Supplement to J. K. Lasser's 1001 Deductions and Tax Breaks 2026

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THIS SUPPLEMENT REFLECTS CHANGES THROUGH FEBRUARY 1, 2026

This year's book, *J.K. Lasser's 1001 Deductions and Tax Breaks 2026,* covers the tax rules as they stood on October 1, 2025. Since then, Congress passed two minor tax measures: The Internal Revenue Service Math and Taxpayer Help Act (which requires the IRS to provide plan language explanation of return errors and other information in notices issued to taxpayers) and the Disaster Related Extension of Deadlines Act (which treats the extension of time for making refund claims the same as for filing returns by disaster victims). But due to enactment of the One Big Beautiful Bill Act in July 2025, the IRS has issued a lot of guidance on various provisions in this law. The IRS has also issued guidance on other matters. And there have been some court decisions of note.

The changes in this Supplement are listed according to the chapters in which the subject matter appears. I've attempted to include an answer to every notation in the book that said: "see the Supplement." Some information covered in this Supplement may apply to 2025 returns; some is only for 2026 and is included for purposes of figuring 2026 estimated taxes as well as planning ahead. Also included are a few corrections to errors in the book. For changes in 2026, only an overview is provided here, with more details to come in the next edition of this book, *J.K. Lasser's 1001 Deductions and Tax Breaks 2027*.

Introduction

Filing returns completed by computer. The IRS ended the Direct File option; it cannot be used for 2025 returns filed in 2026.

FreeFile for 2025 returns can be used by individuals with adjusted gross income of $89,000 or less (an estimated 70% of taxpayers meet this threshold) with relatively simple tax returns.

Adjusted gross income. Just to be clear, the deduction for interest related to car loans is limited to $10,000 (the loan is not limited to $10,000). Details of this deduction are in Chapter 7.

Taxable income. Taxable income is also the income used to determine the tax rate on capital gains and qualified dividends. This is explained in Chapter 8.

Standard deduction amounts. The basic standard deduction amounts are increased for 2026 (not on 2025 returns) due to cost-of-living adjustments as follows:

- Married filing jointly and surviving spouses: $32,200 (up from $31,500).
- Heads of households: $24,150 (up from $23,625).

- Singles and married filing separately: $16,1090 (up from $15,750).

Additional standard deduction amounts. For 2026, the additional standard deduction amount for age and/or blindness rises to $2,050 for single filers and heads of households and $1,650 for married filers (filing jointly or separately) and surviving spouses.

Chapter 1—Your Family

Dependents. While there are no personal and dependency exemptions, the definition of dependent continues to apply for various tax breaks (e.g., child tax credit; head of household status). In determining dependent status for 2026, a person can be your qualifying relative only if he or she has gross income below $5,300 (up from $5,200 in 2025).

Child tax credit. The maximum amount of the credit remains at $2,200 per qualifying child for 2026. The refundable child tax credit for 2026 is $1,700 (unchanged from 2025) per qualifying child.

Earned income credit. The earned income credit amounts, including adjusted gross income limits, have been increased due to a cost-of-living adjustment. As a result, the maximum earned income credit in 2026 is $4,427 for one qualifying child, $7,316 for two qualifying children, $8,231 for three or more qualifying children, and $664 for a taxpayer with no qualifying child.

The earned income credit cannot be claimed if investment income exceeds a set amount. For 2026, the limit is $12,200 (up from $11,950 in 2025).

Correction: The AGI phaseout range for taxpayers other than married filing jointly with one qualifying child is $23,350-$50,434.

Dependent care credit. For the example on page 17, the exclusion for reimbursement from an employer's dependent care plan cannot exceed $5,000 in 2025, regardless of the number of children.

Adoption credit. The adoption credit limit increases to $17,670 for 2026 (up from $17,280 in 2025). The modified adjusted gross income limits on eligibility for the credit have also been slightly raised for 2026. The refundable portion of the adoption credit in 2026 is $5,120 (up from $5,000 in 2025).

Trump accounts. See Chapter 8.

Chapter 2—Medical Expenses

Individual mandate. As of the end of 2025, individuals in California, Massachusetts, New Jersey, Rhode Island, and Vermont, and the District of Columbia face penalties if they do not comply with an individual health insurance mandate.

