

2026 Income Tax Update

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The 2017 Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017. This tax act made sweeping changes to the U.S. tax code and impacted virtually every taxpayer and family. The TCJA made major changes in the tax laws that affected 2018 through 2025 tax returns. The TCJA expired on December 31, 2025, when it was replaced by the “One Big Beautiful Bill Act” (OBBBA) signed into law on July 4, 2025. The OBBBA has made many notable changes to the income tax laws, some for 2025 and others for 2026 and after.

Big Income Tax Items for 2025 and 2026

Since tax news is relished by those who enjoy doing tax work for a living, and less interesting to most of the rest of you, here we'll stick to the highlights.

Health Insurance

The mandatory requirement to have health insurance, under “Obamacare”, has been eliminated for years 2019 and after. However, all other provisions of the original law remain in effect, including tax credits to offset insurance premiums for lower income taxpayers and families who purchase through the Health Insurance Marketplace. The availability of the Enhanced Premium Tax Credit, which gave extra tax credits to individuals, expired on December 31, 2025. As of today, Congress has not extended the Enhanced Premium Tax Credit.

Standard Deduction

The standard deduction can be used in lieu of itemizing deductions. For married and single taxpayers, the inflation adjusted standard deduction for 2026 increases to \$32,200 and \$16,100, respectively. This will be important for many taxpayers, since the TCJA eliminated, or severely limited, many itemized deductions previously allowed, as well as eliminating all personal exemptions. (See Itemized and Other Deductions in the next section)

Itemized and Other Deductions

Under the 2017 Tax Cuts and Jobs Act (TCJA), for years through 2025, the itemized deductions phaseout was eliminated, standard deductions are increased (as shown above), but all 2% miscellaneous itemized deductions and personal exemptions are no longer allowed as income tax deductions. OBBBA made these changes permanent for 2026 and after.

Under OBBBA, Congress increased the deductions for state and local income, property and sales taxes (SALT TAX) to a maximum of \$40,000 beginning in 2025 through 2029, increased the Alternative Minimum Tax (AMT) exemption amounts, increased the Estate Tax exemption to \$15,000,000, added new deductions for Seniors, Tip income, Overtime income, Auto Loan interest expense for automobiles purchased

after December 31, 2024 that had final assembly in the U.S., charitable contributions and other types of deductions. Many of these deductions are limited based on taxpayers with Adjusted Gross Incomes below certain amounts and other qualifying requirements (different for each deduction).

OBBBA also made permanent a limited mortgage interest expense deduction for the purchase of new primary and secondary residential property and eliminated the interest expense deduction for home equity loans, whether already in existence, or newly obtained, if used to pay for personal purposes. However, if home equity loans were used for primary home acquisition, or for making home improvements, the limited mortgage interest expense deduction will still be allowed. Casualty losses will now only be allowed if they occurred in a Federally, or State, declared disaster area.

2Please note that New York State has decoupled itself from the various itemized deductions limitations under the TCJA and OBBBA. Therefore, New York State will still allow all itemized deductions using the tax law in effect prior to the TCJA, including the full deduction for real estate taxes, home equity mortgage interest up to a \$100,000 mortgage limit, miscellaneous itemized deductions and several other deductions.

20% Qualified Business Income Deduction

3There is a Federal 20% Qualified Business Income Deduction available, which directly reduces taxable income. This deduction applies to taxpayer business and other pass-through income. There are limitations on this deduction, based on the type of business, taxable income, wages paid to employees and several other provisions.

Tax Brackets

The annual Cost of Living inflation adjustment increased the 2026 tax brackets that individuals and families use to calculate their income tax. The maximum income tax rate for the highest bracket is 37.0%. This rate affects couples with taxable incomes over \$768,700 and single filers with taxable incomes over \$640,600. The U.S. has a graduated tax system which means that the incremental portion of your taxable income, which falls in the bracket, is taxed at the rate beside it for 2026.

(See following tax rate chart)

TAX RATE 2026	MARRIED FILING JOINTLY	SINGLE FILERS
10%	\$0-\$24,800	\$0-\$12,400
12%	\$24,801-\$100,800	\$12,401-\$50,400
22%	\$100,801-\$211,400	\$50,401-\$105,700
24%	\$211,401-\$403,550	\$105,701-\$201,775
32%	\$403,551-\$512,450	\$201,776-\$256,225
35%	\$512,451-\$768,700	\$256,226-\$640,600
37%	Above \$768,700	Above \$640,600

Alternative Minimum Tax (AMT)

For those taxpayers subject to the Alternative Minimum Tax (AMT), the OBBBA inflation adjustment increased the 2026 AMT exemptions for married and single taxpayers to \$140,200 and \$90,100, respectively. It also decreased the AMT exemption phaseout amounts to \$1,000,000 for married and \$500,000 for singles, respectively.

Child Tax Credits

The 2026 Child Tax Credits are a maximum of \$2,200 per child under 17 years old. The income phaseout limits for married and single taxpayers are \$400,000 and \$200,000, respectively. Also, a non-refundable \$500 credit is available for qualifying dependents other than qualifying children. In addition, dependent care expenses (limited to \$3,000 for 1 child, \$6,000 for 2 or more children) can be used for a graduated tax credit based on income levels.

Estate and Gift Tax

The Federal and New York State estate tax exemptions have increased to \$15,000,000 and \$7,350,000, respectively, for decedents dying in 2026 and will also be inflation-adjusted for future years. The annual gift tax exclusion for 2026 remains the same as 2025 at \$19,000.

Capital Gains Rates

The capital gains tax rates of 0% and 15% remain the same for 2026, as well as the 20% rate for those subject to the highest capital gains tax bracket. This 20% capital gains rate applies for both regular and AMT tax purposes. The different rates that apply to collectibles (28%) and depreciated real estate (25%) also remain the same. (See following tax rate chart)

CAPITAL GAINS RATE 2026	MARRIED FILING JOINTLY	SINGLE FILERS
0%	Up to \$98,900	Up to \$49,450
15%	\$98,901-\$613,700	\$49,451-\$545,500
20%	Above \$613,700	Above \$545,500

NOTE: Because there is now a 3.8% Medicare tax on net investment income, the top capital gains tax rate will really be 23.8% (and not 20%) for many top earners.

Please feel free to contact the firm of Brian J. Parker, CPA if you have any questions or concerns about your taxes, accounting, retirement savings, estate planning or business planning.

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