KUHN & ASSOCIATES

2026 MID-YEAR TAX PLANNING LETTER (INDIVIDUALS)

Introduction

The less hectic summer season is a good time to consider steps to cut your 2026 tax bill. With enactment of the One Big Beautiful Bill Act in July 2025, several favorable updates for individual taxpayers are new for 2026, while other taxpayer friendly provisions that were scheduled to expire after 2025 have been extended, enhanced, or made permanent. These changes may affect your tax rates, standard deduction, itemized deductions, charitable giving, family related credits, education planning, estate planning, and other tax saving opportunities. Here are some planning strategies to consider under the current federal tax rules.

Consider Adjusting Your Tax Withholding or Estimated Payments

No one wants a surprise tax bill or a smaller than expected refund at filing time. These results often occur when withholding or estimated payments are not updated for changes in income, deductions, credits, or family circumstances. For those who usually receive refunds, an unexpected balance due can be difficult. The good news is there is still time to adjust your federal income tax withholding for 2026.

Withholding and estimated tax planning may be especially important this year due to recent law changes that affect individual taxpayers. Lower individual tax rates and expanded brackets are now permanent, the higher standard deduction remains, and new or enhanced deductions and credits may change your 2026 tax liability.

Form W-4 tells your employer how much tax to withhold from your paycheck and many taxpayers have it set incorrectly. The IRS offers a "Tax Withholding Estimator" to help you complete the form at **www.irs.gov/individuals/tax-withholding-estimator**. You will need recent pay stubs for both spouses if filing jointly, details on other income, and your latest tax return. While helpful, the tool is not perfect. For more precise results, we can prepare a 2026 tax projection. If you make estimated tax payments, such as for self-employment income, we can review your situation to help you avoid underpaying or overpaying for 2026.

Generous Standard Deduction Allowances

The new law permanently extends the increased standard deduction amounts. For 2026, the standard deduction amounts is $16,100 for single filers and married individuals filing separately, $32,200 for married couples filing jointly and surviving spouses, and $24,150 for heads of household. These amounts are now indexed for inflation.

Additional Deductions for Seniors Age 65 and Older

A temporary enhanced senior deduction is authorized for tax years 2025-2028, although Congress may choose to extend or make this permanent.

The deduction is equal to $6,000 for single filers, $12,000 for married taxpayers filing jointly who are age 65 or older by the end of the tax year. The deduction phases out at a rate of 6% for modified Adjusted Gross Income (AGI) above $75,000 for single filers and is fully phased out at $175,00. For married couples filing jointly, the phaseout begins at $150,000 and is fully phased out at $250,000.

Itemized Deductions

If your total itemizable deductions for 2026 will be close to your standard deduction amount, consider making enough additional expenditures for itemized deduction items between now and year end to exceed your standard deduction. That will lower this year's tax bill. Next year, you can always claim the standard deduction, which will be increased to account for inflation.

The easiest deductible expense to accelerate is to pay your 1/1/27, house payment in 2026. Accelerating that payment into this year will give you 13 months of interest expense to deduct in 2026, for interest accruing through December 31st. The new law permanently keeps the limit on home mortgage acquisition debt eligible for the qualified residence interest deduction at $750,000, or $375,000 for married individuals filing separately. It also permanently treats certain mortgage insurance premiums on acquisition debt as qualified residence interest. Check with us if you are uncertain how these rules apply to your mortgage.

Consider accelerating elective medical procedures, dental work, and vision care. Medical expenses are deductible to the extent they exceed 7.5% of your AGI, assuming you itemize.

Explore Gifting Strategies

Gifts should be made according to the following tax smart principles.

Gifts to Relatives and Other Loved Ones

Don't give away loser stocks, shares currently worth less than what you paid for them. Instead, you should sell the shares and take the resulting tax saving capital loss on your personal return. Then, give the cash sales proceeds to your loved one. The annual exclusion for gifts is $19 thousand in 2026, indexed for inflation.

Gifts to Charities

The principles for tax smart gifts to relatives and other loved ones also apply to donations to IRS approved charities. You should sell loser shares and collect the resulting tax saving capital losses. Then, you can give the cash sales proceeds to favored charities and claim the resulting tax saving charitable deduction, assuming you itemize deductions on your tax return. Following this strategy delivers a double tax benefit: tax-saving capital losses plus a deductible charitable donation.

