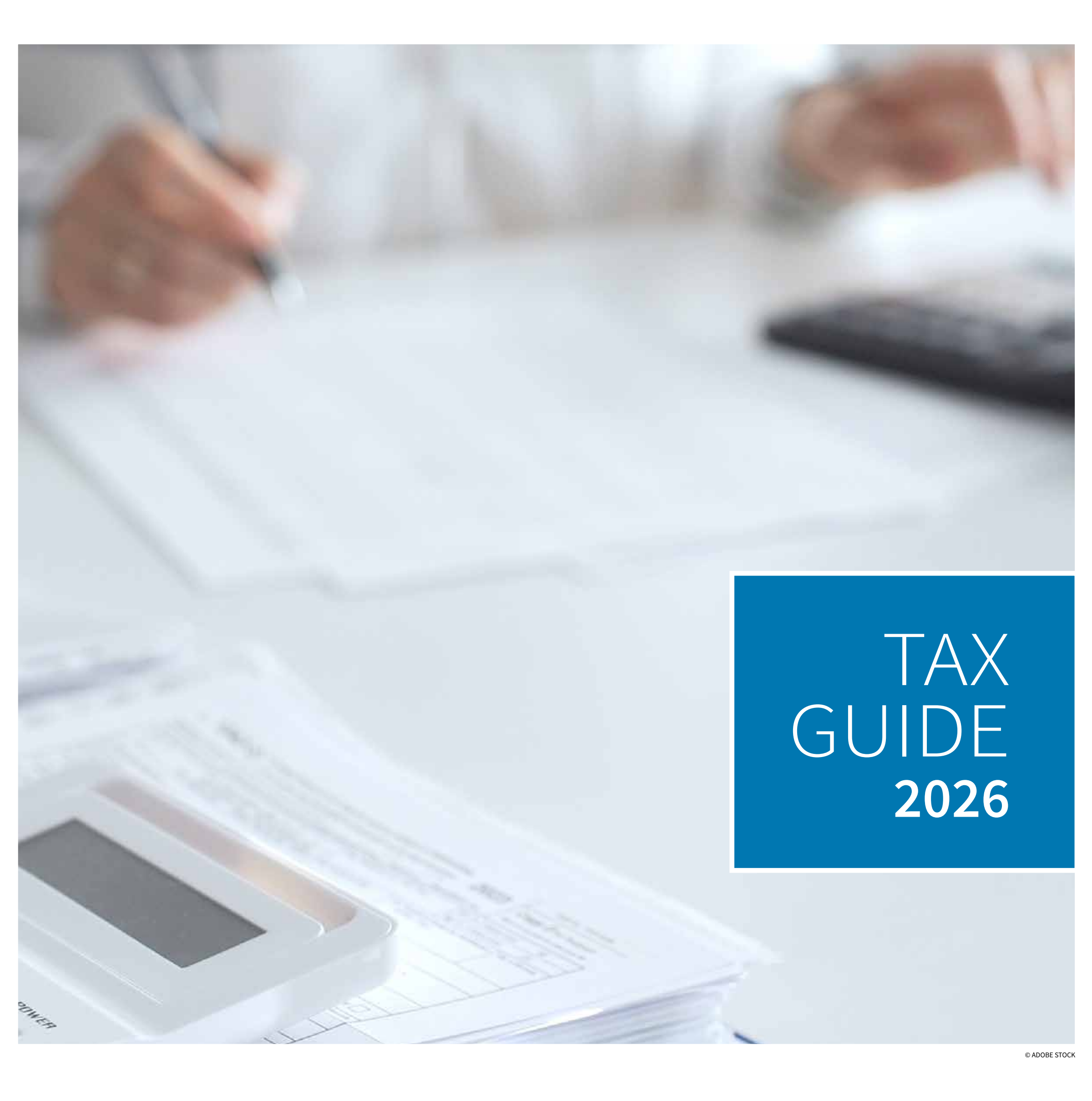




TAX GUIDE 2026

Recent Tax Law Changes

When President Donald J. Trump signed the One Big, Beautiful Bill into law, he called it a historic win for American taxpayers.

