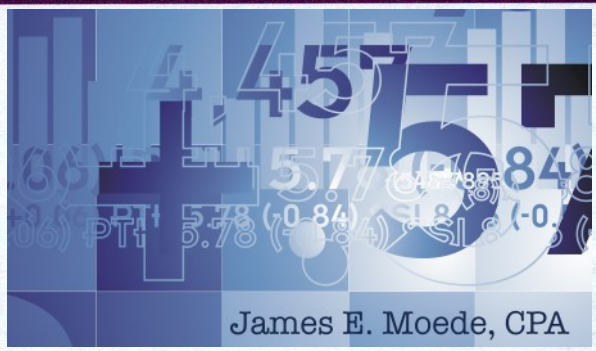
# TaxUpdate

## 2026 YEAR END NEWSLETTER




## Commonly Overlooked Deductions

Here are some ideas to ensure you pay what is owed, but not more than necessary, as you prepare to file your 2026 tax return.

- **Getting student deductions right.** If you use 529 plan funds or pay student loans, share these details to identify potential tax benefits.
- **Making alimony and child support mistakes.** The tax treatment of alimony and child support depends on when a divorce decree was finalized or modified.
- **State sales tax alternative.** Itemizers may deduct state and local sales taxes instead of state income taxes, which can be beneficial in certain situations.
- **Mortgage discount points.** Any remaining undeducted mortgage points may become fully deductible when a home is sold.
- **Student loan interest.** Up to $2,500 of student loan interest may be deductible, including some payments made by co-signing parents.
- **Child and dependent care.** Daycare expenses may qualify for tax benefits, but only if handled correctly.




- **Reinvested dividends.** Reinvested dividends increase investment basis and can reduce taxable gains when assets are sold.
- **Coordinating kids' income.** Compare your children's tax situation with your own, especially if they have earned or unearned income that could create additional tax consequences.
- **Small business situations.** Common tax breaks include one-half of Self-Employment tax, health insurance premiums, retirement contributions, and the Qualified Business Income deduction.

## Income Brackets for 2026 Tax Rates

| Tax Rate | Single | Married Filing Joint/Widow | Head of Household | Married Filing Separate |
|---|---|---|---|---|
| 10% | $1 – 12,400 | $1 – 24,800 | $1 – 17,700 | $1 – 12,400 |
| **12%** | **12,401 – 50,400** | **24,801 – 100,800** | **17,701 – 67,450** | **12,401 – 50,400** |
| 22% | 50,401 – 105,700 | 100,801 – 211,400 | 67,451 – 105,700 | 50,401 – 105,700 |
| **24%** | **105,701 – 201,775** | **211,401 – 403,550** | **105,701 – 201,750** | **105,701 – 201,775** |
| 32% | 201,776 – 256,225 | 403,551 – 512,450 | 201,751 – 256,200 | 201,776 – 256,225 |
| **35%** | **256,226 – 640,600** | **512,451 – 768,700** | **256,201 – 640,600** | **256,226 – 384,350** |
| 37% | Over $640,600 | Over $768,700 | Over $640,600 | Over $384,350 |

## Plan Now for *No Tax on Tips* and *Overtime*

New for 2026, tips and overtime that qualify for a tax break now must be reported on your W-2 or 1099. Here's how to plan for this change:

- ☐ **Check your pay records carefully.** Review your pay stubs, W-2, and any year-end tax documents to make sure your income is reported accurately.
- ☐ **Keep good personal records.** Save pay stubs, tip logs, overtime records, schedules, and other income-reporting documents throughout the year to help resolve questions or discrepancies later.
- ☐ **Ask questions if something looks wrong.** If your reported income, overtime pay, or tax forms seem inaccurate, contact your employer or payroll department as soon as possible to find a fix prior to tax season.
- ☐ **Independent contractors should pay close attention.** If you work as a contractor and receive tip income, your eligibility may depend on how your income is classified and reported, making detailed recordkeeping especially important.
- ☐ **Get your job classified correctly.** Your employer must classify your position under the proper IRS-recognized tipped occupation for you to qualify for tip-related deductions.
- ☐ **Report all tips accurately.** Keep track of your cash and credit card tips and report them properly to your employer.
- ☐ **Know how tips and service charges are different.** Automatic gratuities, banquet fees, and service charges may not count as tips under IRS rules.