Premium tax credit. This refundable tax credit is designed to help individuals pay for the cost of health coverage for themselves and their dependents. To be eligible for the premium tax credit, your household income must be at least 100%, but no more than 400% of the federal poverty line (FPL) for your family size. Eligibility for the credit in 2026 is based on 2025 federal poverty lines for the 48 contiguous states and District of Columbia as shown in the following table.

Persons in the family/household	***Federal poverty guide (100%)***
1	$15,650
2	$21,150
3	$26,650
4	$32,150
5	$37,650
6	$43,150
7	$48,650
8	$54,150
More than 8	Add $5,550 for each additional person

*The guidelines are higher in Alaska and Hawaii; see https://aspe.hhs.gov/poverty-guidelines.

Important: The continues to be proposals to eliminate the 400%-of-FPL for 2026, so monitor what happens in Congress.

Other changes to the credit in 2026. If you receive the credit on an advanced basis and it turns out your allowable credit is less than the advanced amount, the amount of the excess advance payment of the credit is subtracted from your refund or added to your balance due. There is no repayment cap; the total difference is subtracted from your refund or added to your balance due.

Employer coverage is affordable in 2026—and no premium tax credit may be claimed if such coverage is offered—provided it is no more than 9.96% of household income.

Itemized medical expenses. For 2026, the IRS medical expense mileage rate is 20.5¢ per mile (down from 21¢ per mile in 2025).

Nonqualified medical expenses—medical marijuana. In December 2025, an executive order directed the Department of Justic to change the classification of medical marijuana from Class I to Class III controlled substance, *potentially* allowing it to be a deductible medical expense. Watch for IRS guidance on this matter.

Long-term care coverage. The portion of long-term care insurance premiums that are treated as a deductible medical expense in 2026 (not on 2025 returns) is in the following chart.

Age at the end of 2026	***Limitation on premiums***
40 or less	$500
More than 40 but less than 50	$930
More than 50 but less than 60	$1,860
More than 60 but less than 70	$4,960
More than 70	$6,200

Flexible spending arrangements (FSAs). In 2026, the maximum salary contribution to a health FSA is capped at $3,400 (up from $3,300 in 2025). The carryover limit of unused benefits in 2026 to 2027 is $680.

Excepted benefit health reimbursement arrangements (EBHRAs). In 2026, the maximum reimbursement is limited to $2,200 (up from $2,150 in 2025).

QSEHRAs. The maximum employer reimbursement under a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) for individually-obtained health insurance in 2026 is $6,450 for self-only coverage and $13,100 for family coverage (up from $6,150 and $12,450 respectively for 2025).

Health savings accounts (HSAs). The 2026 minimum and maximum amounts for high-deductible health plans (a prerequisite for HSAs) as well as contribution limits to HSAs have increased slightly:

Type of plan	***Minimum deductible under the plan***	***Maximum out-of-pocket costs***	***Maximum contribution****
Self-only coverage	$1,700	$8,500	$4,400
Family coverage	$3,400	$17,000	$8,750

*Those age 55 or older by the end of 2026 can add another $1,000, but no contributions are allowed if enrolled in Medicare.

Telehealth and remote care services provided without a deductible are permissible for HDHPs (this had been set to expire at the end of 2025 but has been made permanent).

In 2026, bronze and catastrophic coverage and direct primary care (DPC) arrangements are HDHP compliant and won't disqualify contributions to HSAs. But certain services are excluded from being treated as primary care services:

- Procedures requiring general anesthesia
- Prescription drugs other than vaccines
- Certain laboratory services

Pitfalls. While HSAs are very good tax vehicles, there are some drawbacks to consider. Depending upon the account custodian and investment choices, there may be hidden fees, low yields, and problems with portability (complexity; the need to initiate transfers when leaving a job; a tax cost when investments must be sold before funds can be transferred).

Correction: A refund from an amended return (paper or e-filed) *can* be deposited directly into an HSA. Attach Form 8888 to Form 1040-X. The IRS is no longer issued paper checks for refunds.

Archer medical savings accounts (MSAs). There are still some individuals covered by these health plans. Again, contributions to MSAs can only be made for those covered by a high-deductible health plan. The limits for 2026 have increased slightly:

Type of plan	*Minimum deductible under the plan*	*Maximum deductible under the plan*	*Cap on out-of-pocket expenses*
Self-only coverage	$2,900	$4,400	$5,850
Family coverage	$5,850	$8,750	$10,700

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2026 is $430 (up from $420 in 2025). Excess amounts are taxable to the extent they exceed actual long-term care costs.

