Highlights

- Legislation Possible After Election
- Reduced Importance on Bunching Itemized Deductions
- Changes to Retirement Distributions
- Tip and Overtime Reporting

Inside

Legislation 1
Minimizing Individual Taxes 2
Year-End Business Strategies 6

Tax Briefing | 2026 Year-End Tax Planning

Planning Strategies and Techniques Available Through End of Year

After a busy 2025 that saw the passage of the One Big Beautiful Bill Act (OBBBA), bringing with it new deductions for tip and overtime income and enhanced deductions for various business expenses, 2026 brought relative calm. The big news for 2026 from a tax standpoint is resurgent inflation, and the rollout of guidance related to the new provisions from OBBBA.

Besides anything related to new tax laws, there is always the continued application of tried-and-true year-end tax strategies from years' past. The best plan for the next few weeks is to take advantage of the simple tactics of deferring income and increasing current deductions, and coupling that with any new considerations from OBBBA.

LEGISLATION

There is some possibility of tax legislation before the end of 2026, but the scope of any legislation will largely depend on the outcome of the mid-term election on November 3rd. Throughout the year, GOP lawmakers have been indicating a desire for another reconciliation bill, which can pass with a simple majority in the Senate, before the end of the 119th Congress. If either the House or Senate switches hands in the election, GOP leadership may see reconciliation as their last chance to enact policy goals while in control of Congress. However, with slim majorities in both chambers, it's not clear how successful they will be in getting the needed votes to return to Washington for a lame duck session.

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"...the scope of any legislation will largely depend on the outcome of the mid-term election..."

Short of a full-blown reconciliation bill, there are still other possibilities for legislation after the election on some bills that have enjoyed bipartisan support. The House passed a number of smaller IRS administration bills earlier in the year, and it is possible that those get combined into one large bill. There are also a number of pension and retirement-related provisions that have been discussed since SECURE 2.0 passed in 2022, and those also have broad support across both sides of the aisle.

In September, Congress passed a short-term funding bill to keep the government open until December 11. It is possible any of these items get attached to a long-term funding bill at that time.

MINIMIZING INDIVIDUAL TAXES

Income taxes

The key to any year-end planning strategy is to minimize taxes. This is generally done by either reducing the amount of income received or increasing the amount of deductions. In recent years, the possibility of increased rates on higher incomes due to proposed legislation, or changes in qualification for various stimulus proposals, made the decision of deferral or acceleration highly dependent upon individual circumstances. As the end of 2026 approaches, these factors are not in play anymore due to the permanent extension of lower tax rates.

The impact of inflation usually makes deferral of income a likely winner for almost all individuals. Due to a number of factors, inflation has increased in 2026 as compared to 2025. Though not as high as it was in 2022 and 2023, inflation has been somewhat resurgent during the first nine months of 2026, and it was reflected in the tax brackets projected for 2027 by Wolters Kluwer. As an example of the increase in the brackets, the rates for married taxpayers filing jointly in 2026 compared to those projected for 2027 are below:

2026

	If Taxable Income Is: Over	But Not More Than	The Tax Is	Of the Amount Over
Married Filing Jointly	$0	$24,800	$0 + 10%	$0
	24,800	100,800	2,480.00 + 12%	24,800
	100,800	211,400	11,600.00 + 22%	100,800
	211,400	403,550	35,932.00 + 24%	211,400
	403,550	512,450	82,048.00 + 32%	403,550
	512,450	768,700	116,896.00 + 35%	512,450
	768,700		206,583.50 + 37%	768,700

2027 (projected)

	If Taxable Income Is: Over	But Not More Than	The Tax Is	Of the Amount Over
Married Filing Jointly	$0	$25,600	$0 + 10%	$0
	25,600	104,050	2,560.00 + 12%	25,600
	104,050	218,250	11,974.00 + 22%	104,050
	218,250	416,650	37,098.00 + 24%	218,250
	416,650	529,100	84,714.00 + 32%	416,650
	529,100	793,650	120,698.00 + 35%	529,100
	793,650		213,290.50 + 37%	793,650

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Individuals may not necessarily see increases in earnings that keep up with that level of inflation, so if deferral of income from 2026 into 2027 is possible, it would mean that more income would fall into a lower tax bracket. In the long run, that would mean a lower aggregate tax burden.

