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2016-2026

2026 Federal Tax Update-Individual

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Speaker: Ron Roberson CPA

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Continuing Education Information

Course Contents: Many firms wish to attend an annual update that covers all the changes that affect individuals in the current year, as well as a detailed analysis of how the new tax laws will affect your individual tax clients. This class will include the latest modifications from Congress as well as other relevant IRS Notices, announcements, ruling and court cases for individuals. In-depth extended coverage of the most common 1040 problem issues will provide attendees with practical, hands-on tools for the upcoming season.

Learning Objectives: Upon completion of this course you will be able to inform clients of the latest modifications from Congress, as well as other relevant IRS Notices, announcements, rulings, and court cases for individuals. Participants will be able to explain changes affecting expiring federal tax provisions, income & deduction issues, IRAs, retirement distributions & penalties, passive activities, and unusual items such as passive activities. The course will cover the most common 1040 issues and will provide attendees with practical, hands-on tools for the upcoming season.

Program Level: Intermediate
Prerequisites: 1 year tax preparation experience
Advance Preparation Required: None
Instructional Method: Group Live/Group Internet-Based
CPE Credit: 8
Field of Study: Update

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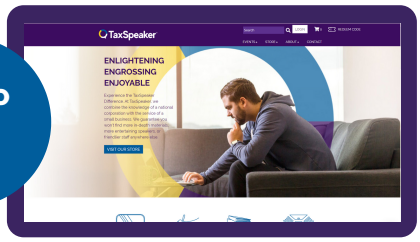

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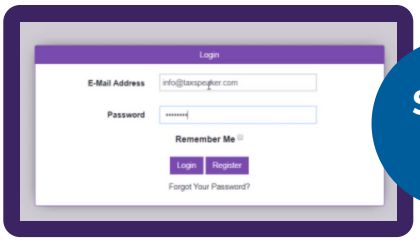

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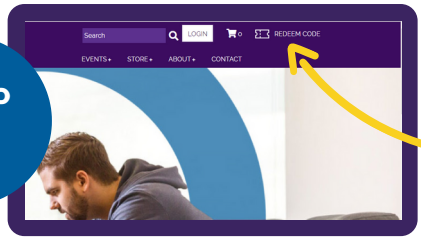
STEP 3



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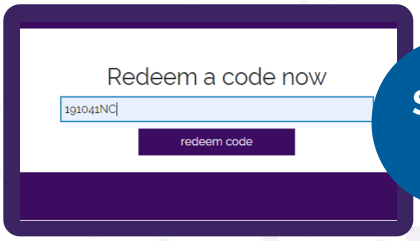

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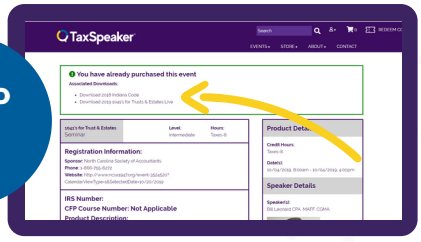

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SEMINAR EVALUATION FORM

Program Title: _____ Date: _____

Location: _____

Instructor:

☐ _____ Speaker 1 ☐ _____ Speaker 2

Instructions

On a scale of 1 (Low) to 10 (High), please evaluate the following:

Seminar & Manual: (1-Low, 10-High)

1. Were the stated learning objectives met? ___
2. If applicable, were prerequisite requirements appropriate & satisfactory? ___
3. Were course materials accurate? ___
4. Were the handouts or advance preparation materials satisfactory? ___
5. Was the power point presentation accurate & effective? ___
6. Were the course materials relevant and did they contribute to the achievement of the learning objectives? ___
7. Was the time allotted to the learning activity appropriate? ___
8. If applicable, were the instructors effective? ___
9. Were the facilities and/or technological equipment appropriate? ___

Speaker: (1-Low, 10-High)	Speaker No. #1	#2
1. Did the instructor cover the material in an effective manner?	___	___
2. Did the instructor clearly state his/her objectives?	___	___
3. Did the instructor meet the stated learning objectives?	___	___
4. Please rate the instructor's ability as a speaker	___	___
5. Please rate the instructor's ability as a teacher	___	___
6. Please rate the instructor's use of power point?	___	___

Facilities (1-Low, 10-High):

1. Were the meeting area and technological equipment appropriate? ___
2. Were the restroom facilities adequate? ___
3. Was parking adequate? ___
4. Was the seminar location convenient? ___

Other Items:

What additional topics would you like covered in future seminars?

_____

What was personally the most beneficial thing to you in this seminar?

_____

What was personally the least beneficial thing to you in this seminar?

_____

Other:_____

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Notes-You should take 2 types of notes during this seminar. The first type (margin notes) should be your notes to yourself in the pertinent manual topic area that helps you understand the material. The second type (specific notes) requires specific, immediate duties as soon as you return to the office.

Specific Notes	Client	Page

Notes-You should take 2 types of notes during this seminar. The first type (margin notes) should be your notes to yourself in the pertinent manual topic area that helps you understand the material. The second type (specific notes) requires specific, immediate duties as soon as you return to the office.

Specific Notes	Client	Page

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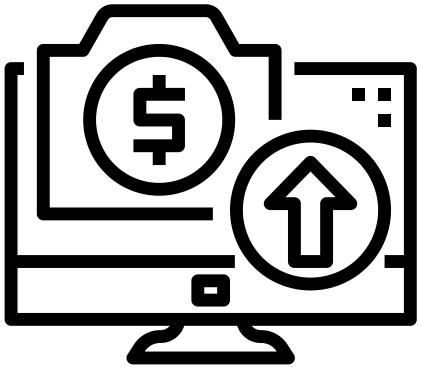

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MEET OUR **SPEAKERS**



Bob Jennings: CPA, EA

A prolific author, Bob has published over 60 professional articles in publications such as the Journal of Accountancy and was once a regular columnist for FoxBusiness.com; his award winning 1040 In Depth Manual is his Crown Jewel of penmanship. With over 45 years of continued practice, Bob brings humor and unmatched experience to his courses to keep listeners engaged and learning. As TaxSpeaker's founder and owner, he takes our motto of Excellence in Education seriously, leading our team of speakers and staff in continual growth and expansion over the last 20 years.



Bill Leonard: CPA, MAFF, CGMA

Bill Leonard CPA, CFFA holds licenses and memberships in Massachusetts, Rhode Island, Alaska and Singapore. He is the sole shareholder of W.A. Leonard & Company, P.C. and PT W.A. Leonard employing sixteen multi-lingual professionals that focus on meeting the needs of small businesses, individuals and fiduciaries. A graduate of Bentley University and Babson College, Bill has been in practice since 1981. He has over twenty years of college and seminar teaching experience.



Bob is dynamic and his style creates an environment for learning!



Terry Bakker: CPA, EA

Owner of O'Leary's Tax Service, Ltd. in Vancouver, Washington, Terry graduated with her BS in Business Administration from Portland State University in 1988 and has practiced tax services since. She has shown her dedication to the profession by serving as head of the Education Committee and former President of the Oregon Association of Independent Accountants. Terry continues to uphold her commitment by continually speaking and practicing, reaching the milestone of having spoken for all Tax Preparation associations in Oregon; she is now one of our nation-wide speakers.

MEET OUR **SPEAKERS**



Ron Roberson: CPA

Ron Roberson is a well-known tax lecturer who has more than 25 years of experience teaching throughout the United States. Ron annually speaks to thousands of tax professionals about the latest business and personal tax law developments, using his sense of humor and friendly speaking style to keep people coming back year after year. In addition to authoring multiple tax articles and manuals, Ron also actively works in his tax and accounting practice in Sonora, California. Ron uses real life examples from his practice to make tax issues come alive and to help complicated subject matter become clear.



Larry Pon CPA/PFS, CFP, EA, USTCP, AEP

Mr. Pon is a Certified Public Accountant, Personal Financial Specialist, Certified Financial Planner, Enrolled Agent, United States Tax Court Practitioner, and Accredited Estate Planner in Redwood Shores, CA. Mr. Pon has been in practice since 1986 providing comprehensive tax and financial planning, tax preparation and representation. Mr. Pon received his BS in Business Administration with emphases in Accounting and Finance from the University of California, Berkeley and MS in Taxation from Golden Gate University in San Francisco.



Ryan Jennings: IT

After setting up the network in his Dad's CPA firm at age 12, Ryan later went on to attend Ball State University and operate a computer security consulting business. He has been the Jennings Seminar IT Director since 2009, responsible for all IT, technological research, and development. He is a member of the Indiana IT Directors Association and a regular participant in the world wide Consumer Electronics show. He keeps TaxSpeaker on the cutting edge of business tech.

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7/23/26	Vehicle Deductions	9-11am	$135
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9/28 -9/29/26	Business Tax in Depth	10-6pm	$410
10/26/26	Big Beautiful Bill: Version 2	8-4pm	$410
10/29 -10/30/26	1040 Tax in Depth	9-5pm	$410
11/2/26	Federal Tax Update - Individual	9-5pm	$410
11/2 -11/3/26	1040 Tax in Depth	8-4pm	$410
11/5 -11/6/26	1040 Tax In Depth	10-6pm	$410
11/9-11/10/26	1040 Tax In Depth	10-6pm	$410
11/12-11/13/26	1040 Tax In Depth	9-5pm	$410
11/12/26	Federal Tax Update- Business & Individual	9-5pm	$300
11/13/26	Federal Tax Update - Business	9-5pm	$300
11/16-11/17/26	1040 Tax In Depth	8-4pm	$410
11/16-11/17/26	1040 Tax in Depth	9-5pm	$410
11/23-11/24/26	1040 Tax In Depth	10-6pm	$410
11/23-11/24/26	1040 Tax in Depth	9-5pm	$410
12/14-12/15/26	1040 Tax in Depth	8-4pm	$410
12/15/26	Payroll – Year end Compliance: W-2's and 1099's	12-2pm	$135
12/15/26	IRS Reporting Maze: Tips, Overtime, QCD & W-2's	3-5pm	$135
12/21-12/22/26	1040 Tax In Depth	11-7pm	$410
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12/29-12/30/26	Business Tax In Depth	9-5pm	$410
1/7-1/8/27	1040 Tax In Depth	10-6pm	$410
1/11-1/12-27	1040 Boot Camp	10-6pm	$500
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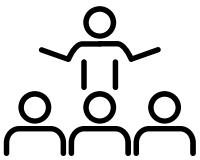

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Context and Legislative Background

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We break down each provision with clear explanations, real-world examples, and direct citations to the relevant statutory and regulatory authority. You'll see how the changes apply in practical scenarios, how they affect different taxpayer profiles, and what planning opportunities or compliance considerations may arise. The goal is simple: equip you to confidently apply the new law in your daily practice.

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11/9-11/10/26	1040 Tax in Depth	8-4pm	$450/$520

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			Early Bird/Regular Pricing
11/3-11/4/26	1040 Tax in Depth	8-4pm	$450/$520

Garden City, KS

The Refinery; 3122 Cecil Drive, Suite A Garden City, KS 67846

			Early Bird/Regular Pricing
11/12-11/13/26	1040 Tax in Depth	8-5pm	$450/$520

Independence, OH

Embassy Suites Cleveland Rockside | 5800 Rockside Woods Blvd., N, Independence, OH

			Early Bird/Regular Pricing
11/2-11/3/26	1040 Tax in Depth	8-4pm	$450/$520

Lincoln, NE

The Lincoln Marriott Cornhusker Hotel 333 S 13th St. Lincoln, NE 68508

			Early Bird/Regular Pricing
11/16-11/17/26	1040 Tax in Depth	8-4pm	$450/$520

Loveland, CO

Best Western Plus Loveland Inn 5542 E. Us Highway 34 Loveland, CO 80537

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9/28-9/29/26	Business Tax in Depth	8-4pm	$450/$520
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Doubletree by Hilton | 5151 Wiley Post Way, Salt Lake City, UT

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Sarasota, FL

Doubletree by Hilton | 8009 15th E, Sarasota, FL

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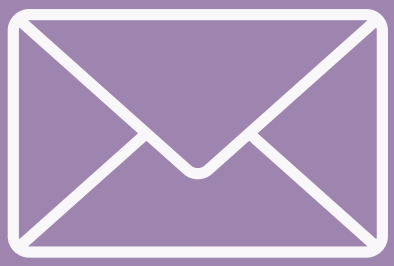

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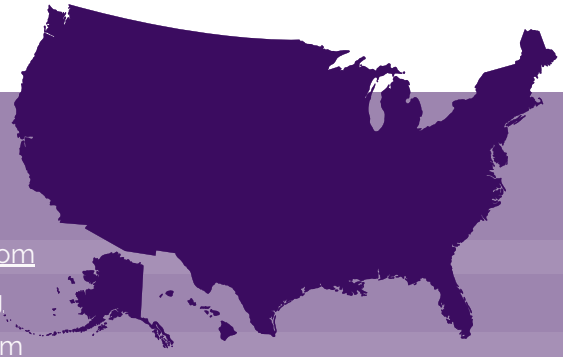

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Brief History of the Income Tax in the United States

(Source: Tax Foundation.)

Form 1040 – Overview

The nation had few taxes in its early history. From 1791 to 1802, the United States government was supported by internal taxes on distilled spirits, carriages, refined sugar, tobacco and snuff, property sold at auction, corporate bonds, and slaves. The high cost of the War of 1812 brought about the nation's first sales taxes on gold, silverware, jewelry, and watches. In 1817, however, Congress did away with all internal taxes, relying on tariffs of imported goods to provide sufficient funds for running the government.

Congress passed the Revenue Act of 1862, the nation's first income tax law, to support the Civil War effort. The law also established the office of the Commissioner of Internal Revenue. The Commissioner was given the power to assess, levy, and collect taxes, and the right to enforce the tax laws through seizure of property and income and through prosecution. This law was a forerunner of our modern income tax in that it was based on the principles of graduated, or progressive, taxation and of withholding income at the source. During the Civil War, a person earning from $600 to $10,000 per year paid tax at the rate of 3%. Those with incomes of more than $10,000 paid taxes at a higher rate. Additional sales and excise taxes were added, and an "inheritance" tax also made its debut. In 1866, internal revenue collections reached their highest point in the nation's 90-year history – more than $310 million, an amount not reached again until 1911.

In 1868, Congress again focused its taxation efforts on tobacco and distilled spirits and eliminated the income tax in 1872. It had a short-lived revival in 1894 and 1895. In the latter year, the U.S. Supreme Court ruled that the income tax was unconstitutional because it was not apportioned among the states in conformity with the Constitution.

In 1913, the 16th Amendment to the Constitution made the income tax a permanent fixture in the U.S. tax system. The amendment gave Congress legal authority to tax income and resulted in a revenue law that taxed incomes of both individuals and corporations. In fiscal year 1918, annual internal revenue collections for the first time passed the billion-dollar mark, rising to $5.4 billion by 1920. When the US entered World War II, employment increased, as did tax collections – to $7.3 billion. The withholding tax on wages was introduced in 1943 and was instrumental in increasing the number of taxpayers to 60 million and tax collections to $43 billion by 1945.

Enrolled agents were established after the Civil War to present damage claims from property seized during the War. After the 16th amendment was passed, EAs influence was extended to include claims for US citizens against income tax issues and taxpayer representation, culminating in Circular 230 during World War II. In contrast to attorneys and CPAs that are state-licensed, enrolled agents are federally licensed and obtain their license through either testing or IRS enrollment. They remain the only tax professionals in America licensed by the Federal government and required by law to take annual, federal income-tax specific continuing education.

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One Big Beautiful Bill Act (OBBBA) Makes Huge Changes to the Tax Code

The One Big Beautiful Bill Act (OBBBA) is a sweeping 870 pages of Federal law signed by the President into law on July 4, 2025. The law includes major tax, spending, healthcare, education, immigration, and energy provisions. Of particular interest here is the impact on the Internal Revenue Code. In addition to extending or making permanent most provisions of the Tax Cuts Jobs Act (TCJA), OBBBA significantly changed many existing tax law provisions, added multiple new code sections, and repealed several notable code sections. Overall, OBBBA is the most sweeping tax law change we've seen since at least 2017. The chart below summarizes the OBBBA impact on individual tax returns. The changes impacting businesses are discussed later.

Individual Tax Provisions of the OBBBA			
Description	**Pre-OBBBA**	**OBBBA**	**Effect Date**
Income Tax Rates	7 rates: 10%, 12%, 22%, 24%, 32%, 35%, & 37%	Rates made permanent	2026
AMT	TCJA increased AMT exemption and phaseout threshold	TCJA changes, with minor adjustments, made permanent	2026
Student Loan Debt Forgiveness	Most student loan debt forgiveness excluded if qualified debt	Only debt discharged due to student's death, disability, or for working in specified professions	2026
Standard Deduction	$15,000 (S), $22,500 (HOH), $30,000 (MFJ)	Raised to $15,750 (S), $23,625 (HOH), $31,500 (MFJ)	2025
Personal Exemptions	None (2018–2025)	Permanently repealed	2025
Senior Deduction (65+)	None	$6,000; AGI limits apply	2025–2028
Qualified Tips Deduction	Tips fully taxable	Deduction up to $25,000 to offset tip income; AGI limits	2025–2028
Overtime Pay Deduction	Fully taxable	Deduction up to $12,500 ($25K MFJ) to offset overtime income; AGI limits	2025–2028
Car Loan Interest	Not deductible	Up to $10,000 for new vehicles; AGI limits	2025–2028
SALT Deduction	Capped at $10,000	Increased to $40,000; AGI limits	2025–2029
Mortgage Interest	Deduction of up to $750K in acquisition debt interest; no mortgage insurance deduction	$750K cap retained; mortgage insurance premiums deductible	2025

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Individual Tax Provisions of the OBBBA			
Description	**Pre-OBBBA**	**OBBBA**	**Effect Date**
Charitable Contributions	Itemizers only	Up to $1,000 ($2K MFJ) above-the-line. New base threshold for itemizers	2026
Casualty/Theft Losses	Only Federal disasters	Includes federal and state-declared disasters	2026
Gambling Losses	Deductible up to 100% of gambling winnings	Deductible up to 90% of gambling winnings	2026
Moving Expenses	Not allowed except for military members	Permanently repealed except for military and intelligence officers	2026
Misc. Itemized Deductions	Not allowed	Permanently repealed	2026
Itemized Educator Expenses	Not deductible	Fully deductible; no 2% limit	2026
Itemized Deduction Limit	NA	Phased out for those in the 37% bracket	2026
Dependent Care Assistance	$5,000 max	Increased to $7,500	2026
Trump Accounts	None	New $5K children's savings accounts + $1K match from Treasury	2026
529 Plan K–12 Use	$10K limit	Increased to $20K	2026
Child Tax Credit	$2,000 per child under 17; $500 for other dependents	$2,200 per child under 17; $500 for other dependents; inflation adjusted	2025
Dependent Care Credit	20%–35% of up to $3K (1 child) or $6K (2+), based on AGI	20%–50% of same limits; higher credit % for lower AGI	2026
Adoption Credit	Up to $17,280; non-refundable	Up to $17,280; $5K refundable; inflation adjusted	2025
Premium Credit Repayment	AGI-based limits	No limit on repayment	2026
Scholarship Grant Credit	None	New $1,700 K–12 credit	2027
Estate and Gift Exemption Amount	$13.99 million	$15 million	2026
§1202 Stock Exclusion	Exclusion of gain up to $10 million for stock owned 5 or more years	Exclusion of gain up to $15 million, partial exclusion for stock held 3-5 years.	2026
Tax From Gains on Sales of Farmland	NA	May pay tax over 4 years	2026
Opportunity Zones (OZs)	Gains deferred if invested in OZs, future appreciation tax free. Expired 12/31/25	Permanently extended and added Qualified Rural Opportunity Funds	2026

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Form 1040 – Filing Issues, Filing Status and Dependents

2026 & 2027 Reference Table – Inflation Adjustments (Rev. Proc. 2025-32)		
Tax Item	**2026**	**2027**
Kiddie tax unearned income	$ 1,350	
Adoption credit (also Employer Adoption Assistance Limit)	$ 17,670	
Child tax credit	$ 2,200	
Educator deduction	$ 350	
Transportation fringe	$ 340	
Earning limit for Qualified Relative calculation	$ 5,300	
Max Cafeteria Plan FSA	$ 3,400	
Max Cafeteria Plan FSA carryover to following year	$ 680	
§179 Limit	$ 2,560,000	
§179 Phaseout begins	$ 4,090,000	
§179 SUV limit	$ 32,000	
QBI phase out – MFJ	$ 403,500	
QBI phase out – all others	$ 201,775	
Cash method limit	$32,000,000	
Foreign earned income exclusion limit	$ 132,900	
Late filing penalties – Form 1065/Form 1120S – per owner per month	$ 260	
Gift tax exclusion	$ 19,000	
QSEHRA maximum – single	$ 6,450	
QSERHA maximum – family	$ 13,100	

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2026 Rates, Brackets, etc. (Rev. Proc. 2025-32)

2026 Tax Brackets by Filing Status				
Tax Rate	Single	HOH	MFJ	MFS
10%	$0 - $12,400	$0 - $17,700	$0 - $24,800	$0 - $12,400
12%	$12,401 - $50,400	$17,701 - $67,450	$24,801 - $100,800	$12,401 - $50,400
22%	$50,401 - $105,700	$67,451 - $105,700	$100,801 - $211,400	$50,401 - $105,700
24%	$105,701 – $201,775	$105,701 – $201,750	$211,401 - $403,550	$105,701 – $201,775
32%	$201,776 - $256,225	$201,751 - $256,200	$403,551 - $512,450	$201,776 - $256,225
35%	$256,226 - $640,600	$256,201 - $640,600	$512,451 - $768,700	$256,226 - $384,350
37%	$640,601 or more	$640,601 or more	$768,701 or more	$384,351 or more

2026 Estate and Trust Tax Brackets	
Tax Rate	Bracket
10%	Up to $3,300
24%	$3,301 - $11,700
35%	$11,701 - $16,000
37%	$16,001 or more

2026 Capital Gain Tax Brackets				
Rate	Single	HOH	MFJ	MFS
0%	$0 - $49,450	$0 - $66,200	$0 - $98,900	$0 - $49,950
15%	$49,451 - $545,500	$66,201 - $579,600	$98,901 - $613,700	$49,951 - $306,850
20%	$545,501 or more	$579,601 or more	$613,701 or more	$306,851 or more

2026 Standard Deduction (*OBBBA Adjusted*)	
Filing Status	Standard Deduction Amount
Single	$16,100
HOH	$24,150
MFJ	$32,200
MFS	$16,100
Additional Standard Deductions	
Individual claimed as a dependent - unearned income only	$1,350 *or* $450 + earned income up to Std. Ded.
Additional blind or disabled or over 65	$2,050 Single, $1,650 MFJ

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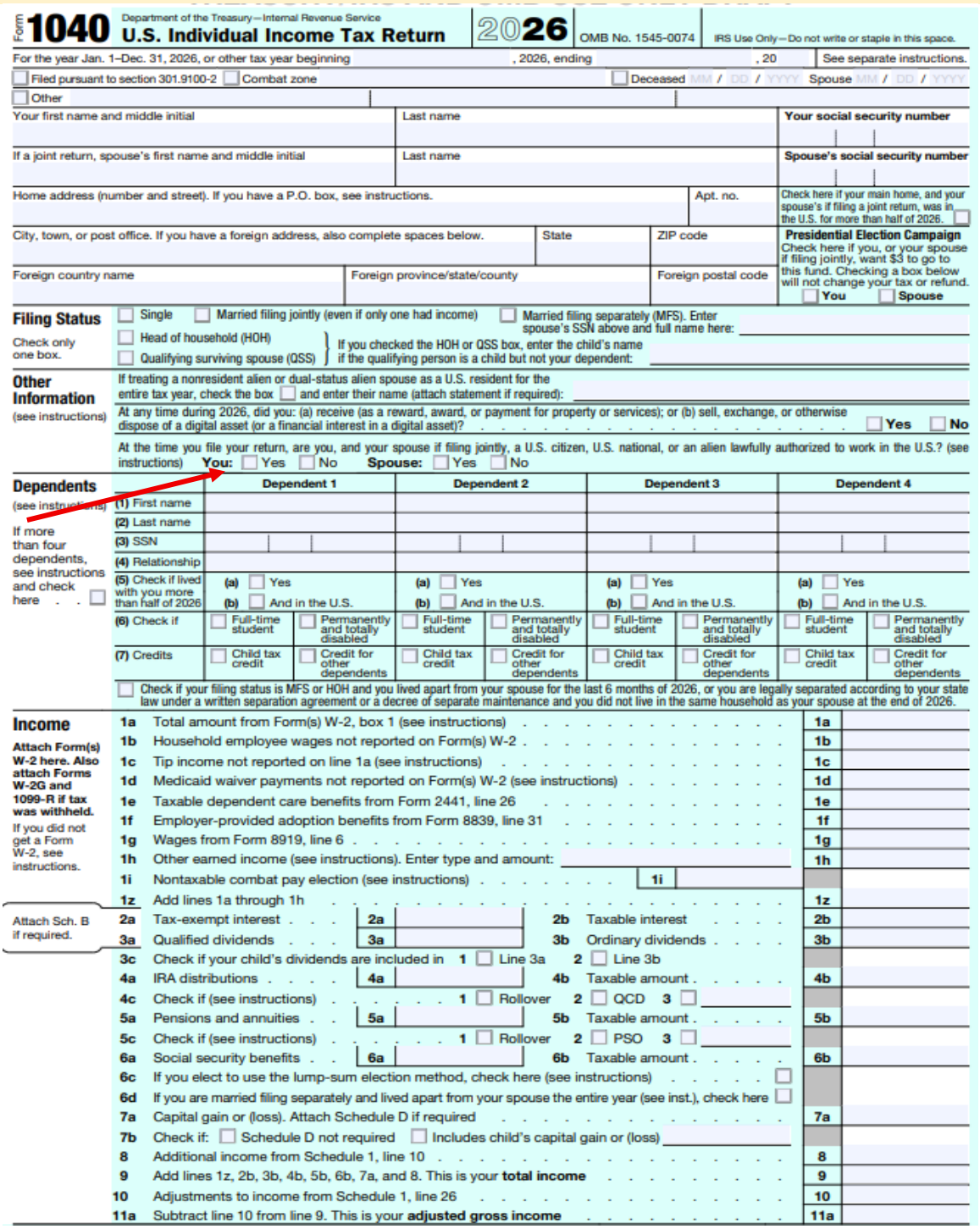
After several changes in 2025, this year's version of Form 1040 is mostly unchanged. Other than a few cosmetic changes, the 2026 draft Form 1040 is very similar to the 2025 version. There is a new citizenship question in the info section.



Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return** **2026** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2026, or other tax year beginning , 2026, ending , 20 See separate instructions.

☐ Filed pursuant to section 301.9100-2 ☐ Combat zone ☐ Deceased MM / DD / YYYY Spouse MM / DD / YYYY

☐ Other

Your first name and middle initial | Last name | Your social security number

If a joint return, spouse's first name and middle initial | Last name | Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2026. ☐

City, town, or post office. If you have a foreign address, also complete spaces below. | State | ZIP code | **Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Foreign country name | Foreign province/state/county | Foreign postal code

Filing Status Check only one box.
☐ Single ☐ Married filing jointly (even if only one had income) ☐ Married filing separately (MFS). Enter spouse's SSN above and full name here:
☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS) If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Other Information (see instructions)
If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box ☐ and enter their name (attach statement if required):
At any time during 2026, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? ☐ Yes ☐ No
At the time you file your return, are you, and your spouse if filing jointly, a U.S. citizen, U.S. national, or an alien lawfully authorized to work in the U.S.? (see instructions) **You:** ☐ Yes ☐ No **Spouse:** ☐ Yes ☐ No

Dependents (see instructions) If more than four dependents, see instructions and check here ☐

	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2026	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.
(6) Check if	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled
(7) Credits	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents

☐ Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2026, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2026.

Income
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)				1a
1b	Household employee wages not reported on Form(s) W-2				1b
1c	Tip income not reported on line 1a (see instructions)				1c
1d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)				1d
1e	Taxable dependent care benefits from Form 2441, line 26				1e
1f	Employer-provided adoption benefits from Form 8839, line 31				1f
1g	Wages from Form 8919, line 6				1g
1h	Other earned income (see instructions). Enter type and amount:				1h
1i	Nontaxable combat pay election (see instructions)	1i			
1z	Add lines 1a through 1h				1z
2a	Tax-exempt interest	2a	2b	Taxable interest	2b
3a	Qualified dividends	3a	3b	Ordinary dividends	3b
3c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b				
4a	IRA distributions	4a	4b	Taxable amount	4b
4c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐				
5a	Pensions and annuities	5a	5b	Taxable amount	5b
5c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐				
6a	Social security benefits	6a	6b	Taxable amount	6b
6c	If you elect to use the lump-sum election method, check here (see instructions) ☐				
6d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐				
7a	Capital gain or (loss). Attach Schedule D if required				7a
7b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)				
8	Additional income from Schedule 1, line 10				8
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**				9
10	Adjustments to income from Schedule 1, line 26				10
11a	Subtract line 10 from line 9. This is your **adjusted gross income**				11a

Attach Sch. B if required.

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Form 1040 (2026) Page 2

Tax and Credits	11b	Amount from line 11a (adjusted gross income)		11b
	12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
	12b	☐ Spouse itemizes on a separate return	12c ☐ You were a dual-status alien	
	12d	**You:** ☐ Were born before January 2, 1962 ☐ Are blind		
		Spouse: ☐ Was born before January 2, 1962 ☐ Is blind		
Standard deduction for— • Single or Married filing separately, $16,100 • Married filing jointly or Qualifying surviving spouse, $32,200 • Head of household, $24,150 • If you checked a box on line 12a, 12b, 12c, or 12d, see inst.	12e	**Standard deduction or itemized deductions** (from Schedule A)		12e
	12f	Charitable contribution deduction for non-itemizers (see instructions)		12f
	13a	Additional deductions from Schedule 1-A, line 44		13a
	13b	Qualified business income deduction from Form 8995 or Form 8995-A		13b
	14	Add lines 12e, 12f, 13a, and 13b		14
	15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your **taxable income**		15
	16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐		16
	17	Amount from Schedule 2, line 3		17
	18	Add lines 16 and 17		18
	19	Child tax credit or credit for other dependents from Schedule 8812		19
	20	Amount from Schedule 3, line 8		20
	21	Add lines 19 and 20		21
	22	Subtract line 21 from line 18. If zero or less, enter -0-		22
	23	Additional taxes, including self-employment tax, from Schedule 2, line 21		23
	24a	Add lines 22 and 23. This is your **total tax**		24a
	24b	Enter amount from Form 1062, line 15		24b
	24c	Add lines 24a and 24b		24c
Payments and Refundable Credits	25	Federal income tax withheld from:		
	25a	Form(s) W-2	25a	
	25b	Form(s) 1099	25b	
	25c	Other forms (see instructions)	25c	
	25d	Add lines 25a through 25c		25d
	26	2026 estimated tax payments and amount applied from 2025 return		26
If you have a qualifying child, you may need to attach Sch. EIC.		If you made estimated tax payments with your former spouse in 2026, enter their SSN (see inst.):		
	27a	Earned income credit (EIC)	27a	
	27b	Clergy filing Schedule SE (see instructions) ☐		
	27c	If you do not want to claim the EIC, check here ☐		
	28	Additional child tax credit (ACTC) from Schedule 8812	28	
	29	Refundable American opportunity credit from Form 8863, line 8	29	
	30	Refundable adoption credit from Form 8839, line 13	30	
	31	Amount from Schedule 3, line 15	31	
If you entered an amount on line 27a, 28, 29, or 30, attach Sch. 3-A.	32a	Add lines 27a, 28, 29, 30, and 31	32a	
	32b	Amount from Schedule 3-A	32b	
	32c	Subtract line 32b from line 32a		32c
	33	Add lines 25d, 26, and 32c. These are your **total payments**		33
Refund	34	If line 33 is more than line 24c, subtract line 24c from line 33. This is the amount you **overpaid**		34
	35a	Amount of line 34 you want **refunded to you**. If Form 8888 is attached, check here ☐		35a
Direct deposit? See instructions.	35b	Routing number	35c Type: ☐ Checking ☐ Savings	
	35d	Account number		
	36	Amount of line 34 you want **applied to your 2027 estimated tax**	36	
Amount You Owe	37	Subtract line 33 from line 24c. This is the **amount you owe** (see *www.irs.gov/ModernPayments*)		37
	38	Estimated tax penalty (see instructions)	38	

Third Party Designee Do you want to allow another person to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

Designee's name | Phone no. | Personal identification number (PIN)

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature | Date | Your occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Joint return? See instructions. Keep a copy for your records. Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)

Phone no. | Email address

Paid Preparer Use Only Preparer's name | Preparer's signature | Date | PTIN | Check if: ☐ Self-employed

Firm's name | Phone no.

Firm's address | Firm's EIN

Go to *www.irs.gov/Form1040* for instructions and the latest information. **freefile** Explore ways to file for FREE at ***www.irs.gov/FFForm***. Form **1040** (2026)

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2026 Filing Requirements

The permanent increase in standard deduction has permanently increased the filing threshold for all taxpayers. Add in the new senior deduction and the filing threshold for those age 65 and older is even higher.

2026 Filing Thresholds		
	Underage 65	Age 65 and Older
Single	**$ 16,100**	**$ 24,150**
Head of household	**$ 24,150**	**$ 32,200**
Married filing jointly	**$ 32,200**	**$ 47,500***
Married filing separate	**$ 5**	**$ 5**
Qualifying widow(er), surviving spouse	**$ 32,200**	**$ 39,850**
*** Assumes both spouses are age 65 or over. If only one spouse is age 65 or over, then filing threshold is $39,850.**		

In addition, regardless of income, U.S. citizens and residents (including residents of Puerto Rico) are required to file (or should file) an individual tax return if they meet any of the following criteria:

- Net earnings from self-employment are $400 or more.
- Children under age 24 who are subject to the Kiddie Tax unless their parents include their unearned income on the parent's return.
- Person was a resident alien for the entire year.
- Federal income tax was withheld from pay.
- Qualify for the earned income or the additional child tax credit.
- Qualify for the health coverage, AMT minimum, American Opportunity, fuel, adoption, or other refundable credit.

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Dependents (§152)

Fun Fact – Each year the Social Security Administration releases its list of the most popular baby names for the year.

Top 10 Baby Names of 2025		
Rank	**Boy name**	**Girl name**
1	Liam	Olivia
2	Noah	Charlotte
3	Oliver	Emma
4	Theodore	Amelia
5	Henry	Sophia
6	James	Mia
7	Elijah	Isabella
8	Mateo	Evelyn
9	William	Sofia
10	Lucas	Eliana

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Dependency exemption. The deduction for dependency exemptions was repealed several years ago. However, there are multiple other Internal Revenue Code sections that continue to rely on the definition of a dependent (e.g., EIC, Child Tax Credit, etc.). The 2026 earnings limit is $5,300.

Two dependent definitions and related tax attributes. A dependent for tax purposes must meet one of two definitions: a qualifying child or a qualifying relative. Different tax attributes apply for each definition.

- Qualifying child tax attributes include:
  - Child tax credit and additional child tax credit.
  - Earned income credit.
  - Dependent care credit.
  - Head of household filing status.

- Qualifying relative tax attribute:
  - Additional dependent credit.
  - In limited cases, head of household filing status.

- Both custodial and noncustodial parents may claim the following benefits for a qualifying child or relative:

  a. Medical reimbursements (§105 plans)
  b. Health insurance (§106)
  c. Excluded fringe benefits
  d. Medical expenses
  e. MSA and HSA distributions

- Only the custodial parent may claim:
  a. EIC
  b. Dependent care credit
  c. Head of household filing status

Qualifying child defined (§152(c)). Six tests are used to determine if a person is a "qualifying child" for a taxpayer:

1. Relationship test – must be the taxpayer's child, stepchild, foster child, sibling, stepsibling or descendent of any.
2. Age test – must be younger than the taxpayer and under age 19 (age 24 if a full-time student) or any age if permanently and totally disabled at the end of the year.
3. Abode test – lived with taxpayer more than half the year.
4. Support test – it is irrelevant who supports the child if the child does not provide more than half of her or his own support.
5. Citizenship test – must be a U.S. citizen, national, or a citizen of Canada or Mexico.
6. Joint return test – cannot file a return using the married filing joint filing status unless not required to file and filing only to collect withholding.

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Qualifying relative defined (§152(d)). Four tests are used to determine if a person is a "qualifying relative" for a taxpayer:

1. Qualifying child test – the child cannot be the taxpayer's or another's qualifying child.
2. Relationship test – includes all the relationships listed for qualifying children plus parents and stepparents (and their ancestors), uncles, aunts, and son-daughter-father-mother-brother and sister-in-law. Also, an individual (other than a spouse at any time during the year) who, for the entire tax year, has the same place of abode as the taxpayer and is a member of the taxpayer's household.
3. Support test – the taxpayer provides more than half of the qualifying relative's support.
4. Gross income test – the person's gross income for the year is less than the personal exemption amount (as defined in §151(d)). This amount is $5,300[1] in 2026.

Tax pro gets dependency wrong (Jack Goodwill-Oikerhe v. Comm., TC Memo 2026-18). Jack Goodwill-Oikerhe was a "highly educated" tax professional who prepared around 300 returns per year through his company – Golden Express International, Inc. (GEI). The IRS audited Jack's 2016 and 2017 tax returns and found issues with:

1. Claimed dependency exemption deductions;
2. Property tax deductions;
3. Unreimbursed employee expense deductions for vehicle and cell phone expenses;
4. Various business expense deductions for GEI; and
5. Fraud penalties for each of the years under audit.

The Court ruled in favor of the IRS on all issues. For the dependency deductions, Jack had two nephews, Chisa and Chinda Oparanma, both sons of his brother Mr. Oparanma. The nephews were born in 1997 and 1998, respectively. During 2016 and 2017, Chisa and Chinda attended school in Ukraine and did not live with Jack. Other than an occasional vacation visit, Jack was unable to document when these visits started or ended. He was unable to provide any evidence that the nephews lived with him. Jack did not provide any documentation to prove what expenses he paid for his nephews. The Court ruled that the nephews were not qualifying children or qualifying relatives for Jack.

Dependents and Divorce (§152(e); §1.152-4). Determining which parent may claim a child when the parents are divorced is a two-step process: 1) the parent with whom the child resides for a longer period of time during the taxable year is, by regulation, the custodial parent and is allowed to claim the child as a qualifying dependent, assuming the child otherwise qualifies; and 2) once the custodial parent is established, he or she may release claim to the exemption and allow the non-custodial parent to claim the child. For the non-custodial parent to claim the child, all the following criteria must be met:

1. The parents are divorced or legally separated under a decree of divorce or separate maintenance, and
2. They lived apart at all times during the last 6 months of the year.
3. The child received over half of his or her support for the year from the parents.
4. The child was in custody of one or both parents for more than half of the year.
5. The custodial parent signs a written declaration, Form 8332 or similar statement that he or she will not claim the child as a dependent for the year, and the noncustodial parent attaches this written declaration to his or her return.

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Preparer note. §1.152-4 clarifies which parent may claim a child as a dependent where the parents are divorced or live apart. The Regs state that a parent has custody of a child if one or both parents have the right under state law to physical custody of the child for more than ½ of the calendar year. The "custodial" parent is the parent with whom the child lived for the greater part of the year, determined by where the child spent the greatest number of nights during the year. The other parent is the "noncustodial" parent. A child resides with a parent for a night if the child sleeps in the parent's residence (even if the parent is not present) or in the company of the parent when traveling, such as on vacation. A night that extends over 2 years is allocated to the year the night begins. If the parents divorced or separated during the year and the child lived with both parents before the separation, the custodial parent is the one with whom the child lived for the greater part of the rest of the year.

Release of exemption to noncustodial spouse (Form 8332). A custodial parent uses form 8332 to release a child to a noncustodial parent for the current year, a specified number of years (for example, alternate years), or for all future years, as specified in the declaration. If the child is released for more than one year, the original release must be attached to the return of the noncustodial parent for the first year, and a copy must be attached for each later year. If the non-custodial parent omits Form 8332, they are not allowed to claim the child. Form 8332 is also used to revoke a previously granted release.

Preparer Tip. A common mistake made by taxpayers and tax professionals alike is allowing a noncustodial parent to take advantage of all the tax attributes associated with a qualifying child. A non-custodial parent may only claim head of household filing status if a child lived with them for more than half the year. In addition, the noncustodial parent may never claim the earned income credit nor the dependent care credit. When a noncustodial parent is allowed to claim a child, the noncustodial parent may only claim the dependency exemption and the child tax credit, education credits, and medical expenses.

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Form **8332**
(Rev. October 2018)
Department of the Treasury
Internal Revenue Service

Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent

► **Attach a separate form for each child.**
► **Go to *www.irs.gov/Form8332* for the latest information.**

OMB No. 1545-0074

Attachment Sequence No. **115**

Name of noncustodial parent

Noncustodial parent's social security number (SSN) ►

Note: This form also applies to some tax benefits, including the child tax credit, additional child tax credit, and credit for other dependents. It doesn't apply to other tax benefits, such as the earned income credit, dependent care credit, or head of household filing status. See the instructions and Pub. 501.

Part I Release of Claim to Exemption for Current Year

I agree not to claim an exemption for _____
Name of child

for the tax year 20 ____.

Signature of custodial parent releasing claim to exemption | Custodial parent's SSN | Date

Note: If you choose not to claim an exemption for this child for future tax years, also complete Part II.

Part II Release of Claim to Exemption for Future Years (If completed, see **Noncustodial Parent** on page 2.)

I agree not to claim an exemption for _____
Name of child

for the tax year(s) _____.
(Specify. See instructions.)

Signature of custodial parent releasing claim to exemption | **Custodial parent's SSN** | Date

Part III Revocation of Release of Claim to Exemption for Future Year(s)

I revoke the release of claim to an exemption for _____
Name of child

for the tax year(s) _____.
(Specify. See instructions.)

Signature of custodial parent revoking the release of claim to exemption | Custodial parent's SSN | Date

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Tie breaker rule (§152(c)(4); PR 1.152-2(g)). In some circumstances a child may be a qualifying child for more than one taxpayer. In such cases, the tie breaker rules state:

1. The child is the qualifying child of the parent; but
2. If neither taxpayer is a parent, the taxpayer with the highest AGI is entitled to claim the qualifying child.
3. If two parents are qualified to claim the child, either may do so. If both parents claim the child, then the following two tests are used to break the tie:
   a. First, the parent with whom the child spends the most time during the year may claim; but
   b. Second, if the time spent with each parent is a tie, then the parent who has the highest AGI may claim the child.

If the parents of a qualifying child do not claim the child, and the child is also a qualifying child of a non-parent, the child may be claimed as a qualifying child of the non-parent if her or his AGI is higher than the highest AGI of the child's parent.

Example 1. Cam is Robbie and Vanessa's son. Robbie and Vanessa are not married and lived together with Cam during all of 2026. Cam is a qualified child for Vanessa (AGI $52,000) and Robbie (AGI $23,000). Robbie and Vanessa may decide between the two of them which parent will claim Cam. If they do not agree, and they both claim Cam, the tie breaker rules dictate Vanessa qualifies to claim Cam as Vanessa's AGI is higher.

Example 2. Robbie lives with Vanessa, an unrelated friend, and Cam, Vanessa's 3-year-old son all of 2026. Robbie pays 100% of the household bills. Vanessa is eligible to claim Cam as a qualifying child, but she has no gross income and is not required to file a Federal income tax return. Because Vanessa does not have a filing requirement and in fact does not file a tax return, Cam is not treated as Vanessa's qualifying child. Robbie may claim Vanessa and Cam as qualifying relatives. However, Robbie cannot claim to be HOH as neither Vanessa nor Cam are related dependents for HOH purposes.

See:

2. **Melissa Correll v. Comm., TC Memo 2025-31** where Melissa Correll claimed her daughter, who lived full time with her father as a dependent. The Court determined Melissa did not have a signed form 8332 and therefore could not claim her daughter.

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Gross Income (§61)

2026 Form 1040, Schedule 1

SCHEDULE 1 (Form 1040)
Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2026
Attachment Sequence No. 01

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | Your social security number

For 2026, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Note

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			1
2a	Alimony received			2a
2b	Date of original divorce or separation agreement (see instructions):			
3	Business income or (loss). Attach Schedule C			3
4	Other gains or (losses). Check if any from Form(s): ☐ 4797 ☐ 4684			4
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			5
6	Farm income or (loss). Attach Schedule F			6
7	Unemployment compensation. If you repaid a 2026 overpayment (see instructions), check here ☐ and enter amount repaid:			7
8	Other income:			
8a	Net operating loss	8a	( )	
8b	Gambling	8b		
8c	Cancellation of debt	8c		
8d	Foreign earned income exclusion from Form 2555	8d	( )	
8e	Income from Form 8853	8e		
8f	Income from Form 8889	8f		
8g	Alaska Permanent Fund dividends	8g		
8h	Jury duty pay	8h		
8i	Prizes and awards	8i		
8j	Activity not engaged in for profit income	8j		
8k	Stock options	8k		
8l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l		
8m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m		
8n	Section 951(a) inclusion (see instructions)	8n		
8o	Section 951A(a) inclusion (see instructions)	8o		
8p	Section 461(l) excess business loss adjustment	8p		
8q	Taxable distributions from an ABLE account (see instructions)	8q		
8r	Scholarship and fellowship grants not reported on Form W-2	8r		
8s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	( )	
8t	Pension or annuity from a nonqualifed deferred compensation plan or a nongovernmental section 457 plan	8t		
8u	Wages earned while incarcerated	8u		
8v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v		
8z	Other income. List type and amount:	8z		
9	Total other income. Add lines 8a through 8z			9
10	Combine lines 1 through 7 and 9. This is your **additional income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8			10

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Gross Income Rules (§61)

Preparer note. Gross income per §61 means "all income from whatever source derived." In other words, the tax code default is any ascension to wealth is income to the person receiving the income unless there is a specific exception provided in the Code. It is well established that any statutory exclusions from income are narrowly construed (see Comm. v. Schleier et. al., 515 U.S. 323, SCt, No. 94-500, June 14, 1995). Taxpayers seeking an exclusion from income must demonstrate that they are eligible for the exclusion and "bring themselves within the clear scope of the exclusion" (Pavel and Ana Dobra v. Comm., 111 T.C. Dkt. 7573-97, Dec. 29, 1998).

A review of the 2026 draft Schedule 1 reveals there are very few substantive changes to the form from the final 2025 version.

Qualified Tuition Programs (§529)

Overview. §529 plans were adopted in 1996 as part of the Small Business Job Protection Act. The law established a Federal framework for qualified tuition programs (QTPs), allowing states to set up tax-advantaged accounts to help families save for higher education. These college savings plans and prepaid tuition programs were established by states in cooperation with mutual fund companies. Contributions are not Federally tax deductible, but earnings were tax deferred. If §529 plan distributions were used to pay for qualified higher education expenses (QHEEs), any earnings included in the distributions were Federally tax-free. Qualified expenses originally included expenses such as tuition, fees, books, and room and board (if more than half-time). This provision was made permanent in 2006.

Law changes enhance §529 plans, including allowing plan distributions for K-12 education expenses. The TCJA expanded §529 plans to allow up to $10,000 per year per student to be used for K-12 tuition. The SECURE Act further allowed §529 funds to be used for up to $10,000 (lifetime limit) toward student loan repayment and expanded qualified uses to include registered apprenticeship programs. The SECURE 2.0 Act changed the law to allow rollovers from §529 plans to Roth IRAs of up to $35,000 lifetime for the account beneficiary.

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Contribution limits. There are no Federal contribution limits, but most state plans have aggregate limits which, once reached, prohibit additional contributions. Some states provide credits or deductions for contributions to their state's plan.

State	Deduction – Single	Deduction – Married	Aggregate Limit
AR*	$ 5,000	$ 10,000	$ 500,000
ID	$ 6,000	$ 12,000	$ 500,000
IN	$ 3,750	$ 7,500	$ 450,000
IA	$ 6,100	$ 12,200	$ 505,000
KY	NA	NA	$ 450,000
MI	$ 5,000	$ 10,000	$ 500,000
MT*	$ 3,000	$ 6,000	$396,000
WV	Unlimited	Unlimited	$ 550,000
*State allows tax benefits for contributions to any state 529 plan.			

Contributions qualify for the Federal annual gift tax exclusion, and a special 5-year election allows front-loading up to 5 years' worth of gifts in one year. In 2026, this means that §529 plan contributions of up to $95,000 ($19,000 x 5 years) may be contributed for one beneficiary from one person.

§529 plan rule modifications. OBBBA made changes to the existing §529 plan rules in three areas:

1. **Qualifying expenses (§529(e)(3)).** OBBBA expanded the definition of qualified higher educational expenses for enrollment or attendance at an elementary or secondary school that qualify to be paid tax-free from §529 account. The expanded list applies to expenses incurred after July 4, 2025, and includes:

    a. tuition,
    b. curriculum and curricular materials,
    c. books or other instructional materials,
    d. online educational materials,
    e. certain tutoring or educational classes outside the home (tutor may not be related to taxpayer and must be a licensed teacher or expert),
    f. certain testing fees,
    g. fees for dual enrollment in an institution of higher education, and
    h. certain educational therapies for students with disabilities.

2. **K-12 distribution limits.** Beginning January 1, 2026, the annual limit for all K-12 expenses increased to $20,000 (was $10,000).