Medicare. The "standard" premium for Part B coverage in 2026—the premium paid by most beneficiaries—is $202.90 per month (compared with $185 per month for 2025). The following table shows the 2026 surcharges and total premiums for higher-income taxpayers, which are based on modified adjusted gross income (MAGI) in 2024.

2024 MAGI for joint filers	***2024 for other filers****	***Total monthly Part B premium for 2026***	***Total monthly Part D premium for 2026***
Up to $218,000	Up to $109,000	$202.90	Your premium
$218,001 but not over $274,000	$109,001 but not over $137,000	$284.10	$14.50 + your premium
$274,001 but not over $342,000	$137,001 but not over $171,000	$405.80	$37.50 + your premium
$342,001 but not over $410,000	$171,001 but not over $200,000	$527.50	$60.40 + your premium
$410,001 but less than $750,000	$205,001 but less than over $500,000	$649.20	$83.30 + your premium
$750,000 or greater	$505,000 or greater	$689.90	$91.00 + your premium

* Married persons who live with their spouses at any time during the year but filed separately for 2024 are subject to a monthly premium in 2026 of $649.20 for Part B and $83.30 for Part D if 2024 MAGI was over $106,000 but less than or equal to $391,000, or $689.90 for Part B and a monthly premium of $91.00 for Part D if 2024 MAGI was $391,000 or more.

Forgiveness of medical debt. In addition to locations listed in the chapter, other locations forgiving medical debt include Connecticut, Illinois (and Cook County), North Carolina, and Pennsylvania.

Chapter 3—Education Costs

Employer-paid education assistance. The $5,250 limit on the exclusion for employer-provided education assistance (including repayment of student loans) is *not* increased for 2026. The limit may be adjusted for inflation after 2026.

Employer-paid student loan debt. An employer's educational assistance plan can pay for student loan debt—directly or as a reimbursement to an employee. The dollar limit for 2026 is $5,250 (unchanged from 2025).

Student loan interest deduction. The modified adjusted gross income (MAGI) phaseout range for the 2026 deduction (not on 2025 returns) is $85,000 to $100,000 for singles and $170,000 to $200,000 for joint filers.

Interest on U.S. savings bonds. The modified adjusted gross income limits on eligibility to claim the exclusion for interest on bonds redeemed to pay qualified higher education costs have been increased for 2026. The phase-out ranges for 2026 (not on 2025 returns) are $152,650 to $182,650 for joint returns and $101,800 to $116,800 for all other returns.

Coverdell ESAs. Funds *can* be used for home schooling *if* home schooling is recognized by your state as a form of primary or secondary education.

529 plans. Starting in 2026, the limit on distributions for primary and secondary schools is doubled to $20,000 per student. And distributions can be used for home schooling.

Long-term 529 plans. The annual rollover to Roth IRAs in 2026 from long-term 529 plans is $7,500. The lifetime rollover cap of $35,000 is fixed; it is not adjusted for inflation.

Cancellation of a student loan. The exclusion from income for the cancellation of most student loan debt expired on December 31, 2025, and was not extended. There continues to be an exclusion for the cancellation of student loan debt in specific situations:

- Death or total and permanent disability of the borrower
- Public Service Loan Forgiveness (PSLF) for those working for a qualifying public service employer
- Specific occupation loan forgiveness (e.g., doctors, teachers, etc. working in certain disadvantaged areas)

ABLE accounts. The annual contribution limit for 2026 is $20,000. The limit is no longer based on the amount of the annual gift tax exclusion.

Chapter 4—Your Home

Mortgages—acquisition indebtedness. Correction in **bold** to the example on page 117: "Since the home is completed within 24 months, interest for January **2025** through the end of construction is deductible on your 2025 return."

Private mortgage insurance. Starting in 2026, private mortgage insurance (PMI) is tax deductible for those who itemize, but income limits apply. The full deduction applies if adjusted gross income (AGI) does not exceed $100,000. The deduction is reduced by 10% for every $1,000 over the limit. No deduction is allowed if AGI exceeds $109,000. The limits are halved for married persons filing separately.

