2026 / 2027

TAX PLANNING GUIDE

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

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Are you doing everything you can to save tax?

Keeping your tax liability to a minimum is key to your overall financial health. Fortunately, there are some tried-and-true ways to help you achieve that goal. Below are tax-reduction strategies for individuals and businesses. Check off those that may apply to your situation:

Personal strategies

- ❑ Accelerating or deferring income
- ❑ Timing capital gains and losses
- ❑ Considering the tax implications of income investments
- ❑ Maximizing or bunching deductions
- ❑ Leveraging home-related breaks
- ❑ Making tax-efficient charitable gifts
- ❑ Participating in a Flexible Spending Account or Health Savings Account
- ❑ Claiming child-related breaks
- ❑ Taking advantage of education savings plans
- ❑ Contributing to a retirement plan
- ❑ Strategizing retirement plan distributions
- ❑ Incorporating tax planning into your estate plan

Business strategies

- ❑ Selecting a tax-advantaged business structure
- ❑ Claiming the Section 199A qualified business income deduction for pass-through entity owners
- ❑ Accelerating or deferring income
- ❑ Deducting all eligible business expenses
- ❑ Choosing a tax-smart depreciation method
- ❑ Taking advantage of Section 179 expensing and 100% bonus depreciation
- ❑ Maximizing vehicle-related deductions
- ❑ Planning for research-related tax breaks
- ❑ Offering tax-advantaged employee benefits
- ❑ Setting up a retirement plan
- ❑ Claiming all credits you're eligible for
- ❑ Incorporating tax planning into your exit plan

We'd welcome the opportunity to help you minimize your 2026 tax liability. Please contact us today to discuss ways to put these and other strategies to work for you.

How can higher-income taxpayers minimize 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 subject to income-based phaseouts that reduce or eliminate the benefit for higher-income taxpayers) and enhanced some existing tax breaks. However, it put new limits on some deductions — such as the charitable deduction — and terminated many tax breaks related to clean energy.

Most of these changes went into effect last year, but some of them go into effect in 2026.

Minimizing taxes is a critical challenge for higher-income taxpayers subject to higher tax rates and certain additional taxes, as well as to tax-break phaseouts. To meet this challenge, you need to know how recent tax law changes will affect your specific situation. Then you need to closely monitor your income as the year progresses and be aware of all of the tax breaks for which you are, in fact, eligible. Finally, 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 higher-income taxpayers 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.

Contents

Income and deduction planning under the latest tax rules

Higher-income taxpayers often have more flexibility as to when they recognize income, incur deductible expenses and make other financial decisions. Reviewing your options and taking tax-smart steps before year end can reduce or defer taxes. But it's critical to consider recent tax law changes that may make some strategies more effective in 2026 and others less so.

Timing income and expenses

Smart timing of income and expenses can reduce your tax liability, and poor timing can unnecessarily increase it. If you don't expect to be subject to the AMT (see page 4) this year or next year, deferring income to 2027 and accelerating deductible expenses into 2026 may be a good idea. Why? Because it will defer tax, which usually is beneficial.

But if you expect to be in a higher tax bracket next year (or believe tax rates may rise), the opposite approach may be advantageous: Accelerating income will allow more income to be taxed at your potentially lower 2026 rate. And deferring expenses may make those deductions more valuable because deductions save more tax when you're subject to a higher tax rate.

Whatever the reason behind your desire to time income and expenses, you may be able to control the timing of these income items:

- Bonuses,
- Self-employment income,
- U.S. Treasury bill income, and
- Retirement plan distributions, to the extent they won't be subject to early-withdrawal penalties and aren't required. (See page 21.)

What's new!

Overall limit on itemized deductions for top-bracket taxpayers takes effect this year

Beginning in 2026, the OBBBA limits the benefit of itemized deductions for taxpayers in the top (37%) bracket. If you'll be affected, generally your tax benefit will be as if you were in the 35% tax bracket. So $100,000 of itemized deductions will potentially save you $35,000 in taxes rather than $37,000.

Some *expenses* with potentially controllable timing are property tax (see Case Study 1 on page 5), investment interest expense (see page 11), mortgage interest (see page 12) and charitable contributions (see page 16).

Changes impacting timing strategies

Timing income and deductions has been challenging since 2018. Changes that went into effect that year caused some common timing strategies to no longer make sense. The OBBBA made most of those changes permanent, but it included at least one change that might make timing strategies more viable again for certain taxpayers. Here's a look at some significant changes that affect deductions:

Increased deduction for SALT. Property tax used to be a popular expense to time. But while the $10,000 limit on the state and local tax deduction was in effect for 2018 through 2024, property tax timing provided little, if any, benefit to higher-income taxpayers. This has now changed for some taxpayers. (See Case Study 1 on page 5.)

If you reside in a state with no, or low, income tax, the SALT limit might be less relevant. But keep in mind that deducting sales tax instead of income tax may be beneficial, especially if you purchased a major item, such as a luxury car or boat.

Elimination of most miscellaneous itemized deductions. The OBBBA made permanent the suspension of miscellaneous itemized deductions that had been subject to the 2% of adjusted gross income (AGI) floor. Examples include certain professional fees, investment expenses and unreimbursed employee business expenses.

This also effectively eliminates the home office deduction for employees who work from home (even if required by the employer), because their home office expenses are considered unreimbursed employee business expenses. But if you're self-employed, you may still be able to deduct home office expenses. (See Case Study 7 on page 12.)

Permanently restricted 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 disasters eligible for 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.

Permanently increased standard deduction. The OBBBA made permanent and slightly increased the nearly doubled standard deduction. It continues to be annually adjusted for inflation. (See Chart 1 for the 2026 standard deduction amounts.)

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.*

This means that some higher-income taxpayers — such as those in low-tax states, who don't have mortgages or who aren't as charitably inclined — will continue to save more tax by claiming the standard deduction, as they have since the higher standard deduction went into effect in 2018.

But some taxpayers in higher-tax states who hadn't benefited from itemizing while the $10,000 SALT limit was in place might again save more tax by itemizing. And taxpayers who've benefited from itemizing over the last several years, such as those who make large charitable gifts each year, will likely continue to benefit.

Tax breaks for health care

If medical expenses not paid via tax-advantaged accounts or reimbursable by insurance exceed 7.5% of your AGI, you can claim an itemized deduction for the amount exceeding that "floor." This floor can be difficult for higher-income taxpayers to surpass.

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 for miles driven Jan. 1 through June 30, 2026, and 23.5 for miles 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 applicable floor and you'd have enough total itemized deductions to benefit from itemizing.

If one spouse has high medical expenses and a lower AGI, filing separately may allow that spouse to exceed the AGI floor and deduct some medical expenses that wouldn't be deductible if the couple filed jointly. ***Warning:*** Because the AMT exemption for separate returns is considerably lower than the exemption for joint returns, filing separately to exceed the floor could trigger the AMT. Also, some tax breaks aren't available to separate filers.

You may be able to save taxes in relation to health care 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.

Above-the-line deductions

Whether you claim the standard deduction or itemize, you may also be eligible for some "above-the-line" deductions. They're particularly valuable because they reduce your AGI and, depending on the specific deduction, your modified AGI (MAGI). AGI and MAGI are important because they're the triggers for certain additional taxes and the phaseouts of many tax breaks.

But be aware that just because you don't have to itemize to claim a deduction doesn't mean it's an above-the-line deduction. For example, though you don't have to itemize to claim the 199A QBI deduction for pass-through businesses (see page 14), it isn't an above-the-line deduction. So it doesn't reduce AGI or MAGI.

Examples of above-the-line deductions include deductible IRA contributions (see page 20), HSA contributions if they aren't subtracted pretax from your paycheck, and certain business and self-employment expenses.

For instance, if you're self-employed, you can claim an above-the-line deduction for part of your self-employment tax (see page 4) 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 deduct contributions to a retirement plan you set up. (See page 15.) And you might be able to deduct home office expenses. (See Case Study 7 on page 12.)

Temporary deductions

The OBBBA created four new deductions that went into effect for 2025 and are available only through 2028, unless lawmakers extend them. You don't have to itemize deductions to claim them, but they aren't above-the-line deductions so they don't reduce your AGI or MAGI. And, because they phase out, the benefit to higher-income taxpayers is reduced or eliminated:

Tips income. Eligible taxpayers 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). The deduction is completely phased out when MAGI reaches $400,000 ($550,000 for married couples filing jointly). The taxpayer 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. Eligible taxpayers 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). The deduction is completely phased out when MAGI reaches $275,000 ($550,000 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 the employee's regular hourly rate. (Payroll taxes and any applicable state taxes still apply to this income.)

Car loan interest. Eligible taxpayers 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). The deduction is completely phased out when MAGI reaches $150,000 ($250,000 for joint filers).

"Senior" deduction. Taxpayers age 65 or older can claim a deduction of up to $6,000 ($12,000 for joint filers if both spouses are 65 or older). But the deduction begins to phase out at lower income levels than any of the other new deductions: when MAGI exceeds $75,000 ($150,000 for joint filers). The deduction is completely phased out when MAGI reaches $175,000 ($250,000 for joint filers).