3. **Other exemptions (§529(f)).** For expenses incurred after July 4, 2025, §529 plan distributions may be used to pay or reimburse for qualified postsecondary credentialing expenses in connection with recognized postsecondary credential programs and recognized postsecondary credentials. Such expenses include:

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a. Tuition, fees, books, supplies, equipment, and related expenses for post-secondary credential programs (e.g., CPA exam review courses). Any expense that is a QHEE under §529 qualifies.

b. Fees for required testing necessary to obtain a job-related credential.

c. Continuing education costs associated with maintaining a postsecondary credential.

Recognized postsecondary credential (§529(f)(3)). A "recognized postsecondary credential" includes an industry-recognized postsecondary employment credential that is accredited by reputable organizations, listed in the Department of Defense's COOL directory, or identified by the Treasury Secretary in consultation with the Labor Secretary. It also includes:

- A certificate of completion of an apprenticeship registered under the National Apprenticeship Act.
- An occupational or professional license issued or recognized by a state or the Federal government.
- A credential defined in the Workforce Innovation and Opportunity Act.

Credential examples. Workforce training and credentialing costs would include expenses for skilled trades and vocational programs (like CDL training, HVAC, welding, plumbing, electrical work, and cosmetology), professional license and certification fees (such as for the CPA and bar exams), and required continuing education for various professions (including nurses, social workers, teachers, real estate agents, and financial advisors). Books, supplies, and equipment needed for these programs are also eligible.

Coordination with American Opportunity and Lifetime Learning Credits (§529(c)(3)(B)(v)). The total amount of qualified higher education expenses under §529 must be reduced by any amounts considered for the American Opportunity or Lifetime Learning Credits.

ABLE account contributions and §529 transfers enhanced and made permanent. The annual contribution limit to an ABLE account is equal to the annual gift limit ($19,000 in 2026) plus the ABLE beneficiary's earned income, up to the Federal poverty level for a one-person household in the state where the beneficiary lives. OBBBA permanently allows rollovers from a §529 plan to an ABLE account. The savers' credit is permanently allowed for contributions to ABLE accounts.

Foreign Earned Income and Housing Exclusions (Rev. Proc. 2025-32)

Description	2025	2026	2027
Foreign earned income - maximum	$130,000	$132,900	
Foreign housing - maximum	$ 39,000	$ 39,870	

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Cancelation of Debt Income (§108)

Overview. The cancelation of a debt by a creditor creates cancelation of debt income that must be included in the taxable income of the debtor. Cancelation of debt occurs because of the legal termination of the debt, a negotiation between the creditor and debtor, through the actions of a bankruptcy court, or via a gift from the creditor to the debtor. If the cancelation is intended as a gift the cancelation does not represent taxable income, although the lender may be required to file a gift tax return.

Exclusions available to reduce or eliminate recognition of CODI (Form 982). The Internal Revenue Code contains several exclusions that allow taxpayers who've received CODI not to report the CODI as taxable income. To take advantage of the exclusions, the taxpayer must file Form 982 with the return for the year the CODI was excluded or on an amended return filed within six months of the original due date of the return. If filing Form 982 with an amended return, write "Filed pursuant to Section 301-9100-2" at the top of the amended return. In some cases, the taxpayer must reduce tax attributes (e.g., basis in assets, NOLs, etc.) by the amount of excluded CODI. In such cases, a statement should be attached to the return, regardless of whether Form 982 is filed with the original return or with an amended return, which describes the transactions that resulted in the loss of basis and identifying the property whose basis was reduced. The exclusions that provide relief from CODI taxation are:

1. Bankruptcy (§108(a));
2. Insolvency, but only to the extent of insolvency (§108(a));
3. Qualified farm debt (§108(a));
4. Qualified real property business debt (for taxpayers other than C corporations) (§108(a));
5. Qualified principal residence indebtedness between 1/1/2007 and 12/31/2017 (§108(a));
6. Purchase money debt reduction (i.e., seller financing) (§108(e)(5));
7. Debt payments that would provide a tax deduction to the borrower (§108(e)(2));
8. Certain student loans (§108(f), Rev. Rul. 2008-34); and
9. Bona fide dispute.

Certain student loans. Student loans accepted by the student under conditions that the student will work in certain professions for a certain period are exempt from CODI if made by qualified agencies. Qualifying loans include student loans obtained:

- Directly from Federal, state or local government, from certain tax-exempt public benefit corporations; and from certain educational institutions if the educational institution has a program wherein a student loan is forgiven in return for a student's work in an area or profession with unmet needs and the program is supervised by a governmental unit or a tax-exempt §501(c)(3) organization.

- The taxpayer must attend a qualified educational institution and enter into a student loan agreement that makes provision for the discharge of debt in exchange for work, and then the amount of debt forgiven is excluded from taxpayer's gross income.

- The student loan agreement must specify the terms of Federal student loan forgiveness, in particular, the amount of time a taxpayer must work in an occupation or area with unmet needs.

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- The taxpayer should not receive a 1099-C for cancelation of debt income related to a student loan, so Form 982 would not be required.

Additional student loan CODI exclusion 2021 - 2025. The American Rescue Plan Act of 2021 modified the treatment of student loan forgiveness for discharges in 2021 through 2025. Taxpayers were allowed to exclude student loan debt forgiveness from gross income if the loan was one of the following:

- A loan for postsecondary educational expenses.
- A private education loan.
- A loan from an educational organization described in section 170(b)(1)(A)(ii). Or
- A loan from a tax-exempt organization under §501(a) to refinance a student loan.

Loan for postsecondary educational expenses. This is any loan provided expressly for postsecondary education, regardless of whether provided through the educational organization or directly to the borrower, if such loan was made, insured, or guaranteed by: the U.S., or an instrumentality or agency thereof; a state or territory of the U.S; or the District of Columbia; or any political subdivision thereof.

Student loan debt forgiveness rules changed for 2026 and beyond. The student loan debt forgiveness rules included in the American Rescue Plan Act expired at the end of 2025. Starting in 2026, student loan debt forgiveness will be tax-exempt only if:

1. The taxpayer worked for a certain period in certain professions for any of a broad class of employers in specified locations (§108(f)(1)).

2. The discharge was on account of death or total and permanent disability of the student (§108(f)(5)).

Social Security number required. The debt forgiveness exclusion does not apply to any discharge on account of death or disability during the tax year unless the taxpayer's Social Security number is included on the return for the year. A SSN is valid for this purpose only if it is issued to a U.S. citizen or person authorized to work in the U.S. and issued before the due date of the taxpayer's return. The omission of a correct SSN is treated as a mathematical or clerical error. This allows the IRS to summarily assess additional tax due to the omission without issuing a deficiency notice under §6213(b).

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Scholarships and Fellowships (§117)

Overview. A scholarship is an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of studies. The student may be either an undergraduate or a graduate. A fellowship is an amount paid for the benefit of an individual to aid in the pursuit of study or research. Whether the amount is taxable or not depends on the type of expense paid and whether the taxpayer is a degree candidate.

Taxation of scholarships and fellowships. A scholarship or fellowship is tax free only if:

- The taxpayer is a candidate for a degree at an eligible educational institution;
- It is used to pay qualified education expenses;
- It is not designated or earmarked for other purposes (such as room and board) and does not require (by its terms) that it cannot be used for qualified educational expenses; and
- It does not represent payment for teaching, research or other services required as a condition for receiving the scholarship.

Definitions

- **Candidate for a degree**. A taxpayer is a candidate for a degree if he or she:
    - Attends a primary or secondary school or is pursuing a degree at a college or university, or
    - Attends an accredited educational institution that provides a program that is acceptable for full credit toward a bachelor's or higher degree or offers a program of training to prepare students for gainful employment in a recognized occupation and is authorized under federal or state law to provide such program and is accredited by a nationally recognized accreditation agency.

- **Eligible educational institution.** An eligible educational institution is one whose primary function is the presentation of formal instruction and that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it regularly carries on its educational activities.

- **Qualified education expenses.** For purposes of tax-free scholarships and fellowships, qualified expenses include:
    - Tuition and fees required to enroll at or attend an eligible educational institution, and
    - Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students during instruction.

  Expenses that do not qualify include the cost of:
    - Room and board;
    - Travel;
    - Research;
    - Clerical help;

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- Equipment and other expenses that are not required for enrollment in or attendance at an eligible educational institution. This is true even if the fee must be paid to the institution as a condition of enrollment or attendance.

Scholarship or fellowship amounts used to pay these costs are taxable.

Seminal case law (Bingler v. Johnson, 394 U.S. SCt 741 (April 23, 1969). The controlling authority on whether a payment is an excludable scholarship is the Supreme Court's decision in Bingler v. Johnson. In the decision, the Court upheld §1.117-4(c), holding that §117 reaches only relatively disinterested, no-strings educational grants – payments made with no requirement of a substantial quid pro quo from the recipient. Where the recipient renders past, present, or future services in exchange for the payment, then the payment is compensation regardless of its label. The rule is codified in §117(c): the portion of a scholarship or fellowship grant representing payment for teaching, research or other services required as a condition of receiving the grant is not excludable.
Graduate assistantship stipends, most research fellowships tied to a service obligation, and employer funded "scholarships" for employees on educational leave are all taxable unless excludable under another code section (e.g., §127).

Example. Jordan attends Indiana University where he plays football. In 2026, Jordan receives a full scholarship that covers:

Tuition and required fees	$14,000	Non-taxable
Required textbooks and course supplies	$ 3,200	Non-taxable
On-campus housing (room)	$ 7,500	Taxable
Meal plan (board)	$ 5,000	Taxable
Cost-of-attendance stipend (cash for personal expenses)	$ 4,000	Taxable
Total	$31,700	

Non-taxable portion: $14,000 + $3,200 = $17,200
Taxable portion: $7,500 + $5,000 + $4,000 = $16,500

IU sends Jordan a Form 1098-T that reports total scholarship payments of $31,700 in Box 5. Box 1 shows qualified tuition and fees of $14,000. Jordan reports the $16,500 as income on Schedule 1, line 8r ("Scholarship and fellowship grants not reported on Form W-2"). Whether Jordan owes tax depends on his total income. If the scholarship is his only income, the standard deduction will absorb much of it. ***Taxable scholarships count as earned income when calculating a dependent's standard deduction.***

Preparer note. A child's support includes all amounts spent to provide the child with food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities. ***However, a scholarship received by the child is not considered support if the child is a full-time student.***

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Name, Image and Likeness (NIL) – More Complex Than Imagined

Overview. Generally, "NIL" income is fully taxable and usually comes with no withholding. However, the specific tax treatment of NIL payments is far from settled. For most NIL recipients, the effective Federal burden on third-party NIL income runs 25 – 35% once self-employment tax is included. The law and the types of revenue payments are evolving rapidly. Some of the most recent law and other developments include:

- **House v. NCAA settlement.** On June 6, 2025, a Federal district court approved an agreement to settle multiple college athletes' ongoing NIL litigation (House v. NCAA; Hubbard v. NCAA; Carter v. NCAA, etc.), collectively referred to as the House settlement. The House settlement allows in part for revenue sharing by institutions for the next 10 years. The settlement allowed participating Division I schools to pay athletes directly, starting July 1, 2025. The cap was $20.5 million per school for 2025–26 and roughly $21.6 million for 2026–27, rising at least 4% per year over the 10-year term.

- **Back-pay damages.** The House v. NCAA settlement also ordered the NCAA and the major athletic conferences to pay $2.8 billion in settlement damages to current and former athletes. The payments are required to be paid over 10 years rather than in a single lump sum. Distributions are currently paused pending appeal.

- **NIL Go.** The College Sports Commission reviews third-party NIL deals over $600 through the Deloitte-built NIL Go portal for a valid business purpose and a reasonable range of compensation. This review creates a useful paper trail on fair value and services required.

- **Federal law is still unsettled.** The SCORE Act would have declared athletes non-employees but it stalled in the House in 2026. The Senate's Protect College Sports Act is neutral on employee status. Executive Order 14400 (April 3, 2026) did not address employee status. So right now, there is nothing specific that addresses whether athletes are employees or independent contractors. Like any other worker, employers must look at the Dept. of Labor and the IRS control factors to determine worker classification. See full discussion in FTU Business manual.

- **Employee-status litigation.** In Johnson v. NCAA (Ralph T. Johnson, et. al. v. NCAA, 3rd CA, No. 22-1223, Feb. 11, 2024), the 3rd Circuit rejected the NCAA's argument that college athletes cannot be paid because they are amateurs. The Court noted that college athletes may be employees under the FLSA when they:

    a. Perform services for another party (e.g., a school);

    b. "Necessarily and primarily for the other party's benefit;

    c. Under that party's control or right of control; and

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d. In return for “express” or “implied” compensation or “in-kind benefits.”

NIL Collectives. NIL collectives are independent organizations, typically formed and funded by a university's boosters, alumni, fans, or local businesses, which gather money and use it to pay that school’s athletes for commercial use of their name, image, and likeness. Collectives operate separately from the university but supports its teams. It usually arranges activities such as public appearances, promotional content, autograph sessions, or charity events in exchange for payment. Since the 2025 House v. NCAA settlement, which allows schools to pay athletes directly, collectives are classified as third-party "associated entities." Payments made by third party collectives greater than $600 must be reviewed by the College Sports Commission (CSC) to confirm they reflect genuine NIL value rather than pay-for-play. The top-spending college football NIL programs in 2026 are:

1.	Ohio State	$49 – $54 million
2.	Oregon	$48 – $54 million
3.	Texas	$45 – $55 million
4.	LSU	$47 – $50 million
5.	Texas A&M	$45 – $50 million
6.	Miami	$44 – $50 million
7.	Notre Dame	$41 – $48 million
8.	Ole Miss	$39 – $45 million
9.	Tennessee	$41 – $43 million
10.	Alabama	$38 – $42 million

IRS makes its position clear that contributions to NIL collectives are not charitable contributions. The IRS concluded that NIL collectives often fail the §501(c)(3) operational test because they provide private benefit to athletes (AM 2023-004). More recently, the IRS determined that NIL collective’s only activity was creating opportunities for designated individuals to sell NIL property in exchange for services. This meant the collective served private interests, not a substantial non-exempt purpose (see PLR 202606003). Any income paid to athletes is includible in the athlete's taxable income.

Student athlete revenue sources. Currently, college (in some states high school) athletes receive five types of income:

1. **Third-party NIL and related payments** – NIL collectives are usually established by boosters, alumni, and fans to pool money to pay athletes in high profile sports such as football and basketball. They often arrange outside endorsement opportunities as well. While the focus is heavily on high profile sports, they may cover any sports offered at universities.

2. **National and local brand partnerships** – national and local businesses may pay NIL fees to athletes for use of their name, image, and likeness to market their services of products. Some examples include local restaurants, car dealerships, etc. Athletes would normally have responsibilities to make appearances, sign autographs, etc.

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3. **Entrepreneurial and social media ventures.** This includes youth sports camps, clinics, or creating and selling custom-branded sportswear. It can also include autograph revenue, appearance fees, and social media influencer revenue.

4. **Direct revenue-sharing payments from schools and/or the NCAA.** House v. NCAA created a revenue sharing model where participating Division I schools pay athletes directly. The cap was $20.5 million per school for 2025-26 and about $21.3 million for 2026-27.

5. **Scholarships** – discussed above.

NIL income is taxable. Regardless of source, every type of NIL income is gross income under §61. The real work is figuring out which category a specific income source lands in – SE income, miscellaneous income, investment income, wages, etc. The type of income received drives SE tax, the QBI deduction, retirement contributions, kiddie tax, and state tax nexus.

Income classification. Athletes are likely to receive income from multiple revenue types. Some of the more common are discussed below:

- **Services versus royalty.** Schools often label revenue sharing as a license of the athlete's NIL and report it on 1099-MISC box 2, royalites. This allows the school to avoid issues related to employment characterization. Royalty treatment keeps the income off Schedule SE, but this characterization is highly suspect when the agreement requires the athlete to provide services such as practice, competition, media appearances, etc.

- **House v. NCAA back pay settlement.** The back pay included in the House v. NCAA settlement is ordinary income. Attorney fees for lawsuit settlements are generally not deductible.

- **Employee or contractor.** It appears for now that third-party brand deals will remain independent-contractor income. School revenue sharing is still a question. In 2025 schools mostly reported payments on 1099s because schools could not add athletes to payroll mid-year. From the author’s perspective, it is likely that the athletes will be school employees. W-2 treatment is expected to be much more prevalent in 2026 and future years.

- **Payments are not gifts.** Booster or collective payments with little or no required services are taxable income. Payments motivated by athletic performance or recruiting are not detached and disinterested generosity as required for a gift (Duberstein v. Comm.).

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- **Noncash compensation.** Free merchandise, equipment, vehicle use, travel, and meals received for NIL services are taxable income, regardless of whether there is an information return.

Preparer note. It is important for practitioners to remember that the form a payer sends does not decide the tax treatment, and missing forms do not make income nontaxable. All NIL income must be reported even without a 1099 or W-2, including merchandise, gift cards and services received.

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Description	Third Party NIL	Brand Partnerships	Business Ventures	Direct School Payments*	Scholarships
Payor reporting form	Passive – 1099-MISC, box 2 Services required – 1099-NEC	1099-MISC or NEC	1099-NEC	1099-MISC, 1099-NEC, or W-2	1098-T
Subject to income tax	Yes	Yes	Yes	Yes	Maybe – see discussion
Non-cash payments – cars, food, gear, crypto, etc.	Taxable	Taxable	Taxable	Taxable	Taxable
Recipient reporting form	Sch E or Sch C	Sch E or Sch C	Sch C	Form 1040, Sch E or C	Sch 1, Line 8r if taxable
SE taxable	Yes, if services provided	Yes, if services provided	Yes	No	No
QBI	Yes if 1099-NEC	Yes if 1099-NEC	Yes	Yes if 1099-NEC	No
Kiddie tax	Yes if 1099-MISC	Yes if 1099-MISC	No	Yes if 1099-MISC	No
*** Unsettled; many contracts require participation and appearances**					

Preparer note. Read the NIL contract. This is the only way to know how to report any related income. The substance of what the athlete must do controls, not the box the payer checks.

Dependency and family returns. A full-time student under age 24 remains a qualifying child only if the student does not provide more than half of his or her own support. NIL money spent on the athlete's own housing, food, and expenses counts toward that test. Any NIL or other money that is saved by the student is not considered for the support test. If the student is no longer a dependent of the parent:

- The parent loses the $500 credit Other Dependent Credit and Head-of-Household filing status.
- Any available American Opportunity Tax Credit moves to the athlete.

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Kiddie tax and minors. The kiddie tax applies to children under age 19 and full-time students under age 24 whose earned income does not exceed half their support. This is true even if the FT student is not a dependent of the parent. If the athlete has substantial royalty income, not earned income, the royalty income would be unearned income and potentially subject to tax at the parents' rate.

High school athletes. Some states permit NIL payments to be made to high school athletes. If so, the high school athletes have the same filing and SE obligations as college athletes. Parents remain responsible for the minor's return in practice.

International athletes. F-1 students (international students who hold a non-immigrant visa to study full-time in the US) are usually exempt individuals for the substantial presence test for five calendar years, which means they file taxes as nonresident aliens using Form 1040-NR plus Form 8843. U.S.-source service income is effectively connected income required to be reported by the student who is not allowed a standard deduction (there are some treaty exceptions). Royalties are FDAP income subject to 30% withholding unless a treaty reduces it on Form W-8BEN. Nonresident aliens do not pay SE tax, but F-1 work restrictions are a serious immigration issue; routing pay as passive royalties to stay within visa limits is a very serious potential problem. NIL services performed while at home or abroad are foreign source.

State and local tax. It appears that college athletes will be treated the same as professional athletes for purposes of reporting for state and local income tax. The process involves first determining domicile (often the home state) versus statutory residency in the school's state; many athletes file part-year or nonresident returns in two states and claim a credit for taxes paid to the other. Service income is sourced where the services are performed; royalties are sourced to the domicile state. States tax professional athletes by duty days – a discussion for another day.

Practitioner checklist and open issues. Until Congress, the IRS, or the courts act, document every characterization position from the contract terms, because revenue-sharing treatment could change for 2026 or later years. We have prepared the checklist below to assist practitioners whose clients are subject to tax on any NIL income.

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NIL Engagement Checklist		
Task	**Completed by**	**Date**
Inventory various NIL income streams: brand deals, collective payments, revenue sharing, platform income, noncash items, settlement damages. Confirm residency, domicile, and visa status; identify every state where services were performed		
Read each contract and classify as services, passive license, or wages; note if the payer's 1099, etc. is incorrect for the income type		
Capture deductible expenses and agent fees; open a Roth IRA, SEP, or solo 401(k) where earned income supports it		
Evaluate entity structure only after a year of reliable net income		
Coordinate with the athlete's agent, compliance office, financial-aid office, and (for international athletes) immigration counsel		
Revisit dependency, support, kiddie tax, and AOTC on both the athlete's and the parent's returns		
Set up quarterly estimates or W-4 withholding and a tax reserve account		

Issues to keep an eye on. As noted, the NIL era and related tax law is in its infancy and is evolving rapidly. Royalties, self-employment income, wages – no IRS guidance has addressed these payments or the COA stipends.

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Comprehensive Example. Marcus Reed is a 20 year old junior guard for the University of Kentucky men's basketball team. Marcus is domiciled in Texas (his parents' home, driver's license, voter registration are all in Texas). Marcus is single and a full-time student. He lives on campus during the school year. Other pertinent data includes:

• Marcus is on a full athletic scholarship that includes tuition, books, equipment, room and board, as well as a cost-of-attendance stipend.
• Kentucky opted into the House settlement and is making revenue-sharing payments. Marcus received $60,000.
• Marcus has an agent who takes a 5% commission on any third-party NIL deals.

Step 1: Inventory every payment and figure out where it is to be reported on the return.

#	Payer and Type	Amount	Form Received	Character	Form
1	University revenue share	$ 60,000	1099-MISC	Royalty	Sch E
2	NIL collective	$ 45,000	1099-NEC	Service	Sch C
3	Shoe brand – cash	$ 12,000	1099-NEC	Service	Sch C
4	Shoe brand – shoes FMV	$ 3,000	None	Service in kind	Sch C
5	Local car dealership – use of car	$ 6,000	1099-NEC	Service in kind	Sch C
6	Social media posts	$ 8,500	None	Service	Sch C
7	Autographs	$ 2,500	None	Service	Sch C
8	Local restaurant gift cards	$ 400	None	Service	Sch C
9	Scholarship – tuition	$ 38,000	1098-T	Qualified scholarship	NA – no tax
10	Scholarship – room & board	$ 14,000	1098-T	Non-qualified scholarship	Sch 1, 8r
11	Cost of attendance stipend	$ 5,000	1098-T	Non-qualified scholarship	Sch 1, 8r

Key points to note:

• In-kind items count. The gear (4), the car (5) and the gift cards (8) are income at FMV.
• No 1099 doesn't mean no income.
• Royalty vs. services can split a single deal. For example, a photo-shoot fee is self-employment income, while a separate fee for later use of the image is a royalty. It is important to read each contract to properly classify income.

Step 2: Schedule C income. Marcus's net Sch C income, after deducting agent fees, mileage and cell phone related deductions, is $71,935. This includes payments he received for appearances, posts, shoots, and signings. Note that Marcus is not allowed deductions for personal training, nutrition, and haircuts, even though he's an athlete whose brand is his body. Marcus owes SE tax on the profit, but is allowed a QBI deduction, assuming his income is below the SSTB threshold.

Step 3: Schedule E for the school revenue share. The $60,000 University revenue share is reported on Schedule E, Part I, as royalty income. SE tax does not apply. It is likely the Sch E royalties are not QBI as they are not related to a trade or business. Schools have structured these

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House-settlement payments as a group license of athletes' NIL for broadcasts and other uses, and IRS guidance says pure-likeness royalties belong on Schedule E and not Schedule SE. Note, the royalty label is a position, not a settled rule. The IRS may argue that athletes are required to practice, travel and play to keep receiving the money, which looks like pay for services. This is a developing area.

Step 4: Scholarship and education items. The $14,000 portion of scholarship that is attributable to room and board plus the $5,000 stipend are taxable and are reported on Schedule 1, line 8r. The American Opportunity Credit would not apply as Marcus's tuition was fully covered by his scholarship.

Key point – Dependency and kiddie tax – Marcus is not a qualified child or dependent for his parents as he pays for more than 50% of his own support. Also, as Marcus is a full-time student under age 24, he is potentially subject to Kiddie tax. However, Marcus's earned income pays more than half of his support (scholarships are treated as earned income for this purpose) so Kiddie tax does not apply.

Step 5: Calculate the income tax. Marcus's Federal tax is calculated at $31,027: $20,863 of income tax plus $10,164 of self-employment tax. Marcus owes no Texas tax but must file a Kentucky nonresident return for income earned in Kentucky. A student living on campus usually keeps his home-state domicile. The preparer will also have to consider if Marcus owes tax to other states where he earned income.