Cancellation of mortgage debt. The ability to exclude from income the cancellation of mortgage debt expired at the end of 2025 (it can be excluded on 2025 returns). Congress has not reinstated this exclusion but could do so in future legislation.

Home sale exclusion. While there have been legislative proposals to increase the exclusion amount or eliminate entirely any capital gains on a home sale, nothing yet has been enacted.

Moving expenses. No deduction can be claimed for work-related moving expenses except for certain military personnel. Those who qualify can figure their move-related driving at 20.5¢ per mile in 2025 (down from 21¢ per mile in 2025).

Disaster rules for casualties to your home. See Chapter 13.

Chapter 5—Retirement Savings

Traditional IRAs and Roth IRAs. The basic contribution limit for 2026 increases to $7,500 (up from $7,000 in 2025). The additional "catch-up" contribution limit increases to $1,100 (up from $1,000 in 2025) for those who are at least 50 years old by the end of the year.

The modified adjusted gross income (MAGI) limits on eligibility to make deductible contributions to a traditional IRA are increased for 2026, as are the MAGI limits for Roth IRAs.

Pitfalls. The 10% early distribution penalty is waived for victims of domestic abuse up to a set limit. For 2026, the limit is $10,500 (up from $10,300 in 2025), but no more than 50% of the account balance.

Starting in 2026, the 10% early distribution penalty is waived for the payment of long-term care premiums up to $2,500.

Starter 401(k). If an employer adopts a "starter 401(k)," the elective deferral for 2026 is $6,100, plus a $1,100 catchup contribution for those age 50 or older in 2026. These limits are up from $6,000 and $1,000 respectively in 2025.

401(k) and similar plans. The elective deferral contribution limit for a 401(k) plan in 2026 is $24,500 (up from $23,500 in 2025). The additional contribution limit is $8,000 for those who are age 50 or older by the end of the year for 2026 (up from $7,500 in 2025). The higher catch-up limit for those age 60, 61, 62, or 63 in 2026 is $11,250 (unchanged from 2025).

Self-employed retirement plans. The contribution, benefit, and other limits for these plans are increased for 2026. For example, the contribution limit for profit-sharing plans in 2026 is $72,000 (up from $70,000 in 2025).

Simplified Employee Pension plans (SEPs). The contribution limit for these plans for 2026 is $72,000 (up from $70,000 in 2025). The earnings threshold for including an employee in a SEP in 2026 is $800 (up from $750 in 2025).

Savings Incentive Match Plans for Employees (SIMPLEs)-IRAs. The 2026 contribution limit for SIMPLE-IRAs is $17,000 (up from $16,500 in 2025) and the basic additional contribution limit for those age 50 or older by the end of the year is $4,000 (up from $3,500 in 2025).

In 2026, there is an increased deferral limit of $18,100 and increased contribution limit of $3,850 if the employer has 25 or fewer employees receiving at least $5,000 of compensation or has more than 25 but not more than 100 employees and makes either a 4% matching contribution or a 3% nonelective contribution.

Regardless of the size of the employer, similar to the 401(k)s explained earlier, there are higher catch-up limits in 2026 for those age 60 to 63: $5,250 (regular catch-up of $3,500 times 150%).

Retirement saver's credit. The MAGI limits on eligibility to claim the retirement saver's credit for contributions to IRAs, 401(k)s, and similar plans, as well as to ABLE accounts, have been increased for 2026.

Charitable transfers of IRA distributions. Qualified charitable distributions from IRAs in 2026 by those age 70½ are limited to $111,000; they were limited to $108,000 in 2025. The limit for QCDs transferred to a charitable remainder trust or gift annuity is $55,000 in 2026 ($1,000 higher than the limit in 2025).

Qualified longevity annuity contracts (QLACs). The maximum amount of funds transferred from an IRA or qualified retirement plan into a QLAC is limited in 2026 to $210,000, which is unchanged from 2025.

PLESAs. The cap on contributions to a pension-linked emergency savings account (PLESA) in 2026 is $2,600 (up from $2,500 in 2025). The definition of highly-compensated employee barred from contributing to a PLESA in 2026 is an employee with earnings in 2025 of over $160,000 (unchanged from the prior limit).

Special rules for federal disasters. See Chapter 12.