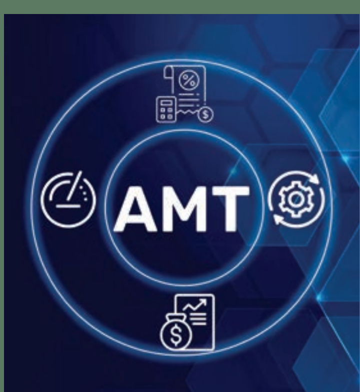
Additional rules apply to these deductions.

The AMT

The top alternative minimum tax rate is 28%, compared to the top regular ordinary-income tax rate of 37%. But the AMT rate typically applies to a higher taxable income base. You must pay the AMT if your AMT liability exceeds your regular tax liability. The OBBBA makes some changes that could increase your AMT liability risk this year. (See "What's new!")

What's new!

Will your AMT risk increase in 2026?



The alternative minimum tax exemptions were substantially increased plus annually indexed for inflation for 2018 through 2025, and the OBBBA made the higher exemptions permanent. (See Chart 7 on page 24.) This generally means that fewer taxpayers have to pay the AMT these days than had to pay it before 2018.

However, the OBBBA calls for the income thresholds for the exemption phaseout to revert back to their 2018 levels for 2026. In other words, it removes the inflation adjustments that had been made for 2019 through 2025. The 2026 exemption phaseouts will be annually adjusted for inflation beginning in 2027.

The OBBBA also phases out the exemption more quickly beginning in 2026. Previously, the exemption was reduced $0.25 for each $1.00 by which the taxpayer's AMT income exceeded the applicable threshold. Beginning in 2026, the exemption is reduced $0.50 for each $1.00 by which the taxpayer's AMT income exceeds the applicable threshold. Effectively, the exemption now phases out twice as fast.

As a result of these changes, the exemption will protect fewer taxpayers from the AMT in 2026 than it did in 2025. Depending on your income, you might be at greater AMT risk this year.

It's also important to consider that deductions used to calculate regular tax that aren't allowed under the AMT can trigger AMT liability. The SALT deduction generally is now the only major deduction that's deductible for regular tax purposes but not AMT purposes. This reduces AMT risk. However, the OBBBA did increase the SALT deduction for some taxpayers. (See Case Study 1.) A large SALT deduction could be an AMT trigger.

Before timing your income and expenses, determine whether you're already likely to be subject to the AMT — or whether the actions you're considering might trigger it. In addition to deduction differences, some income items might trigger or increase AMT liability, such as:

- Long-term capital gains and qualified dividend income,
- Accelerated depreciation adjustments and related gain or loss differences when assets are sold, and
- Tax-exempt interest on certain private-activity municipal bonds. (For an exception, see the second warning on page 11.)

Finally, exercising incentive stock options can trigger AMT liability in certain situations. (See "ISOs" on page 7.)

Avoiding or reducing AMT

With proper planning, you may be able to avoid the AMT, reduce its impact or even take advantage of its lower maximum rate:

If you could be subject to the AMT *this* year … consider accelerating income into 2026, which may allow you to benefit from the lower maximum AMT rate. And deferring expenses you can't deduct for AMT purposes may allow you to preserve those deductions. (But watch out for the annual limit on the SALT deduction.) If you also defer expenses you *can* deduct for AMT purposes, the deductions may become more valuable because of the higher maximum regular tax rate. Finally, carefully consider the tax consequences of exercising ISOs.

If you could be subject to the AMT *next* year … consider taking the opposite approach. For instance, defer income to 2027 because you'll likely pay a relatively lower AMT rate. And, before year end, consider selling any private-activity municipal bonds whose interest could be subject to the AMT.

Also be aware that, in certain circumstances, you may be entitled to an AMT credit.

Payroll and self-employment taxes

In addition to income tax, you must pay Social Security and Medicare (FICA) taxes on earned income, such as salary and bonuses. The 12.4% Social Security tax applies only up to the Social Security wage base of $184,500 for 2026. *All* earned income is subject to the 2.9% Medicare tax. Both taxes are split equally between the employee and the employer.

If you're self-employed, you pay both the employee and employer portions of payroll 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. (See page 3.)

Additional 0.9% Medicare tax

Another payroll tax that higher-income taxpayers must be aware of is the additional 0.9% Medicare tax. It applies to FICA wages and net self-employment income exceeding $200,000 per year ($250,000 if married filing jointly and $125,000 if married filing separately).

If your wages or self-employment income varies significantly from year to year or you're nearing the threshold for triggering the additional Medicare tax, income-timing strategies may help you avoid or minimize it. For example:

- If you're an employee, perhaps you can time when you receive a bonus or exercise stock options.
- If you're self-employed, you may have flexibility on when you purchase new equipment or invoice customers.
- If you're an S corporation shareholder-employee, you might save tax by adjusting how much you receive as salary vs. distributions.

Also consider the withholding rules. Employers don't *pay* any portion of the additional tax, but they must *withhold* it beginning in the pay period when wages exceed $200,000 for the calendar year — without regard to an employee's filing status or income from other sources. So your employer might withhold the tax even if you aren't liable for it, or it might not withhold the tax even though you are liable for it.

If you *don't* owe the tax but your employer *is* withholding it, you can claim a credit on your 2026 income tax return. If you *do* owe the tax but your employer *isn't* withholding it, consider increasing your income tax withholding, which can be used to cover the shortfall and avoid interest and penalties. Or make estimated tax payments.

Payroll tax considerations for owner-employees

There are special payroll tax considerations if you're a business owner who also works in the business, depending on its structure:

Partnerships and limited liability companies. Generally, all trade or business income that flows through to owner-employees for income tax purposes is subject to self-employment taxes — even if it isn't distributed. (Such income may not be subject to self-employment taxes for limited partners or the limited liability company member equivalent.) Whether the additional 0.9% Medicare tax or the 3.8% NIIT (see page 9) will apply depends on the specific circumstances.

Case Study 1

Benefiting from a higher SALT deduction limit

Tom was pleasantly surprised when he filed his 2025 income tax return and learned he could claim a larger deduction for state and local taxes (SALT) than he had in recent years. But he wondered if planning opportunities were available for him to maximize his SALT deduction for 2026. So he consulted a tax advisor.

She explained that, for 2018 through 2024, the entire itemized deduction for state and local taxes — including property tax and the greater of income or sales tax — had been limited to $10,000 ($5,000 for married couples filing separately). For 2025, the OBBBA increased the SALT deduction cap to $40,000 ($20,000 for separate filers).

However, she warned Tom that when modified adjusted gross income (MAGI) exceeds a certain threshold, the cap is reduced by 30% of the amount by which MAGI exceeds the threshold — but not below $10,000 ($5,000 for separate filers). The 2025 threshold was $500,000 ($250,000 for separate filers).

Both the SALT cap and the MAGI threshold will increase 1% annually through 2029. So the 2026 amounts are $40,400 and $505,00, respectively (half those amounts for separate filers). Without further legislation, the $10,000 limit will return in 2030.

This boosted SALT cap is a significant tax saver for many higher-income taxpayers in high-tax states. Tom, who's a single homeowner in the 35% tax bracket but not subject to the 30% reduction, could save $14,140 in taxes if he has enough SALT expenses to claim the maximum 2026 deduction.

His tax advisor suggests that, if it's looking like Tom's 2026 SALT expenses will be less than $40,400, he consider prepaying some or all of his 2027 property tax bill in 2026. Generally, as long as the bill has been assessed and he pays it by Dec. 31, 2026, he'll be able to deduct it on his 2026 return. Of course he should also consider the impact this will have on his 2027 return.

S corporations. Only income that owner-employees receive as salary is subject to payroll taxes and, if applicable, the 0.9% Medicare tax. To reduce these taxes, owner-employees may want to keep their salary relatively — but not unreasonably — low and increase the income that is taxed to them through their Schedule K-1 by virtue of their share of the earnings from the business. That income isn't subject to the corporate level tax or the 0.9% Medicare tax and, typically, isn't subject to the 3.8% NIIT.

C corporations. Only income that owner-employees receive as salary is subject to payroll taxes and, if applicable, the 0.9% Medicare tax. Nonetheless, an owner-employee may prefer to take more income as salary (which is deductible at the corporate level) as opposed to dividends (which aren't deductible at the corporate level yet are still taxed at the shareholder level and could be subject to the 3.8% NIIT). This might make sense if the combined tax paid by the corporation and the owner-employee would be less.

Warning: The IRS scrutinizes corporate payments to shareholder-employees for possible misclassification, so tread carefully.

Estimated tax payments and withholding

You can be subject to penalties if you don't pay enough tax during the year through estimated taxes and withholding. Here are some strategies to help avoid being subject to underpayment penalties for 2026:

Know the minimum payment rules. Your estimated payments and withholding generally must equal at least 90% of your tax liability for 2026 or 110% of your 2025 tax (100% if your 2025 AGI was $150,000 or less or, if married filing separately, $75,000 or less).

Use the annualized income installment method. This method often benefits taxpayers who have large variability in income from month to month due to bonuses, investment gains and losses, or seasonal income (at least if it's skewed toward the end of the year). Annualizing computes the tax due based on income, gains, losses and deductions through each estimated tax period.

Estimate your tax liability and increase withholding. If you determine you've underpaid, consider having the tax shortfall withheld from your salary or year-end bonus by Dec. 31. Withholding is considered to have been paid ratably throughout the year. So this is often a better strategy than making up the difference with an increased quarterly tax payment, which may still leave you exposed to penalties for earlier quarters.