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Other Gross Income Developments

Social Security Benefits Issued in Error and Repaid Still Taxable (Michael Smith v. Comm., TC Memo 2026-25; §86(d))

Michael Smith had a disabling injury so in April 2022 he applied for Social Security Disability Insurance benefits. The SSA initially approved Micheal's application in November 2022 and awarded him retroactive SSDI benefits (in a lump sum) from March 2022 through November 2022. SSA then paid him monthly SSDI benefits in December 2022 and the first three months of 2023.

SSA changed its mind. In April 2023 SSA ceased making disability payments and notified Michael the disability payments stopped as of April 2023 because SSA discovered Michael was working since April 2022. SSA determined Michael should never have received disability benefits and ordered that he repay 100% of the benefits received.

IRS says so what – benefits paid are benefits taxable. The IRS calculated that $22,782 – 85% of the $26,802 of SSDI benefits Michael received during 2022 – were includible in his 2022 gross income. Michael agreed with the IRS calculation but excluded the entire amount of SSDI benefits from his 2022 gross income on his tax return. Michael argued his SSA benefits should be excluded because he was required to repay 100% of the SSDI benefits he received in 2022. Michael argued the amounts he received were tantamount to a loan that should be excluded from his income.

Court sides with IRS – regardless of fairness. Noting that Michael's position is reasonable, the Court rule that he must include the 2022 SSDI payments in his 2022 gross income to the extent required by §86. Michael's repayments during 2023 and 2024 do not affect his 2022 tax liability because the payments he received during 2022 are reduced only by "any repayment made by the taxpayer during the taxable year" (§86(d)(2)(A)). Any relief to which Michael may be entitled must be determined for the tax year in which the repayment was made (§86(d)).

> **Practitioner note.** For Social Security purposes, each year stands alone, and all calculations of taxable or non-taxable benefits are determined for that year only.

So, you pay the tax and then pay the benefits back and get whipsawed? Given the way these rules interact, the taxpayer gets whipsawed – include the income and then get no deduction even if the income is paid back. The claim of right rules are provided to prevent this from occurring (§1341). Claim of right provides relief if:

1. The amount was included in gross income in a prior year because the taxpayer had an unrestricted right to it; and

2. It was later established the taxpayer did not have that right; and

3. The deductible amount exceeds $3,000.

The claim of right relief is computed in two methods, and the taxpayer uses whichever gives the lower tax. The two methods are:

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1. Amount of tax in the year of repayment after deducting the amount repaid up to the original amount included in the taxpayer's gross income. The deduction is a miscellaneous itemized deduction not subject to the 2% AGI threshold (i.e., is still deductible).

2. Claim a tax credit for tax decrease that would have applied had the item been excluded from income on the original return. If the credit exceeds tax for the year it is claimed, any excess is refundable.

Preparer note. The relief provided under §1341 is allowed regardless if the statute of limitations has lapsed for the year the original tax was assessed.

Example. From the case above, assume Micheal's 2022 and 2023 AG were $60,000 and $62,000 respectively, without regard to SSDI benefits. Assume Micheal paid back all the Social Security DI benefits in 2023 that he received in 2022. Also assume Michael has other itemized deductions of $4,000 in 2023.

Option 1 – Itemized deduction. Michael is allowed a deduction of $22,782 on his 2023 Schedule A. His total tax is calculated:

2023 gross income (no SSDI)	$ 62,000
Itemized deductions ($22,782 + $4,000)	($26,782)
Taxable income	$ 35,218
2023 tax	$ 4,006

Option 2 – credit for tax paid in 2022. Recompute 2022 tax without $22,782 SSDI benefits:

	As Filed	**2022 Without SSDI**	**2023 Without SSDI**
AGI	$ 82,782	$ 60,000	$ 62,000
Standard deduction	($12,950)	($12,950)	($13,850)
Taxable income	$ 69,832	$ 47,050	$ 48,150
Tax	$ 10,980	$ 5,968	$ 5,901
Decrease in 2022 tax (credit)	**$5,012**		**($ 5,012)**
2023 Net Tax			**$ 889**

Option 2 produces a 2023 tax of $889, compared with $4,006 under Option 1. The taxpayer uses the credit method, which saves $3,117 compared with the deduction.

See also: Charmain A Gray v. Comm., TC Memo 2026-61, where taxpayer unsuccessfully argued that taxation of SS benefits constitutes "double taxation" because she previously paid Social Security taxes on her wages. The Court ruled Congress expressly provided in §86 that SS benefits may be subject to income tax when a taxpayer's income exceeds certain thresholds. Gray's assertion that taxing SS benefits is unconstitutional has long been rejected by numerous courts.

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Lawsuit Settlement Awards Generally Taxable (§104(a))

Sexual harassment and retaliation awards taxable (Cerissa Rene Furtune-Paladino v. Comm., TC Memo 2025-101). Cerissa Fortune-Paladino received $135,000 from a settlement with her former employer to resolve a lawsuit concerning allegations of sexual harassment and discrimination. Ms. Paladino did not report any of the settlement amount on her 2019 tax return, arguing the settlement payment was excludable under §104(a)(2) – exclusion for physical injuries and sickness awards.

Sexual harassment was clear. Paladino worked as a drug and alcohol addiction counselor at Davis Archway, a Pennsylvania halfway house for adult males. While employed at Davis Archway, Paladino endured recurring sexual harassment from her supervisor, who was the president and sole shareholder of Davis Archway. The supervisor regularly made sexually inappropriate comments and sexual propositions to her, both in person and over text message. Paladino continually rejected these advances and made clear to her supervisor that she had no interest in an intimate relationship with him.

Paladino filed a complaint against her supervisor and Davis Archway, alleging sex discrimination and retaliation in violation of Federal and Pennsylvania state law. In January 2019 she entered into a settlement agreement under which Davis Archway agreed to pay her $135,000. Paladino paid $54,000 of the settlement proceeds to her attorneys and retained $81,000. Paladino did not report the settlement proceeds on her 2019 tax return, taking the position the settlement was excludable.

IRS says exclusion is narrow – Court agrees. Settlement proceeds are included in gross income if the damages received from a settlement agreement are “on account of personal physical injuries or physical sickness.” Emotional distress is not considered a physical injury or physical sickness unless it stems from a physical injury (§1.104-1(c)). Per the settlement agreement between Davis Archway and Paladino, the proceeds were intended to compensate for “alleged emotional distress, anxiety and humiliation,” but not for “any physical injury relating to her sexual discrimination/retaliation employment claims.” Paladino's complaint alleged “unlawful sexual harassment, discrimination, and retaliation” and requested damages for emotional distress, but it made no mention of any physical injury incurred or manifestation of physical harm. Paladino testified that she understood that the lawsuit included no claims of physical harm, there was no evidence of any physical harm arising from her claims, and the settled amount was paid for emotional distress. The Court ruled the entire settlement was taxable.

Life Insurance Proceeds May Be Taxable (Jonathan Sawyer v. Comm., TC Memo 2026-33; §72(e)).

John Sawyer owned and operated HNS, a family printing business, since 1835. John purchased a life insurance policy in 1982 on himself from Northwestern Mutual Life Insurance Co. Depending on the liquidity of the business, John would either pay the quarterly life insurance premiums in cash or allow Northwestern's automatic premium loan provision to cover the quarterly premium. In 2009, near HNS's last chapter, Mr. Sawyer borrowed $80,000 from his life insurance to keep HNS afloat. In 2015 the policy and premium loan balances eclipsed the Policy's cash surrender value, such that the Policy had a net value of zero and insufficient liquidity to cover future quarterly premiums. Northwestern automatically terminated the Policy, which caused John to have constructive receipt of income with no attendant cash.

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IRS says pay up and Court agrees. The IRS determined John's 2015 tax return had unreported income of $161,000 and assessed tax and penalties of approximately $73,000. John's argument that HNS owned the policy, not him personally, did not sway the Court. The Court noted that premiums were paid by HNS and by John, and that, more importantly, the original policy was in John's personal name, not in the name of HNS. Furthermore, the policy could only be transferred if written notification was sent to Northwestern Life – the issuer of the policy – which John could not substantiate ever happened. The cash surrender value, less John's premium contributions, was taxable.

Qualified Military Housing Payments are Non-Taxable (IR-2026-9).

The IRS confirmed that supplemental basic allowance for housing payments made to members of the uniformed services in December 2025 were not taxable. Congress appropriated $2.9 billion in OBBBA to supplement the military members' basic housing allowance. In December 2025 approximately 1,450,000 military members received a one-time supplemental payment of $1,776. Noting that Federal tax law specifically excludes from gross income a "qualified military benefit," the IRS determined that these housing payments were qualified military benefits and, therefore, were not taxable.

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Schedule 1 – Part II

Part II Adjustments to Income

11	Educator expenses		11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106		12	
13	Health savings account deduction. Attach Form 8889		13	
14	Moving expenses for members of the Armed Forces and the intelligence community. Attach Form 3903. If claiming only storage fees (see instructions), check here ☐		14	
15	Deductible part of self-employment tax. Attach Schedule SE		15	
16	Self-employed SEP, SIMPLE, and qualified plans		16	
17	Self-employed health insurance deduction		17	
18	Penalty on early withdrawal of savings		18	
19a	Alimony paid		19a	
19b	Recipient's SSN			
19c	Date of original divorce or separation agreement (see instructions):			
20	IRA deduction. If you are married filing separately and lived apart from your spouse for the entire year (see instructions), check here ☐		20	
21	Student loan interest deduction		21	
22	Reserved for future use		22	
23	Archer MSA deduction		23	
24	Other adjustments:			
24a	Jury duty pay (see instructions)	24a		
24b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b		
24c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c		
24d	Reforestation amortization and expenses	24d		
24e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e		
24f	Contributions to section 501(c)(18)(D) pension plans	24f		
24g	Contributions by certain chaplains to section 403(b) plans	24g		
24h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h		
24i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i		
24j	Housing deduction from Form 2555	24j		
24k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k		
24z	Other adjustments. List type and amount:	24z		
25	Total other adjustments. Add lines 24a through 24z		25	
26	Add lines 11 through 23 and 25. These are your **adjustments to income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10		26	

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Educator Expense Deduction (§62(a)(2)(D))

Educator expenses of up to $350 in 2026 are deductible for qualified educators for expenses related to purchases of school supplies and equipment. The amount is subject to annual inflation adjustments. For married couples where both spouses qualify, each may claim $350 (i.e., $700 total).

Qualifying educators – kindergarten through 12th grade teachers, instructors, counselors, principals, or aides who work at least 900 hours during the year are allowed a deduction for qualified expenses.

Qualified expenses – include books, supplies, equipment, software, and other materials but do not include home schooling costs. Professional development classes are also included in the list of qualifying expenses.

Preparer note. Educator expenses greater than $350 are deductible as miscellaneous itemized deductions (not subject to the 2% limitation) beginning in 2026. This change will have no effect on the above-the-line $350 deduction. Also note the definitions of what qualifies above and below the line are slightly different.

Health Savings Accounts (§223; Form 8889; Rev Proc. 2026-24)

2026 – 2027 HSA Limits		
Contribution Source	**2026**	**2027**
Contribution Levels	$4,400 self only $8,750 family	$4,500 self only $9,000 family
Deductible Ranges	$1,700 minimum for self only $3,400 minimum for family	$1,750 minimum for self only $3,500 minimum for family
Max. Out-of-Pocket (Includes deductible)	$8,500 self only $17,000 family	$8,700 self only $17,400 family
Who is Eligible?	Individuals must be covered under a ***qualified*** high-deductible health plan and not covered under any other health plan.	
Is there a "catch-up" contribution provision for older workers?	Individuals aged 55 or older may contribute an additional $1,000 per year.	

High-deductible health insurance plan required. To qualify to make HSA contributions, the taxpayer must be covered by a qualified high-deductible health plan and not have any other non-qualified insurance. A qualified high-deductible health plan in 2026 is a health plan that has a deductible of at least $1,700 for singles, $3,400 for married filing joint. The plan terms must require that no medical expenses will be paid by the plan, other than minor preventative care expenses (annual physical, flu shots, etc.), until after the deductible is met.

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Recent changes to HSA qualified health plans (Notice 2026-5; §223(c)(2)(E)). OBBBA made multiple permanent changes to the definition of a qualified high-deductible health plan for HSAs and some other HSA related laws, including:

1. Plans that provide telehealth and/or other remote care services without regard to any deductible may still qualify as a high-deductible plan if all other requirements are met. This provision extends an earlier provision and is effective in 2025 and beyond (§223(c)(2)(E)). For this purpose, "telehealth" is defined by Medicare in a list that is published annually by the Department of Health and Human Services (HHS).

2. Starting in 2026, plans that are designated by the Marketplace as Bronze or catastrophic level plans are automatically qualified high-deductible plans beginning in 2026 (§223(c)(2)(H)), even if the plan does not satisfy the minimum annual deductible requirement or maximum out-of-pocket expenses requirement for an HDHP. Prior to OBBBA there were several Bronze and catastrophic plans that did not qualify as HDHPs under ACA.

3. Direct care primary arrangement - a QHDHP retains its character even if the taxpayer also has a direct care primary arrangement (§223(c)(1)(E)). The direct care primary arrangement cost cannot exceed $150 (self only) or $300 (family) per month. This was a temporary provision that was permanently extended by OBBBA. For this purpose, the term primary care arrangements does not include:

    - General anesthesia;
    - Prescription drugs other than vaccines; and
    - Lab services.

HSAs combine the best features of an IRA and a Roth IRA.

- Contributions are deductible before AGI.

- Earnings accumulate tax-deferred and become tax-free if they are used to reimburse the account owner for qualified medical expenses.

- One person always owns HSAs – joint accounts are not allowed, even for spouses (Notice 2004-50, Question 63).

- A withdrawal from the taxpayer's HSA to pay the medical expenses of a spouse or dependent who is covered under a non-HDHP qualifies as a tax-free withdrawal (Notice 2004-50, Question 36).

- Similarly, one spouse may use his or her HSA to pay the medical expenses of the other spouse, even if the other spouse also has an HSA under Notice 2004-50, Question 38.

- Withdrawals before age 65 (for non-medical purposes) are subject to tax and a 20% penalty – transfers incident to a divorce are not taxable if the HSA continues as an HSA in the spouse's hands.

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Example. Mike has a low-deductible health plan through the VA. Mike's wife, Kershawn, has a qualified HDHP and has been contributing to her self-only HSA for many years. In 2026, Mike has major surgery and must pay $1,000 for costs his VA insurance doesn't cover. Kershawn withdraws $1,000 from her HSA to reimburse Mike's out-of-pocket costs. This is a qualified HSA withdrawal and is tax free, even though Mike is covered by a low-deductible health plan and Kershawn's HSA is a self-only plan.

Preparer note. Married taxpayers who are both age 55 or older and who wish to contribute the 2026 HSA maximum amount of $10,750 ($8,750 plus $1,000 for each spouse) must have two HSA accounts, one in each spouse's name. A minimum of $1,000 must be deposited in each spouse's HSA account. The remaining $8,750, assuming both spouses have family HSAs, may be divided in any way the spouses agree (IRS Notice 2008-59, Question 22).

HSA contributions. HSA contributions are limited (2026) to $4,400 for a self-only policy and $8,750 for a family policy and must be made by the due date of the tax return, without extensions (April 15, 2027, for 2026 contributions). Contributions are not limited based on earned income, AGI, etc. Only age and enrollment in a qualified HDHP come into play.

Eligibility is determined on the first day of the month. IRS guidance clarified that the annual contribution is limited to the greater of the sum of the monthly limits for their applicable plan (plus catch-up) or the annual maximum limit for their applicable plan. For calendar year taxpayers the eligibility testing period is from December 1st of the current year through December 31st of the following year. Failure to remain eligible (except for death or disability) causes the entire amount to be fully taxed and subject to a 10% penalty. Additionally, excess contributions to HSAs are subject to a 6% excise tax unless withdrawn by the last day of the year. Medical expenses incurred prior to the establishment of the HSA are not qualified expenses for purposes of tax-free HSA withdrawals.

HSA Planning. In practice, HSAs offer unique planning opportunities to taxpayers on both ends of the income spectrum. Tax professionals need to stay alert to recognize situations where HSA planning opportunities exist.

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Example – HSA planning for middle or low-income taxpayers. Lloyd is a middle-to-low-income taxpayer with a qualified HDHP. You advise Lloyd to set up an HSA, but he says he can't afford it. So now what? Advise Lloyd to open the account with a minimum deposit, say $50. Why? Because only expenses incurred after the account is open may be reimbursed. Next, you ask Lloyd to accumulate and bring to his tax appointment all his out-of-pocket medical expenses he pays after the account is opened. When you finish Lloyd's return, you add up the out-of-pocket medical expenses and see that he paid medical bills of $1,500 during the tax year. You tell Lloyd if he deposits $1,500 in his HSA before April 15th the contribution will be deducted on the prior year return and he will save an additional $180 ($1,500 x 12% tax rate) of tax. Lloyd reminds you that he doesn't have the money to contribute to the HSA and thanks you for rubbing his nose in the additional tax he owes. You advise Lloyd that he doesn't have to leave the money in the HSA – he can deposit $1,500 today and take it back out tomorrow and his tax bill is reduced by $180.

Example – HSA planning for higher income taxpayers. Your high-income client, Caity, has had a qualified high-deductible plan and has been contributing to an HSA since 2005. Due to Caity's substantial financial resources, you've always recommended that she annually fund her HSA and not use the HSA to reimburse herself for any out-of-pocket medical expenses she pays. Your strategy is that Caity should continue to accumulate and grow her HSA account and save it to pay her medical expenses when she retires when it is anticipated that her income will be much lower. Caity benefits not only from deducting the contribution to the HSA, but also from tax deferred growth in the account. Additionally, you advise Caity to retain her receipts for medical expenses that she pays and that are not reimbursed or deducted. Reimbursements are not required to be taken within any specified time so Caity's out of pocket expenses may be reimbursed at any time in the future. In 2026, Caity comes to you and wants to take $25,000 out of her IRA for a European vacation. You calculate the tax on the distribution at $6,000, leaving her $19,000 for her vacation. Instead, you review the out-of-pocket medical expenses Caity's paid over the years and discover that she paid $34,200 of out-of-pocket medical expenses from 2006 through 2025 that were never reimbursed from her HSA or otherwise deducted on her tax returns. You advise Caity to withdraw up to $25,000 from her HSA in 2026 and the entire distribution is tax free.

HSAs at death of account owner. The treatment of an HSA at the death of the account beneficiary depends on whether the designated beneficiary is the surviving spouse or someone else.

- Spouse is designated beneficiary – the HSA continues to be an HSA, and the surviving spouse becomes the account beneficiary. The account merely rolls over and continues as an HSA except there is a new account beneficiary.

- Non-spouse designated beneficiary – the account ceases to be an HSA at the date of the account owner's death. The fair market value of the HSAs assets is included in the gross income of the beneficiary or the estate of the HSA owner.

The amount included in gross income may be reduced by any qualified medical expenses incurred by the decedent before death and paid within one year.

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IRAs and Retirement Savings

Retirement in the U.S. in 2026

One notable trend in the U.S. retirement system over the past five decades is that private-sector employees have become increasingly less likely to be covered by defined benefit (DB) pension plans and more likely to be covered by defined contribution (DC) pension plans. Approximately 72% of private sector workers had access to either a DB or DC pension plan in 2025 (Congressional Research Service IF13185). Among these workers, 14% had access to a DB plan, 70% had access to a DC plan, and some had access to both. 50% of private industry workers participated in a pension plan in 2025. Examples of private-sector DC plans include profit-sharing plans, money purchase plans, 401(k) plans, 403(b) plans, and Employee Stock Ownership Plans (ESOPs).

See also: US Department of Labor, Employee Benefit Security Admin (ESBA), Private Pension Plan Bulletin Historical Tables and Graphs: 1975-2022, September 2024.

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2026 IRA Comparison Table (Notice 2025-67)			
	Traditional IRA	**Roth IRA**	**Non-Deductible IRA**
Highlights	Excellent savings plan for those not covered by other plans but who have earned income	Great long-term plan that offers tax-free accumulations and withdrawals	Worst of the 3 IRAs but better than nothing, use for Back Door Roth, but watch taxability
Max Contribution	$7,500	$7,500	$7,500
Max Employer Contribution	N/A	N/A	N/A
Max Contribution All Sources	$7,500	$7,500	$7,500
Over Age 49 Catch-Up*	$1,100*	$1,100*	$1,100*
Tax Deduction	Yes	No	No
Withdrawals	Taxed	Nontaxable	Earnings Taxed
Earnings	Tax Deferred	Nontaxable	Tax Deferred
Penalty Exceptions (§72(t))	Death, disability, education, 1st time home, more	Death, disability, education, 1st time home, more	Death, disability, education, 1st time home, more
Contribute By	Form 1040 Due Date	Form 1040 Due Date	Form 1040 Due Date
Penalty Issues	10% before 59½	10% before 59½ on earnings only	10% before 59½
Tests	1-Earned Income 2-Not covered by another plan 3-If covered, must be below AGI limits	1-Earned income 2-Max AGI under $153k single, $242k MFJ	1-Earned income 2-no AGI limits
Required Distributions	Start by 4/1 of year after turning 73	None required	Start by 4/1 of year after turning 73
Bankruptcy Protection	$1,711,975 Infl. Adjusted	$1,711,975 Infl. Adjusted	$1,711,975 Infl. Adjusted
5500 Required?	No	No	No
For more information see Pub 590-A for contribution info and Pub 590-B for distribution info.			
*** SECURE Act 2.0 provided for inflation indexing of IRA catch-up contributions. Adjustments are in $100 increments. 2026 is the first year an adjustment was made.**			

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Traditional Deductible Individual Retirement Accounts (IRAs) (§219; §408; §1.408-1)

A traditional IRA contribution must be deposited by the due date of Form 1040 for the contribution year (e.g., 2026 IRA contribution must be made no later than April 15, 2027, to allow deduction on the 2026 tax return). In addition to the due date, there are three tests that must be met for a taxpayer to deduct an IRA contribution:

1. The ***earned income*** test,
2. The ***other retirement plan*** test, and
3. The ***maximum income*** test (only applicable if Test 2 is not passed).

Traditional IRA Deduction Income Phase-Out Ranges (Notice 2025-67)			
Year	**Single and HOH**	**MFJ – Contributing Spouse Covered**	**MFJ– Contributing Spouse Not Covered**
2027			
2026	$81,000 – $91,000	$129,000 – $149,000	$242,000 – $252,000
2025	$79,000 – $89,000	$126,000 – $146,000	$236,000 – $246,000
Married filing separate phase out is always $0 – $10,000.			

Traditional Non-Deductible IRA (§219(g))

The only test that applies to those wishing to make a non-deductible IRA contribution is the earned income test. No other test applies. Additionally, taxpayers who qualify to make a deductible IRA contribution may choose to treat the contribution as nondeductible. Taxpayers who make a non-deductible IRA contribution are required to file Form 8606 for the year the nondeductible contribution was made and in any year in which another contribution or withdrawal is made. The purpose of Form 8606 is to report:

- Nondeductible IRA contributions.
- Distributions from SEPs, SIMPLEs, and IRAs in which the taxpayer has basis.
- IRA, SIMPLE and SEP conversions to Roth IRAs.
- Distributions from Roth IRAs.

What if Form 8606 is not included with the return? If the taxpayer does not file Form 8606 to report non-deductible contributions, all the contributions to the traditional IRA are treated as if they were deductible (i.e., no basis!). 100% of any distributions from the IRA are taxable unless the taxpayer can document that non-deductible contributions were made.

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Preparer note. There is a $50 penalty for not filing Form 8606 in a timely manner (§408(o)(4)(C)8). The penalty may be waived for reasonable cause (§6693(c)(3)). The form may be filed by itself and is required even if a tax return is not filed. If Form 8606 was not filed when required, we suggest the preparer immediately file a separate Form 8606 for each required year without a 1040-X. Mail all the delinquent forms in the same envelope and attach:

1. Proof of deposit and non-deduction,
2. An explanatory letter that includes a reasonable cause explanation, and
3. A request for penalty abatement due to the reasonable cause.

Pro rata rules must be used for distributions. Distributions from IRAs with basis must be prorated between the basis and the non-basis portion of the distribution. Form 8606 is used to track the basis of non-deductible accounts and help allocate basis on withdrawals.

Example. In December 2026, Steve's $20,000 IRA is comprised of $10,000 deductible IRA contributions, $6,000 non-deductible IRA contributions, and $4,000 tax-deferred earnings. Steve's IRA is made up of 30% basis ($6,000 ÷ $20,000 total) and 70% taxable ($10,000 + $4,000) ÷ $20,000 total). Steve withdraws $5,000 from his IRA the last week of 2026. $3,500 (70%) of this withdrawal would be taxable and $1,500 (30%) would be non-taxable return of basis.

