expenses without the payment being treated as a taxable gift to the student or patient, as long as the payment is made directly to the provider.

Make gifts to charity. Donations to qualified charities aren't subject to gift tax. They may also be eligible for an income tax deduction. (See "What's new!" on page 2.)

Consider "taxable" gifts. Making some gifts beyond annual exclusion gifts and using some or all of your lifetime exemption can make sense if you have a large estate. These "taxable" gifts can protect transfers from gift and estate tax, even if the exemption drops in the future. They also remove the future appreciation from your estate. You do, however, need to keep in mind your beneficiaries' income tax because there won't be the step-up in basis that would apply if they inherited the assets.

Trusts

Trusts can provide a way to transfer assets and potentially enjoy tax savings while preserving some control over what happens to the transferred assets. For those with large estates, funding trusts now, while the gift tax exemption is high, may be particularly tax-smart. Here are some types of trusts to consider:

QPRT. A qualified personal residence trust allows you to give your home to your children today — removing it from your taxable estate at a reduced gift tax cost (provided you survive the trust's term) — while you retain the right to live in it for a specified period.

GRAT. A grantor-retained annuity trust works on the same principle as a QPRT but allows you to transfer other assets; you receive payments back from the trust for a specified period.

ILIT. An irrevocable life insurance trust owns one or more policies on your life, and it manages and distributes policy proceeds according to terms you set when you establish it. And an ILIT keeps insurance proceeds out of your taxable estate.

Crummey trust. This type of trust allows you to enjoy both the control of a trust that will transfer assets to loved ones at a later date and the tax savings of an outright current gift of up to the annual exclusion. ILITs are often structured as Crummey trusts so that annual exclusion gifts can fund the ILIT's payment of insurance premiums.

These are just a few types of trusts that might help you save taxes and achieve your estate planning goals. Your tax and estate planning advisors can tell you about other options that may fit your needs.

Chart 7

2026 individual income tax rates

Regular tax brackets

Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
10%	$ 0 – $ 12,400	$ 0 – $ 17,700	$ 0 – $ 24,800	$ 0 – $ 12,400
12%	$ 12,401 – $ 50,400	$ 17,701 – $ 67,450	$ 24,801 – $ 100,800	$ 12,401 – $ 50,400
22%	$ 50,401 – $ 105,700	$ 67,451 – $ 105,700	$ 100,801 – $ 211,400	$ 50,401 – $ 105,700
24%	$ 105,701 – $ 201,775	$ 105,701 – $ 201,750	$ 211,401 – $ 403,550	$ 105,701 – $ 201,775
32%	$ 201,776 – $ 256,225	$ 201,751 – $ 256,200	$ 403,551 – $ 512,450	$ 201,776 – $ 256,225
35%	$ 256,226 – $ 640,600	$ 256,201 – $ 640,600	$ 512,451 – $ 768,700	$ 256,226 – $ 384,350
37%	Over $ 640,600	Over $ 640,600	Over $ 768,700	Over $ 384,350

Alternative minimum tax (AMT) brackets

Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
26%	$ 0 – $ 244,500	$ 0 – $ 244,500	$ 0 – $ 244,500	$ 0 – $ 122,250
28%	Over $ 244,500	Over $ 244,500	Over $ 244,500	Over $ 122,250

AMT exemptions

	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
Amount	$ 90,100	$ 90,100	$ 140,200	$ 70,100
Phaseout[1]	$ 500,000 – $ 680,200	$ 500,000 – $ 680,200	$ 1,000,000 – $ 1,280,400	$ 500,000 – $ 640,200

[1] *The AMT income ranges over which the exemption phases out and only a partial exemption is available. The exemption is completely phased out if AMT income exceeds the top of the applicable range.*

Note: *Consult your tax advisor for AMT rates and exemptions for children subject to the "kiddie tax."*

Chart 8

2026 corporate income tax rates

Tax rate	Type of corporation
21%	C corporation
21%	Personal service corporation

Chart 9

2026 estate and trust income tax rates

Tax rate	Tax brackets
10%	$ 0 – $ 3,300
24%	$ 3,301 – $ 11,700
35%	$ 11,701 – $ 16,000
37%	Over $ 16,000

Note: *Consult your tax advisor for AMT rates and exemptions.*

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