The sweeping legislation, officially known as the Big Beautiful Bill Act, delivers immediate tax cuts for many households and businesses while reshaping deductions, credits and IRS rules.

Supporters hail it as a boost for economic growth and family budgets, while critics warn it heavily favors the wealthy, swells the federal deficit and rolls back key clean energy incentives.

Some provisions take effect right away, but others will phase in or phase out over the next several years, making the bill's long-term impact a complex picture for taxpayers to navigate.

IMMEDIATE TAX CHANGES

Permanent extension of 2017 tax cuts: The individual income tax rates from the Tax Cuts and Jobs Act become permanent, preventing a scheduled tax increase.

SALT deduction cap raised: Taxpayers can now deduct up to \$40,000 of state and local taxes (grandfathers in through 2029), before reverting to prior caps.

New deductions and



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credits:

- Tips and overtime income get a tax deduction (expired by 2028).
- A deduction for auto loan interest on U.S.-assembled vehicles (up to \$10,000 annually for qualifying incomes).
- Seniors receive an extra deduction (up to \$6,000, with income phaseouts).
- Expanded Child Tax Credit: Raised to \$2,200, with inflation adjustments; the refundable portion remains at 2022 levels.
- Trump Accounts: New tax advantaged savings accounts where the government

deposits \$1,000 per child, plus up to \$5,000 annual contributions.

TAX EFFECTS IN THE COMING YEARS

Phaseouts and expirations:

- SALT cap drops back after 2029, reinstating stricter limits.
- Deductions for tips, overtime, seniors and auto interest all expire by 2028.
- Clean energy tax credit rollback:
- EV and solar credits end by late 2025; other clean energy incentives phased out through 2027.

IRS changes:

- The bill directs IRS to replace its Direct File system with alternatives.

OVERALL FINANCIAL IMPACT

- **Winners:** High-income households gain significantly, up to ~\$13,600 annually on average. Middle-income families also see modest tax relief.
- **Losers:** Low-income Americans face cuts to Medicaid and food aid, with many losing health and nutrition support.
- **Deficit blowout:** Federal deficit is projected to increase

by \$3.4 trillion (some estimates up to \$4.5 trillion) over the next decade.

In summary, the Big, Beautiful Bill Act brings immediate tax reductions — both permanent and temporary — for individuals and families, especially those with higher incomes or property in high-tax states. Over the coming years, many of these benefits phase out, while broader rollback of clean energy credits and welfare programs mean a heavier burden on low-income households and the federal budget.

Estate and Inheritance Taxes

Receiving an inheritance can be life-changing, but it can come with tax obligations that surprise many heirs.

Understanding the difference between estate and inheritance taxes, as well as the rules in your state, can help you prepare and avoid costly mistakes.

ESTATE VS. INHERITANCE TAXES

Although often used interchangeably, estate and inheritance taxes are not the same. An estate tax is levied on the total value of a deceased person's assets before they are distributed to heirs. An inheritance tax is paid by the individual who receives the assets.

At the federal level, there is no inheritance tax, but there is an estate tax that applies only to estates exceeding a certain threshold — \$13.61 million per individual in 2024. Amounts above that are taxed at rates up to 40%. Many estates fall well below this limit and owe no federal estate tax.

Some states impose their own estate or inheritance taxes, often with much lower exemption amounts. States such as Iowa, Kentucky, Maryland, Nebraska, New Jersey and Pennsylvania have inheritance taxes, while others, like Oregon and Massachusetts,



have state-level estate taxes. In some cases, both can apply.

BEFORE A LOVED ONE PASSES

Advanced planning can reduce or even eliminate potential estate or inheritance taxes. Strategies include gifting assets during a person's lifetime, setting up trusts or designating beneficiaries for accounts like retirement funds and life insurance policies.

It's wise for families to discuss wishes and plans ahead

of time, especially if the estate includes complex assets such as real estate, a business or investments. An estate planning attorney can help structure assets to minimize tax exposure and ensure the plan aligns with both federal and state laws.

Updating beneficiary designations regularly can also prevent delays or disputes and ensure that assets pass directly to the intended recipients without going through probate.