Beware of the common pot! All IRAs must be aggregated when calculating basis. Some taxpayers believe they can circumvent the pro rata rules by making deposits into separate IRA accounts – one account gets all deductible IRAs, and another account gets all nondeductible IRA contributions. Nice try! All traditional IRA accounts and related basis are aggregated, and the totals are used to calculate the pro rata allocation of basis and taxable amounts upon withdrawal. We call this the common pot rule!

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ROLLOVER CHART

Roll From	Roll To: Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified Plan[1] (pre-tax)	403(b) (pre-tax)	Designated Roth Account (401(k), 403(b) or 457(b))
Roth IRA	Yes[2]	No	No	No	No	No	No	No
Traditional IRA	Yes[3]	Yes[2]	Yes[2,7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
SIMPLE IRA	Yes[3], after two years	Yes[2], after two years	Yes[2]	Yes[2], after two years	Yes[4], after two years	Yes, after two years	Yes, after two years	No
SEP-IRA	Yes[3]	Yes[2]	Yes[2,7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
Governmental 457(b)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes	Yes	Yes	Yes[3,5]
Qualified Plan[1] (pre-tax)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
403(b) (pre-tax)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
Designated Roth Account (401(k), 403(b) or 457(b))	Yes	No	No	No	No	No	No	Yes[6]

[1]Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.

[2] Only one rollover in any 12-month period.

[3]Must include in income.

[4]Must have separate accounts.

[5]Must be an in-plan rollover.

[6]Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.

[7]Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and rollovers, visit Tax Information for Retirement Plans.

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Contributions to Roth IRAs are non-deductible but all future withdrawals, including earnings, are not taxable while in the Roth account or when distributed. The maximum Roth contribution for 2026 is $7,500 plus an additional catch-up contribution of $1,100 for those age 50 or older as of December 31st. To qualify to make a Roth IRA contribution, two tests must be met:

1. The taxpayer must have earned income (just like with a traditional IRA), and

2. AGI cannot exceed the limits (see below).

2026 Roth IRA AGI Limits			
	Max Contribution Allowed if MAGI is Less Than:	**Contribution Amount Reduced if MAGI is Between:**	**Cannot Contribute if MAGI is Above:**
Single, H of H	$153,000	$153,001 - $168,000	$168,000
Married Filing Joint	$242,000	$242,001 - $252,000	$252,000
Married Filing Separate	$0	$0 - $10,000	$10,000

Preparer note. Although Roth contributions are not deductible, preparers must know the dollar amount of every Roth contribution and withdrawal since 1998 (the first-year Roth's were allowed). Why? Because, regardless of age, withdrawals are tax free until all contribution dollars have been returned. ***When you pick up a new client from another preparer make sure to ask the client for this information which is not normally provided to the new preparer.***

Roth Conversions. Conversions are allowed from traditional IRAs, SEPs , or SIMPLEs as direct conversions. But, ***required minimum distributions from traditional IRAs may not be converted to Roth IRAs.*** Conversions are taxable but not penalized regardless of age or amount.

Backdoor Roth planning. The "Backdoor IRA" is created via a process where the taxpayer opens a nondeductible IRA and then converts it to a Roth IRA. Because the non-deductible IRA is 100% basis, there is no tax on the conversion to the Roth IRA. So why not contribute directly to the Roth and skip the extra step? As mentioned above, Roth IRA contributions are limited, or not allowed, for taxpayers whose AGI exceeds the specified thresholds. However, Roth conversions are allowed regardless of AGI. The Backdoor Roth allows taxpayers to work around the AGI rules, effectively allowing all taxpayers with earned income to contribute to a Roth IRA regardless of AGI.

Example. Kim is 40 years old, single, has wages of $150,000, and her AGI is $170,000. Kim max contributes $24,500 to her 401k through her employer. Kim would like to also contribute to Roth IRA, but her AGI is too high. Kim contributes $7,500 to a non-deductible IRA and a few days later, before there are any earnings on the money, she converts the IRA to a Roth IRA. Kim is not subject to the Roth IRA AGI limit for the conversion. The conversion is not taxable because none of the $7,500 in the IRA was deducted when it was deposited.

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Conversion caution. An issue that may arise when converting an IRA to a Roth IRA is the "common pot" rule. All IRAs are treated as one IRA when calculating IRA basis. Basis in any IRA is spread across all IRAs. The result is taxpayers with multiple IRAs must consider all IRA accounts combined and all basis combined to determine how much basis is included in any withdrawal, including Roth conversions. Any conversion more than basis is taxable.

Example variation. Assume the same facts as above except that Kim has $42,500 in her prior traditional, deductible IRA account when she contributes the $7,500 to her non-deductible IRA. The "common pot" rule requires Kim to allocate the non-deductible IRA basis:

Pre-2026 deductible IRAs – no basis	$42,500	85%
2026 non-deductible IRA contribution – all basis	$ 7,500	15%
Total pre-conversion IRAs	$50,000	100%
Roth conversion		
Basis – non-taxable	$ 1,125	15%
Pre-tax – taxable	$ 6,375	85%
Total conversion	$ 7,500	100%
Basis in the pre-2026 IRA after conversion	$ 6,375	85%

Result. Kim pays tax on $6,375 on the conversion and her existing pre-tax IRA now has a $6,375 basis, which is tracked on Form 8606. If the form is left out of the return, the basis will be lost.

Limited §529 Plan Conversion to Roth IRA Allowed (§529(c)(3)(E))

Overview. Qualified tuition programs (a.k.a. QTPs or 529 plans) are programs established by a state and allow a contributor to set aside large sums of money in a tax deferred account to pay for the account beneficiary's qualified higher education expenses. There is no deduction for amounts contributed but the earnings accumulate tax deferred. If the money in the account is used for its intended purpose, there is no tax on distributions, including the earnings portion. Qualified higher education expenses include expenses required for the enrollment or attendance of the designated beneficiary at any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. Costs of tuition for enrollment at an elementary or secondary public, private, or religious school (i.e., kindergarten through 12th grade) also qualify up to $20,000 per year. Qualified expenses also include required fees, books, supplies, and equipment, and, for those going to school more than half-time, room and board.

What if there's extra 529 plan money and nowhere to use it? The biggest issue taxpayers have with 529 plans since inception is what to do with the money if it's not needed by the beneficiary. Historically, the only option to avoid tax and penalties was to roll the 529 plan balance to another member of the family. Rollovers may be made directly or indirectly and are treated as a gift from the original beneficiary to the new beneficiary for gift tax purposes unless the new beneficiary is the same generation as the original beneficiary and is a member of the beneficiary's family. For these purposes, "member of the family" is defined as the beneficiary's:

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- Spouse;
- Child or descendant of a child;
- Siblings or step siblings;
- Parents or ancestors of parents;
- Stepparents;
- Nieces and nephews;
- Aunts and uncles;
- In-laws – son, daughter, brother, sister, mother, and father in-laws;
- The spouse of any individual described above; and
- Any first cousin.

While rollovers to other beneficiaries are allowed, sometimes the owner may just want to cash it in and use the money for something else. If the owner withdraws all the money and doesn't spend it on qualified educational costs, the earnings portion of the distribution is subject to tax and penalties.

Roth IRA rollover to the rescue – maybe (§529(c)(3)(E))? 529 plan beneficiaries are allowed to roll balances from their 529 accounts to Roth IRAs tax and penalty free. Several criteria must be met to qualify, including:

- Rollovers must be done via a direct trustee-to-trustee transfer. Indirect rollovers are not allowed ;
- The Roth IRA AGI limitation is waived;
- The lifetime maximum Roth rollover for any one beneficiary is $35,000;
- The annual rollover limit is equal to the Roth IRA annual contribution limits ($7,000 in 2024 if under age 50). The annual rollover limit must be reduced by any Roth or other IRA contributions for the same year;
- Only amounts contributed more than 5 years prior may be rolled over; and
- The 529 account must have been open for that specific beneficiary for more than 15 years.

Example. Ron contributed $20,000 to a 529 plan in 2007 when Serha, Ron's granddaughter was born. In 2026, when the 529 plan balance was $55,000, Serha received a scholarship to play softball at Boise State. The scholarship pays 100% of Sehra's education expenses. Ron elects to roll the 529 plan to a Roth IRA for Sehra. Ron may roll $7,500 per year until the aggregate maximum $35,000 rollover is reached.

Here's the problem. There is still $20,000 left in the 529 plan after all the transfers to Serha's Roth IRA. Ron decides to roll the $20,000 balance into a 529 plan for Josie, Serha's little sister. For purposes of making Roth rollovers from a 529 plan, Serha's 529 plan is established the day the rollover is made. The result is a Roth rollover is not allowed for Josie for 15 years.

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Savers Match Program to Replace Savers Credit in 2027 (§6433; Notice 2026-48)

Overview. SECURE Act 2.0 added §6433 to the IRC. This new code section replaced the Retirement Savings Contribution Credit with the Saver's Match program. Starting January 1, 2027, eligible individuals who make qualified retirement savings contributions will receive a matching contribution from the IRS to their retirement account. The matching contribution can be as high as 50% of the taxpayer contribution, but the actual percent varies depending on the taxpayer's AGI. The Saver's Credit will continue to be available for contributions to ABLE accounts.

Executive Order issued to support Saver's Match program (EO 14403). President Trump signed Executive Order 14403 on April 30, 2026 to further implement the SECURE Act 2.0 provision. Trump emphasized that enrollees will be able to access the same type of retirement accounts that federal employees have and will be eligible to receive up to $1,000 annually in matching funds. Specifically, the Treasury Department has been tasked with establishing a website – TrumpIRA.gov – that provides individuals with information about high-quality, low-cost IRAs. Individuals who contribute to qualifying IRAs, and who are otherwise eligible, will be eligible for a Saver's Match contribution of up to $1,000.

TrumpIRA.gov will eventually include:

- A list of financial institutions that offer IRAs and will accept the Saver's Match contributions;
- An explanation of the cost and qualifying criteria;
- The ability to allow individuals to filter and select IRAs based on their cost and quality; and
- Information regarding the opportunity to receive the Saver's Match contribution.

Preparer note. There is no such thing as a "Trump IRA." Congress must pass laws to establish any new IRA type. The executive order only addresses the Secure Act 2.0's modifications to the low-income saver's credit.

Saver's Match versus the Saver's Credit. Saver's Match contributions are paid directly to an eligible individual's retirement savings vehicle (IRA, 401(k), etc.), even if the individual has no income tax liability. In contrast, the Saver's Credit is a ***nonrefundable tax credit*** that cannot exceed the amount of an individual's tax liability. The Saver's Match contributions will be claimed on a new (not yet published) Form 8880-A, Saver's Match for Qualified Retirement Savings Contributions. (or a successor form). Saver's Match contributions are not includible in gross income when they are contributed to the taxpayer's retirement account, but future distributions attributable to Saver's Match contributions are subject to income tax for the year of distribution. If the eligible individual has not attained age 59½ on the date of distribution, a 10% additional tax on early distributions may apply.

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ABLE account coordination. ABLE account contributions may not be considered for Saver's Match contributions, but ABLE contributions may continue to be considered for the Saver's Credit after December 31, 2026. It is anticipated that, with respect to contributions to ABLE accounts, the Saver's Credit would continue to be claimed on Form 8880, Credit for Qualified Retirement Savings Contributions.

Saver's Match – important rules. Several things must be addressed to determine if a taxpayer is eligible for a Saver's Match contribution, and if so, how much will be received. The most pertinent of these rules include:

- **Eligible individual** – an eligible individual is a taxpayer who is at least 18 years old by the end of the tax year and who is not:
  - A not a full-time student as defined under §152(f)(2);
  - An individual claimed as a dependent on another taxpayer's tax return for the taxable year;
  - A nonresident alien.

  The taxpayer also has a MAGI limitation discussed below.

- **MAGI limitations** – An eligible individual is not entitled to claim a Saver's Match contribution for the 2027 taxable year if the individual's MAGI equals or exceeds:

	Maximum	Phaseout Begins
Single	$ 35,500	$ 20,500
MFJ	$ 71,000	$ 41,000
Surviving spouse	$ 71,000	$ 41,000
Head of household	$ 53,250	$ 53,250
MFS	$ 35,500	$ 35,000

  For this purpose, MAGI is the sum of:

  - Adjusted gross income from the tax return;
  - Pre-tax elective deferrals and other salary reduction contributions to retirement plans;
  - Deductible contributions to traditional IRAs; and
  - Excluded foreign source income under §911, or US territory related income excluded under §931 and §933.

- **Eligible retirement contributions** – An eligible individual's qualified retirement savings contributions of up to $2,000 per year are multiplied times the applicable percentage to determine the individual's Saver's Match contribution. There are four types of eligible taxpayer contributions that may be subject to match:

  - Contributions to a traditional or Roth IRA;
  - Elective deferrals such as elective deferrals to a §401(k) plan, SIMPLE IRAs, §403(b) plans, etc.
  - Voluntary after-tax employee contributions to qualified retirement plans; and
  - Contributions to §501(c)(18) plans.

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- **Applicable percentage** – the applicable percentage is 50% of an individual's Saver's Match contribution for a taxable year. The applicable percentage is phased out as an eligible individual's MAGI approaches the maximum MAGI that the individual can earn for the taxable year and still be eligible for a Saver's Match contribution (see table above).

Example. Ben and Clara are married, and file jointly. Ben made a $1,000 contribution to his traditional IRA in 2027 and Clara contributed $2,000 to her IRA. Ben and Clara's 2027 MAGI is $63,000. Ben and Clara each claim a Saver's Match contribution. Ben's Saver's Match contribution is $140 and Clara's is $280. These amounts are calculated:

Ben – % reduction = 50% x (($63,000 MAGI - $41,000 phaseout start) ÷ $30,000 phaseout range) = 36.6667, rounded down to the nearest percentage = 36%. Final calculation = 50% - 36% = 14%. Saver's Match total = Ben's $1,000 contribution x 14% = $140.

Clara – % reduction = 50% x (($63,000 MAGI - $41,000 phaseout start) ÷ 30,000 phaseout range = 36.6667, rounded down to the nearest percentage = 36%. Final calculation = 50% - 36% = 14%. Saver's Match total = Clara's $2,000 contribution x 14% = $280.

- **Contribution due dates** – Saver's Match contributions must be made by the end of the taxable year. However, IRA contributions may be made as late as the tax filing deadline (without extensions) if the contributions are designated as being made for the prior taxable year. An individual entitled to receive a tax refund for a taxable year can make qualified retirement savings contributions by requesting on Form 8888 that the individual's tax refund be contributed to an IRA. However, that tax-refund contribution must be made by the IRS by the tax filing deadline for that taxable year for the tax refund to be deemed contributed for that taxable year. If the tax-refund contribution is not made by the tax filing deadline for the taxable year for the return with which the Form 8888 is filed, the contribution cannot be taken into account as a qualified retirement savings contribution for that year, but it can be taken into account as a qualified retirement savings contribution for the taxable year in which it is made.

Preparer note. If the tax refund deposit to a taxpayer's IRA or Roth IRA account doesn't occur by the due date of the return (without regard to extensions), the deposit is treated as a contribution for the following year, rather than the current year. If the IRA contribution was deducted, or a credit was taken, on the current year return, the taxpayer must file an amended return.

- **What accounts can accept Saver's Match contributions?** Retirement savings accounts that are allowed to receive Saver's Match contributions directly from the Treasury Department include:

    - Governmental §457(b) plans;
    - Qualified cash or deferred arrangement (§401(k) plans);
    - Annuity contract (e.g., §403(b) plans); and
    - Individual retirement plans that are not Roth IRAs.

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Preparer note. While contributions to Roth accounts may qualify a taxpayer for a Saver's Match contribution, the contribution from the IRS cannot be deposited into a Roth account. Such contributions must be made to a tax deferred account. For Roth IRAs, the Treasury Department would establish a conduit traditional IRA for the eligible individual, and there would be an immediate trustee-to-trustee transfer from the conduit IRA to the eligible individual's Roth IRA. This transfer would be a Roth IRA conversion that would be subject to federal income tax.

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Trump Accounts Are Here (§530A); TD 10056)

Overview. OBBBA created "Trump Accounts," a new Federal program meant to encourage IRA-style investment accounts for children under age 18. Trump accounts are individual retirement accounts (as defined in §408(a)) that are not designated as Roth IRA accounts. A child must have a Social Security number that is issued to a U.S. citizen or a person authorized to work in the U.S. The child must be under age 18 at the end of the year to establish an account. There are no earned income requirements or limitations to open an account or contribute to an account.

Preparer note. The IRS issued proposed and temporary regulations on September 30, 2026 regarding general requirements for Trump accounts, the establishment of initial Trump accounts, and qualified general contributions. The regulations also include proposed procedures for automatic enrollment. The previously issued proposed regulations (NPRM REG-117270-25 issued in March 2026) were withdrawn. The temporary regulations apply to tax years beginning on or after January 1, 2026, and expire on September 30, 2029. ***Practitioners need to make sure they are referring to the latest regulations as they search for Trump account answers.***

Establishing a Trump Account. Trump accounts started being opened July 6, 2026. The accounts allow a maximum non-deductible annual contribution of up to $5,000 per account beneficiary. To open the account, the child's parent or other authorized person either uses the app which is available for download at https://trumpaccounts.gov, or by filing IRS Form 4547 with their tax return or directly with the IRS as a stand-alone form. Be careful as there is a fake website out there at trumpaccounts.com. A Trump account must be either: 1) an initial Trump account, created or organized by the Treasury Secretary for an eligible individual, or 2) a rollover Trump account, which is an account funded by a qualified rollover contribution from the account beneficiary's existing Trump account. Account beneficiaries ***may only have one Trump account open at a time***. The temporary regulations note there are three methods for establishing Trump accounts:

1. Election by Treasury to establish an auto account;
2. Election by an individual to establish an account on behalf of a qualified beneficiary by filing Form 4547 or as otherwise provided; or
3. Deemed election by Treasury to establish an account. If an individual established an initial Trump account, but the election was made by an individual who was not authorized to make the election, the Secretary is deemed to have made the election to establish the initial Trump account. The Trump account that was already established will not cease to be a Trump account.

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Form **4547** (December 2025)
Department of the Treasury
Internal Revenue Service

Trump Account Election(s)

Go to *www.irs.gov/Form4547* for instructions and the latest information.

OMB No. 1545-2336

If you have a child that is eligible for a Trump account, and you want to open a Trump account for that child, complete Form 4547.

- For each child that is eligible and for whom you want to open a Trump account, complete Parts I, II, and IV.
- For each child that is eligible to receive a $1,000 Pilot Program Contribution, check the box in Part III, line 7, in order to receive the contribution.

Part I Parent/Guardian or Other Authorized Individual Information

Note: The parent/guardian or other authorized individual listed in Part I will be the responsible party for the Trump account.

First name	Middle name	Last name	Social security number

Home address (number and street). If you have a P.O. box, see instructions.	Apartment number	Date of birth

City, town, or post office. If you have a foreign address, also complete spaces below.	County	State	ZIP code	Phone no.

Foreign country name	Foreign province/state/county	Foreign postal code	Email address

Part II Child's Information

If more than two children, see instructions.

		(i) Child 1	(ii) Child 2
1a	First name		
b	Middle name		
c	Last name		
2	Social security number		
3	Date of birth		
4	Relationship		
5	**Home Address** Check here if address is same as Part I. Otherwise, complete lines 5a through 5f. If you have a foreign address, complete lines 5g, 5h, and 5i.	☐	☐
a	Number and street		
b	Apartment number		
c	City, town, or post office		
d	County		
e	State		
f	ZIP code		
g	Foreign country name		
h	Foreign province/state/county		
i	Foreign postal code		
6	Check box if you are authorized to open the Trump account for the child. See instructions.	☐	☐

Part III Pilot Program Contribution Election

For a child to qualify to receive the $1,000 Pilot Program Contribution to their Trump account, the child must have been born in 2025–2028, must be a qualifying child of the individual opening the Trump account, must be a U.S. citizen, and must have a valid social security number. See instructions.

		(i) Child 1	(ii) Child 2
7	Check box if child qualifies for, and you want the child to receive, a Pilot Program Contribution	☐	☐

Auto enrollment here (§1.530A-1T(d)(2). The IRS reported in September 2026 that 6 million Trump Accounts were established, with over 1.4 million covered by the $1,000 pilot program contribution. The Treasury Department wasn't happy with this sluggish start so in early October 2026, it began automatically establishing Trump accounts for all qualified children under age 18 who hadn't already set one up. Treasury estimated that it established 60 million Trump accounts in the first week. Treasury expects to continue to make elections to establish accounts for individuals who meet the Trump account requirements, but who haven't made the appropriate election. To "claim" (i.e., activate) a Trump Account, the account manager will need to download

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the app and verify identity, confirm his or her relationship to the child, review the child's information, and accept the account terms. The app can is also used to claim a one-time $1,000 pilot program grant from Treasury. Claiming the account allows the account manager to make contributions, investment decisions, etc.

Contributions. The maximum annual contribution to a beneficiary's Trump account is $5,000. The $5,000 contribution limit will be adjusted for inflation beginning in 2028. There is no deduction allowed for any contributions to a Trump account except for employer fringe benefit contributions. See Payroll chapter in FTU – Business class. Rollovers from other Trump accounts are not subject to, and do not reduce, the $5,000 annual deposit limit. On January 1st of the year the account beneficiary reaches age 18, the third-party contribution limit goes to zero. Future contributions may only be made by the account beneficiary and may only be traditional non-deductible IRA contributions.

Account management. Legal guardians, parents, adult siblings, and grandparents – in that priority order – can manage the Trump Account for an eligible child until the child is age 18, when they can manage the account themselves. Grandparents must be able to claim the child as a dependent. The Treasury Department said states will be able to set up "Fostering the Future Accounts," which are technically Trump Accounts, for foster children in their care. It is up to the parent or legal guardian to ensure no more than one account is opened for any one beneficiary. Charities may also contribute if contributions are made on a nondiscriminatory basis.

Employer contributions. Employers may annually contribute up to $2,500 for an employee's dependent(s) as a fully deductible qualified fringe benefit. See full discussion in the Payroll chapter in FTU – Business class.

One-time pilot program payments available (§6434). Children born after December 31, 2024, and before January 1, 2029, qualify for a one-time government contribution of $1,000 to the Trump account. The $1,000 contribution is not considered in the annual contribution limit (i.e., $5,000 may still be contributed plus the $1,000 grant in the same year). The qualifying child must be a U.S. citizen with a valid Social Security number.

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Deposit Sources for Trump Accounts			
Source	**Dollar Limit**	**Annual or One-Time**	**Other**
Federal Pilot Program**	$1,000	One-Time	Born 1/1/2025-12/31/2028
Charities**	$5,000	Annual	Does not reduce $5,000 deposit limit from other sources
Child, Parent, Family, Friends*	$5,000	Annual	Limit is annual from all sources
Employer**	$2,500	Annual	Limit is annual from all sources
Rollovers***	N/A	N/A	From other Trump accounts
Earnings**	Unlimited	Annual	Unlimited
Creates basis and is not taxable at withdrawal ****All other amounts taxable at withdrawal*** *****Mixed taxability based upon source of funds***			

Charitable Plan Contributions to Trump Accounts

Selected corporations that have announced matching programs for employee contributions up to $1,000 for children of employees including: Acorns, Chipotle, Citi, CTIA, Dell, Empower, Fox, IBM, Intel, JP Morgan Chase, Kraken, News Corp, Nvidia, Robinhood, State Street, Steak 'n Shake, Schwab, Uber, Visa. In addition, multiple charities have stepped forward to offer grant contributions to Trump Accounts.

Charities may donate company stocks §1.530A-7T(b)(8). The temporary regulations allow general funding contributions to be made with stock of publicly traded domestic corporations, which will be allocated by the Treasury Department to beneficiaries in the specified class and generally must be retained for at least five years. Treasury determined qualified stock contributions do not violate the investment restrictions for Trump Accounts because no funds in the account are used to acquire the contributed stock. Rather, the stock is contributed directly into the individual Trump accounts for the beneficiaries in the designated qualified class.

Preparer note. We expect additional guidance on how this will take place in our "real" world. At this point, it looks like the stock shares will be contributed by individual donors to a charity, who will then donate to Trump Accounts. The Trump Accounts are not currently set up to hold individual stock so there may be an intermediary holding entity established to hold shares. Stay tuned!

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Below is a chart of some of the better-known contributions currently available.

