



## How Your Tax Return May Look Different in 2026

### Existing Deductions and Credits

As you prepare to file your 2025 federal income tax return, some items will look familiar but with small changes.

**Standard Deductions:** According to the IRS, more than 87 percent of filers take the standard deduction instead of itemizing. If you fall into this category, you will see a slight increase in the standard deduction. The new standard deduction amount is \$15,750 for single filers and \$31,500 for those who are married filing jointly.

However, if you itemize your deductions, you have a larger hurdle to clear for 2025. Once OBBBA became law, the higher standard deduction was made permanent and will be indexed to inflation. This means the majority of taxpayers will continue to enjoy a larger decrease to their overall taxable income.

**SALT:** One frequently discussed and sometimes hotly debated topic is the state and local tax (SALT) deduction, which increased from \$10,000 to \$40,000 for most filers in 2025. An increase in the SALT limit benefits people who live in states with higher state income and property taxes, and those who own high-priced real estate.

There's a catch though. If you have an adjusted gross income (AGI) between \$500,000 and \$600,000, your ability to deduct SALT begins to phase out. Once your AGI reaches \$600,000, the opportunity to deduct up to \$40,000 in SALT is completely diminished to the original \$10,000. For those filers who are married filing separately, the SALT deduction is limited to \$20,000 but begins to



phase down at \$250,000 AGI.

Tax planning strategies to decrease AGI below these limits will allow those with large property taxes or state income taxes to deduct more than they've been able to in the recent past. The SALT deduction was one part of OBBBA that wasn't made permanent. After adjusting 1 percent each year for inflation, it will return to a \$10,000 deduction on January 1, 2030, and will likely remain a hot topic until a more permanent solution is found.

**Additional Child Tax Credit:** If you were eligible for the Child Tax Credit in previous tax years, you will notice an increase from \$2,000 to \$2,200 per qualifying child on your 2025 tax return. The extra \$200 per qualifying child directly reduces your tax liability dollar for dollar. This higher amount was made permanent by OBBBA and will be indexed for inflation going forward, but the phaseout rules remain unchanged and are not indexed to inflation.

Households with an AGI over \$200,000 (single) and \$400,000 (joint) will continue to see a reduction in the child tax credit of \$50 for every \$1,000 of AGI above the limits.

## New Deductions

The OBBBA not only made permanent some provisions of the Tax Cuts and Jobs Act (TCJA), it also added some new deductions that went into effect for the 2025 tax year. If you are eligible for any or all these new below-the-line deductions, they are available to you even if you don't itemize.

**65 and Older:** If you're age 65 or older, you may notice an additional deduction of up to \$6,000 per person that will reduce your taxable income when you file your 2025 taxes. Often touted as "no tax on Social Security," this new deduction is available only from 2025 through 2028 and does not reduce your AGI to determine how much of your Social Security income is taxed or how much you pay for Medicare premiums.

Furthermore, if you have an AGI of \$75,000-\$175,000 (single) or \$150,000-\$250,000 (joint), your 65+ deduction will begin to decrease and will be \$0 once you reach the upper limit. Managing your AGI will be important as you weigh the benefits of this deduction.

**Tips and Overtime:** If you receive overtime or tips as part of your compensation, you may also notice a new deduction from 2025 through 2028. For overtime, that deduction maxes out at \$12,500 (single) or \$25,000 (joint) and begins to phaseout by \$100 per \$1,000 of AGI above \$150,000 (single) or \$300,000 (joint).

Similarly, if you receive tips, the maximum deduction for all filers is \$25,000 with the same phaseout limits that apply to overtime. It is important to note that this is not "no tax on overtime or tips" and that these earnings are still subject to payroll tax and state tax. They are also still included in your AGI.

## Future Planning Opportunities



Paying close attention to AGI over the next several years will be imperative for tax planning. Each deduction or credit has its own set of phaseout rules that makes eligibility feel like a moving target.

Strategies to decrease AGI such as contributing more pre-tax dollars to your retirement account, health savings account (HSA), or deferred compensation plan may be appropriate to ensure you maintain an AGI that leaves your eligibility intact. If you don't have earned income and are already taking required minimum distributions (RMDs), you may consider qualified charitable distributions (QCDs) to reduce your AGI.

If you're on the edge of eligibility for these deductions, do your due diligence to remain aware of strategies that can increase your AGI. Tax strategies such as taking Social Security before age 70, Roth conversions, contributing less to deferred compensation plans, or changing the split of pre-tax vs. Roth contributions to retirement accounts will increase your AGI. A cost-benefit analysis can help you determine if a strategy that increases AGI is appropriate. Consult with your financial advisor and tax professional for guidance.

Sources: "SOI Tax Stats," IRS; CAPTRUST research

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