Chapter 6—Charitable Giving

Cash donations. The rules for deducting charitable giving in 2025 are not changed. The rules for 2026 donations are different:

- For individuals who itemize, there is a new 0.1% floor; only contributions above this limit are deductible. And those in the 37% tax bracket only benefit from charitable contributions deductions to the extent of 35%.
- For those who claim the standard deduction, a deduction for cash contributions up to $1,000 ($2,000 for joint filers) is allowed.

Donor-advised funds. Qualified charitable contributions (QCDs) cannot be transferred to donor-advised funds. See Chapter 5.

Charitable gift annuity. The dollar limit on the use of a qualified charitable distribution to transfer funds to a charitable gift annuity in 2026 is limited to $55,000.

IRA transfers to charity. See Chapter 5.

Leave-based donation programs. The IRS did not announce any leave-based donation programs for 2025 that qualify for special treatment.

Chapter 7—Your Car

Business use of your personal car. The IRS set the standard mileage rate, used in lieu of deducting the actual costs of business driving at 72.5¢ per mile in 2026 (up 70¢ per mile from the rate in effect for 2025). If you use the standard mileage rate for a vehicle you own, you must reduce the basis of your vehicle by 35¢ per mile for driving in 2026 (up from 33¢ per mile in 2025).

Interest on car loans. Proposed regulations reiterate the conditions for claiming a deduction for interest on new car loans and apply for 2025 through 2028. They make it clear that the vehicle must be purchased for personal use, which means that it is used more than 50% for personal purposes. You must keep track of this use. The deduction limit of $10,000 applies per federal return, so if married persons file separately, each could potentially claim a $10,000 deduction.

For loans in 2025, the lender reports interest to the borrower (the car purchaser) on a statement. The statement should be furnished to the borrower by February 2, 2026. Starting in 2026, interest of $600 or more must be reported on a 1099. As yet, it is not clear whether Form 1099-INT will be used for this purpose (it's currently used to report interest on a bank account or money market fund) or if there will be a new form.

Credit for clean vehicles. Correction to Pitfall: The credit eligibility is not based on delivery, but as stated in the beginning of this section, the ability to claim the credit is determined by the acquisition date.

Chapter 8—Investing

Capital losses—wash sale rule. There has been no change for whether sales of digital assets are subject to the wash sale rule. At present, losses on digital asset transactions are not subject to the wash sale rule.

Capital gains and qualified dividends—taxable income breakpoints for capital gains rates. The following table shows the break points for capital gain rates for 2026 (this table does *not* apply to 2025 returns):

Rate	Married filing jointly (and surviving spouse)	Head of household	Single	Married filing separately
0%	Up to $98,900	Up to $66,200	Up to $49,450	Up to $49,450
15%	$98,901 - $613,700	$66,201 - $579,600	$49,451 - $545,500	$45,451 - $306,850
20%	Over $613,700	Over $579,600	Over $545,500	Over $306,850

Cryptocurrency transactions. For 2025 transactions, brokers must furnish Form 1099-DA by February 17, 2026. This form reports the gross proceeds from the sale or exchange of digital assets. Basis reporting by brokers on this form is voluntary for 2025 transactions, but is mandatory for 2026 transactions.

Reminder: If you engaged in any digital asset transaction in 2025, you must answer "yes" to the question on page 1 of Form 1040 or 1040-SR (do not try to submit a return leaving the answer blank). You do not have to check "yes" if you merely hold digital assets but did not have any transactions in the year.

Trump accounts. The IRS provided more guidance on Trump accounts, which supplements the information in Chapter 8.

- *Eligible investments.* During the growth period (until the child is 18), funds can only be invested in eligible investments (e.g., a mutual fund or exchange traded fund (ETF) that tracks an index of primarily U.S. companies. The trustee of the account must be a bank or other entity approved by the IRS. Annual fees and expenses cannot be more than 0.1% of the balance of the investments.
- *Distributions.* During the growth period, no distributions are permitted *except* for qualified rollover contributions, qualified ABLE rollover contributions, distributions of excess contributions, and distributions upon death of the account beneficiary. No hardship distributions are permitted.
- *Reporting.* During the growth period Trump accounts are subject to special reporting rules and not to IRA reporting. After the growth period, these rules cease to apply, and IRA reporting rules commence.
- *Employer contributions.* These are called Section 128 employer contributions.
- *Setting up a Trump account.* This is done by making an election on Form 4547, *Trust Account Election(s)* or through an online tool at https://trumpaccounts.gov/. At the same time, you can elect to receive a pilot program contribution (or any time before a beneficiary attains age 18). Note: Form 4547 can be filed with the 2025 income tax return. The online tool is expected to be available mid-2026.
- *Pilot program contributions.* They will be deposited in Trump accounts no earlier than July 4, 2026.
- *Contribution limits.* Other than the pilot program contribution, the aggregate for contributions (other than exempt contributions) is $5,000 per year in 2026 and 2027. The dollar limit will be adjusted for inflation thereafter.
- *Contribution deadline.* Unlike IRA contributions that can be made up to the due date of the return for the year to which the contributions relate, Trump account contributions can only be made during the calendar year (e.g., a contribution on January 31, 2027, is for 2027 and cannot be applied to 2026).