Grantor	Commitment	Amount per Minor	Qualifiers
Michael and Susan Dell	$6.23 Billion	$250	1st 25 million accounts for children 10 and under living in zip codes with median income <$150,000
Ray and Barbara Dalio	$75 Million	$250	300,000 children in Connecticut
Brad Gerstner	$100 million	$250	Indiana children under 5
Anonymous	$3.5 million	$500	All babies born in San Francisco in 2026

Distributions (§530A(d). No distributions are allowed from Trump accounts before the first day of the year the beneficiary reaches age 18. Once distributions are allowed, they are subject to the IRA distribution rule under IRC §72 and all related penalties. The common pot rule is applied to determine the portion of the distribution that is taxable. Basis in the account does not include contributions made by employers, charities, or the $1,000 grant from the government. Any taxable distributions are taxed at ordinary rates, and subject to the 10% early withdrawal penalty unless an exception applies (e.g., age 59 ½, education, first home purchase, etc.).

Eligible investments (PR §1.530A-3). The IRS issued proposed regulations that clarify for an account to qualify as a Trump account, the written governing instrument creating the account may not permit any part of the account funds to be invested in any asset other than an "eligible investment." For this purpose, the term eligible investment means any mutual fund or exchange traded fund that tracks the returns of a qualified index, and does not use leverage, does not have annual fees and expenses of more than 0.1% of the balance of the investment in the fund.

A qualified index means the S & P's 500 stock market index, or any other index that is comprised of equity investments in primarily United States companies and for which regulated futures contracts are traded on a qualified board or exchange. A qualified index does not include any industry or sector-specific index but may include an index based on market capitalization.

Other Trump account notables.

- US Treasury announced that Bank of New York and Robinhood are partnering to help implement and oversee administration of the tax-deferred Trump account savings program for children. More financial institutions are expected to join soon.
- Contributions to Trump accounts do not reduce any other retirement contribution limits for which the child may qualify.
- Charities could also contribute to these accounts if the contributions are made on an equal basis to all the children. For example, in a certain geographic area or birth year.

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Preparer note. Once a Trump account beneficiary reaches age 18, the Trump account will be treated as a non-deductible IRA. All rules that apply to a non-deductible IRA will apply to these accounts at that time. The exception is that the Trump account continues to be a Trump account, not an IRA account. This means that basis calculations are separate for Trump accounts and any other IRA accounts. The Trump accounts are not included the "common pot."

Step by step summary. The steps to establish a Trump account are:

- **Step 1 – Social Security number.** Make sure beneficiary has a Social Security number.
- **Step 2 – Claim the account.** A parent or guardian must claim the child's automatically enrolled account to manage it and allow contributions. The account may be claimed through TrumpAccounts.gov or the Trump Accounts app. The verification step currently happens in the app.
- **Step 3 – Elect the $1,000 pilot program grant separately.** ***The pilot program grant is not automatic.*** Only U.S. citizens born between Jan. 1, 2025, and Dec. 31, 2028, who have a Social Security number qualify. If the child was born in that window, be sure the $1,000 election has been made. This can be done on IRS Form 4547, which can be filed with the taxpayer's IRS online account or through the app. The IRS says the online route takes about five to 10 minutes. The taxpayer needs an ID.me login and the child's Social Security number, date of birth, and address to file. Only the person who expects to claim the child as a qualifying child can make the election.
- **Step 4 – Watch for confirmation.** Treasury will send a confirmation email once the election is processed. The email should be from no-reply@TrumpAccounts.Treasury.gov.
- **Step 5 – Add money subject to the limits as desired.** Parents and other contributors can put up to $5,000 per year combined, in post-tax dollars, until the year before the child turns 18. The $1,000 government deposit doesn't count toward that limit. Auto-created accounts will not accept contributions until they are claimed.

Preparer note. Obviously, all the information for Trump Accounts is brand new. Practitioners should regularly check the website, TrumpAccounts.gov, for updates on the latest developments.

Example 1. Edna and Elwood Smith have two children: Maya was born in March 2025, and Ethan was born in May 2027. Each child gets the $1,000 Federal deposit since they were born between 1/1/2025 and 12/31/2028. Starting July 6, 2026, the Smith family contributes $5,000 each for both Maya and Ethan, staying at the $5,000 annual cap. Remember the $1,000 Federal contribution does not reduce the $5,000 annual limit. They invest in index ETFs.

No distributions are made from the Trump accounts until Maya turns age 18 in 2043 and Ethan in 2045. Once Maya reaches age 18, she may make taxable, un-penalized withdrawals for college, a first home, or other withdrawals not subject to §72(t) penalties. Any other withdrawals are taxed at ordinary tax rates plus a 10% early withdrawal penalty.

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Funds can remain tax-deferred in the account until the normal IRA required beginning date for required minimum distributions, which will be age 75 for these kids under current rules.

Assume at age 18 Maya has the following in her account:

Post-tax-contributions (17 x $5,000) =	$85,000	
Federal Contributions	1,000	$56,000
Earnings	55,000	
Total value	$141,000	

Under the annuitization rules, $56,000/$141,000 of any withdrawal would be taxed, and if used for non-qualified purposes, subject to the 10% penalty.

Assume Edna's employer put in $2,500 (once) for Maya and for Ethan. Maya's new numbers would be:

Post tax contributions	$ 82,500	
Employer contributions	2,500	
Government contributions	1,000	$58,500
Earnings	55,000	
Total value	$141,000	

$58,500/$141,000 would be the annuitization factor – 38% taxable percentage.

In both examples we used a 6% assumed rate of return with deposits at the end of the year. At 8% the total value would be $185,882.

Last question – What if Maya converts her Trump account to a Roth at age 18? Under current law the first $1,350 is tax free, the next $1,350 is taxed at 10% (Maya's rate) and the remaining $55,800 is taxed at her parent's tax rates under kiddie tax rules. It may be a better plan for Maya to delay the Roth conversion until she is no longer a full-time student.

Example 2. Edna and Elwood Smith have two children: Maya was born in March 2025, and Ethan was born in May 2027. Each child gets the $1,000 Federal deposit since they were born between 1/1/2025 and 12/31/2028. Additionally, each child qualifies for the Dell contribution of $250 and the Gerstner contribution of $250. Starting July 6, 2026, the Smith family max contributes to both Maya and Ethan Trump accounts. Edna's employer contributes $2,500 per year to Maya's account, which reduces the family contribution. Remember neither the $1,000 Federal contribution nor the charitable contributions reduce the $5,000 annual limit.

Maya's numbers would be:

Post tax contributions	$ 42,500	
Employer contributions	42,500	
Government contributions	1,000	
Dell & Gerstner contributions	500	$111,000
Earnings	67,000	
Total value	$153,500	

$111,000/$153,500 would result in 72% or Maya's withdrawals being taxable, much higher than the previous example.

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Example 3. Edna and Elwood Smith have one child, Jake who was born in 2026. The Smiths opt in for the Trump account and $1,000 is deposited into Jake's account but they are unable to add any additional money. When Jake turns 18, he will have the following fully taxable amounts if withdrawn:

Earning 4%	$2,025
Earning 6%	$2,854
Earning 8%	$3,996
Earning 10%	$5,560

Jake could convert the first $2,700 to a Roth at age 18 with minimal tax, with any additional amount taxed at his parent's rate.

Is a Trump account a good idea? As with most things tax, this depends on the situation.

Trump accounts are a good idea when:

- Clearly for any child born between 2025-2028 to get the $1,000 pilot program grant.
- If a parent works where the employer funds the account as a fringe benefit or a matching benefit.
- The child qualifies for a charitable contribution to their account from a charity.
- Where the family already has adequate 529 account funding and wants a more flexible retirement savings account for a minor who would normally not qualify for a non-deductible IRA.

Not so good of an idea when:

- Families who are unable to fund anything other than a minimal amount for college savings a 529 is better because of state deductions/credits and the ability to withdraw the money tax and penalty-free for education.
- Families who wish to fund a Roth for the child, fund a 529 account with $5-10,000, take the state credit or deduction, and after 15 years convert $35,000 to a Roth tax-free.
- For children who have earned income at an early age as they can make Roth IRA contributions, which are clearly superior.
- Parents who may receive state deductions or credits for a §529 deposit.

If there is enough money, the parent or grandparent could do both the Trump account and a §529 account to the extent of the state credit or deduction. Remember that at age 18, the child owns the account, and the parent loses the control they maintain with a §529.

Trump Account Reporting

In addition to new Form 4547 – see above – there are two form changes to accommodate Trump Account reporting. A new draft Form 5498-TA was released, and it separately reports pilot program grants, other contributions, rollovers basis, and FMV for Trump Accounts. Form 1099R has been modified by adding a new box to identify Trump account distributions.

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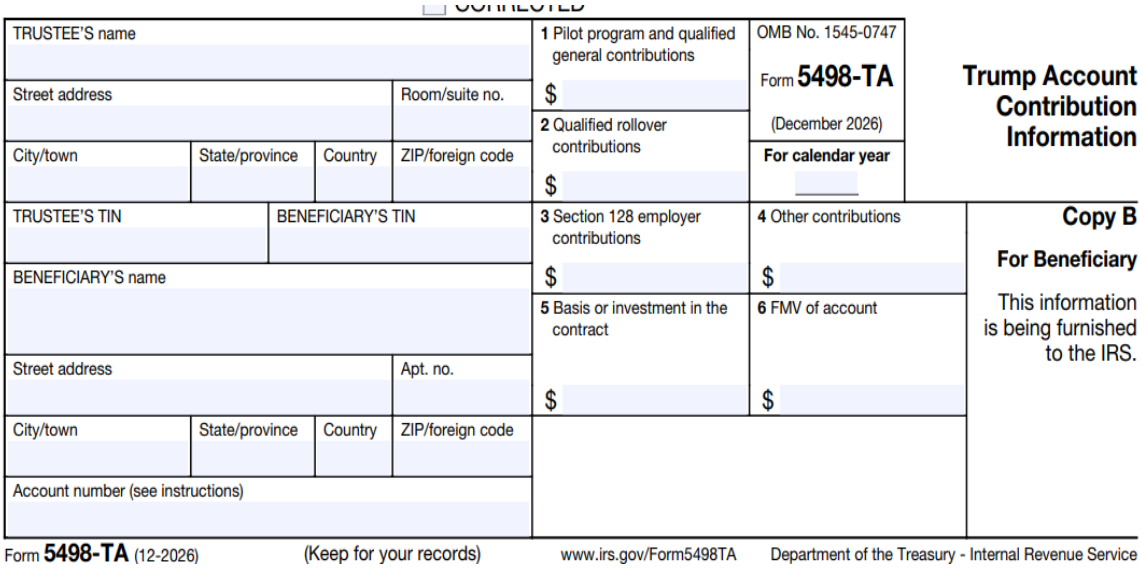


CORRECTED

TRUSTEE'S name				1 Pilot program and qualified general contributions $	OMB No. 1545-0747 Form 5498-TA (December 2026) For calendar year
Street address			Room/suite no.	2 Qualified rollover contributions $	
City/town	State/province	Country	ZIP/foreign code		
TRUSTEE'S TIN	BENEFICIARY'S TIN			3 Section 128 employer contributions $	4 Other contributions $
BENEFICIARY'S name				5 Basis or investment in the contract $	6 FMV of account $
Street address			Apt. no.		
City/town	State/province	Country	ZIP/foreign code		
Account number (see instructions)					

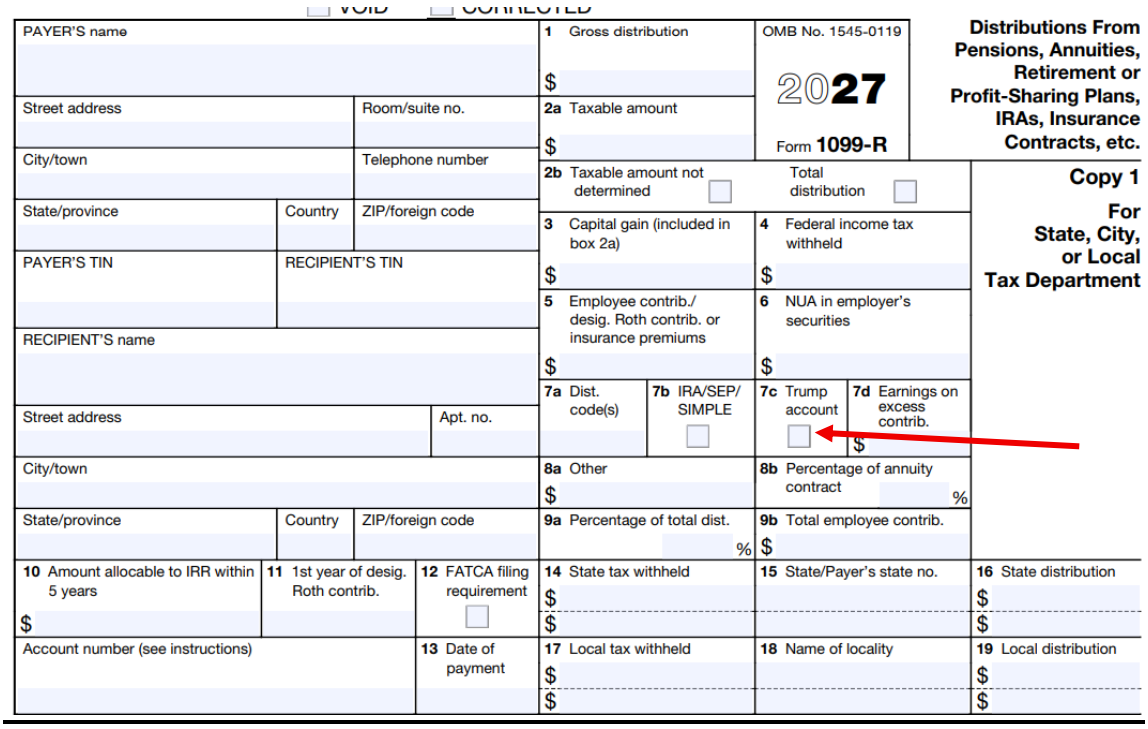
Trump Account Contribution Information

Copy B

For Beneficiary

This information is being furnished to the IRS.

Form **5498-TA** (12-2026) (Keep for your records) www.irs.gov/Form5498TA Department of the Treasury - Internal Revenue Service



VOID CORRECTED

PAYER'S name				1 Gross distribution $	OMB No. 1545-0119 2027 Form 1099-R
Street address			Room/suite no.	2a Taxable amount $	
City/town			Telephone number	2b Taxable amount not determined ☐ Total distribution ☐	
State/province	Country	ZIP/foreign code		3 Capital gain (included in box 2a) $	4 Federal income tax withheld $
PAYER'S TIN	RECIPIENT'S TIN			5 Employee contrib./ desig. Roth contrib. or insurance premiums $	6 NUA in employer's securities $
RECIPIENT'S name				7a Dist. code(s)	7b IRA/SEP/ SIMPLE ☐
Street address			Apt. no.		7c Trump account ☐ 7d Earnings on excess contrib. $
City/town				8a Other $	8b Percentage of annuity contract %
State/province	Country	ZIP/foreign code		9a Percentage of total dist. %	9b Total employee contrib. $
10 Amount allocable to IRR within 5 years $	11 1st year of desig. Roth contrib.	12 FATCA filing requirement ☐		14 State tax withheld $ $	15 State/Payer's state no.	16 State distribution $ $
Account number (see instructions)		13 Date of payment		17 Local tax withheld $ $	18 Name of locality	19 Local distribution $ $

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Copy 1

For State, City, or Local Tax Department

New penalty calculations on Form 5329. Form 5329 has been modified to add penalties for excess contributions to Trump Accounts.

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	G, line 8	55	0
Part X	**Additional Tax on Excess Contributions to Trump Accounts During the Growth Period.** Complete this part if the account beneficiary has not attained age 18 by the end of 2026 and aggregate contributions to the Trump account for 2026, other than exempt contributions, were more than $5,000.		
56	Enter your total excess contributions for 2025. **Caution:** For 2026, this amount is zero because there were no Trump accounts in 2025. See instructions	56	
57	Excess contributions made during 2026 (see instructions)	57	
58	Add lines 56 and 57	58	
59	Distributions of excess contributions (not including earnings) under 530A(d)(5) (see instructions)	59	
60	Total excess contributions for 2026. Subtract line 59 from 58. If zero or less, enter -0-	60	
61	**Additional tax.** Enter 6% (0.06) of line 60. Include this amount on Schedule 2 (Form 1040), line 18	61	
Part XI	**Additional Tax on Income Attributable to Excess Contributions Distributed From Trump Accounts.** Complete this part if there were earnings attributable to the excess contributions distributed from your Trump account.		
62	Enter the earnings attributable to the excess contributions distributed from Form 1099-R, box 7d	62	
63	**Additional tax.** Enter 100% of line 62. Include this amount on Schedule 2 (Form 1040), line 5	63	

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IRA and Pension Plan Distributions

- IRS Publication 590-B
- "The Retirement Savings Time Bomb Ticks Louder" by Ed Slott (the best IRA reference manual in layman's terms available)

Required Minimum Distributions (RMDs) (§401(a)(9); §1.401(a)(9)-1)

RMDs in general. Beneficiaries of retirement plans are required to take annual distributions from the retirement plan starting at "the required beginning date." RMDs are required for IRAs, SEPs, SIMPLEs, 401(k)s, 403(b)s, 457s, annuities and most other retirement plans. The amount of the distribution is calculated using account balance as of December 31st of the prior year and dividing that amount by a number provided in an IRS table (these tables and certain exceptions to the RMD rules will be discussed later). Once the RMD amount is determined, the taxpayer is required to distribute that amount during the year.

"Required beginning date" defined (§401(a)(9)(C)(v)). The requirement to take RMDs is based on the taxpayer's "required beginning date," which is when RMD must begin. Currently the required beginning date is the date the taxpayer reaches age 73. For the year the taxpayer first reaches age 73, the required beginning date is April 1st of the following year. If the taxpayer chooses to wait until the following year, two RMDs must be taken in that year.

Preparer note. If a taxpayer postpones their 1st RMD to April 1st the following year, two withdrawals are required, **and two calculations are required!** For example, a taxpayer who is subject to RMDs for the first time in 2026 may elect to defer the first year RMD to April 1, 2027. For the deferred 2026 withdrawal, the pension/IRA account balance at 12/31/2025 is used to determine the 2026 RMD. The 2027 RMD is calculated based on the 12/31/2026 pension/IRA account balance and must be withdrawn by 12/31/2027.

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Year	Normal First Required Payment Date	Special 1st RMD Payment Extension Option	Future Payment Date Requirement
2033 and beyond	12/31 of year turning 75	April 1st of year after turning 75	The year following turning 75 will require 2 payments: 1 for the first RMD and the normal 2nd year RMD
2023 - 2032	12/31 of year turning 73	April 1st of year after turning 73	The year following turning 73 will require 2 payments: 1 for the first RMD and the normal 2nd year RMD
2020 - 2022	12/31 of year turning 72	April 1st of year after turning 72	The year following turning 72 will require 2 payments: 1 for the first RMD and the normal 2nd year RMD
Prior to 2020	12/31 of year turning 70½	April 1st of year after turning 70½	The year following turning 70½ required 2 payments: 1 for the first RMD and the normal 2nd year RMD

RMD exception for those still working (§1.401(a)(9)-2, Q-2). The required beginning date for a taxpayer who is an employee of the organization who is the sponsor of a retirement plan is April 1st of the calendar year following the year the employee retires from working for the plan sponsor. If the employee continues to work, even part time, the required beginning date is postponed. ***Note however, this rule does not apply to taxpayers who own 5% or more of the sponsoring organization.***

Qualified Charitable Distributions from IRAs to Charity (§408(d)(8))

IRA owners aged 70½ and older may make transfers from their IRA directly to charitable organizations. The total transfers in a year cannot exceed $100,000 plus inflation adjustments. For 2026 the maximum QCD amount is $111,000 (Notice 2024-80).

1099-R rules changed to identify QCDs. "Qualified charitable distributions" (QCDs) are reported as regular distributions on Form 1099-R. For distributions made in 2025 and after, IRA custodians and trustees are required to include Code Y in Box 7 of Form 1099-R for any distribution that qualifies as a QCD. Code Y is used in conjunction with a second code to enhance the information provided:

- Code Y7 – normal QCD made from the owner's account.
- Code Y4 – beneficiary made a QCD from an inherited IRA.
- Code YK – QCD distributions of assets that do not have a readily available FMV.

Taxpayers are responsible for properly tracking and reporting QCDs on their tax returns regardless of the 1099-R reporting. Taxpayers still report the total IRA distribution and then reduce the taxable portion by the amount of the QCD.

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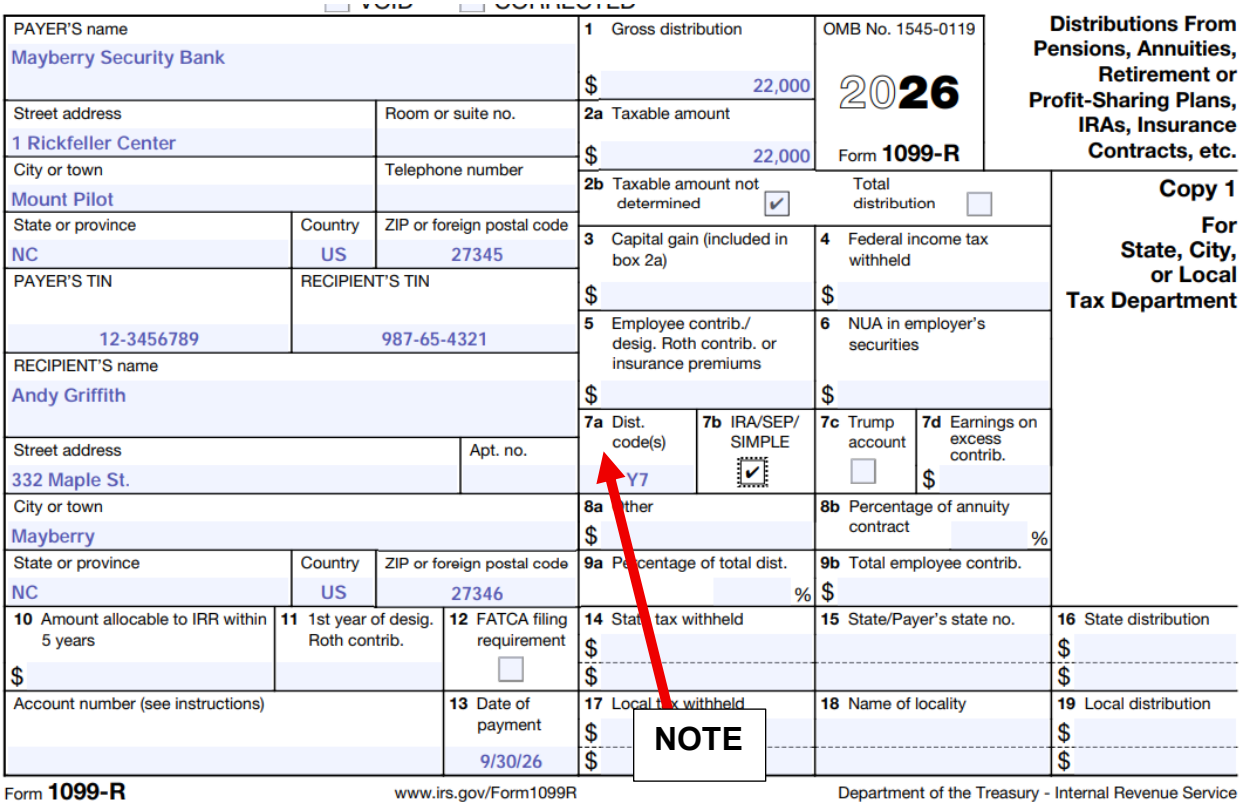

PAYER'S name: Mayberry Security Bank			1 Gross distribution: $ 22,000	OMB No. 1545-0119	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
Street address: 1 Rickfeller Center	Room or suite no.		2a Taxable amount: $ 22,000	2026 Form 1099-R	
City or town: Mount Pilot	Telephone number		2b Taxable amount not determined ☑	Total distribution ☐	Copy 1 For State, City, or Local Tax Department
State or province: NC	Country: US	ZIP or foreign postal code: 27345	3 Capital gain (included in box 2a)	4 Federal income tax withheld	
PAYER'S TIN: 12-3456789	RECIPIENT'S TIN: 987-65-4321		5 Employee contrib./ desig. Roth contrib. or insurance premiums	6 NUA in employer's securities	
RECIPIENT'S name: Andy Griffith			7a Dist. code(s): Y7	7b IRA/SEP/ SIMPLE ☑	7c Trump account ☐ / 7d Earnings on excess contrib.
Street address: 332 Maple St.	Apt. no.		8a Other	8b Percentage of annuity contract %	
City or town: Mayberry			9a Percentage of total dist. %	9b Total employee contrib.	
State or province: NC	Country: US	ZIP or foreign postal code: 27346	14 State tax withheld	15 State/Payer's state no.	16 State distribution
10 Amount allocable to IRR within 5 years	11 1st year of desig. Roth contrib.	12 FATCA filing requirement ☐	17 Local tax withheld	18 Name of locality	19 Local distribution
Account number (see instructions)		13 Date of payment: 9/30/26			

NOTE

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Preparer note. The QCD rules apply to taxpayers age 70½ and older even though taxpayers are not subject to RMDs until age 73. While QCDs prior to reaching RMD age don't have as significant of a tax impact, for those who make significant charitable contributions or who want to reduce retirement assets at death, QCDs are still an important planning tool.