## Leveraging Your Child's Lower Tax Rate

Each child in your family can help reduce the amount of income taxes you pay each year. A child under age 18 (or age 24 if a full-time student) can receive up to $1,350 of unearned income tax-free, with an additional $1,350 taxed at the child's typically lower tax rate. Here's how to take full advantage of this annual tax break:

- **Gift appreciated stock.** Instead of a parent selling and paying long-term capital gains tax, the parent gifts shares to a child. $1,350 of the gains when a child sells won't be taxed, and the next $1,350 is taxed using the child's capital gains tax rate (often 0%).
- **Gift up to $19,000 in cash in 2026.** Use this money to invest in appreciating assets that may qualify for tax-free capital gains when later sold.
- **Parents who own small businesses** may also shift income through legitimate wages paid to children for real work, such as cleaning offices, helping with deliveries, assisting with mailings, or appearing in advertisements. Sole proprietors hiring children under 18 may also avoid Social Security and Medicare taxes on those wages.

**NOTE:** Be aware that transferring assets to children could reduce future college financial aid eligibility. Careful planning can help families maximize these tax advantages while balancing long-term financial goals.

**Standard Deductions**

| | 2026 | 2025 | Change |
|---|---|---|---|
| Single | $16,100 | $15,750 | +$350 |
| Married Joint/Widow | 32,200 | 31,500 | +$700 |
| Head of Household | 24,150 | 23,625 | +$525 |
| Married Filing Separate | 16,100 | 15,750 | +$350 |
| Elderly/Blind: Married | +$1,650 | +$1,600 | +$50 |
| Elderly/Blind: Unmarried | +$2,050 | +$2,000 | +$50 |
| Extra Deduction, Age 65+ | +$6,000 | +$6,000 | – |

**Maximum Earned Income Tax Credit**

| | 2026 | 2025 | Change |
|---|---|---|---|
| No Child | $ 664 | $ 649 | +$15 |
| 1 Child | 4,427 | 4,328 | +$99 |
| 2 Children | 7,316 | 7,152 | +$164 |
| 3+ Children | 8,231 | 8,046 | +$185 |

## You May Be Able to Itemize Deductions Again

*Here's what to review*



If you've relied on the standard deduction in recent years, now may be a good time to revisit whether itemizing could provide greater tax savings.

### The change

Before 2025, taxpayers could deduct a maximum of $10,000 in state and local taxes as an itemized deduction on Schedule A. This limit is now $40,400 for 2026 and will result in many individuals once again being able to itemize their deductions.

### The review

Here's who may benefit from taking a closer look:

- **High state income taxes.** If you paid significant state income taxes, you'll want to conduct this planning review.
- **High property taxes.** If you have high property taxes or have multiple properties that could have applicable taxes, take the time to calculate what your total itemized deductions could be with the new $40,400 limit.
- **Multiple homes.** If you own a cabin or other types of vacation property in addition to a primary residence, this could be enough to push you over the standard deduction limit.
- **Small business owner.** If you own a small business that is a flow through entity like a partnership or a Subchapter S corporation, your state income tax on this business activity might be limited on your personal tax return. This is another scenario that would warrant a review.

### Potential planning actions

- **Increasing your use of charitable giving** by giving more or placing multiple years of giving into one year.
- **Pre-paying property taxes.** Because your tax return is filed on a cash basis, a property tax bill due in 2027 can be applied to your 2026 tax return if paid in 2026.
- **Understanding your qualified interest expense.** Consider any interest paid on qualified home debt and the new interest deduction on U.S.-sourced new vehicle loans.

The key takeaway is to plan now to take full advantage of the opportunity to reduce your 2026 tax obligation.

## Key Retirement Plan Limits

| Retirement Plan | 2026 | 2025 | Change | Age 50 or older catch-up |
|---|---|---|---|---|
| 401(k), 403(b), 457 plans | $24,500 | $23,500 | +$1,000 | Add $8,000* |
| IRA: Traditional | $7,500 | $7,000 | +$500 | Add $1,100 |
| IRA: SIMPLE[a] | $17,000 | $16,500 | +$500 | Add $4,000** |
| IRA: Roth | $7,500 | $7,000 | +$500 | Add $1,100 |

* *For 2026, a higher catch-up contribution limit of $11,250 applies for taxpayers ages 60 to 63.*

** *For 2026, a higher catch-up contribution limit of $5,250 applies for taxpayers ages 60 to 63.*

[a] *Employees of eligible businesses can contribute up to $18,100, with an age 50+ catch-up limit of $3,850, and an age 60 to 63 catch-up limit of $5,250.*

*This publication provides summary information regarding the subject matter at the time of printing. Please call with any questions on how this information may impact your situation.*

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