Delaying and reducing gains

Like taxes on ordinary income, taxes on capital gains also apply at different rates depending upon the amount of taxable income. For 2026, the rates are as follows:

	0%	15%	20%
MFJ/SS	$0 - $98,900	$98,901 - $613,700	over $613,700
MFS	$0 - $49,450	$49,451 - $306,850	over $306,850
HoH	$0 - $66,200	$66,201 - $579,600	over $579,600
Single	$0 - $49,450	$49,451 - $545,500	over $545,500
E&T	$0 - $3,300	$3,301 - $16,250	over $16,250

For taxpayers whose income tends to fluctuate from year to year, it would be wise to examine the impact of sales of investment items. For taxpayers who think they may have lower income in 2027, it would be smart to hold off on a sale of a capital item if their income is at or near a threshold for a higher capital gains bracket.

This type of consideration should not be limited to capital gain taxes, but also the net investment income (NII) tax. The 3.8% NII tax kicks in at $200,000 of modified adjusted gross income for single and head-of-household filers, $250,000 for joint filers, and $125,000 for married taxpayers filing separately.

COMMENT. *Since the NII thresholds fall right in the middle of the 15% capital gains bracket, a taxpayer to whom the NII applies because of a sale of a capital item would likely not be able to reduce the tax to 0%. But a taxpayer who is barely in the 20% bracket could defer a sale and get into the 15% bracket, meaning a sale of a capital item would only be taxed at 18.8% instead of 23.8%.*

A potential tax strategy involves selling investments at a loss to offset or reduce capital gains generated in the same tax year. However, the benefits only apply to high-income taxpayers. In addition, taxpayers must be mindful of the wash-sale rules that might disallow the loss if they reinvest in a 'substantially similar' asset within 30 days.

Maximizing deductions

For 2026, the inflation-adjusted standard deduction amounts are $32,200 for joint filers, $24,150 for heads of households, and $16,100 for all other filers. With standard deduction amounts so high, it is difficult for many taxpayers to claim enough deductions to make itemizing deductions beneficial. Thus, maximizing deductions may not be beneficial for all taxpayers.

However, exceeding the standard deduction through itemized deductions is much more achievable in 2026 than in recent years due to OBBBA. The Tax Cuts and Jobs Act (TCJA) put a $10,000 cap on the deduction of state and local income taxes (SALT). With that limitation, it was very difficult for most taxpayers to reach the standard deduction amount, even with interest and charitable contributions. However, for tax years beginning after 2024, the cap has been increased and for 2026, the cap is $40,400.

Before the increase of the SALT cap, one of the best ways to maximize the amount of deductions was to develop a bunching strategy. This involves accumulating charitable contributions, or even medical expenses, from two or more years into one year. For example, a taxpayer may have not made any of their normal charitable contributions in 2025, and then made double the normal amount in 2026 in order to help surpass the standard deduction amount. Bunching is still a viable strategy for those taxpayers who are close to, but not in excess of, the increased standard deduction amounts, even with the increased SALT cap. However, it will likely be less applicable, especially for taxpayers who live in states with higher income and or property tax rates.

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The same bunching strategy can be employed for deductible medical expenses where the timing is somewhat flexible, such as for elective procedures (remember that purely cosmetic procedures are not deductible).

> **COMMENT.** *Bunching can be a very effective strategy, but it has to be effectively used, and potentially planned out two or three years in advance to maximize the benefit, while also taking into account shifts in tax policies as a result of political change.*

When maximizing deductions, with or without a bunching strategy, two additional areas warrant consideration in light of OBBBA changes.

First, OBBBA made two significant changes with regard to charitable contributions. Starting in 2026, nonitemizers can claim a $1,000 deduction for cash contributions to a charity. This alone would not impact a bunching strategy, as the taxpayer will either make the contribution or not in order to implement the strategy, it isn't a question of reporting or timing, though it should be taken into account. More importantly, beginning in 2026, a 0.5 percent floor on charitable contributions is in effect, so any bunching strategy that includes increasing charitable contributions in 2026 or beyond would need to account for that floor reducing the deductible amount.