Chapter 9—Travel

Business travel per diem rates. The standard federal per diem rate set by the General Services Administration (GSA) for travel starting October 1, 2025, through September 30, 2026, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $178 per day ($110 for lodging and $68 for M&IE). There are about 300 locations that have a per diem rate exceeding the standard rate for all or part of the year. These rates are unchanged from FY 2025.

The high-low substantiation rates set by the IRS for areas within CONUS for the period October 1, 2025, through September 30, 2026, are $319 for travel to high-cost localities and $225 for travel to all other areas within CONUS. Of these rates, the meal portion is $86 for high-cost areas and $74 for all other areas within CONUS. The rates and the list of high-cost areas are unchanged from FY 2025.

Driving your car for medical purposes or by military personnel under certain conditions. The IRS standard mileage rate for 2026 is 20.5¢ per mile (a half penny lower than in 2025).

Chapter 10—Real Estate

Deduction for energy-efficient commercial buildings. In 2026 (not for 2025 returns), the deduction is $0.59 per sq. ft. and is increased (but not above $1.19 per sq. ft.) by $0.02 per sq. ft. for each percentage point by which the total annual energy and power costs for the buildings are certified to be reduced by a percentage greater than 25%. The applicable dollar value used to determine the increased deduction amount for property is $2.97 per sq. ft. increased (but not above $5.94 per sq. ft.) by $0.11 per sq. ft. for each percentage point by which the total annual energy and power costs for the building are certified to be reduced by a percentage greater than 25%. In both instances, the higher dollar limit applies when wage and apprenticeship (W&A) rules are met.

But the deduction will only apply for projects for which construction begins on or before June 30, 2026.

Special breaks for certain disaster victims. See Chapter 4 on relief for losses on personal residences.

Chapter 11—Borrowing and Interest

Home mortgage interest. See Chapter 4.

Student loan interest. See Chapter 3.

Borrowing from retirement plans. See Chapter 5.

Interest on new car loans. See Chapter 7.

Investment-related interest. See Chapter 8.

Chapter 12—Insurance and Catastrophes

Casualty, theft, and disaster losses. Starting in 2026, disasters declared by a state governor are treated the same as federally-declared disasters for purposes of claiming a deduction on a federal income tax return.

Disaster losses. For purposes of the 2025 tax return, the qualified disaster loss deduction for nonitemizers applies to losses resulting from federal disasters declared between January 1, 2020, and September 2, 2025 (the February 10, 2025, date mentioned in the book has been extended). Will Congress again extend this date?

Disaster areas. Check with FEMA for the latest disaster area declarations.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2026 is $430 per day (up from $420 per day from 2025); excess amounts are taxable to the extent they exceed actual long-term care costs.

Chapter 13—Taxes and Interest

Paying federal income taxes. Effective October 17, 2025, individuals are no longer able to create new enrollments via EFTPS.gov. Individual taxpayers not enrolled in EFTPS.gov by October 17, 2025, can instead create an IRS Online Account for Individuals or use the IRS Direct Pay guest path. Taxpayers who are already enrolled in EFTPS.gov can continue to make payments using EFTPS.gov, but are encouraged to transition to the IRS Online Account for Individuals or IRS Direct Pay. All individuals will be required to transition from EFTPS.gov later in 2026.