On the other hand, you should donate winner shares instead of giving away cash. Why? Because donations of publicly traded shares that you have owned over a year result in charitable deductions equal to the full current market value of the shares at the time of the gift, again assuming you itemize. Plus, when you donate winner shares, you escape any capital gains taxes on those shares. So, this idea is another double tax-saver: you avoid capital gains taxes while getting a tax-saving donation deduction. Meanwhile, the tax-exempt charitable organization can sell the donated shares without owing anything to the IRS.

Beginning in 2026, remember that the new 0.5% of AGI floor for charitable deductions may reduce the tax benefit of itemized charitable gifts.

Beginning in 2026, non-itemizers to claim a below-the-line charitable deduction of up to $1,000, or $2,000 for joint filers. So, even taxpayers who do not itemize may now receive some tax benefit from charitable giving.

Consider Whether to Bunch Charitable Contributions

Because of the increased standard deduction and the new 0.5%-of-AGI floor for itemized charitable deductions, some taxpayers may benefit from bunching charitable contributions. This means making larger charitable gifts in one year and no gift, or a smaller gift, in the next year, instead of giving roughly the same amount each year.

This strategy may allow you to itemize in the high-giving year and claim the standard deduction in the low-giving year. Donor-advised funds can sometimes help implement this strategy by allowing you to make a larger deductible contribution in one year while recommending grants to charities over time.

The new law also makes permanent the 60%-of-AGI ceiling for cash contributions to qualifying charities. If you are considering a large charitable gift, please contact us before acting so we can help maximize the tax benefit.

Factor in the New SALT Deduction Rules

Prepaying state and local income and property tax bills before year end can decrease your 2026 federal income tax bill because your total itemized deductions will be that much higher. However, be aware that the new law changed the state and local tax, or SALT, deduction cap. The cap increased to $40,400 for 2026. The deduction phases out for taxpayers with high modified AGI exceeding $500,000, though it does not reduce below the $10,000 floor. The cap is scheduled to revert to $10,000 beginning in 2030.

Caution: *The state and local tax prepayment drill can be a bad idea if you owe Alternative Minimum Tax (AMT) for this year. That's because write-offs for state and local income and property taxes are completely disallowed under the AMT rules.*

Child Tax Credit and Other Family Tax Breaks

The new law increases and extends several family related tax breaks.

For 2026, the Child Tax Credit is $2,200 per qualifying child, with $1,700 potentially refundable. These amounts are indexed for inflation. The earned income threshold to claim the credit is $2,500.

The credit begins to phase out at modified AGI of $400,000 for married joint filers and $200,000 for other filers.

The $500 nonrefundable credit for other dependents is also made permanent. This credit may be available for dependents who do not qualify for the Child Tax Credit, such as older children, parents, or other qualifying relatives. The credit amount and phaseout thresholds are not indexed for inflation.

The new law also enhances the Child and Dependent Care Credit beginning in 2026 by increasing the maximum credit rate to 50%, with phaseouts based on AGI. In addition, the dependent care assistance exclusion for employer-provided dependent care benefits increases to $7,500 annually, or $3,750 for married individuals filing separately.

> ***Planning Point:*** *If you pay for childcare or dependent care so you can work, we should compare the benefit of the Child and Dependent Care Credit with any dependent care flexible spending account offered by your employer. The best choice depends on your income, number of qualifying dependents, eligible expenses, and employer benefits.*

New Deductions for Tips and Overtime Pay, If Eligible

Individuals who receive cash tips in occupations where tipping is customary may be able to deduct up to $25,000 of tipped income. The deduction phases out for taxpayers with modified AGI over $150,000, or $300,000 for married couples filing jointly. The new law creates temporary deductions through 2028 for certain tip income and overtime pay.

The new law also allows taxpayers to deduct up to $12,500 of overtime pay, or $25,000 on a joint return, through 2028. This deduction also phases out for taxpayers with modified AGI over $150,000, or $300,000 for joint filers.

> ***Planning Point:*** *If you receive tips or overtime pay, keep good records and review your pay statements carefully. These new deductions may reduce your 2026 tax bill, but they also may affect your withholding needs. If you expect substantial tip or overtime income this year, we can help estimate the tax impact.*

Consider the New Car Loan Interest Deduction

For tax years 2025 through 2028, the new law allows individuals to deduct up to $10,000 of car loan interest per year, subject to income-based phaseouts. The deduction begins to phase out at modified AGI of $100,000 for single filers and $200,000 for joint filers.

