Newsletter, Winter 2026

Tax and Spending Bill Signed into Law

President Trump signed into law the One Big Beautiful Bill Act (OBBBA) on July 4, 2025, after months of deliberation in the House and Senate. The legislation includes multiple tax provisions that will guide individuals, business owners, and investors in planning their finances for many years to come. It makes permanent most of the 2017 Tax Cuts and Jobs Act (TCJA) tax provisions that were set to expire this year, while delivering some new deductions and changes.

Expiring provisions that are now permanent

Tax brackets	The TCJA reduced the applicable tax rates for most brackets for the years 2018 through 2025, while increasing the income range covered by each bracket. The new legislation makes the TCJA rates and structure permanent. Individual marginal income tax brackets will remain at 10%, 12%, 22%, 24%,32%, 35%, and 37%.
Standard deduction	The new legislation makes permanent the larger standard deduction amounts established by TCJA, with an additional increase. For 2025, standard deduction amounts are: • $31,500 for married filing jointly • $23,625 for head of household • $15,750 for single and married filing separately
Personal exemptions	The deduction for personal exemptions ($4,050 per exemption in 2017, the last year it was available) is now permanently eliminated.
Child tax credit	Prior temporary increases to the child tax credit, the refundable portion of the credit, and income phase-out ranges are made permanent. The child tax credit is increased to $2,200 for each qualifying child starting in 2025.
Mortgage interest deduction	The $750,000 ($375,000 for married filing separately) limit on qualifying mortgage debt for purposes of the mortgage interest deduction is made permanent. Interest on home equity indebtedness is now permanently nondeductible. A previously expired provision allowing for the deduction of mortgage insurance premiums as interest is reinstated and made permanent (subject to income limitations), beginning in 2026.
Estate and gift tax exemption	The larger estate and gift tax exemption amount (essentially doubled) implemented by the TCJA is made permanent, increased to $15 million in 2026 ($30 million for married couples), and will be indexed for inflation in subsequent years.
Alternative minimum tax (AMT)	The significantly increased AMT exemption amounts and exemption income phase-out thresholds implemented by TCJA are made permanent.

Itemized deduction limit	The overall limit on itemized deductions (the "Pease limitation"), previously suspended for 2018-2025, is now permanently replaced with a percentage reduction that applies to individuals in the highest tax bracket (37%) that effectively caps the value of each dollar of itemized deductions at $0.35.
Qualified business income deduction (Section 199A)	The new legislation permanently extends the deduction for qualified business income created by the TCJA and increases the phase-in thresholds for the deduction limit. A new minimum deduction of $400 is now available for certain individuals with at least $1,000 in qualified business income.

Existing provisions with material changes

The One Big Beautiful Bill Act also makes some significant changes to other provisions, some temporary but others permanent. Two of the changes that received significant coverage leading up to passage and enactment include a temporary increase in the limit on allowable state and local tax (SALT) deductions and the rollback of existing energy tax incentives.

State and local tax (SALT) deduction

The new legislation temporarily increases the cap on the state and local tax deduction from $10,000 to $40,000. This increased cap is retroactively effective for 2025. The $40,000 cap will increase to $40,400 in 2026 and by 1% for each of the following three years.

The cap is reduced for those with modified adjusted gross incomes exceeding $500,000 (tax year 2025, adjusted for inflation in subsequent years), but the limit is never reduced below $10,000.

In 2030, the cap will return to $10,000.

Repeal and phase-out of clean energy credits

The new legislation significantly rolls back energy-related tax incentives. Provisions include:

- The Clean Vehicle Credit (IRC Section 30D), the Previously Owned Clean Vehicle Credit (IRC Section 25E), and the Qualified Commercial Clean Vehicles Credit (IRC Section 45W) are eliminated effective for vehicles acquired after September 30, 2025.
- The Energy Efficient Home Improvement Credit (IRC Section 25C) and the Residential Clean Energy Credit (IRC Section 25D) are repealed for property placed in service after December 31, 2025.
- The New Energy Efficient Home Credit (IRC Section 45L) will expire on June 30, 2026; the credit cannot be claimed for homes acquired after that date.
- The Alternative Fuel Vehicle Refueling Property Credit (IRC Section 30C) will not be available for property placed in service after June 30, 2026.