Chapter 14—Your Job

Overtime pay deduction. The 2025 Form W-2 does not specify qualified overtime payments eligible for the overtime pay deduction. Your employer may provide you with the information needed to figure your deduction for 2025. But there are some developments for 2026:

- Form W-4 for 2026 incorporates this deduction. If you are a non-exempt employee who receives overtime pay and your income is below the threshold to claim an overtime pay deduction, you can submit a new Form W-4 to your employer to reduce your withholding as a result of this deduction.
- To date, Congress has not expanded the definition of qualified overtime pay; it continues to apply only to payments under the FLSA.
- Form W-2 for 2026 has a new box 12, code TT, that will be used to report the total amount of qualified overtime compensation

Tips deduction. The 2025 Form W-2 does not call out cash tips eligible for the tips deduction. Your employer may provide you with the information needed to figure your deduction for 2025. But the 2026 Form W-2 has been revised as follows:

- New box 12, code TP, will be used to report the total amount of cash tips reported to the employer
- New box 14b will be used to report the Treasury Tipped Occupation Code(s)

The proposed regulations on the tips deduction have not yet been finalized. The public comment period ran through October and there has been no update so far.

Tips from specified service trades or businesses (SSTBs) generally do not qualify for the tips deduction. But transition relief for 2025 allow a deduction for tips if an employee works in an occupation that customarily and regularly receives tips, even if it is an SSTB.

Form W-4 for 2026 now incorporates this deduction. If you receive qualified tips and your income is below the threshold to claim the tips deduction, you can submit a new Form W-4 to your employer to reduce your withholding as a result of this deduction.

Correction: The deduction for tips is claimed on Schedule 1-A of Form 1040 or 1040-SR.

Educator expenses. If you are an educator, the cap on the above-the-line deduction for classroom expenses in 2026 is $350 (up from $300 in 2025). This option for deducting out-of-pocket educator expenses has *not* been eliminated. Amounts exceeding this limit may be deducted as an itemized deduction if you do not claim the standard deduction.

Performing artists. As yet, there is no change on the adjusted gross income limit of $16,000 for performing artists to deduct expenses without itemizing.

Military benefits. The IRS ruled that the one-time supplemental payment of $1,776 made primarily to active-duty members of the uniformed services in pay grades of O-6 and below and eligible Reserve Component members as of November 30, 2025, of the Army, Air Force, Navy, Marine Corps and Space Force of a certain pay grade is excludable from gross income (i.e., not taxable).

Dependent care assistance. The cap on dependent care assistance in 2026 is $7,500 (up from $5,000 in 2025).

Fringe benefits. Note changes for 2026 in dollar limits and other rules for certain employee benefits, including:

- ***Transportation fringe benefits***. The monthly exclusion for free parking, transit passes, and van pooling for 2026 is $340 (up from $325 in 2025).
- ***Adoption assistance***. The exclusion amount in 2026 for employer-provided adoption assistance is $17,670 (up from $17,280 in 2025).
- ***Section 128 employer contributions.*** Employer contributions to Trump accounts—called Section 128 employer contributions—can be up to $2,500 per employee (i.e., if an employee has twins, the excludable benefit is limited to $2,500). This may be offered under a salary reduction arrangement.

Income earned abroad. The maximum foreign earned income exclusion for 2026 is $132,900 (up from $130,000 in 2025).

Eligibility requirements may be waived for certain countries. The IRS has yet to announce any waivers for 2025 (it did not post the 2024 waivers until March 2025, so check for 2025 waivers that may appear in March 2026).

When a foreign earned income exclusion election is made and then revoked, it cannot be reelected for 5 years without IRS approval. In a private letter ruling, approval was granted for a taxpayer who revoked an election but then within the 5-year period changed employers and moved to another foreign country that had a lower tax rate for which an election would be helpful. Under regulations, approval is granted based on facts and circumstances, including: a move from one foreign country to another foreign country with differing tax rates, a substantial change in the tax laws of the foreign country of residence or physical presence, and a change of employer.

Wage withholding. If your circumstances have changed since 2025 (e.g., a spouse began to work or stopped working, you had or adopted a child) or you are eligible for the tips deduction, overtime pay deduction, car loan interest deduction, or senior bonus deduction, you may want to file a new withholding form (Form W-4) with your employer for 2026 to better estimate tax liability.

Those claiming exemption from withholding *must* file a new Form W-4 by February 17, 2026, to have the exemption effective for 2026. (Normally this would be due by February 15, but it is a Sunday in February, and the next business day—Monday—is President's Day, so the deadline becomes Tuesday, February 17, 2026.)