The deduction applies to interest on loans for new personal-use vehicles with a gross vehicle weight rating under 14,000 pounds.

If you are considering buying a new vehicle, the availability of this deduction may be one factor to consider, along with financing terms, interest rates, and total cost.

> ***Planning Point:*** *Before purchasing a vehicle, check whether the vehicle and loan qualify. Also remember that a tax deduction should not drive the decision to take on unnecessary debt.*

Take Advantage of Principal Residence Gain Exclusion Break

Home prices have cooled off in many areas, but many homeowners are still sitting on substantial unrealized gains. Gains of up to $500,000 from the sale of a principal residence are completely federal income tax free for qualifying married couples who file joint returns. For qualifying unmarried individuals and married individuals who file separate returns, the gain exclusion limit is $250,000.

To qualify for the gain exclusion break, you must've owned and used the home as your principal residence for a total of at least two years during the five-year period ending on the sale date. You'll definitely want to take these rules into consideration if you're planning on selling your home in today's real estate environment.

Convert Traditional IRAs into Roth Accounts

The best profile for the Roth conversion strategy is when you expect to be in the same or higher tax bracket during your retirement years. If that turns out to be true, the current tax hit from a conversion done this year could be a relatively small price to pay for completely avoiding potentially higher future tax rates on the account's earnings. In effect, a Roth IRA can insure part or all of your retirement savings against future tax rate increases.

Review Education Planning Opportunities

Starting in 2026, Section 529 plans cover more K–12 expenses beyond tuition, including books, materials, tutoring, exams, and therapy. The annual tuition limit rises from $10,000 (2025) to $20,000, and certain postsecondary credentialing expenses also qualify for tax-free distributions. If you have children or grandchildren, consider revisiting your 529 funding strategy, as the expanded rules increase flexibility.

Consider ABLE Accounts

The new law makes permanent certain favorable ABLE account provisions, including additional contributions, rollovers from 529 programs, and eligibility for the Saver's Credit for qualifying beneficiaries who contribute to their ABLE accounts. Additional contribution limits are indexed for inflation. The Saver's Credit amount increases to $2,100 beginning after 2026.

Tax Deferred Savings "Trump" Accounts

The new law created a tax-deferred investment account for children under 18 years old, who are eligible to receive nondeductible contributions from parents, relatives, employers, etc.

Contributions to the account may not exceed $5,000 per year, indexed for inflation. For U.S. citizens born between 1/1/2025 and 12/31/2028, the federal government will contribute $1,000 per child into every eligible savings account.

Student Loan Assistance Benefits
The new law also makes permanent the exclusion for employer payments of student loans under an educational assistance program. The annual exclusion amount remains $5,250, and the amount is indexed for inflation. If your employer offers student loan repayment assistance, this can be a valuable tax-free benefit.

Don't Overlook Estate Planning

The unified federal estate and gift tax exemption for 2026 is $15 million, or effectively $30 million for married couples. Even though these exemptions probably mean you are not currently close to being exposed to the federal estate tax, your estate plan may need updating to reflect the current tax regime. Also, you may need to make changes for reasons that have nothing to do with taxes, such as marriage, divorce, births, deaths, changes in asset values, business succession planning, retirement, or a move to another state.

Note Other Individual Tax Changes

Several additional individual tax law changes may affect your planning:

- An enhanced adoption credit makes up to $5,000 refundable, with amounts indexed for inflation.
- The Pease limitation on itemized deductions is permanently repealed, but a new 2% reduction generally applies for certain higher-income taxpayers in the 37% bracket.
- Miscellaneous itemized deductions are permanently eliminated, except for an educator expense exception.
- The moving expense deduction remains unavailable for most taxpayers, with exceptions for qualifying active-duty service members and certain members of the intelligence community.
- Personal casualty loss deductions are permanently limited to losses from federally declared disasters and certain state-declared disasters.
- Gambling loss deductions are limited to 90% of gambling losses, to the extent of gambling winnings, beginning in 2026.
- The qualified bicycle commuting reimbursement exclusion is permanently eliminated.

These rules may not affect every taxpayer, but they can be important in the right situation. What we have covered here is only part of the story. Contact us for details and other tax-saving ideas.

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