Avoid costly tax mistakes with your executive compensation

If you're an executive or key employee, your compensation may include more than salary, bonuses and the typical employee benefits. It might also include stock-based awards or a nonqualified deferred compensation (NQDC) plan. Each type of compensation comes with different tax rules and planning opportunities. Understanding when income is recognized and how different choices affect your tax liability now and in the future can help ensure you don't incur unnecessary taxes.

Restricted stock

Restricted stock is stock your employer grants to you subject to a substantial risk of forfeiture. Income recognition is normally deferred until the stock is no longer subject to that risk (that is, it's vested) or you sell it. When the restriction lapses, you pay taxes on the stock's fair market value (FMV) at your ordinary-income rate. (The FMV will be considered FICA income, so it could trigger or increase your exposure to the additional 0.9% Medicare tax. See page 5.)

But with a Section 83(b) election, you can instead opt to recognize ordinary income when you receive the stock. This election, which you must make within 30 days after receiving the stock, allows you to convert potential future appreciation from ordinary income to long-term capital gains income and defer it until the stock is sold. (See Case Study 2 for an example.)

There are some potential disadvantages of a Sec. 83(b) election, however. First, prepaying tax in the current year could push you into a higher income tax bracket and trigger or increase your exposure to the additional 0.9%

Case Study 2

The Sec. 83(b) election can save significant taxes on restricted stock

Ethan and Ian are executives at a start-up, and each receives 50,000 shares of restricted stock with a fair market value of $1 per share. Ethan doesn't make the Sec. 83(b) election because he doesn't want to pay tax in the current year. But Ian consults his tax advisor, who performs various projections to help him make an informed decision. Ian concludes that the potential long-term tax savings is worth the upfront tax cost and any risk associated with the election. So he makes it.

In an initial public offering (IPO) a year later, the stock is offered at $5 per share. More than a year after the IPO, the market price reaches $10 per share. Ethan and Ian both sell their shares. By making the Sec. 83(b) election, Ian saves $26,400 in federal income taxes!

	Ethan (doesn't make the election)	Ian (does make the election)
Year the restricted stock is awarded	Recognizes no income related to the stock.	Recognizes $50,000 (50,000 shares at $1 per share) of compensation income, for a federal income tax bill of $18,500.
Year of the IPO (which lifts the substantial risk of forfeiture)	Recognizes compensation income of $250,000 (50,000 shares at the IPO price of $5 per share), for a federal income tax bill of $92,500.	Recognizes no income related to the stock.
Year of the stock sale	Recognizes a long-term capital gain of $250,000 (50,000 shares at $10 per share less basis of $5 per share), for a federal income tax bill of $59,500.	Recognizes a long-term capital gain of $450,000 (50,000 shares at $10 per share less basis of $1 per share), for a federal income tax bill of $107,100.
Total federal income tax paid	$152,000	$125,600

Note: *The figures presume that the 37% marginal income tax rate, 20% long-term capital gains tax rate and 3.8% NIIT (see page 9) apply. This case study doesn't factor in payroll taxes.*

Case Study 3

How are NQSOs different from ISOs when it comes to taxes?

Nina is considering a job offer that includes an award of nonqualified stock options. She's received incentive stock options in the past but isn't familiar with NQSOs, so she consults her tax advisor about whether the tax consequences differ.

He explains that the tax treatment of NQSOs is indeed different from the tax treatment of ISOs: NQSOs create compensation income (taxed at ordinary-income rates) on the bargain element when exercised (regardless of whether the stock is held or sold immediately), but they don't create an AMT preference item.

So when Nina exercises the NQSOs, she may need to make estimated tax payments or increase withholding to fully cover the tax on the exercise. Also, an exercise could trigger or increase exposure to top tax rates, the additional 0.9% Medicare tax and the NIIT.

Medicare tax. But if your company is in the earlier stages of development, the income recognized may be relatively small. Second, any taxes you pay because of the election can't be refunded if you eventually forfeit the stock or sell it at a decreased value. However, you'd have a capital loss in those situations.

Work with your tax advisor to determine whether the Sec. 83(b) election is appropriate for your situation. You also might be eligible for a tax break that allows for the deferral of tax on stock-based compensation in certain circumstances. But it generally will apply only if at least 80% of full-time employees are covered by the stock-based compensation plan.

RSUs

Restricted stock units are contractual rights to receive stock, or its cash value, after the award has vested. Unlike restricted stock, RSUs aren't eligible for the Sec. 83(b) election. So there's no opportunity to convert ordinary income into capital gains.

But RSUs do offer a limited ability to defer income taxes: Unlike restricted stock, which becomes taxable immediately upon vesting, RSUs aren't taxable until you actually receive the stock. So rather than having the stock delivered immediately upon vesting, you may be able to arrange with your employer to delay delivery.

Such a delay will defer income tax and may allow you to reduce or avoid exposure to the additional 0.9% Medicare tax (because the RSUs are treated as FICA income). However, any income deferral must satisfy the strict requirements of Internal Revenue Code Section 409A. Also keep in mind that it might be better to recognize income now because of the relatively low current tax rates.

ISOs

Incentive stock options allow you to buy company stock in the future (but before a set expiration date) at a fixed price equal to or greater than the stock's FMV at the date of the grant. Thus, ISOs don't provide a benefit until the stock appreciates in value. If it does, you can buy shares at a price below what they're then trading for, provided you're eligible to exercise the options.

ISOs receive tax-favored treatment but must comply with many rules. Here are the key tax consequences:

- You owe no tax when ISOs are granted.
- You owe no regular income tax when you exercise the ISOs.
- If you sell the stock *after* holding the options for at least one year and then holding the shares for at least one year from the exercise date, you pay tax on the sale at your long-term capital gains rate. You also may owe the NIIT. (See page 9.)
- If you sell the stock *before* long-term capital gains treatment applies, a "disqualifying disposition" occurs and any gain is taxed as compensation at ordinary-income rates. (Disqualified dispositions aren't, however, subject to Social Security and Medicare tax, including the additional 0.9% Medicare tax.)

Warning: If you don't sell the stock in the year of exercise, a tax "preference" item is created for the difference between the stock's FMV and the exercise price (the "bargain element"). This can trigger the AMT. (See page 4.) A future AMT credit, however, should mitigate this AMT hit.

If you've received ISOs, plan carefully when to exercise them and when to sell the shares received. Waiting to exercise ISOs until just before the expiration date (when the stock value may be the highest, assuming the stock is appreciating) and holding on to the stock long enough to garner long-term capital gains treatment often is beneficial. But sometimes it makes sense to act sooner:

- Exercise early to start the holding period so you can sell and receive long-term capital gains treatment sooner,
- Exercise when the bargain element is small or when the market price is close to bottoming out to reduce or eliminate AMT liability,
- Exercise annually so you can buy only the number of shares that will achieve a breakeven point between the AMT and regular tax and thereby incur no additional tax, or
- Sell in a disqualifying disposition and pay the higher ordinary-income rate to avoid the AMT on potentially disappearing appreciation.

But, on the negative side, exercising early accelerates the need for funds to buy the stock, exposes you to a loss if the shares' value drops below your exercise cost, and may create a tax cost if the exercise generates an AMT liability.

It's also important to consider that the timing of ISO exercises could positively or negatively affect your liability for higher tax rates and the NIIT. Also be aware that ISOs might be eligible for the tax deferral mentioned under "Restricted Stock." With your tax advisor, evaluate the risks and crunch the numbers to determine the best strategy for you.

NQDC plans

These plans pay executives in the future for services to be currently performed. They differ from qualified plans, such as 401(k)s, in several ways. For example, NQDC plans can favor highly compensated employees, and plan funding isn't protected from the employer's creditors.

One important NQDC tax issue is that payroll taxes (see page 4) are generally due once services have been performed and there's no longer a substantial risk of forfeiture — even though compensation may not be paid or recognized for income tax purposes until much later. So your employer may withhold your portion of the payroll taxes from your salary or ask you to write a check for the liability. Or it may pay your portion, in which case you'll have additional taxable income. ***Warning:*** The additional 0.9% Medicare tax could also apply.

How to save taxes while staying focused on your investment goals

Your goals, time horizon and risk tolerance should always come first when making investment decisions. Even so, higher-income taxpayers have more at stake when it comes to taxes on investments because they may be subject to the highest ordinary-income and long-term capital gains rates, as well as the 3.8% net investment income tax (NIIT). This makes it important to factor potential tax consequences into your investment strategy.

The type of income an investment generates, how long you hold it, and special tax rules or limitations all may have a major impact. Careful planning can help reduce taxes on your investments while supporting your short- and long-term goals.

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 capital 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 2.)

It's important to note that the top long-term gains rate of 20% kicks in before the top ordinary-income rate does. (See Chart 7 on page 24.) Also, higher long-term gains rates apply to certain types of assets. (See Chart 2.)

Holding on to an investment until you've owned it more than one year may 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 3.8% NIIT could apply to both short-term and long-term gains. (See page 9.)