Gambling losses

The new law changes the treatment of gambling losses, effective as of 2026. Before the legislation, individuals could deduct 100% of their gambling losses against winnings (the deduction could never exceed the amount of gambling winnings); now, a new cap limits deductions to 90%.

Bonus depreciation and Section 179 expensing

Prior to this legislation, the additional first-year "bonus" depreciation was being phased out, with the maximum deduction dropping to 40% by 2025. The new legislation permanently establishes a 100% additional first-year depreciation deduction for qualifying property, allowing businesses to deduct the full cost of such property immediately. The 100% additional first-year depreciation deduction is available for property acquired after January 19, 2025.

Effective for property placed in service in 2025, the legislation also increases the limit for expensing under IRC Section 179 from $1 million (indexed for inflation) to $2.5 million, and it increases the phase-out threshold from $2.5 million (indexed for inflation) to $4 million.

New provisions

The One Big Beautiful Bill Act also contains multiple new tax deductions that are intended to represent a step toward fulfilling campaign promises made to end taxes on Social Security, tips, and overtime. These new deductions are temporary, but other changes, like allowing individuals who do not itemize deductions to deduct some amount of qualifying charitable contributions, are permanent.

Deduction for seniors

Effective for tax years 2025–2028, the legislation creates a new $6,000 deduction for qualifying individuals who reach the age of 65 during the year. The deduction begins to phase out when modified adjusted gross income exceeds $75,000 ($150,000 for married filing jointly).

Tip income deduction ("no tax on tips")

Effective for tax years 2025–2028, for the first time, tip-based workers can deduct a portion of their cash tips for federal income tax purposes. Individuals who receive qualified cash tips in occupations that customarily received tips prior to January 1, 2025, may exclude up to $25,000 in reported tip income from their federal taxable income. A married couple filing a joint return may each deduct up to $25,000. The deduction phases out at a modified adjusted gross income of $150,000 for single filers and $300,000 for joint filers.

This provision applies to a broad range of service occupations, including restaurant staff, hairstylists, and hospitality workers.

Overtime deduction ("no tax on overtime")

A new temporary deduction of up to $12,500 ($25,000 if married filing jointly) is established for qualified overtime compensation. The deduction is phased out for individuals with a modified adjusted gross income of over $150,000 ($300,000 if married filing jointly). The deduction is reduced by $100 for each $1,000 of modified adjusted gross income exceeding the threshold. To claim the deduction, a Social Security number must be provided. The deduction is available for tax years 2025–2028.

Investment accounts for children ("Trump accounts")

A new tax-deferred account for children under the age of 18 is created, effective January 1, 2026. With limited exceptions, up to $5,000 in total can be contributed to an account annually (the $5,000 amount is indexed for inflation). Parents, relatives, and employers, as well as certain taxable, nonprofit, and government organizations, may make contributions. Contributions are not tax-deductible. For children born between 2025 and 2028, the federal government will contribute $1,000 per child into eligible accounts.

Distributions generally cannot be made from the account prior to the account holder reaching the age of 18, and there are restrictions, limitations, and tax consequences that govern how and when account funds can be used. To have an account, a child must be a U.S. citizen and have a Social Security number.

Charitable deduction for non-itemizers

The legislation reinstates a tax provision that was previously effective for tax year 2021. A deduction for qualifying charitable contributions is now permanently established for individuals who do not itemize deductions. The deduction is capped at $1,000 ($2,000 for married filing jointly). Contributions must be made in cash to a public charity and meet other specific requirements. This deduction is available starting in tax year 2026.

Car loan interest deduction ("no tax on car loan interest")

For tax years 2025–2028, interest paid on car loans is now deductible for certain buyers. Beginning in 2025, taxpayers who purchase qualifying new vehicles assembled in the United States for personal use may deduct up to $10,000 in loan interest annually. The deduction is phased out at higher incomes, starting at a modified adjusted gross income of $100,000 (single filers) or $200,000 (joint filers).