More significantly, OBBBA brought back a limit on itemized deductions for higher income taxpayers, effective in 2026. For taxpayers in the highest tax bracket (37 percent), a taxpayer's itemized deductions are reduced by 2/37 of the lesser of his or her itemized deductions or taxable income that exceeds the dollar amount at which the 37 tax bracket begins with respect to the taxpayer. It is unlikely that a taxpayer who has taxable income high enough to make this limit applicable would have a low amount of deductions where they would be better off with the standard deduction, but it is possible, and it should be considered.

Federal scholarship credit

Beginning in 2027, a U.S. citizen or resident alien may claim a nonrefundable tax credit of up to $1,700 ($3,400 for joint filers) for cash contributions to a scholarship granting organization (SGO) issuing scholarships to eligible students in K-12 schools.

> **COMMENT.** *Taxpayers are generally allowed a deduction for such a contribution, but a deduction cannot be claimed for any contribution to which the credit would apply. Taxpayers considering making such a contribution before the end of the year may want to hold off if the credit is a better tax reducing strategy than a deduction (or go ahead and make the contribution if the deduction is preferred).*

Tip and overtime deductions

As discussed below, employers were not required to meet all of the reporting requirements for the new tip and overtime deductions for 2025. As a result, employees were advised to gather their records in order to ensure that it matched up with what information was provided by their employers. For 2026, those reporting requirements are expected to apply in full, but employees should nonetheless make sure that the amounts reported align with their paychecks.

> **COMMENT.** *While employers are subject to penalties for improperly or incorrectly reporting tip and overtime income, the employees will ultimately be responsible for reporting the income eligible for the deduction, and should strive for accuracy if they don't want to get a surprise from the IRS down the road.*

Self-employed people are also eligible for the tip and overtime deductions, and they don't have employer reporting to rely on in calculating the amounts to report. These people should start gathering their records to properly report income eligible for the deduction in 2027.

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Trump accounts

Under OBBBA, the Treasury is required to establish Trump accounts for eligible children. Trump accounts are treated like an individual retirement account, and for eligible children born after December 31, 2024, and before January 1, 2029, who are U.S. citizens, a contribution of $1,000 will be made to a Trump account established for that child.

The accounts were automatically established by the Treasury Department on October 1, 2026, for eligible children who did not already have an active Trump account. After that date, auto accounts will be established periodically for eligible children. Auto accounts may only accept qualified general contributions and the $1,000 pilot program contribution, if a pilot program election is made.

A guardian or legal custodian may claim an auto account through the Trump Accounts app (see trumpaccounts.gov). Once the account is claimed, the guardian or legal custodian can control the account, manage investments, and enable contributions, including those from eligible employers. The contribution limit for 2026 is $5,000 to an eligible child's account, of which $2,500 can be from an employee's employer. Contributions from governments and non-profit donors do not count toward the annual limit.

COMMENT. *It's important to remember that while only children born after 2024 and before 2029 are eligible for the $1,000 contribution from the Treasury, any child under 18 is eligible for an account, and can receive other general contributions to the account. While there isn't necessarily urgency to claim the account before the end of the year, there is urgency for taxpayers wishing to maximize the annual contribution limit, which can only be done once the account is claimed.*

Retirement savings

The age at which required minimum distributions (RMDs) must begin is 73 for individuals who turn 72 after 2022 and age 73 before 2033.

Remember that taxpayers who are in their first RMD year have until April 1 of the following year to make that first RMD. So, while action isn't absolutely necessary before the end of the year, affected taxpayers should start to plan for those RMDs. Keep in mind that the subsequent RMD for 2027 is required by December 31, 2027. If a taxpayer were to take both RMDs in 2027, it could push them into a higher tax bracket because both distributions would be taxable in one tax year.

Qualified charitable distributions, or QCDs, offer eligible taxpayers aged 70 ½ or older a great way to easily give to charity before the end of the year. For those who are at least 72 years old, QCDs count toward the IRA owner's RMD for the year. QCDs are tax free if they are paid directly from the IRA to an eligible charitable organization. The annual QCD limit for 2026 is $111,000 (up from $108,000 in 2025).