Chart 2

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%
Gain on qualified small business (QSB) stock held more than 5 years[3]	
■ Acquired before Feb. 18, 2009	14%[4]
■ Acquired on or after Feb. 18, 2009, and before Sept. 28, 2010	7%[5]
■ Acquired on or after Sept. 28, 2010	0%

[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 only to those with taxable income exceeding $545,500 (singles), $579,600 (heads of households), $613,700 (joint filers), $306,850 (separate filers) or $16,250 (estates and trusts).*

[3] *Smaller exclusions are available for certain QSB stock held for shorter periods. (See "What's new!" on page 10.)*

[4] *Effective rate based on a 50% exclusion from a 28% rate.*

[5] *Effective rate based on a 75% exclusion from a 28% rate.*

The 0% rate

The 0% long-term capital gains rate generally applies to most long-term gain 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. (See Case Study 4.)

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 18.) Also consider any gift tax consequences. (See page 22.)

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 NIIT. It 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.)

Also beware that the NIIT applies at significantly lower levels of income than the top ordinary-income and long-term capital gains rates. (See Chart 2.) And the gap is widening, because the ordinary-income and long-term capital-gains tax brackets are annually adjusted for inflation, while the NIIT thresholds aren't — they've been the same since they went into effect in 2013.

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. Examples include maximizing deductible and pretax retirement plan contributions (see page 20), making HSA contributions (see page 3) and managing the timing of business income and expenses if you're self-employed.

Case Study 4

Eliminating tax on long-term gains by shifting income to adult children

Faced with a long-term capital gains tax rate of 23.8% (20% plus the 3.8% NIIT, see left), Manuel and Laura decide to give some appreciated stock to their 22-year-old son, Daniel. Just out of college and making only enough from his entry-level job to leave him with $30,000 in taxable income, Daniel falls into the 12% ordinary-income tax bracket and the 0% long-term capital gains bracket.

However, the 0% rate applies only to the extent that capital gains "fill up" the gap between Daniel'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 bracket). So if Daniel sells the stock his parents transferred to him and his gains are $19,450, the entire amount will qualify for the 0% rate.

The sale will be tax-free vs. the $4,629 Manuel and Laura would have owed had they sold the stock themselves. But beware that if Daniel were still a student, the results could be much different. (See "Kiddie tax" on page 18.)

Manuel and Laura also have to consider the gift tax. But as long as the value of the stock — plus any other gifts the couple makes to Daniel during the year — doesn't exceed their combined 2026 gift tax annual exclusion of $38,000 (see page 22), the transfer won't trigger any gift tax liability.

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.

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 can 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 might be able to sell tax-free.

Wash sale rule

If you want to achieve a tax loss with minimal change in your portfolio's asset allocation, be aware of the wash sale rule. It prevents you from claiming a loss on a security if you buy a substantially identical security (or an option to buy such a security) within 30 days before or after you sell the security that created the loss. You can recognize the loss only when you sell the replacement security.

Fortunately, there are ways to avoid triggering the wash sale rule and still achieve your goals. For example, you can:

- Sell the security and immediately buy securities of a different company in the same industry or shares in a mutual fund that holds securities much like the ones you sold,
- Sell the security and wait 31 days to repurchase the same security, or
- Before selling the security, purchase additional shares of that security equal to the number you want to sell at a loss, and then wait 31 days to sell the original portion.

Alternatively, you can perform a bond swap, where you sell a bond, take a loss and then immediately buy another bond of similar quality and duration from a different issuer. Generally, the wash sale rule doesn't apply because the bonds aren't considered substantially identical. Thus, you can achieve a tax loss with virtually no change in economic position.

What's new!

Investing in QSB stock now offers more tax benefits

Taxpayers selling qualified small business (QSB) stock may be allowed to exclude up to 100% of their gain if they've held the stock for more than five years. (The exclusion is less for stock acquired before Sept. 28, 2010. See Chart 2 on page 8.)

The OBBBA created new but smaller exclusions for QSB stock held for shorter periods. These new exclusions apply to QSB stock acquired after July 4, 2025. Specifically, there's now a 75% exclusion for QSB stock held for four years and a 50% exclusion for QSB stock held for three years.

To be a QSB, a business must be engaged in an active trade or business and must not have assets that exceed a specific ceiling, among other requirements. The OBBBA increased the asset ceiling from \$50 million to \$75 million for stock issued after July 4, 2025. The ceiling will be adjusted for inflation after 2026.

Be aware, however, that the 100%, 75% and 50% exclusions are generally available only if you acquired the shares upon original issuance by the corporation or by gift or inheritance. And additional rules and limits apply.

Warning: You can't avoid the wash sale rule by selling stock at a loss in a taxable account and purchasing the same stock within 30 days in a tax-advantaged retirement account.

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, buying equity mutual fund shares late in the year can be costly taxwise. These funds often make capital gains distributions toward year end. If you purchase shares before such a distribution, you could end up with capital gains reportable on your tax return for the year of the distribution. It doesn't matter whether the actual value of the shares has increased or even decreased since you purchased them, or whether you reinvest 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 your value in the fund. It simply increases the number of shares you own — 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 your portfolio has a net loss for the year that exceeds the amount that can be deducted from ordinary income. (See page 9.)

Small business stock

By purchasing stock in certain small businesses, you can diversify your portfolio. You also may enjoy preferential tax treatment:

Conversion of capital loss to ordinary loss. If you sell qualifying Section 1244 small business stock at a loss, you can treat up to \$50,000 (\$100,000, if married filing jointly) as an ordinary, rather than a capital, loss — regardless of your holding period. This means you can use it to offset ordinary income, reducing your tax by as much as 37% of this portion of the loss. Sec. 1244 applies only if total capital invested isn't more than \$1 million.

Tax-free gain rollovers. If within 60 days of selling qualified small business (QSB) stock you buy other QSB stock with the proceeds, you can defer any tax on your gain until you dispose of the new stock. The rolled-over gain reduces your basis in the new stock. For determining long-term capital gains treatment, the new stock's holding period includes the holding period of the stock you sold. (See "What's new!" for information on OBBBA enhancements to the tax treatment of QSB stock and the definition of QSB stock.)

Case Study 5

Strategies for potential passive losses

Scott is invested in a pass-through business, and it's looking like it will lose money this year. He meets with his tax advisor about the potential tax consequences. She asks him whether he "materially participates" in the business, because that will affect whether he's subject to the passive activity rules. (See "Passive activities," on page 11.)

Currently, Scott is putting only about five hours of time per week, on average, into the business, which isn't enough to meet the 500-hour material participation test. His advisor suggests he consider the following:

Increasing involvement. If Scott can exceed 500 hours for the year, the activity no longer will be subject to passive activity rules.

Grouping activities. Scott may be able to group certain activities together to be treated as one activity for tax purposes and exceed the 500-hour threshold. But the rules are complex, and there are potential downsides to consider.

Looking at other activities. Scott could limit his participation in another activity that's generating net income, so that he doesn't meet the 500-hour test for that. Or he could invest in an additional income-producing trade or business that will be passive to him. Under both strategies, he'd have passive income that could absorb some or all of his passive losses.

Disposing of the activity. This generally will allow Scott to deduct all passive losses — including any loss on disposition (subject to basis and capital loss limitations). But, again, the rules are complex.

Be aware that all of these tax benefits are subject to additional requirements and limits. Consult your tax and financial advisors to be sure an investment in small business stock is right for you.

Passive activities

If you've invested in a trade or business in which you don't materially participate and where income or loss flows through to your tax return, remember the passive activity rules. Passive activity income may be subject to the 3.8% NIIT, and passive activity losses generally are deductible only against income from other passive activities. You can carry forward disallowed losses, subject to the same limits each tax year.

To avoid passive activity treatment, you must "materially participate" in the activity, which typically means you must participate in the trade or business more than 500 hours during the year or demonstrate that your involvement constitutes substantially all of the participation in the activity. But there are other ways to meet the material participation test. Plus, there are special rules that apply to investment real estate activities. (See page 13.)

To help ensure your hours claim will be able to withstand IRS scrutiny, carefully track and document your time. Contemporaneous recordkeeping is better than records that are created after the fact. If you don't pass the material participation test, there are steps you can take to minimize or avoid negative tax consequences. (See Case Study 5.)

Warning: Even if you pass the material participation test, your loss deduction might be affected by the rules for deducting business losses. (See "What's new!" on page 15.)

Income investments

Qualified dividends are taxed at the favorable long-term capital gains rate rather than at your higher ordinary-income rate. Interest income, however, generally is taxed at your ordinary-income rate. 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.

Some dividends are subject to ordinary-income rates. These include certain dividends from:

- Real estate investment trusts (REITs),
- Regulated investment companies (RICs),
- Money market mutual funds, and
- Certain foreign investments.

Case Study 6

Beware of "phantom" income

Stephanie mentions to her tax advisor that she wants to diversify her portfolio and is considering spending $80,000 on a bond with a $100,000 face value and a 10-year maturity date. Her tax advisor warns that this investment will produce "phantom" income. Phantom income originates from investments that generate annual interest but don't annually pay you this interest.

In this case, Stephanie will earn $20,000 in interest that she'll receive as a lump sum at maturity. But because she's earning that interest over 10 years, the IRS will consider her to be earning income of $2,000 annually. And, of course, the IRS will expect Stephanie to pay taxes on this interest annually.

Because the bond will provide no cash to pay the annual tax due, Stephanie's advisor suggests she may want to invest in it through her IRA or another tax-deferred vehicle.

Also note that the tax treatment of bond income varies. For example:

- 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. (See Case Study 6.)
- 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.