AFTER A LOVED ONE PASSES

If you are named as executor or personal representative, your first step is to determine whether the estate meets federal or state tax filing requirements. This often involves getting a professional appraisal of assets and gathering financial records.

Beneficiaries should be aware that while inherited assets themselves may not be taxed, they can trigger future taxes. For example, inherited

retirement accounts typically require distributions that are taxable as ordinary income. The "step-up" in cost basis for inherited property can reduce capital gains taxes if the property is later sold.

Because the rules can be complex and vary widely by jurisdiction, professional guidance is invaluable.

Knowing your obligations early can help you settle the estate efficiently and keep as much of the inheritance as possible.

Giving Strategies

Giving to organizations you care about can make a difference in the community and offer tax benefits if you plan wisely.

Whether you donate cash, goods or through a donor-advised fund, understanding the rules can help you maximize your deductions and ensure your generosity has the greatest impact.

CASH DONATIONS

Cash contributions to qualified charities are the most straightforward way to give. If you itemize deductions, you can generally deduct up to 60% of your adjusted gross income for cash gifts. To claim the deduction, you must keep records such as bank statements, credit card receipts or written acknowledgments from the charity showing the date and amount.

If you make large contributions, consider timing them to align with your tax strategy. For example, bunching multiple years' worth of giving into a single year can push your itemized deductions above the standard deduction threshold, increasing the tax benefit.

DONATING GOODS AND PROPERTY

Non-cash donations, such as clothing, furniture, electronics or vehicles, can be deductible if given to qualified organizations. The deduction is based



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on the fair market value of the items at the time of donation. For goods valued over \$500, you must file Form 8283 with your tax return.

For larger gifts such as real estate, artwork or other high-value property, you may need a professional appraisal. Donating appreciated assets, like stocks or mutual funds held for more than a year, can be especially tax-efficient because you can deduct the full market value without paying capital gains tax on the appreciation.

DONOR-ADVISED FUNDS

A donor-advised fund (DAF)

is an account you establish with a sponsoring organization, such as a community foundation or a financial institution's charitable arm. You contribute cash, securities or other assets to the fund, claim a tax deduction in the year of the contribution, and then recommend grants to charities over time.

DAFs can be a powerful tool for strategic giving, allowing you to make a large contribution in a high-income year to maximize your deduction while spreading out your charitable gifts to organizations in future years. They also

simplify record-keeping, since you receive only one receipt for your tax return regardless of how many charities you support through the fund.

Changes in 2025

Legislation passed on July 4 changes some of the tax incentives for charitable giving. The Nonprofit Alliance examined the changes and what they mean for charitable giving. For the 90% of filers who don't itemize their taxes, a universal charitable deduction allows them to deduct up to \$1,000 for individuals and \$2,000 for joint filers starting in 2026.

For those who do itemize, they must donate at least 0.5% of their adjusted gross income (AGI) before claiming charitable donations. This giving floor is a new provision. It may make sense for those who itemize to group two or three years' worth of donations into a single year and then take a year off.

The cap on itemized deduction value has dropped from 37% to 35%. Indiana University's Lilly Family School of Philanthropy projects that this cap will reduce charitable giving by \$41 to \$61 billion over the next decade.

Taxes for Side Hustles

Earning extra money from a passion or pastime can be rewarding, but it can also raise questions at tax time.

The IRS makes a clear distinction between hobbies and businesses, and crossing that line can affect how your income is taxed and what expenses you can deduct.

HOBBY OR BUSINESS?

The key difference is whether you're pursuing the activity with the intent to make a profit. If you occasionally sell handmade crafts, perform music for tips, or rent out equipment once in a while, the IRS may classify it as a hobby. In that case, you must report any income, but you cannot deduct expenses beyond what you earn.

A business, by contrast, is run with the goal of making a profit on a consistent basis. The IRS considers factors such as whether you keep records, advertise your services, depend on the income for your livelihood and make changes to improve profitability. If your activity shows a profit in at least three of the last five years, it's generally presumed to be a business.

TAX OBLIGATIONS FOR BUSINESSES

If your side hustle is considered a business, you must report all income on your tax



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return. Business owners can deduct ordinary and necessary expenses related to the activity, such as supplies, marketing, travel and home office costs. This can significantly reduce taxable income.