QCDs and inherited IRAs. Beneficiaries of inherited IRAs who've reached the minimum QCD qualifying age of 70½ may elect to make QCDs from their inherited IRA. Any QCDs made from the inherited IRA reduce the RMDs for the IRA beneficiary in the same manner as if the beneficiary was the original owner.

IRAs only – not allowed for qualified plans. The QCD rules apply only to IRAs, not to other pension plans. If it is important enough, taxpayers should consider rolling their other pensions over to an IRA. For QCD purposes, a SEP or SIMPLE IRA can be used only if the account is inactive (no contributions in the year the QCD is made).

Contributing to an IRA may result in a reduction of the deductible QCD amount. The aggregate amount of deductible IRA contributions a taxpayer makes to an IRA after turning age 70½ reduces the amount of the QCD that is excludable from gross income.

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Some charities *do not* qualify for QCD treatment:

1. Private foundations.
2. Supporting organizations: i.e., charities conducting exempt purposes by supporting other exempt organizations, usually other public charities.
3. Donor-advised funds, which public charities manage on behalf of organizations, families, or individuals.

Charitable documentation is still required. When making a QCD, a taxpayer must receive the same type of acknowledgement of the donation that he or she would need to claim a deduction for a charitable contribution (see Pub. 526, Charitable Contributions).

RMDs – the Calculation. RMD calculations depend on a variety of factors – age of the account beneficiary, is the beneficiary the original account owner, was the account inherited, etc. All the calculations, at their core, utilize three factors: 1) value of the retirement account as of December 31st of the prior year, 2) age of the beneficiary, and 3) life expectancy derived from an IRS provided table. Factors one and two are straight forward. The complicating factor is determining which IRS table should be used as there are three to choose from:

1. **Uniform Lifetime Table –** used for all unmarried IRA and retirement plan owners calculating their own withdrawals, married owners whose spouses are 10 or fewer years younger, and married owners whose spouses are not the sole beneficiaries of their IRAs.

2. **Table I (Single Life Expectancy)** – used for beneficiaries who are not the spouse of the IRA owner.

3. **Table II (Joint Life and Last Survivor Expectancy)** – used for owners whose spouses are more than 10 years younger and are the sole beneficiary.

The IRS publishes all three tables in IRS Pub 590, Appendix B.

Inherited IRAs Distributions

Beneficiaries versus Designated Beneficiaries. When a person with a pension or IRA dies, the person(s) or entity(ies) who inherit the decedent's pension/IRA account are referred to as the beneficiary(ies). Such beneficiaries are categorized as either a "designated beneficiary" or "non-designated beneficiary." Designated beneficiaries are typically individuals who are specifically named in the plan documents. Non-designated beneficiaries are typically the decedent's estate/trust or an entity (e.g., charitable organization).

Non-designated beneficiaries – the 5-year rule. Beneficiaries who are not "designated beneficiaries" look to the decedent's age at death to determine distribution options. For decedents who die before reaching RMD age, the non-designated beneficiary has until December 31st of the fifth year after the year of the decedent's death to distribute 100% of inherited account. Annual RMDs are not required. For decedents who die after reaching RMD age, the beneficiary must withdraw annual RMDs. The RMDs are calculated using the single life annuity table and decedent's age at date of death. The account balance as of December 31st of the year of death is divided by the single life annuity table factor. This establishes the RMD in the year after the year of death. For subsequent years, one year is subtracted from the first-year factor.

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Example. Sharon's estate is the beneficiary of her IRA when she dies at age 71 in 2026. Sharon's estate may wait until 2031 to withdraw the entire IRA amount. There is no requirement to make any annual distributions before 2031 if the entire account is distributed by Dec. 31, 2031.

Variation. Assume the facts as above except Sharon was age 79 when she died. Sharon's estate must make RMDs starting in 2027 that are calculated by dividing the IRA balance as of December 31, 2026, by 11.9, the life expectancy factor for a 79-year-old person from the single life annuity table. For each succeeding year, the estate will subtract 1 from the original life expectancy factor to calculate the required distribution for 2028 – 2031 at which time the entire account must be distributed.

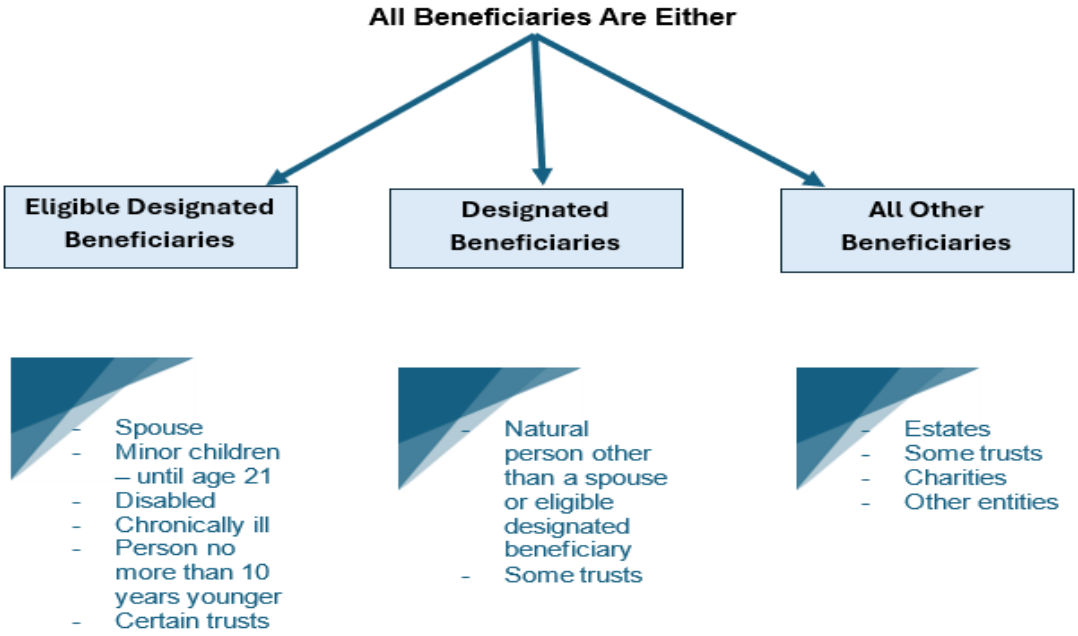
IRS Issued Final RMD Regulations (TD 100001; §1.401(a)(9)-0 through §1.401(a)(9)-9).

The final regulations address RMD changes because of the SECURE Act and SECURE 2.0. The Regulations became effective as of January 1, 2025. The final regulations define retirement plan/IRA beneficiaries as one of three types of beneficiaries:

1. **Eligible designated beneficiaries** - may use their own life expectancy to calculate RMDs from inherited accounts. The 10-year withdrawal rule does not apply to EDBs.

2. **Designated beneficiaries** – must use a 10-year distribution period for inherited accounts.

3. **Undesignated beneficiaries** – all beneficiaries other than a designated beneficiary.



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Clarification of 10-year withdrawal for inherited accounts provided. The IRS formalized the rules for inherited accounts and the 10-year rule in its regulations. The rules for withdrawals by beneficiaries, mandate that designated beneficiaries are required to distribute the entire account balance by December 31st of the year containing the tenth anniversary of the owner's death (i.e., the end of the 10th year starting the year after the year of the owner's death). The requirement for annual withdrawals depends upon the age of the decedent at date of death:

- **Death occurs prior to owner reaching RMD age.** For account owners who die prior to reaching RMD age, beneficiaries are not required to make annual withdrawals from the inherited account but 100% of the account balance must be withdrawn by the end of year that includes the tenth anniversary of the decedent's death.

- **Death occurs after required beginning date is reached.** If the decedent died on or after reaching RMD age, the beneficiary(ies) must take a distribution each year beginning the year after the year of the decedent's death. For years 1 through 9, the distribution must equal at least what the beneficiary would be required to take based on his or her single life expectancy. The entire account would have to be withdrawn no later than December 31st of the 10th year.

Example. Carly inherits a traditional IRA from her 71-year-old mother, who died early in 2026. Carly must distribute 100% of the account balance plus any earnings no later than December 31, 2036. Carly is not required to distribute anything from the account in 2026 through 2035 as her mother passed away before reaching age 73 (RMD age).

Variation. Let's say Carly's mother was aged 77 when she passed away, well beyond her required beginning date. Carly must make annual IRA distributions starting in 2027 and continue through 2035 from the inherited account. The amount of the RMDs are calculated based on Carly's life expectancy, not her mother's. The single life annuity table found in IRS Pub. 590-B would be used to calculate the required amount. In 2036 Carly must withdraw any remaining balance in its entirety. Carly must also ensure that an RMD is taken from her mother's IRA in 2026. If the RMD was not taken before the date of death, the distribution will be taxed to the heirs – Carly.

Example 2. What if Carly's mother had a Roth IRA instead of a traditional IRA? Since there is no required beginning date for a Roth IRA (no RMD's required), Carly is treated as inheriting an IRA from someone who died before the required beginning date. Carly may make distributions at any time and in any amount if she distributes the entire account balance by December 31st, 2036 (year 10).

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"Eligible Designated Beneficiary" (EDBs) definition clarified. Eligible designated beneficiaries have more advantageous withdrawal rules than all other beneficiaries. EDBs are subject to RMDs using their own life expectancy rather than that of the decedent. In some cases, this can significantly slow the distribution process. The regs divide "eligible designated beneficiaries" into two main categories:

1. **Minor children.** The decedent's minor children are eligible designated beneficiaries until they reach the age of majority, at which point the child becomes a designated beneficiary. The regs clarified the "age of majority" as used here is age 21. Additionally, the regs make clear if the decedent died on or after reaching age 73, the minor child is required to take annual distributions in years 1-9 based on her or his own life expectancy using the single life annuity table. If the decedent had not reached the required beginning date at the date of death, then no annual withdrawals are required.

2. **Other EDBs.** Eligible designated beneficiaries also include the decedent's spouse, disabled/chronically ill persons, and anyone no more than 10 years younger than the decedent. These EDBs may use their own life expectancy and the single life annuity table to calculate annual RMD. The 10-year rule does not apply to them.

Preparer Tip. The first step any beneficiary should take upon inheriting an IRA that they do not immediately cash in is to name a beneficiary and contingent beneficiary to the account.

Surviving spouse is the beneficiary. If an IRA or qualified plan is inherited from a spouse, the surviving spouse has the following options:

1. Leave it in the deceased spouse's account and add their name as survivor. This option is only available if the spouse is the sole heir with unlimited withdrawal rights. This option allows the surviving spouse to use the life expectancy of the deceased spouse for withdrawal calculations and ***allows the withdrawal of the funds without penalty at any time, regardless of age***. This is particularly valuable if the surviving spouse is significantly older than the deceased spouse or the surviving spouse is under age 59½. Note:

    - No additional contributions may be made to this account since the account holder is deceased.
    - The surviving spouse must begin taking RMD's by the later of 12/31 of the year after death or 12/31 of the year the owner would have turned 73.

2. Treat the deceased spouse's IRA as their own IRA by rolling it over into their own traditional IRA. This option is only available if the spouse is the sole heir with unlimited withdrawal rights. As the surviving spouse owns the IRA, they can make additional contributions if otherwise qualified. The surviving spouse is the owner of the rollover IRA for all purposes including:

    - Using their own life expectancy for withdrawal calculations, and
    - Becoming subject to early withdrawal penalties for any pre-age 59½ distributions.

3. Withdraw the full amount and pay tax. No penalty regardless of age.

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4. Elect to take the entire balance by December 31st of the 10th year after the year of death. No distributions are required at any point within the 10 years. The IRA remains in the name of the decedent. Any amount withdrawn is taxable but not subject to penalty regardless of age.

5. Elect to be treated as the employee pension plan owner (§401(a)(9)(B)(iv). SECURE Act 2.0 added this option for a surviving spouse to allow her or him to elect to be treated as the employee for RMD purposes.

Designated beneficiaries (§1.401(a)(9)-4). A designated beneficiary must be a person entitled to a portion or all a pension or IRA. A beneficiary doesn't have to be specified by name in the plan or by the employee for the beneficiary to be designated. They will be designated if they are identifiable pursuant to the designation. For example, a designation of the employee's children as beneficiaries of equal shares is treated as a designation of beneficiaries even if the children are not specified by name.

Distribution options for designated beneficiaries. If an IRA is inherited by an individual other than a spouse, the IRA may not: 1) be rolled over into the beneficiary's account, 2) receive contributions, and 3) be treated as the heir's IRA. Designated beneficiaries have the option to:

1. **Disclaim the IRA.** The beneficiary can always elect not to claim the account at all.

2. **Withdrawal and pay tax.** Withdraw the entire amount immediately and pay the related tax.

3. **Distribute within 10 years.** Non-spouse beneficiaries must withdraw 100% of the inherited IRA within 10 years beginning the year following the year the participant or IRA owner died. Unlike prior law, the 10-year period applies regardless of whether the plan participant or IRA owner dies before or after reaching RMD required age. However, as discussed above, if the owner had reached his or her required beginning date for RMDs, the heir must make RMDs in years 1 – 9 and then completely liquidate the account by December 31st of year 10. This applies to distributions to non-spouse beneficiaries from qualified retirement plans, IRAs, and Roth IRAs. All withdrawals are taxable without penalty, regardless of the beneficiary's age.

Preparer note. There is ***no circumstance where a non-spouse beneficiary may roll an inherited IRA into an IRA in their own name.*** Only spouses have that option!

Undesignated beneficiaries. Undesignated beneficiaries are everyone or everything else other than a designated beneficiary. The most common beneficiary here is an estate, trust, or charity. Undesignated beneficiaries are subject to the pre-Secure Act distribution rules, which means the entire account must be distributed by the end of the fifth year beginning the year after the decedent's death.

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See-through trusts may qualify as a designated beneficiary (§1.401(a)(9)-8). To qualify as a designated beneficiary for IRA distribution rules, a trust must:

1. Be valid under state law, or would be but for the fact that there is no corpus;
2. Is irrevocable or will, by its terms, become irrevocable upon the death of the IRA owner; .
3. Have trust beneficiaries who are identifiable from the trust instrument.
4. Provide documentation to the IRA administrator no later than October 31st of the year following the year of the IRA owner's death. Documentation is provided by providing either:

    a. A final list of all beneficiaries of the trust (including contingent and remainder beneficiaries with a description of the conditions on their entitlement); and
    b. Certify the list is correct and complete; and
    c. The other three requirements of naming a trust as beneficiary are satisfied: and
    d. Agree to provide a copy of the trust instrument to the IRA administrator.

PLR provides insight when Trust is named beneficiary (LTR 202404003). John Doe and Jane Doe established a Trust as part of their estate plan. John and Jane were named as trustees, each of whom could act independently of the other to exercise any powers granted to a trustee. Either trustee could withdraw or distribute any property from Trust at any time. The trust assets included John's IRA. John passed away at 68, when Jane was age 67. The trust rolled John's IRA into an inherited IRA, with the Trust listed as beneficiary. After John's death, Jane was the sole trustee of Trust, and she had the authority to distribute all the trust assets to herself during her lifetime. Based on these facts, the IRS was asked to rule on:

1. May Jane, as surviving spouse, be treated as having acquired the IRA directly from John, and not from the Trust;
2. Is Jane eligible to roll over the IRA distribution to an IRA established and maintained in Jane's own name;
3. Is Jane required to include in gross income the amount of John's IRA in the year it is rolled from the Trust's IRA to an IRA set up and maintained in Jane's name?

The IRS concluded that Jane may be treated as acquiring John's IRA directly from John, not from the Trust. She is eligible to roll the IRA into an IRA in her name (assuming the 60-day rollover rule is met, if applicable). Jane is not required to pay tax on the rollover of John's IRA to her IRA.

Preparer note 1. The number one mistake that taxpayers make is failure to designate a beneficiary (designated beneficiary). When the IRA holder dies without a designated beneficiary, the beneficiary is known as a named beneficiary. A named beneficiary does not get the benefits of stretching the withdrawals or payments over the ten-year period normally available to a designated beneficiary.

Prepare note 2. Today, RIGHT NOW name both designated beneficiaries as well as contingent beneficiaries for all retirement accounts. The number two mistake taxpayers make is failure to name a contingent beneficiary in the event of the primary designated beneficiary's death or disclaiming of the retirement accounts. Failure to name a contingent means that if the primary dies before the account holder, then all options are lost.

Preparer note 3. A designated beneficiary is defined as an individual. Not an estate, not a trust, not a corporation, and not passing through the will (treated as an estate). DO NOT ALLOW THE

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RETIREMENT ACCOUNT TO PASS VIA A WILL TO THE ESTATE. ESTATES ARE ALWAYS UNDESIGNATED BENEFICIARIES.

Form 5329 – Additional Taxes on Retirement and Other Tax-Favored Accounts (§72(t); (Form 5329)

Taxpayers who take distributions from IRAs or qualified plans prior to reaching age 59½ are potentially subject to early withdrawal penalties in addition to any tax due. There are multiple exceptions that result in the penalty being waived. The Secure Act 2.0 added several additional exceptions and clarified some of those already in the books. The discussion below focuses on these exceptions.

Early Distributions – 60-day Rollover Rule Does Not Apply So Now What?

Distributions prior to reaching age 59½ is an early distribution and is usually subject to a 10% penalty tax that is disclosed on Form 5329. The distribution is also taxable for regular tax. Note the age 59½ rule means the taxpayer must be 59½ or older ***on the day of withdrawal.***

Exceptions to 10% Additional Tax (§72(t))			
Description	**Qualified Plans (401(k), etc.)**	**IRA, SEP, SIMPLE IRA* and SARSEP Plans**	**IRC Section(s)**
Age			
Participant or IRA owner reaches age 59½ or older	Yes	Yes	§72(t)(2)(A)(i)
Auto-Enrollment			
Permissive withdrawals from a plan with auto enrollment features	Yes	SIMPLE IRAs and SARSEPs	§414(w)(1)(B)
Beneficiary Death			
Beneficiary after death of the participant/IRA owner	Yes	Yes	§72(t)(2)(A)(ii)
Disabled			
Total and permanent disability of the participant/IRA owner	Yes	Yes	§72(t)(2)(A)(iii)
Substantially Equal Payments			
Series of substantially equal payments	Yes	Yes	§72(t)(2)(A)(iv)
Separation from Service			
Separates from service when employee reaches age 55 (age 50 or 25 years of service for public safety employees)	Yes	No	§72(t)(2)(A)(v), §72(t)(10)
ESOP Dividends			
Dividend pass through from an ESOP	Yes	n/a	§72(t)(2)(A)(vi)
IRS Levy			
Due to an IRS levy	Yes	Yes	§72(t)(2)(A)(vii)

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Exceptions to 10% Additional Tax (§72(t))			
Description	**Qualified Plans (401(k), etc.)**	**IRA, SEP, SIMPLE IRA* and SARSEP Plans**	**IRC Section(s)**
Excess Contributions			
Corrective distributions (and associated earnings) of excess contributions, excess aggregate contributions and excess deferrals, made timely	Yes	n/a	§401(k)(8)(D), §401(m)(7)(A), §402(g)(2)(C)
Medical			
Amount of unreimbursed medical expenses (>7.5% AGI)	Yes	Yes	§72(t)(2)(B)
QDRO			
Distributions paid to alt. payee by court order	Yes	Yes	§72(t)(2)(C)
Unemployed Health Insurance			
Health insurance premiums paid while unemployed	No	Yes	§72(t)(2)(D)
Higher Education			
Qualified higher education expenses	No	Yes	§72(t)(2)(E)
First Time Home Buyer			
Qualified 1st time homebuyers max $10,000	No	Yes	§72(t)(2)(F)
Military Reservists			
Distributions to qualified military reservists called to active duty	Yes	Yes	§72(t)(2)(G)
Birth or Adoption			
$5,000 for 1 year from event date, ***per birth***	Yes, for all except defined benefit	Yes – each parent qualifies	§72(t)(2)(H)
Emergency Expense – started in 2024			
Personal or family unforeseen needs up to $1,000	Yes	Yes	§72(t)(2)(I)
Pension-Linked Emergency Savings – started in 2024			
Employer pension emergency distributions	Yes	N/A	§72(t)(2)(J)
Domestic Abuse – started in 2024			
Up to $10,000 for victims of spousal/partner domestic abuse within 1 year	Yes	Yes	§72(t)(2)(K)
Terminal Illness – started in 2023			
Terminal diagnoses of death within 84 months. Amount unlimited	Yes	Yes	§72(t)(2)(L)
Federally Declared Disasters			
Up to $22,000 is allowed if Federally Declared Disaster. May be paid back	Yes	Yes	§72(t)(2)(M)
Long-term Care Contracts – starts 2026			

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Exceptions to 10% Additional Tax (§72(t))			
Description	**Qualified Plans (401(k), etc.)**	**IRA, SEP, SIMPLE IRA* and SARSEP Plans**	**IRC Section(s)**
Allows distributions of up to $2,500 annually to pay for LT care insurance	Yes	Yes	§72(t)(2)(N)

Excess Accumulation Penalty

50% penalty reduced to 25%/10% (§4974). Taxpayers who fail to take an RMD use Form 5329 to calculate the related penalty. The penalty is 25% but it is reduced to 10% if the taxpayer takes the required RMD by the end of the second year following the year it was due.

Waiving the penalty for failure to take an RMD. Taxpayers who fail to take the required minimum distribution must fill out Form 5329 Part IX to calculate the applicable penalty. Taxpayers may use Form 5329 to request penalty abatement, which is regularly granted. Taxpayers should attach proof that they have "caught up" any missed RMD's and a statement explaining the amounts, the causes, the term "reasonable cause" and that the mistake has been rectified. A separate 5329 is required for each missed year. Attach the required documentation but do not amend the returns for those years – the missed RMD's are not taxable until received so the returns for the years missed do not need amending.

Part IX of Form 5329 must be completed. Enter the RMDs on line 52a and 52b and enter any distributions taken on line 53a. Enter "RC" (reasonable cause) and amount to be waived in parentheses on the dotted line next to line 54a or 54b as applicable. Calculate the penalty on line 55 after reducing the amount by any relief requested.

Example. Due to health issues and her advanced age (she is 89 years old), Lara forgot to take her $10,000 required minimum distribution in 2026. Lara completes Form 5329 as shown below to request penalty abatement and attaches it to her 2026 tax return. She also includes a statement explaining how the mistake happened and documentation to show the excess accumulation has been withdrawn.

Part IX **Additional Tax on Excess Accumulation in Qualified Retirement Plans (Including IRAs).** Complete this part if you did not receive the minimum required distribution from your qualified retirement plan.

52a	Minimum required distribution for 2026 from all qualified plans for which you received a distribution of the full amount of the excess accumulation during the correction window	52a	
52b	Minimum required distribution for 2026 from all other plans	52b	10,000
53a	Amount distributed to you during 2026 from all qualified plans for which you received a distribution of the full amount of the excess accumulation during the correction window	53a	0
53b	Amount distributed to you during 2026 from all other plans	53b	0
54a	Subtract line 53a from line 52a and multiply the result by 10% (0.10). If zero or less, enter	54a	0
54b	Subtract line 53b from line 52b and multiply the result by 25% (0.25). If zero or less, enter	54b	0
55	Add lines 54a and 54b. Include the total on Schedule 2 (Form 1040), line 18, or Form 1041, Schedule G, line 8	55	0

RC $10,000

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Preparer note. In 2026, the maximum penalty is 25%. If Lara, from the above example, failed to take her 2026 RMD, and assuming she makes the correction no later than December 31, 2028, the penalty would only be 10%. It will be interesting to see if the IRS changes its attitude toward waiving the excess accumulation penalties now that the penalty has dropped from 50% to 10%.

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Itemized Deductions (Schedule A) – Now 2 Pages

SCHEDULE A (Form 1040)
Department of the Treasury
Internal Revenue Service

Itemized Deductions

Attach to Form 1040 or 1040-SR.
Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 17.

OMB No. 1545-0074
2026
Attachment Sequence No. **07**

Name(s) shown on Form 1040 or 1040-SR | **Your social security number**

Medical and Dental Expenses

Caution: Do not include expenses reimbursed or paid by others.

1	Medical and dental expenses (see instructions)		1	
2	Enter amount from Form 1040 or 1040-SR, line 11b	2		
3	Multiply line 2 by 7.5% (0.075)		3	
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4

Taxes You Paid

5	State and local taxes (SALT).			
5a	State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box ☐		5a	
5b	State and local real estate taxes (see instructions)		5b	
5c	State and local personal property taxes		5c	
5d	Add lines 5a through 5c		5d	
5e	Enter the smaller of line 5d or $40,400 ($20,200 if married filing separately). If Form 1040 or 1040-SR, line 11b, is more than $505,000 ($252,500 if married filing separately), or if you completed Form 2555, Form 4563, or excluded income from Puerto Rico, see instructions		5e	
6	Other taxes. List type and amount:		6	
7	Add lines 5e and 6			7

Interest You Paid

Caution: Your mortgage interest deduction may be limited. See instructions.