Other year-end strategies for individuals

A number of other traditional year-end strategies may apply. These include:

- Maximizing Education Credits – Individuals can claim a credit for tuition paid in 2026 even if the academic period begins in 2027, as long as the period begins by the end of March.
- Increasing 401(k) Contributions – Adjusted gross income (AGI) can be reduced if individuals increase the amount of their 401(k) contributions.
- IRA Contributions – Individuals eligible for deductions for IRA contributions can claim deductions, and thus reduce AGI, for amounts contributed generally through April 15, 2027.

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- Teacher deductions – Educators can claim a deduction for up to $300 of classroom expenses (like books, supplies, and computer equipment, as well as personal protective equipment, disinfectant, and other supplies used to prevent the spread of COVID-19), and should maximize those expenses by year-end. Effective for 2026, this deduction is expanded to early childhood educators. Beginning in 2026, educators who itemize can also claim a miscellaneous itemized deduction, not subject to the two-percent floor, on unreimbursed expenses for expenses for materials used as a part of instructional activity (the two deductions cannot be claimed for the same expenses).

YEAR-END BUSINESS STRATEGIES

Depreciation and expensing

The Code Sec. 179 expensing deduction has an investment limitation of $4,090,000 for 2026, with a dollar limitation of $2,560,000.

Taxpayers may also claim an additional first-year depreciation allowance of 100% for property placed in service after January 19, 2025.

> **COMMENT.** *There isn't really urgency to take advantage of these provisions as in previous years, as OBBBA made the increase in the 179 deduction and bonus depreciation permanent. Barring a drastic change in Congress that would roll these back, they are likely here to stay. However, there may be urgency to claim a 179 deduction in order to maximize the amount of the deduction available for any year, so any qualified expenses planned could be spent by the end of the year by businesses with room to spare in the limitation.*

Retirement plans

The SECURE 2.0 Act of 2022 expanded provisions for retirement plans to benefit both employers and plan participants.

An employer that does not sponsor a retirement plan can offer a starter 401(k) plan (or safe harbor 403(b) plan). A starter 401(k) plan (or safe harbor 403(b) plan) would generally require that all employees be enrolled in the plan at 3% to 15% of compensation deferral rate by default. The limit on annual deferrals would be the same as the IRA contribution limit.

The SECURE Act 2.0 permits an employer to adopt a new retirement plan by the due date of the employer's tax return for the fiscal year in which the plan is effective. Current law, however, provides that plan amendments to an existing plan must generally be adopted by the last day of the plan year in which the amendment is effective. This precludes an employer from adding plan provisions that may be beneficial to participants. The SECURE Act 2.0 amends these provisions to allow discretionary amendments that increase participants' benefits to be adopted by the due date of the employer's tax return.

Reporting tip and overtime

As part of the new individual deductions for tip and overtime income, employers must meet strict requirements for reporting these amounts earned by employees. For the 2025 tax year, the IRS granted penalty relief to employers who fail to meet these requirements and provided alternate methods of reporting, due in part to the absence of guidance and applicable forms. However, that relief was only for 2025, and the requirements and penalties apply in full for the 2026 tax year. Before the end of the year, employers should review these requirements and make sure that they are ready to report as required when information returns are prepared in early 2027.

Other year-end strategies for businesses

A number of other traditional year-end strategies may apply. These include:

- Timing the deduction of employee bonuses and executive compensation (note that new entity aggregation rules apply to the $1 million compensation deduction limit for controlled groups beginning in 2026)
- Prepay rent and suppliers under the cash system; commit to contracts under the accrual method
- Consider inventory write-offs
- Avoid the impact of corporate AMT

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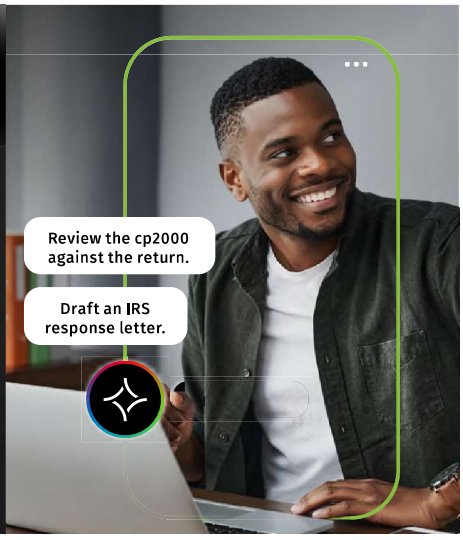

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