However, business income is also subject to self-employment tax, which covers Social Security and Medicare contributions that an employer would normally handle. For 2025, the self-employment tax

rate is 15.3% on net earnings above \$400. Many small business owners make quarterly estimated tax payments to avoid penalties.

You may also need to register for a business license, collect and remit sales tax, or comply with other local regulations depending on your location and industry.

KEEPING GOOD RECORDS

Whether your activity is

classified as a hobby or business, keep detailed records. Track all income received, even small amounts, and keep receipts for related expenses. For hobbies, this documentation will show your earnings. For businesses, it will support any deductions you claim.

Good records can help if the IRS questions your classification. Demonstrating that you treat your activity like a business with a budget,

marketing plan and ongoing efforts to make a profit can strengthen your case.

Turning a hobby into a side hustle can be a smart way to earn extra income, but it also comes with tax responsibilities.

Knowing when your pastime becomes a business and how to report it properly can help you stay compliant, avoid penalties and make the most of your earnings.

Plan Now for a Smoother 2027

Taxes may feel far off once you've filed your return, but the best time to prepare for next year is now.

Strategic moves throughout the year can lower your tax bill, prevent surprises and make the 2027 filing season far less stressful.

REVIEW WITHHOLDINGS AND ESTIMATED PAYMENTS

A simple but effective step is checking your paycheck withholding or quarterly estimated tax payments. Use the IRS Tax Withholding Estimator to ensure you're having the right amount taken out. Adjusting now can help you avoid owing a large balance next April or giving the government an interest-free loan by overpaying.

Self-employed workers, freelancers and those with significant investment income should consider making quarterly estimated payments to stay on track. Missing these payments can result in penalties.

MAXIMIZE RETIREMENT AND SAVINGS CONTRIBUTIONS

Contributing to retirement accounts such as a 401(k) or traditional IRA can reduce taxable income, while Roth accounts can provide tax-free withdrawals in the future. For 2026, contribution limits may



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rise with inflation, so plan your budget to take full advantage.

Don't overlook Health Savings Accounts (HSAs) if you have a high-deductible health plan. Contributions are tax-deductible, growth is tax-free and withdrawals for qualified medical expenses aren't taxed. Flexible Spending Accounts (FSAs) can also lower taxable income, though they have "use it or lose it" rules.

TRACK DEDUCTIBLE EXPENSES YEAR-ROUND

Keeping receipts and records as you go can save hours when filing. This is especially important if you itemize deductions for things like medical expenses, charitable contributions or mortgage interest. Consider setting up a dedicated folder, physical or digital, for receipts and tax documents so nothing gets lost.

If you're close to the threshold for itemizing, you can

"bunch" deductible expenses into one year to maximize the benefit. For example, you might schedule elective medical procedures or make charitable donations in the same tax year.

STAY AHEAD OF TAX LAW CHANGES

Tax rules can change with new legislation, inflation adjustments or the expiration of temporary provisions. Some pandemic-era tax relief measures have already ended,

and others may phase out in coming years. Keeping informed will help you adjust your strategy and avoid surprises.

Consulting a tax professional midyear — not just at tax time — can uncover opportunities for savings and ensure your strategy aligns with your financial goals.

A little planning now can make the difference between scrambling in April and filing with confidence.

How Retirement Income Is Taxed

Retirement changes how you earn income, but it doesn't mean taxes go away. Understanding how different retirement income streams are taxed can help you plan better, avoid surprises and keep more of what you've saved.

"Just as it's sensible to pay attention to tax-efficient ways to save for retirement when you're younger, you should start thinking about the tax implications of tapping your retirement accounts as far in advance as possible," says David Koh, managing director and senior investment strategist, Chief Investment Office, Merrill and Bank of America Private Bank.

The IRS offers online resources for seniors and retirees at <https://www.irs.gov/individuals/seniors-retirees>.

PENSIONS AND ANNUITIES

If you receive a traditional pension from an employer, the amount is generally taxable at your ordinary income rate. That's because most pensions are funded with pre-tax dollars, and taxes are deferred until you start receiving payments.