State and municipal bonds usually pay a lower interest rate than corporate or U.S. bonds. 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)

Warning: Tax-exempt interest from private-activity municipal bonds can trigger or increase alternative minimum tax (AMT) liability. However, any income from tax-exempt bonds issued in 2009 and 2010 (along with 2009 and 2010 re-fundings of bonds issued after Dec. 31, 2003, and before Jan. 1, 2009) is excluded from the AMT. (See page 4.)

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

Investment interest expense

Interest on debt used to buy assets held for investment, such as margin debt used to buy securities, generally is deductible for both regular tax and AMT purposes. But special rules apply.

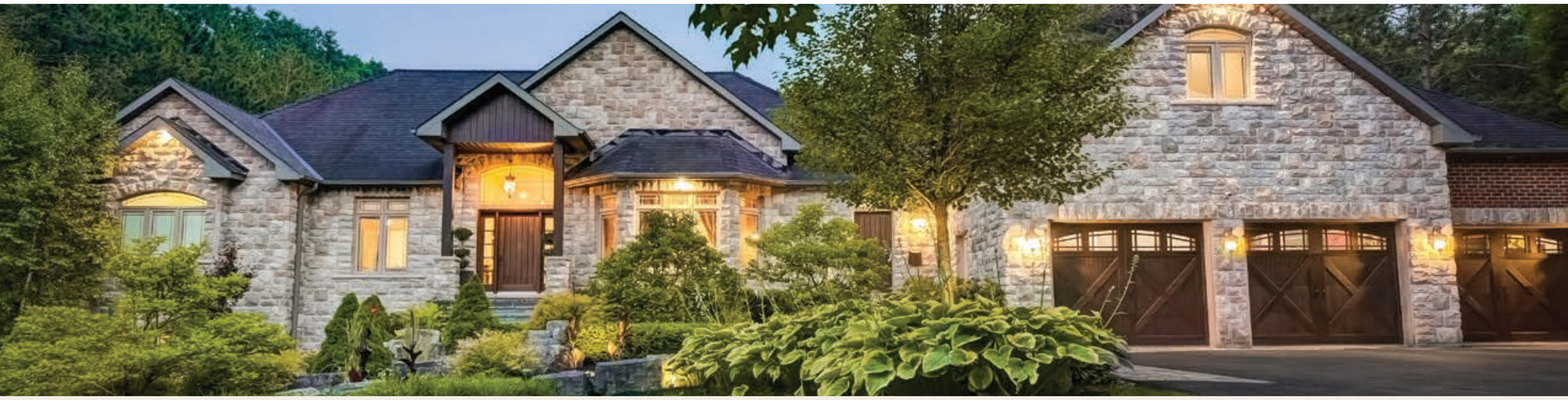
Your investment interest expense deduction is limited to your net investment income. For the purposes of the deduction, this generally includes taxable interest, nonqualified dividends and net short-term capital gains (but not long-term capital gains), reduced by other investment expenses. Any disallowed interest expense is carried forward, and you can deduct it in a later year against net investment income.

You may elect to treat all or a portion of net long-term capital gains or qualified dividends as investment income in order to deduct more of your investment interest expense. But if you do, that portion of the long-term capital gain or dividend will be taxed at ordinary-income rates.

Payments a short seller makes to the stock lender in lieu of dividends may be deductible as investment interest expense. But interest on debt used to buy securities that pay tax-exempt income, such as municipal bonds, isn't deductible.

Also keep in mind that passive interest expense — interest on debt incurred to fund a passive activity — becomes part of your overall passive activity income or loss, subject to limitations.

Making the most of real estate tax breaks



Owning a home or investment property can provide valuable tax benefits. Deductions, depreciation, rental income rules, and gain exclusion and deferral opportunities all deserve attention, especially in light of recent tax law changes. Whether you're planning for your principal residence, vacation home or rental property, reviewing the tax implications can help you make the most of available tax breaks while avoiding costly mistakes.

Home-related tax breaks

Consider these itemized deductions and other breaks in your tax planning:

Property tax deduction. The property tax itemized deduction is subject to an annual limit on combined deductions for state and local taxes (SALT), which the OBBBA temporarily increased. (See page 2.)

Case Study 7

When the home office deduction can — and can't — be claimed

This year Vikram launched his own business, working out of his home office. He'd heard that the OBBBA made the elimination of the home office deduction permanent. When he met with his tax advisor, however, he was pleased to learn that he was still eligible.

His advisor explained that, under the OBBBA, *employees* can no longer deduct home office expenses, because of the permanent suspension of miscellaneous deductions subject to the 2% of AGI floor. (See page 2.)

However, Vikram is now *self-employed*. As long as his home office is his principal place of business (or used substantially and regularly to conduct business) and that's the only use of the space, he likely can deduct from his self-employment income a portion of his mortgage interest, property taxes, insurance, utilities and certain other expenses, and the depreciation allocable to the space. Or he may be able to use the simplified method for calculating the deduction.

Using the simplified option, Vikram can deduct $5 per square foot for up to 300 square feet (maximum of $1,500 per year). Although he won't be able to depreciate the portion of his home that's used as an office, he can claim mortgage interest, property taxes and casualty losses as itemized deductions to the extent otherwise allowable, without needing to apportion them between personal and business use of his home.

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 card debt.

Energy-related breaks. The OBBBA repealed the Energy Efficient Home Improvement Credit and the Residential Clean Energy Credit for any property placed in service after Dec. 31, 2025. However, state or local tax incentives for making your home more energy efficient, such as installing energy-efficient windows or adding solar panels, may be available, depending on your location.

Home rental rules

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.

If you rent out your principal residence or second home for *more than 14 days*, you'll have to report the income. But you may be entitled to deduct some or all of your rental expenses — such as utilities, repairs, insurance and depreciation. Exactly what you can deduct

Case Study 8

Deferring taxes on investment real estate sales

Rachel is ready to sell a property that has appreciated significantly since she invested in it 10 years ago. But she's concerned about the tax consequences. So she consults her tax advisor. He tells her about a couple of options that could allow her to defer the tax liability:

1. Installment sale. An installment sale would allow Rachel to defer gains by spreading them over several years as she receives the proceeds. But her advisor warns that ordinary gain from certain depreciation recapture is recognized in the year of sale, even if no cash is received.

2. Section 1031 exchange. Also known as a "like-kind" exchange, this technique would allow Rachel to exchange one real estate investment property for another and defer paying tax on any gain until she sells the replacement property.

Rachel's advisor points out that such strategies may even help her keep her income low enough to avoid triggering the 3.8% NIIT and the 20% long-term capital gains rate. But they're not without risks. For example, if tax rates go up, Rachel could ultimately end up paying more in taxes.

depends on whether the home is classified as a rental property for tax purposes (based on the amount of personal vs. rental use):

Rental property. You can deduct rental expenses, including losses, subject to the real estate activity rules discussed at right. Property tax attributable to the rental use of the home isn't subject to the SALT limit. You can't deduct any interest that's attributable to your personal use of the home. However, you can take the personal portion of property tax as an itemized deduction (subject to the SALT limit).

Nonrental property. You can deduct rental expenses only up to the amount of your rental or other passive income. Any excess can be carried forward to offset rental income in future years. You also can take an itemized deduction for the personal portion of both mortgage interest and property taxes, subject to the applicable limits. In some instances, it may be beneficial to reduce personal use of a residence so it will be classified as a rental property.

Home sales

When you sell your principal residence, you can exclude up to $250,000 of gain ($500,000 for joint filers) if you meet certain tests. Gain that qualifies for exclusion will also be excluded from the 3.8% NIIT. (See page 9.) To support an accurate tax basis, maintain thorough records, including information on your original cost and subsequent improvements, reduced by any casualty losses and depreciation claimed based on business use. 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.

Losses on the sale of any personal residence aren't deductible. But if 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.

Because a second home is ineligible for the gain exclusion, consider converting it to rental use before selling. It can be considered a business asset, and you may be able to defer tax on any gains. (See Case Study 8.) Or you may be able to deduct a loss, but only the amount attributable to a decline in value *after* the conversion.

Investment real estate activities

Income and losses from investment real estate, such as a rental property, are passive by definition — unless you're a real estate professional. Why is this important? Passive income and losses have some negative tax consequences. (See page 11.)

To qualify as a real estate professional, you must annually perform 1) more than 50% of your personal services in real property trades or businesses in which you materially participate, and 2) more than 750 hours of service in these businesses during the year.

Keep in mind that special rules for spouses may help you meet the material participation test. ***Warning:*** To help withstand IRS scrutiny, be sure to keep adequate records of time spent.

Depreciation-related breaks

Valuable depreciation-related breaks may be available to real estate investors:

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 Modified Accelerated Cost Recovery System (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.

Bonus depreciation. This additional first-year depreciation is available for qualified assets, including QIP. 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 QIP.

Section 179 expensing. This election allows you to currently deduct the cost of purchasing eligible assets, including QIP, certain personal property used predominantly to furnish lodging, and the following improvements to nonresidential real property: roofs, HVAC equipment, fire protection and alarm systems, and security systems.

For qualifying assets 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 15.) Depending on the situation, this may be a disadvantage compared to bonus depreciation.

Interest expense deduction for real estate businesses

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 had been 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.

Larger real property businesses can elect to continue 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.