There's more …

The One Big Beautiful Bill Act includes broad and sweeping changes that will have a profound impact. While income and estate tax provisions are highlighted here, the legislation also makes fundamental changes impacting areas such as health care, immigration, and border security. There are also additional tax changes made by the legislation that are not mentioned in this summary. Additional information and details will be available in the coming weeks and months. As always, if you have questions about how these changes affect your specific situation, consider consulting a tax professional.

Mandatory Roth Catch-Up Contributions Begin in 2026

For nearly a quarter century, employers have been able to offer their retirement savings plan participants age 50 and older a valuable opportunity — the chance to make additional catch-up contributions to their plan.[1] Thanks to the SECURE 2.0 Act passed in 2022, that opportunity became even more valuable: Employers may now allow plan participants age 60 to 63 to contribute even more than their other catch-up eligible peers through "super catch-ups." In 2026, the standard plan contribution limit is $24,500. Participants who turn age 50 to 59 and 64 and older in 2026 can contribute an additional $8,000, while those who reach age 60 to 63 can contribute an additional $11,250.

However, SECURE 2.0 also included a provision requiring catch-up contributions to be made on a Roth basis for certain high-earning employees. In September 2025, the IRS issued final regulations related to these mandatory Roth catch-ups, which will begin to take effect in 2026.

The big picture

In most work-based savings plans, employees have the opportunity to make catch-up contributions and contribute on both a pre-tax and Roth after-tax basis.[2] While pre-tax contributions reduce the proportion of a participant's paycheck that is subject to current income taxes, Roth contributions allow participants to potentially build a tax-

free nest egg for the future. (Withdrawals from Roth accounts made after the account owner reaches age 59½ are tax-free, provided the account has been held for at least five years. (Other exceptions apply.) Pre-tax contributions can be especially appealing to high earners, who may contribute as much as possible (up to plan limits) to take maximum advantage of the opportunity to reduce current taxable income.

However, pre-tax contributions also reduce tax revenue for the federal government. That may be why legislators included a provision in SECURE 2.0 requiring catch-up contributions for those earning more than $150,000 to be made on a Roth, rather than pre-tax, basis. Initially slated to take effect in 2024, that provision was delayed until 2026 to allow the IRS to finalize rules and employers to modify their systems and plan documentation accordingly.[3]

The details

In September 2025, the IRS issued final regulations stating that the new requirements generally apply to contributions in taxable years beginning after Dec. 31, 2026. The IRS further stated, "The final regulations also permit plans to implement the Roth catch-up requirement for taxable years beginning before 2027 using a reasonable, good faith interpretation of statutory provisions."[4] Many industry observers interpret this language to mean that employers will be expected to begin implementing the new provisions in 2026.[5-7]

To determine whether an employee exceeds the $150,000 threshold, employers will use Federal Insurance Contributions Act (FICA) wages listed in box 3 of the employee's W-2 form from the previous year. In other words, to comply in 2026, employers will use 2025 W-2 forms. The rule does not apply to those who do not have prior-year W-2 wages, such as the self-employed.[8-9]

The new rule applies to standard and super catch-ups in 401(k), 403(b), and 457(b) plans; however, the new Roth mandate does not apply to SIMPLE plans or the special catch-up contributions permitted in 403(b) and 457(b) plans. Plans that do not offer Roth contributions either must add a Roth feature or cannot allow high earners to make catch-up contributions.[10-11]

Tax and retirement-savings impacts

High earners who may be subject to the new rule might want to review their tax-planning and retirement-savings strategies soon. Although Roth contributions can potentially provide substantial tax benefits in the future, the elimination of the pre-tax catch-up benefit could have a surprising impact on income taxes during the 2026 tax-filing season.

1) CNBC, January 4, 2017
2) PLANADVISER, October 1, 2025
3) IRS Notice 2023-62
4) IRS, September 15, 2025
5) Society for Human Resource Management, accessed October 2, 2025
6, 8) Plan Sponsor Council of America, September 30, 2025
7, 9, 10) Slott Report, September 22, 2025
11) ADP SPARK blog, accessed October 2, 2025

Contribution limits and the mandatory Roth catch-up income threshold are adjusted for inflation on a periodic basis.

IMPORTANT DISCLOSURES

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