The payer will typically



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withhold federal taxes automatically, much like an employer would during your working years. You may need to make estimated tax payments if withholding is insufficient.

If you bought an annuity, taxes depend on how it was funded. Payments from a qualified annuity purchased with pre-tax funds are fully taxable. With a non-qualified annuity purchased with after-tax dollars, only the earnings portion of each payment is taxable; the rest is considered a return of principal.

"For some people, it will make sense to consider tapping taxable accounts first,

then tax-deferred and finally tax-free," says Koh. "But, depending on your circumstances, this order may not be right for every person."

SOCIAL SECURITY BENEFITS

Social Security benefits can be partially taxable depending on your total income. The IRS uses a formula that adds your adjusted gross income, any tax-exempt interest and half your Social Security benefits to determine your "combined income."

If you file as an individual and your combined income is between \$25,000 and \$34,000, up to 50 percent of your

benefits may be taxable. Above \$34,000, up to 85% can be taxed. For married couples filing jointly, the thresholds are \$32,000 and \$44,000. No one pays tax on more than 85% of their Social Security benefits.

Because these thresholds aren't adjusted for inflation, more retirees each year find themselves paying taxes on benefits. Strategies like managing withdrawals from retirement accounts can help keep income below the taxable thresholds.

WITHDRAWALS FROM RETIREMENT ACCOUNTS

Money withdrawn from traditional IRAs, 401(k)s and

similar accounts is taxed as ordinary income because contributions were made with pre-tax dollars. Withdrawals from Roth IRAs and Roth 401(k)s, however, are generally tax-free if you meet certain requirements, since contributions were made after taxes.

Once you turn 73, most tax-deferred accounts require you to take required minimum distributions (RMDs) each year. Failing to take the full RMD can result in steep penalties. Some retirees choose to make qualified charitable distributions directly from an IRA, which can satisfy the RMD while reducing taxable income.

Choosing a Filing Status for Couples

For most married couples, filing a joint tax return offers the biggest advantage.

Joint filers often benefit from lower tax rates, higher income thresholds and more available credits. However, there are situations where “married filing separately” can be the smarter choice. Knowing when to make that decision can help you avoid unexpected tax bills and protect your finances.

The choice on how to file can be made each year, however, you cannot get an extension on filing an amendment changing your status from filing jointly to filing separately.

HOW FILING JOINTLY WORKS

When you file jointly, you combine your incomes, deductions and credits on one return. This often results in a lower overall tax rate because the IRS provides wider tax brackets and higher standard deductions for joint filers.

Joint filing also allows eligibility for many valuable credits, such as the Earned Income Tax Credit (EITC), the Child and Dependent Care Credit and education-related credits. In most cases, this status maximizes the tax benefits available to married couples.

WHEN FILING SEPARATELY MIGHT BE BETTER

Choosing “married filing separately” can reduce your

tax liability or shield you from a spouse’s tax liability in specific circumstances. This option may make sense if:

- You want to keep finances separate: If one spouse has significant debt or is behind on taxes, filing separately can prevent the IRS from seizing the other spouse’s refund.
- You have very different incomes and deductions: In some cases, large medical expenses, miscellaneous deductions or casualty losses may qualify more easily if reported on one spouse’s

separate return. These deductions are often limited by a percentage of adjusted gross income, so separating incomes can help.

- You’re concerned about tax liability: Filing separately ensures each spouse is only responsible for their own tax return, avoiding “joint and several liability” if one partner under-reports income or makes errors.

- You live in a community property state: Rules vary by state, but filing separately in community property states can

sometimes help manage how income is split for tax purposes.

THE TRADE-OFFS

Filing separately has drawbacks. Many tax credits and deductions are reduced or unavailable, including the EITC, education credits and the student loan interest deduction. The Child Tax Credit may also be reduced. Tax rates for separate filers are often higher than for joint filers at the same income level.

Because the right choice

depends on your specific income, deductions and state rules, it’s wise to run the numbers both ways. Many tax software programs can calculate your return under both statuses to see which produces the better outcome.

Marriage may join your lives, but it doesn’t mean you have to join your tax return every year. Understanding when “married filing separately” works in your favor can help you make a choice that best fits your financial situation.



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