Balance your business's needs with your own financial objectives

Business ownership creates tax planning opportunities that go beyond the business itself. Many of the decisions you make can affect your personal taxes, retirement planning and long-term financial well-being. Whether you're focused on growing your business or thinking about what's next, strategic tax planning can not only save taxes but also strengthen both your business and individual financial position.

Business structure

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

The flat corporate rate (21%) is substantially lower than the top individual rate (37%), providing sizable tax benefits to C corporations and mitigating the impact of double taxation for their owners. But the powerful 199A QBI deduction for many owners of pass-through entities was made permanent and enhanced by the OBBBA. (See right.)

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.

Chart 3

Profit-sharing plan vs. SEP: How much can you contribute for 2026?

Profit-sharing plan	SEP
Maximum contribution: $72,000, $80,000 or $83,250	**Maximum contribution:** $72,000
Additional limits: You can't contribute more than 25% of your compensation generally. But you can contribute 100% up to the 401(k) limits if the plan includes a 401(k) arrangement. To qualify for the higher limits, your plan must include a 401(k) arrangement and you must be eligible to make catch-up contributions (that is, be age 50 or older — or, for the $83,250 limit, be age 60, 61, 62 or 63 — on Dec. 31, 2026).	**Additional limits:** You can't contribute more than 25% of your eligible compensation. (Special rules apply if you're self-employed.) To make the maximum contribution, your eligible compensation must be at least $288,000 ($360,000 before the deduction if you're self-employed).

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

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 (which we'll detail a little later), 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).

Under the OBBBA, beginning in 2026, the income ranges over which the 199A QBI deduction limits phase in 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 joint filers. 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.

What's new!

Pass-through entity "excess" business loss limits 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 non-corporate 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.

Retirement saving

If most of your money is tied up in your business, retirement can be a challenge. So if you haven't already set up a tax-advantaged retirement plan, consider doing so this year. If you might be subject to the 3.8% NIIT (see page 9), this may be particularly beneficial because retirement plan contributions can reduce your modified adjusted gross income (MAGI) and thus help you reduce or avoid the NIIT.

You generally can set up a plan and make deductible 2026 contributions as late as the due date of your 2026 income tax return, including extensions. Keep in mind that, if you have employees, you likely will have to allow them to participate in the plan, provided they work enough hours and meet other qualification requirements.

Here are a few options:

Profit-sharing plan. This is a defined contribution plan that allows discretionary employer contributions and flexibility in plan design. If you're age 50 or older, you may be able to contribute more than what you could contribute to a SEP plan. (See Chart 3 for contribution limits.)

SEP plan. A Simplified Employee Pension is a defined contribution plan that provides benefits similar to those of a profit-sharing plan. But a SEP plan is easier to administer. (See Chart 3 for contribution limits.)

Defined benefit plan. This plan sets a future pension benefit and then actuarially calculates the contributions needed to attain that benefit. The maximum compensation for benefit purposes for 2026 is generally \$290,000 or 100% of average earned income for the highest three consecutive years, if less. Because it's actuarially driven, the 2026 contribution needed to attain the future benefit may exceed the maximum contributions allowed by other plans, depending on your age and the desired benefit. ***Warning:*** Employer contributions generally are mandatory.

Exit planning

An exit strategy is a plan for passing on responsibility for running your business and transferring ownership. This requires planning well in advance of the transition. Here are the most common exit options:

Buy-sell agreement. When a business has more than one owner, a buy-sell agreement can control what happens to the business when a specified event occurs, such as an owner's retirement, disability or death. It's critical to factor in tax and funding issues when drafting a buy-sell agreement.

Succession within the family. You can pass your business on to family members by giving them interests, selling them interests or doing some of each. There's now more certainty when it comes to gift and estate tax considerations. (See page 22.)

ESOP. An employee stock ownership plan is a qualified retirement plan created primarily to own your company's stock. It can provide liquidity and various tax benefits.

Sale to an outsider. If you can find the right buyer, you may be able to sell the business at a premium.

Business sale or acquisition

Whether you're selling your business as part of your exit strategy or acquiring another company to help grow it, the tax consequences 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 a number of 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 2 on page 8.)

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.

Regardless of the type of business entity or the potential deal structure, tax consequences are only one of many important considerations when planning a sale or acquisition.

Generosity: One of your most flexible tax planning tools

Donating to charity can benefit both the causes you care about and your tax situation. And it's extremely flexible because you decide when to give, what to give and how to give. The more generous you are, the greater your potential tax savings. By also taking the various rules and limits into account in your giving decisions, you can maximize your savings.

Cash donations

Outright gifts of cash are the easiest to make and include more than just physical cash. (See Chart 4.) The substantiation requirements depend on the gift's value:

- Gifts under $250 can be supported by a bank record, receipt or written communication from the charity.
- Gifts of $250 or more must be substantiated by the charity.

Deductions for cash gifts to public charities normally can't exceed 60% of your adjusted gross income (AGI). But the AGI limit is only 30% for cash donations to nonoperating private foundations. Contributions exceeding the applicable AGI limit can be carried forward for up to five years.

Warning: Charitable contribution deductions are allowed for AMT purposes (see page 4), but your tax savings may be less if you're subject to the AMT. For example, if you're in the 35% tax bracket for regular income tax purposes, but the 28% tax bracket for AMT purposes, your deduction may be worth only 28% instead of 35%.

Appreciated securities donations

Appreciated publicly traded securities you've held more than one year are long-term capital gains property, which often makes one of the wisest charitable gifts. Why? You can deduct the current fair market value and avoid any capital gains tax you would have owed had you sold the property. This will be especially beneficial to taxpayers facing the 3.8% NIIT (see page 9) or the top 20% long-term capital gains rate (see Chart 2 on page 8) this year.

Chart 4

How much can itemizers deduct for their donations?

Cash. This includes not just actual cash but gifts made by check, debit or credit card, payment app or payroll deduction. You may deduct 100%.

Ordinary-income property. Examples include stocks and bonds held one year or less, inventory, and property subject to depreciation recapture. You generally may deduct only the lesser of fair market value or your tax basis.

Long-term capital gains property. You may deduct the current fair market value of appreciated securities and real estate held more than one year.

Tangible personal property. Your deduction depends on the situation:

- If the property *isn't* related to the charity's tax-exempt function (such as an antique donated for a charity auction), your deduction is limited to your basis.
- If the property *is* related to the charity's tax-exempt function (such as an antique donated to a museum for its collection), you can deduct the fair market value.

Vehicle. Unless it's being used by the charity, you generally may deduct only the amount the charity receives when it sells the vehicle.

Use of property. Examples include use of a vacation home and a loan of artwork. Generally, you receive no deduction because it isn't considered a completed gift. There may, however, be ways to structure the gift to enable you to get a deduction.

Services. You may deduct only your out-of-pocket expenses, not the fair market value of your services or your time. You can deduct 14 cents per charitable mile driven.

Note: *Your annual charitable deductions are subject to a new floor this year. (See "What's new!") Your deduction for donations in excess of the floor may be further reduced if they exceed certain limits based on your adjusted gross income, the type of donation and the type of charity receiving the donation. If you receive some benefit from the charity relating to your donation, such as services or products, your deduction must be reduced by the value of the benefit you receive. Various substantiation requirements also apply. Consult your tax advisor for additional details.*

What's new!

2 major charitable deductions changes go into effect in 2026

The OBBBA has changed the charitable deduction rules for both taxpayers who itemize deductions and those who claim the standard deduction (nonitemizers):

1. Changes for itemizers. A new 0.5% of adjusted gross income (AGI) floor applies to itemized charitable deductions beginning this year. This generally means that only charitable donations in excess of 0.5% of your AGI will be deductible if you itemize. So, if your AGI is $500,000, your first $2,500 of charitable donations for the year won't be deductible.

Also, if you're in the top (37%) tax bracket, your tax benefit will be further reduced. (See "What's new!" on page 2.)

2. Change for nonitemizers. Before 2026, nonitemizers generally couldn't deduct charitable donations. Beginning this year, the OBBBA creates a charitable deduction for nonitemizers of up to $1,000, or $2,000 for married couples filing jointly. Only cash donations qualify.

Donations of long-term capital gains property are subject to tighter deduction limits, however: 30% of AGI for gifts to public charities and 20% for gifts to nonoperating private foundations.

Don't donate stock that's worth less than your basis. Instead, sell the stock so you can deduct the loss and then donate the cash proceeds to charity.

IRA 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 CRT. (See right.)

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 RMDs. (See page 21.) Note that the age for QCDs hasn't changed even though the age after which RMDs generally must begin is now higher.

A QCD might be especially tax-smart if you won't benefit from the charitable deduction or you face AGI-based limits. To be a QCD, the transfer must be made by the IRA trustee directly to an eligible charity.

Making gifts over time

If you don't know which charities you want to support but you'd like to start making large contributions now, consider a private foundation. It offers you significant control over how your donations ultimately will be used. You must comply with complex rules, however, which can make foundations expensive to run. Also, the AGI limits for deductibility of contributions to nonoperating foundations are lower.

If you'd like to influence how your donations are spent but avoid a foundation's downsides, consider a donor-advised fund (DAF). Many larger public charities and investment firms offer them. ***Warning:*** To deduct your DAF contribution, obtain a written acknowledgment from the sponsoring organization that it has exclusive legal control over the assets contributed.