Chapter 15—Your Business

Qualified business income (QBI) deduction. The taxable income threshold is slightly higher for 2026 (not for 2025 returns):

Filing status	***Threshold amount***	***Phase-in range amount***
Married filing jointly	$403,500	$553,500
Married filing separately	$201,775	$276,775
All other filers	$201,770	$201,770

Changes to the QBI deduction. Starting in 2026 (not for 2025 returns), there is a minimum QBI deduction of $400 for businesses with at least $1,000 of QBI.

Equipment purchases. The limit on the first-year expensing deduction for 2026 is $2,560,000 (up from $2,500,000). This limit begins to phase out when purchases in 2026 exceed $4,090,000 (up from $4,000,000 in 2025).

Qualified production property expensing. The 100% deduction for the cost of qualified production property generally applies to new construction within the period explained in the chapter. The deduction also applies to also applies to costs related to certain unused property. This is a building or structure that has not been used in any qualified production activity by any taxpayer (not just you) from January 1, 2021, through May 12, 2025.

Self-employment tax. The wage base for the Social Security portion of the self-employment tax in 2026 is $184,500 (up from $176,100 in 2025).

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 72.5¢ per mile in 2026 (up from 70¢ per mile in 2025).

Those who own their vehicles and use the standard mileage rate for 2026 must reduce the vehicle's basis by 35¢ per mile (up from 33¢ per mile in 2025).

Start-up costs. As yet, there is no change in the rules for deducting start-up costs.

Beneficial ownership information reporting. On December 16, 2025, a unanimous federal appellate court upheld the constitutionality of the Corporate Transparency Act, a measure that created beneficial ownership information (BOI) reporting for certain entities. FinCEN had previously said it would not require *domestic* entities to do any reporting. Will this court decision change BOI reporting for domestic entities?

Sale of farmland. If you sold farmland after July 4, 2025, and elect to spread the capital gain over 4 years (assuming you are eligible to do so), the IRS says it won't penalize you for failing to include one-fourth of the gain in estimated taxes for 2025.

Payment for services—planning tips. The empowerment zone employment credit for workers within designated expired on December 31, 2025. It has not been extended.

Self-employment tax deduction. *Correction:* There is no deferral amount for 2025.

Farming-related breaks. Gain from the sale of farmland after July 4, 2025, may be spread over 4 years. This is explained later in this Chapter.

Chapter 16—Miscellaneous Items

SALT cap. For 2026, the limit on the deduction for state and local taxes (SALT cap) is $40,400 ($20,200 for married filing separately).

Refunds. The IRS reported that as of December 26, 2025, it had issued more than 103 million refunds out of the more than 165 million returns for 2024 received, with an average refund of $3,167.

IRS interest rate on refunds. The rate for underpayments and overpayments of federal income tax by individuals is 7% for the first quarter of 2026 (the same rate that applied for all of 2025). This rate may be adjusted quarterly.

Legal fees. The reasonable reimbursement rate for attorney's fees in 2026 when the IRS's position during an audit is not substantially justified and other requirements are met is $260 per hour (up from $250 per hour in 2025).

Gifts you receive. Gifts received are tax free, regardless of amount. The annual exclusion amount for making gifts in 2026 is $19,000 per recipient (the same as in 2025). Of course, the recipient can receive any amount tax free; the exclusion impacts only the gift tax, if any, owed by the person making the gift.

Gambling losses. Starting in 2026, the deduction for gambling losses is limited to 90% of losses. But there's been proposed legislation to restore the 100% offset of gambling losses to gambling winnings. Watch for developments.

Estate tax deduction on income in respect of a decedent. The 2026 estate tax exemption amount is $15 million.

Alternative minimum tax—exemption amounts. The AMT exemption amounts for 2026 (not for 2025 returns) are:

Filing status	***2026 exemption***
Married filing jointly/surviving spouse	$140,200
Single/head of household	$90,100
Married filing separately	$70,100

Exemption phase-out. The exemption amounts for 2026 start to phase out when alternative minimum taxable income (AMTI) exceeds $1,280,400 for married filing jointly and surviving spouses and $640,200 for other filers.

Alternative minimum taxable income. The adjustment for the standard deduction is inapplicable to net qualified disaster losses.

ABLE accounts. See Chapter 2.