CRTs

To benefit a charity while helping ensure your own financial future, consider a charitable remainder trust. Here's how it works:

- For a given term, the CRT pays an amount to you annually (some of which generally is taxable).
- At the term's end, the CRT's remaining assets pass to one or more charities.
- When you fund the CRT, you can claim an income tax deduction for the present value of the amount that will go to charity.
- The property is removed from your taxable estate.

You may owe capital gains tax when you receive the payments. However, because the payments are spread over time, much of the liability will be deferred. Plus, a portion of each payment might be considered tax-free return of principal. This may help you reduce or avoid exposure to the 3.8% NIIT and the 20% top long-term capital gains rate.

A CRT can be especially wise if you hold highly appreciated stock and you'd like to diversify your portfolio. You can contribute the stock to the CRT, which can sell it without paying any current capital gains tax on the gain — avoiding the tax you would have owed had you sold the stock yourself. The trust can use the sale proceeds for other investments, which in turn helps diversify your portfolio because of your income interest in the trust. You can also use trust payouts to make investments to further diversify your portfolio.

You can name someone other than yourself as income beneficiary or fund the CRT at your death, but the tax consequences will be different.

CLTs

To benefit charity while transferring assets to loved ones at a reduced tax cost, consider a charitable lead trust. It works as follows:

- For a given term, the CLT pays an amount to one or more charities.
- At the term's end, the CLT's remaining assets pass to one or more loved ones you name as remainder beneficiaries.
- When you fund the CLT, you make a taxable gift equal to the present value of the amount that will go to the remainder beneficiaries.
- The property is removed from your taxable estate.

For gift tax purposes, the amount of the remainder interest is determined using the assumption that the trust assets will grow at the current Section 7520 rate. The lower the Sec. 7520 rate, the smaller the remainder interest and the lower the gift tax — or the less of your lifetime gift tax exemption you'll have to use up. If the trust's earnings outperform the Sec. 7520 rate, the excess earnings will be transferred to the remainder beneficiaries gift- and estate-tax-free.

As interest rates have generally risen overall over the past few years, the Sec. 7520 rate has also risen, with some small month-to-month fluctuations. So, a CLT may not be as attractive as it had been several years ago. But interest rate reductions could make CLTs more appealing again. If you might be interested, keep in mind that the increased gift and estate tax exemption may reduce the tax benefits of a CLT, depending on your specific situation. (For more on estate and gift taxes, see page 22.)

You can name yourself as the remainder beneficiary or fund the CLT at your death, but the tax consequences will be different.

Qualified charities

Before you donate, it's critical to make sure the charity you're considering is indeed a qualified charity — that it's eligible to receive tax-deductible contributions.

The IRS's online search tool, Tax Exempt Organization Search, can help you more easily find out whether an organization is eligible to receive tax-deductible charitable contributions. You can access the tool at IRS.gov. According to the IRS, you may rely on this list in determining deductibility of your contributions.

Also, don't forget that political donations aren't deductible.

Providing for your children's future while reducing taxes

The financial decisions you make concerning your children (or grandchildren) can have current and long-term tax consequences for both you and them. Tax breaks may be available to you today. And tax-advantaged education funding, savings accounts and other planning opportunities can help you establish a tax-efficient financial foundation for them.

Child, dependent, adoption and care 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. But the credit begins to phase out when modified adjusted gross income (MAGI) exceeds $200,000 ($400,000 for married couples filing jointly). The MAGI level at which it completely phases out depends on the number of qualifying children.

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 MAGI-based phaseout as the CTC.

If you adopt in 2026, you might be eligible for the adoption credit — or for an employer adoption assistance program income exclusion. Both are $17,670 for 2026. They begin to phase out when MAGI exceeds $265,080 (except for separate filers, who aren't eligible) and are eliminated when MAGI reaches $305,080.

If you pay for care for children under age 13 or other qualifying dependents so you can work, you may be eligible for the child and dependent care tax credit. It 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. So, the maximum credit is usually $600 for one child or $1,200 for two or more children. Another way to offset these costs is by contributing to a dependent care FSA. (See "What's New!" below.)

What's new!

Child and dependent care FSAs are enhanced starting this year

For 2026, you can contribute up to $7,500 pretax to an employer-sponsored child and dependent care Flexible Spending Account. This is up from $5,000 in previous years.

The plan pays or reimburses you for these expenses. But your contributions will reduce your qualified expenses for purposes of the child and dependent care tax credit. (See above.)

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.

The purpose of the kiddie tax is to minimize the ability of parents to significantly reduce their family's taxes by transferring income-producing assets to their children in lower tax brackets. Keep the kiddie tax in mind before transferring income-producing assets to children (or grandchildren) who'd be subject to it.

IRAs for teens

One of the best ways to get children on the right financial track is to set up IRAs for them. IRAs can be ideal for teenagers because they likely will have many decades to let their accounts grow tax-deferred or tax-free.

If your children or grandchildren don't want to invest too much of their hard-earned money, you could *give* them money to contribute. For example, if your daughter earns $7,500 for the year but only wants to contribute $1,000 of it to an IRA, you could give her $6,500 so she could contribute the full $7,500 she's eligible to contribute but still have $6,500 to spend as she wishes (or save for a shorter-term goal). But first consider any potential gift tax consequences.

If your children or grandchildren don't have earned income and you own a business, consider hiring them. As the business owner, you can deduct their pay, and other tax benefits

What's new!

A new, tax-advantaged way to save for your 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 can 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 below), to best achieve your planning goals.

may apply. ***Warning:*** The children must be paid in line with what you'd pay nonfamily employees for the same work.

Beginning in 2026, the OBBBA introduces an IRA-like account for children that doesn't require the child to have earned income for contributions to be made. (See "What's new!" above.)

529 plans

Section 529 plans provide another tax-advantaged savings opportunity. You can choose a prepaid tuition plan to secure current tuition rates or a savings plan to fund education expenses. Here are some of the possible benefits of such plans:

- Although contributions aren't deductible for federal purposes, any growth is tax-deferred. (Some states offer tax breaks for contributing.)
- The plans usually offer high contribution limits, and there are no income limits for contributing.
- A special break for 529 plans allows you to 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.

Prepaid tuition vs. savings plan

With a *529 prepaid tuition plan*, if your contract is for four years of tuition, tuition is guaranteed regardless of its cost at the time the beneficiary attends the school. One downside is that there's uncertainty in how benefits will be applied if the beneficiary attends a different school. Another is that the plan doesn't cover costs other than tuition, such as room and board.

A *529 savings plan*, on the other hand, can be used to pay the beneficiary's expenses at most postsecondary educational institutions, as well as to pay certain other education-related expenses. Distributions used to pay the following expenses 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.

One downside is that you're limited to the investment options the plan offers. Additionally, for funds already in the plan, you can make changes to your investment options only twice during the year or when you change beneficiaries. But each time you make a *new* contribution, you can select a different option for that contribution, regardless of how many times you contribute throughout the year. And every 12 months you can make a tax-free rollover to a different 529 plan for the same beneficiary.

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 fully phased out when MAGI reaches $220,000 for married couples filing jointly and $110,000 for other filers. 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

The income phaseout ranges for education credits are fairly low, but your child might qualify:

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. The Lifetime Learning Credit — up to $2,000 *per tax return* — is available for postsecondary education expenses beyond the first four years.

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).

Build more wealth with tax-advantaged retirement plans

One of the biggest benefits of tax-advantaged retirement plans is tax-deferred — or, with Roth accounts, tax-free — compounding, which can potentially lead to faster growth. And making non-Roth contributions can provide valuable current tax savings. So it's important to thoughtfully plan your contributions and Roth strategies. Distribution planning deserves just as much attention.

Retirement plan contributions

Contributing the maximum you're allowed (see Chart 5) to an employer-sponsored defined contribution plan, such as a 401(k), is often a smart move:

- Contributions are typically pretax, reducing your adjusted gross income (AGI) and modified AGI (MAGI). A lower MAGI can help you reduce or avoid exposure to the 3.8% NIIT. (See page 9.)
- 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.

If you participate in a 401(k), 403(b) or 457 plan, it may allow you to designate some or all of your contributions as Roth contributions. While Roth contributions don't reduce your current MAGI, qualified distributions will be tax-free. An added benefit is that Roth plans 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.

The opportunity to make such Roth contributions may be beneficial for higher-income earners because they're ineligible to contribute to a Roth IRA. Roth contributions may now be your *only* option for "catch-up" contributions. (See "What's new!")

Roth IRA 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.

With tax rates relatively low now because the OBBBA made the current individual tax rates permanent, it may be a good time for a Roth conversion. Remember, "permanent" only means that the rates have no expiration date. Lawmakers could still pass legislation in the future increasing tax rates. So today's relatively low rates might mean there's a better chance that your rate in retirement will be higher.

Whether a conversion makes sense for you depends on factors such as:

- Your age,
- Whether the conversion would push you into a higher income tax bracket or lead to other negative tax consequences triggered by a higher AGI or MAGI,
- Whether you can afford to pay the tax on the conversion,

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. If you're a business owner or self-employed, you may be able to set up a plan that allows you to make much larger contributions. (See Chart 3 on page 14.)*

What's new!

Higher-income 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.

Employees age 50 or older generally are eligible to make catch-up contributions beyond the normal annual contribution limits. Certain taxpayers in their early 60s are allowed to make larger catch-up contributions. (See Chart 5.)

But 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 9).

- Your tax bracket now and expected tax bracket in retirement, and
- Whether you'll need the IRA funds in retirement.

Doing partial conversions over multiple years can be more tax efficient because it spreads out the income recognition. Your tax advisor can run the numbers and help you decide if a conversion is right for you, and, if so, whether (and how) to spread it out over time.

If you (and your spouse, if you're married) don't have funds in a traditional IRA, consider "back door" Roth IRA contributions. You set up a traditional account and make a nondeductible contribution to it. After the transaction clears, you convert the traditional account to a Roth account. The only tax due will be on any growth in the account between the time you made the contribution and the date of conversion.

Early withdrawals

With a few exceptions, retirement plan distributions before age 59½ are subject to a 10% penalty on top of any income tax that ordinarily would be due on a withdrawal. This means that, if you're in the top tax bracket of 37%, you can lose almost half of your withdrawal to taxes and penalties — and perhaps more than half if you're also subject to state income taxes and/or penalties. Additionally, you'll lose the potential tax-deferred future growth on the withdrawn amount.

If you have a Roth account, you can withdraw up to your contribution amount without incurring taxes or penalties. But you'll be losing the potential tax-free growth on the withdrawn amount.

So if you're in need of cash, consider tapping your taxable investment accounts rather than dipping into your retirement plan. (See page 8 for information on the tax treatment of investments.)

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. These options help avoid current income tax and penalties:

Staying put. You may be allowed to leave your money in your old plan. But if you'll be participating in a new employer's plan or you already have an IRA, keeping track of multiple plans can make managing your retirement assets more difficult.

A rollover to your new employer's plan. If you're changing jobs and this will leave you with only one retirement plan to keep track of, it may be a good solution. But evaluate how well the new plan's investment options meet your needs.

A rollover to an IRA. If you participate in a new employer's plan, this will require keeping track of two plans. But it may be the best alternative because IRAs offer nearly unlimited investment choices.

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.

Warning: 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. 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 one) in a year your tax rate is lower than usual 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.

Also keep in mind that, while retirement plan distributions aren't subject to the additional 0.9% Medicare tax (see page 5) or 3.8% NIIT, they are included in your MAGI. That means they could trigger or increase the NIIT, because the thresholds for that tax are based on MAGI. If your IRA RMD could boost your MAGI enough to trigger the NIIT (or the phaseout of a valuable tax break), consider making a QCD to your favorite charity to meet your RMD requirement. (See page 17.)

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

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 9

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 9.)

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 page 16.)

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

Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
Regular tax brackets				
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

Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
Alternative minimum tax (AMT) brackets				
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

	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
AMT exemptions				
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.*

How can *you* maximize tax savings this year?

The tax strategies that can save you the most will depend on your particular situation. For example, if you're a parent, a tax-advantaged education savings plan may be a smart move. (See the "Family & Education" section.) Or, if you're married, a credit shelter trust might save your family estate taxes. (See the "Estate Planning" section.) Here are five more key tax savers for different types of taxpayers:

1. Investors: *Review after-tax returns when evaluating investment performance.*

The impact of taxes in a given year may not be significant. But over time, compounding can have a huge impact on a portfolio's growth. For instance, the difference between a $100,000 portfolio growing after tax at 8% vs. 6% a year amounts to almost $150,000 over 20 years.

2. Business owners: *Watch out for buy-sell agreement tax pitfalls.*

Buy-sell agreements control what happens to a business when a specified event occurs, such as an owner's death or disability. Often such agreements are funded with life insurance, and policy proceeds are generally excluded from the beneficiary's taxable income. But the transfer-for-value rule is an exception: If someone other than the insured or certain other parties acquires an existing policy "for value," the proceeds may be taxable. The issue often arises when structuring or changing a buy-sell agreement using existing insurance policies.

3. Donors: *Time donations to save more tax.*

By considering current and future income tax rates before giving, you can significantly increase the tax benefit of your charitable gifts. Deductions are more powerful when you're taxed at a higher rate. So if you expect to be in a higher tax bracket next year, you could save more tax by deferring a charitable contribution until 2027. On the other hand, if you expect to be in a lower tax bracket next year, you might benefit from accelerating charitable contributions into 2026. Generally, you can reap these benefits only if you itemize deductions. But, starting in 2026, nonitemizers can deduct up to $1,000 of cash donations ($2,000 if married filing jointly), and itemizers' charitable deductions are subject to a 0.5% of adjusted gross income floor.

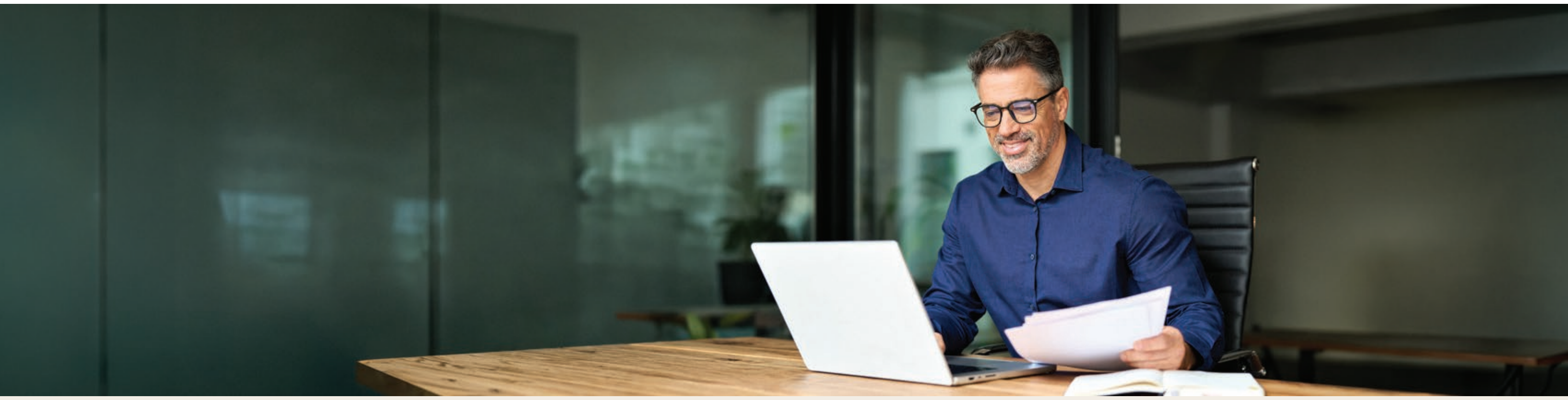
4. Retirees: *Choose your source of retirement cash wisely.*

Generally, it's best to use money from your taxable accounts first and let your retirement plan assets grow tax-deferred as long as possible. Also, remember that you may benefit from the long-term capital gains rate when you sell assets in taxable accounts, but you'll be taxed at your higher ordinary-income rate when you take distributions from traditional IRAs and 401(k)s. So you may want to take retirement plan distributions in years when you're in a lower income tax bracket. If you must take required minimum distributions, make sure you follow the rules so you avoid penalties.

5. All taxpayers: *Check with us before finalizing your tax-saving strategies.*

This guide presents many other ways to minimize your taxes for 2026 and beyond. Please read it and note those sections that seem especially relevant to your situation. Then contact us to discuss which of these strategies — or others this guide doesn't have room to cover — may be right for you.

Taxable vs. nontaxable income: Do you know the difference?



Most taxpayers are well aware that their salaries, bonuses, interest, dividends, recognized capital gains and business income are generally subject to federal income tax. But many are less certain about other types of income. And whether an item of income is taxable can have a significant impact on your tax strategies for the year. Here are some examples that might help clarify the differences between the two forms of income:

Taxable income	Nontaxable income*
Proceeds from surrendering a life insurance policy that are in excess of the policy's cost	Life insurance proceeds paid to you because of the insured person's death, as long as the policy wasn't turned over to you for a price
Unemployment benefits	Workers' compensation benefits (unless they're part of a retirement package)
Disability insurance income if *your employer* paid the premiums or *you* paid them with *pretax* dollars through a cafeteria plan	Disability insurance income if *you* paid the premiums with *after-tax* dollars
Income from bartering, based on the fair market value of property or services you receive	Cash rebates from a dealer or manufacturer
Punitive damages	Compensatory damages for physical injury or sickness
Fringe benefits you receive in connection with performance of your services (unless you pay fair market value for them)	Statutorily excluded fringe benefits, such as group term-life insurance (up to $50,000), health insurance and employee discounts
Alimony payments under agreements entered into on or before December 31, 2018	Alimony payments under agreements entered into after December 31, 2018, and child support payments regardless of agreement date
Rents from personal property (such as equipment), if you're operating the rental activity as a business	Rents from your principal residence or vacation home, if you rent it out for fewer than 15 days during the year
Reimbursements or cash advances for lavish or extravagant travel expenses (unless they're reasonable under the circumstances)	Travel expense reimbursements or cash advances that meet the requirements of an "accountable plan"
Gambling winnings (including winnings from lotteries, raffles, sports betting and casinos), cash prizes, and the fair market value of noncash prizes, such as cars and trips	Gifts and inheritances

* *For 2025 through 2028, some taxpayers may be eligible to deduct tips or overtime pay up to certain limits. But tips and overtime are still considered taxable income.*

Note that this list isn't all-inclusive, and many rules and exceptions apply. So please check with us to find out which items of your income are taxable and what you might do to minimize tax.