8	Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box ☐			
8a	Home mortgage interest and points reported to you on Form 1098. See instructions if limited		8a	
8b	Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying number, and address		8b	
8c	Points not reported to you on Form 1098. See instructions for special rules		8c	
8d	Mortgage insurance premiums (see instructions)		8d	
8e	Add lines 8a through 8d		8e	
9	Investment interest. Attach Form 4952 if required. See instructions		9	
10	Add lines 8e and 9			10

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Schedule A (Form 1040) 2026 Page 2

Gifts to Charity **Caution:** If you made a gift and got a benefit for it, see instructions.	11	Gifts by cash or check. If you made any gift of $250 or more, see instructions	11	
	12	Other than by cash or check. If you made any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	12	
	13	Enter the amount from line 6 of the Charitable Contribution Limitation Worksheet	13	
	14	Carryover from prior year	14	
	15	Add lines 13 and 14		15
Casualty and Theft Losses	16	Casualty and theft loss(es) from a federally or state-declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions		16
Other Itemized Deductions	17	Other itemized deductions (see instructions).		
	17a	Deductible gambling losses	17a	
		If you have gambling winnings that you reported on Schedule C or Schedule E, check here ☐		
	17b	Net qualified disaster loss	17b	
	17c	Standard deduction claimed with qualified disaster loss	17c	
	17d	Casualty and theft losses of income-producing property	17d	
	17e	Federal estate tax on income in respect of a decedent	17e	
	17f	Deduction for amortizable bond premium	17f	
	17g	Ordinary loss attributable to a contingent payment debt instrument or an inflation-indexed debt instrument	17g	
	17h	Deduction for repayment of amounts under a claim of right if over $3,000	17h	
	17i	Certain unrecovered investment in a pension	17i	
	17j	Impairment-related work expenses of a disabled person	17j	
	17k	Deductible educator expenses not reported on Schedule 1 (Form 1040)	17k	
	17z	Add lines 17a through 17k		17z
Total Itemized Deductions	18	Is the amount on Form 1040 or 1040-SR, line 11b, minus the amounts on lines 13a and 13b of that form, more than $384,350? ☐ **No.** Your deductions are not limited. Add the amounts in far-right column for lines 4 through 17z. Also enter this amount on Form 1040 or 1040-SR, line 12e. ☐ **Yes.** Your deductions may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter		18
	19	If you elect to itemize deductions even though they are less than your standard deduction, check this box ☐		

Much more detail than in past years.

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Standard Deduction (§63(c))

Standard Deduction. The OBBBA made the TJCA increased standard deduction amounts permanent. Interestingly, the number of individual returns who claim itemized deductions decreased from about 31% in 2017 to about 10% in 2024. It is anticipated that the number of itemizers will increase starting in 2025 now that the SALT tax deduction limit was increased to $40,000.

	2025	2026
Single	**$15,750**	**$16,100**
Head of Household	**$23,625**	**$24,150**
Married Filing Joint	**$31,500**	**$32,200**
Married Filing Separate	**$15,750**	**$16,100**

Medical Expense Deduction (§213)

Overview. Taxpayers are allowed a deduction for expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, the taxpayer's spouse, or the taxpayer's dependent. Only expenses taken together that exceed 7.5% of the taxpayer's, or both taxpayers' if filing jointly, adjusted gross income (AGI) are deductible on Schedule A.

Only medical expenses actually paid during the taxable year are deductible, regardless of when the expense was incurred, and regardless of the method of accounting used by the taxpayer for filing income tax returns (§1.213-1(a)(1)).

Medical care defined (§213(d)(1); §1.213(e)). The Code defines "medical care" as amounts paid for:

- Diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body,
- Transportation primarily for and essential to obtaining medical care,
- Qualified long-term care services; or
- Insurance covering medical care and transportation, including supplementary medical insurance for the aged (Medicare Part B), and any qualified long-term care insurance contract.

Medical deductions are limited to amounts paid for expenses incurred primarily for the prevention or alleviation of a physical or mental defect or illness and for operations or treatment affecting any portion of the body. Thus, medical care payments include a) hospital services; b) nursing services; c) medical, laboratory, surgical, dental, and other diagnostic and healing services; d) obstetrical,

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therapy, and X-ray expenses; e) prescribed drugs or insulin; and f) artificial teeth or limbs. Expenditures which are merely beneficial to the general health of an individual, such as an expenditure for a vacation, do not qualify. Illegal operations or treatments also do not qualify.

Medical insurance deductions (§213(d)(1)(D)). Medical insurance expenditures are included as medical care to the extent amounts paid for insurance are for:

- Covering the diagnosis, cure, mitigation, treatment, or prevention of disease;
- The purpose of affecting any structure or function of the body; or
- Transportation primarily for and essential to medical care.

Policies that contain premium waivers in the case of certain events do not qualify. In the case of an insurance contract that includes non-medical provisions (e.g., a policy providing an indemnity for loss of income or for loss of life, limb, or sight):

1. No amount may be treated as paid for medical insurance unless the charge for such insurance is either separately stated in the contract or furnished to the policyholder by the insurer in a separate statement,
2. The amount treated as paid for medical insurance may not exceed such charge, and
3. No amount may be treated as payment for medical insurance if the amount specified in the contract as the charge for such insurance is unreasonably large in relation to the total charges under the contract.

"Direct primary care arrangement" defined. Proposed regulations define a "direct primary care arrangement" (DPCA) as a contract between an individual and one or more primary care physicians under which the physician or physicians agree to provide medical care for a fixed annual or periodic fee without billing a third party (i.e., insurance company). The proposed regulations define a "primary care physician" as an individual who has a primary specialty designation of family medicine, internal medicine, geriatric medicine, or pediatric medicine. The IRS is considering adding nurse practitioners, clinical nurse specialists, and physician assistants as primary care providers, although it hasn't been done yet.

DPCAs are medical expenses, but not medical insurance. OBBBA made it clear that DPCAs are medical expenses but not health insurance. DPCAs include arrangements with costs of up to $150 for singles, and $300 for families. In addition, DPCAs do not include:

- General anesthesia;
- Prescription drugs other than vaccines;
- Lab services not typically administered in an ambulatory primary care setting.

"Health care sharing ministry" defined (PR §1.213(e)(2)). Health care sharing ministries do not provide medical treatment or services. Instead, membership entitles members to share their medical bills through the ministry and potentially receive payments from other members to help with their medical bills. The membership payments historically have not been allowed as payments for medical care. The proposed regulations define a "health care sharing ministry" as a charitable tax-exempt organization:

- Whose members share a common set of ethical or religious beliefs and share medical expenses among members in accordance with those beliefs and without regard to the State in which a member resides or is employed,

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- Whose members retain membership even after they develop a medical condition,
- Which (or a predecessor of which) has always been in existence since December 31, 1999, and medical expenses of its members have been shared continuously and without interruption since at least December 31, 1999, and
- Which conduct an annual audit performed by an independent certified public accounting firm in accordance with generally accepted accounting principles and which is made available to the public upon request.

Proposal to treat payments to Health Care Sharing Ministries as health insurance. The proposed regulations determined that payments for membership in a health care sharing ministry that shares expenses for medical care are payments for medical insurance. The purpose of a health care sharing ministry is for members to share the burden of their medical expenses with other members. Members assist in the payment of other members' medical bills and possibly receive reimbursement for their own medical bills in return. Whether this is done by making membership payments to the ministry or by sending the payments directly to other members, the substance of the transaction is the same. Like traditional medical insurance premiums, amounts paid for membership in a health care sharing ministry allow members who incur expenses for medical care to submit claims for those expenses and potentially receive payments to help cover those expenses.

HRA or HSA reimbursements. Amounts paid for direct primary care arrangements are eligible for reimbursement from HRAs, QSEHRAs, and HSAs. Amounts paid to health care sharing ministries are considered payments for insurance and are eligible for reimbursement from HRAs and QSEHRAs. However, as these payments are for insurance, they are not reimbursable from HSAs. In addition, participants in both direct primary care arrangements and health care sharing ministries are considered to have low-deductible health plans that would preclude the taxpayer from qualifying to make contributions to HSAs.

Medical (and other) Mileage (Announcement 2026-11)			
Mileage Type	**2025**	**2026**	**2027**
Medical/moving	21¢	20½¢ – 23½¢	¢
Business	70¢	72½¢ – 76¢	¢
Charity	14¢	14¢	14¢

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Qualified Long-Term Care Premiums (Rev. Proc. 2025-32)

The amount that is deductible as qualified long-term care premiums is annually adjusted for inflation. The annual deductible amounts per person are:

Age at close of tax year	2025	2026	2027
40 or less	$ 480	$ 500	
Over 40, not over 50	$ 900	$ 930	
Over 50, not over 60	$1,800	$ 1,860	
Over 60, not over 70	$4,810	$ 4,960	
Over 70	$6,020	$ 6,200	

Taxes (§164)

Overview. The original tax code allowed deductions for all state and local taxes, including excise and sales taxes. In 1944, Congress began to restrict the types of deductible state and local taxes, eliminating excise taxes and narrowing the deduction to income, property, and general sales taxes. The Tax Reform Act of 1986 eliminated the deduction for state and local sales taxes but preserved deductions for income and property taxes. The 2004 American Jobs Creation Act reinstated the sales tax deduction as an alternative to the income tax deduction (§164(b)(5)), allowing taxpayers to choose whichever was more favorable. In 2017, the TCJA dramatically altered the SALT deduction by capping it at $10,000 ($5,000 if married filing separately) in 2018 through 2025.

OBBBA makes major change to SALT tax deduction – but only temporarily (§164(b)(7)). The SALT deduction limit was temporarily increased from $10,000 to $40,000 in tax years 2025 through 2029. The new limit is not adjusted for inflation but is statutorily increased by 1% per year through 2029. In 2030 the SALT limit reverts to $10,000.

SALT tax deduction phaseout. The increased SALT cap is subject to phaseout for taxpayers with MAGI above $500,000 for all taxpayers except it is $250,000 for married filing separately. The cap phases down by 30% of MAGI in excess of the threshold. The phaseout stops when the remaining SALT deduction reaches $10,000, the minimum SALT tax deduction. The phaseout threshold is increased by 1% per year starting in 2026.

Year	SALT Limit	Phaseout Begins
2025	$ 40,000	$ 500,000
2026	$ 40,400	$ 505,000
2027	$ 40,804	$ 510,050
2028	$ 41,212	$ 515,151
2029	$ 41,624	$ 520,302
2030	$ 10,000	N/A - None

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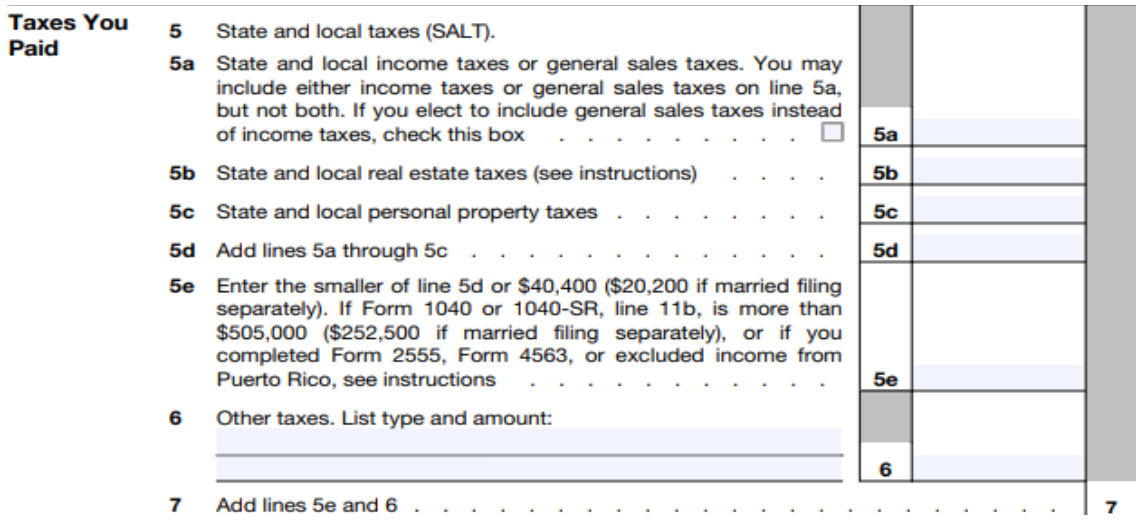

Taxes You Paid				
	5	State and local taxes (SALT).		
	5a	State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box ☐	5a	
	5b	State and local real estate taxes (see instructions)	5b	
	5c	State and local personal property taxes	5c	
	5d	Add lines 5a through 5c	5d	
	5e	Enter the smaller of line 5d or $40,400 ($20,200 if married filing separately). If Form 1040 or 1040-SR, line 11b, is more than $505,000 ($252,500 if married filing separately), or if you completed Form 2555, Form 4563, or excluded income from Puerto Rico, see instructions	5e	
	6	Other taxes. List type and amount:	6	
	7	Add lines 5e and 6		7

Example. Cory and Sarah have MAGI of $555,000 in 2026. They exceed the SALT threshold by $50,000 so their SALT tax deduction limit is calculated:

SALT tax limit (maximum)	$ 40,400
MAGI reduction – $50,000 (MAGI in excess of threshold x 30%) =	($15,000)
Modified SALT limit for Cory and Sarah	$ 24,600

Example – variation. Cory and Sarah's MAGI is $750,000 in 2026, $245,000 ($750,000 less $505,000 2026 limit) above the SALT MAGI phaseout threshold. Their SALT tax limit for 2026 is calculated:

SALT tax limit (maximum)	$ 40,000
MAGI reduction – $245,000 (MAGI in excess of threshold x 30%) =	($73,500)
Modified SALT limit for Cory and Sarah	$ 0
2026 SALT limit for Cory and Sarah – minimum, no phaseout	$10,000

Reminder - Capitalization of tax and interest allowed (§266; §1.266-1). Taxpayers who own unimproved investment, non-income producing land should consider making a §266 election whenever they are subject to AMT. This election allows the real estate taxes, interest, and other charges to be added to the cost of the land under §1.266-1(b)(1)(i) rather than be currently deducted. The taxpayer may elect to capitalize one of these costs and deduct the others if deductible and of a different category such as capitalizing taxes and deducting interest.

The election is made annually and requires a statement in the taxpayer's return, setting forth the description of the property and the expenses to which the election applies. In addition, if the property produces income each year, the election is not available. The election must be made by the due date of the return. In PLR201105014 the taxpayer was granted the ability to make the election on an amended return.

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Home Mortgage and Other Interest Deductions (§163)

Where to Deduct Interest Expense		
TYPE OF INTEREST	**WHERE TO DEDUCT**	**MORE INFORMATION**
Student loan interest	Form 1040, Sch. 1, Line 21	Pub. 970
Home mortgage interest & points on Form 1098	Schedule A, Line 8a	Pub. 936
Home mortgage interest and points **not** on Form 1098	Schedule A, Line 8b	Pub. 936
Deductible points **not** on Form 1098	Schedule A, Line 8c	Pub. 936
Mortgage insurance premiums	Schedule A, Line 8a or b as appropriate	§163(h)(3)(E)
Investment interest for raw land	Form 4952	Pub. 550
Investment Interest for stocks & taxable bonds	Form 4952	Pub. 550
Investment interest on loan to buy S corporation stock	Schedule E, Page 2, Part 2, Line 28 as "Business Interest"	Notice 89-35
Non-farm business interest	Schedule C, Line 16	Pub. 535
Farm business interest	Schedule F, Line 21	Pub. 225
Rent/royalty related interest	Schedule E, Line 13	Pub. 527
Oil & gas working interest	Schedule C, Line 16b if direct, Schedule E, Line 13 if indirect	Pub. 550
Qualified personal auto loan	Sch. 1-A	§163(h)(4)
Other personal interest	Non-deductible	§163(h)

Mortgage interest overview. The Revenue Act of 1913, which established the modern Federal income tax, allowed a deduction for "all interest paid on personal indebtedness," including mortgage interest. At the time, this was not seen as a housing subsidy, since most personal interest (credit, loans, etc.) was deductible. The Tax Reform Act of 1986 overhauled the tax code, eliminating personal interest deductions (e.g., credit card, personal auto, etc.) except mortgage interest on a primary residence and one second home. Congress allowed interest on up to $1,000,000 of "acquisition indebtedness" as a deduction plus "home equity" interest from home equity debt of up to $100,000. The TCJA changed the mortgage acquisition debt limit to $750,000 on new loans after December 15, 2017, and eliminated the deduction for home equity interest.

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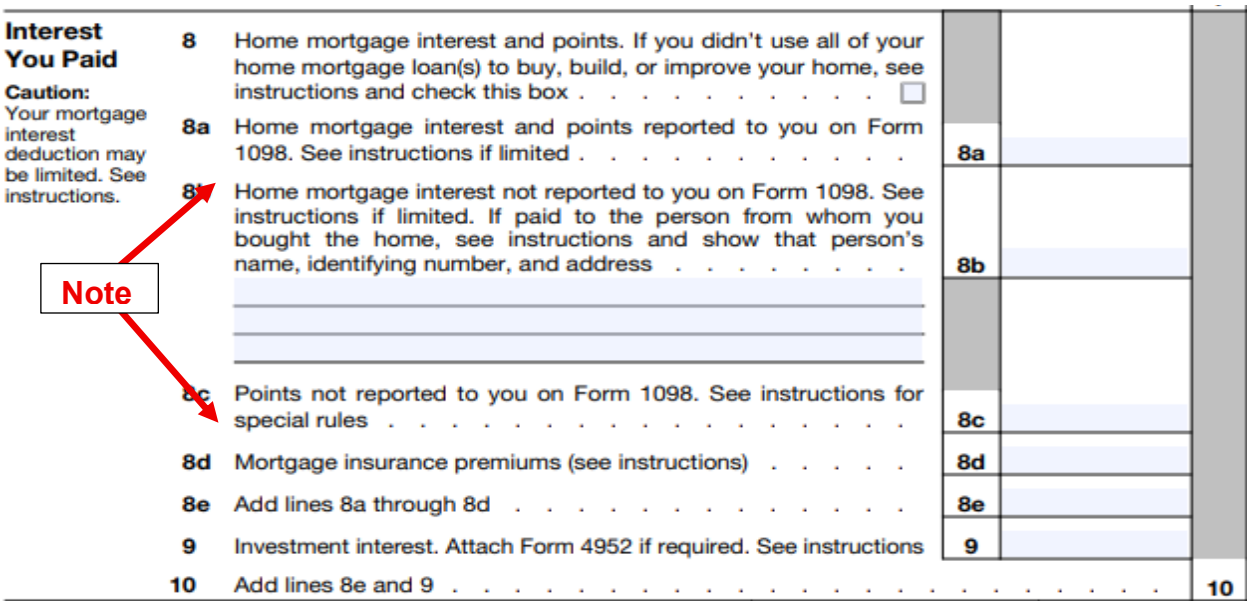

Home mortgage interest deduction (§163(h)(3)(B)(i)(I)). Home mortgage interest is defined as acquisition indebtedness, which is "*any indebtedness incurred in acquiring, constructing, or substantially improving any qualified residence of the taxpayer, and is secured by such residence.*" For this purpose, a qualified residence is defined as:

1. The taxpayer's principal residence (as defined in §121) of the taxpayer, and

2. One other residence of the taxpayer which is selected by the taxpayer for purposes of this subsection for the taxable year and which is used by the taxpayer as a residence (i.e., not a rental property).

The $750,000 total mortgage debt limit applies to the principal residence plus one other home.

OBBBA changes. OBBBA made ***three permanent changes*** to the mortgage interest deduction rules:

1. It permanently extended the $750,000 home mortgage acquisition debt interest limitation. This limit will no longer expire after 2025.

2. All other provisions of the TCJA were also permanently extended, including the provision prohibiting the deduction of interest paid on home equity debt.

3. Mortgage insurance premiums are permanently deductible as mortgage interest for premiums paid after December 31, 2025.

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Exceptions to the $750,000 limit. The $750,000 loan maximum applies to both, not separately, a primary and one secondary residence. There are some exceptions to the $750,000 debt limit:

- For mortgages taken out before 10/13/87 (grandfathered debt), there are no limits on deductible interest for both the 1st and 2nd home. Grandfathered debt which has been refinanced after 10/13/87 qualifies as grandfathered debt only to the extent of the grandfathered debt refinanced, and only to the extent of the remaining term of the original grandfathered debt. Additional debt over the grandfathered amount is treated as acquisition debt (if used for improvements) or equity debt.

- Interest on mortgages taken out after 10/13/87 and before 12/15/17, to **buy, build, or improve** a home (called home acquisition debt) is fully deductible, but only if throughout the tax year these mortgages plus any grandfathered debt totaled $1 million or less ($500,000 or less if MFS). After 12/15/2017 the limit is $750,000.

Example. Marco purchased a home for $250,000 in 2013 and borrowed $200,000 of qualified acquisition debt. In 2025, when the remaining mortgage balance due was $140,000, he refinanced with a new $200,000 mortgage. Acquisition debt remains at $140,000 and equity debt is $60,000, assuming none of the proceeds were used for improvements. None of the interest allocable to equity debt is deductible.

Example 2. Marco purchased a home for $250,000 in 2013 and borrowed $200,000 as qualified acquisition debt. In 2025, when the outstanding balance was $140,000, he refinanced with a new $200,000 mortgage and used the additional $60,000 of borrowed money to add a new kitchen. The entire $200,000 debt is acquisition indebtedness.

Exception to the acquisition debt rules (Notice 88-74). The IRS acknowledged that a mortgage secured by a qualified home is acquisition debt even if the loan proceeds were not used to buy, build or improve the home if:

- Within 90 days before or after the mortgage date the taxpayer buys a qualifying home, limited to the home's cost, or
- The taxpayer builds or improves a home and takes out a mortgage before the home is completed, limited to the costs incurred within 24 months before the mortgage date, or
- The taxpayer builds or improves a home and takes out a mortgage within 90 days after the work is completed, limited to qualifying expenses incurred in the 24 months before the work is completed and ending on the mortgage date.

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Charitable Contributions (§170)

Overview. Deductions for donations to charitable organizations have historically been allowed as an itemized deduction and limited, in most cases, to 50% of the taxpayer's AGI. For years 2018 through 2025, the TCJA increased the AGI limitation percentage to 60%. Contributions that exceed the 60% AGI limit may be carried forward and deducted as a charitable contribution for up to five succeeding years. The AGI percent limit is reduced for certain types of donations:

- 50% of AGI – cash contributions to private non-operating foundations and non-cash contributions to public charities.
- 30% of AGI – long-term appreciated non-cash assets (e.g., stocks) donated to public charities. Also applies to cash donations to most private non-operating foundations and certain other organizations.
- 20% of AGI – appreciated property donated to private non-operating foundations.

There has never been a floor, or "only allowed if exceeding" limit.

2026 Changes to Charitable Contribution Deductions (§170(b))

Three noteworthy and permanent 2026 changes were made by OBBBA to charitable contribution deductions:

1. Permanently extended the 60% of AGI limit for most charitable contributions;

2. Added a deduction for charitable contribution made by non-itemizers (see discussion in the Other Deductions chapter); and

3. Made itemized charitable contributions subject .5% of AGI floor like the floor used for medical expenses.

Charitable contributions and the 0.5% floor (§170(b)(1)(I)). Beginning in 2026, the charitable contribution deduction included in itemized deductions is limited to the extent the contributions exceed 0.5% of the taxpayer's AGI. Contributions eliminated by the 0.5% floor may carry forward up to 5 years, but only in years where excess contribution carryforwards were generated (i.e., contributions were made above the AGI thresholds). The new floor only applies to itemized deductions, not to the pre-AGI charitable contribution deduction. The floor is calculated and applied before any overall itemized deduction limits are considered. The result is high income taxpayers could be subject to the charitable deduction reduction and the overall itemized deduction reduction simultaneously, effectively reducing charitable deductions twice.

Preparer note. Taxpayers should consider bunching charitable contributions in 2026 and thereafter to avoid the impact of the donation floor as often as possible.

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Example 1 – .5% limit. Harold and Maude have 2026 AGI of $300,000 and enough other deductions to itemize. They donate $6,000 to charity. Their deduction is reduced by $1,500 (.5% x 300,000), leaving them a net deduction of $4,500. The $1,500 that was eliminated does not carry forward.

Example 2 – carryover. Harold and Maude's 2026 AGI is $300,000 and they itemized their deductions. They donated $200,000 to charity. Their deduction is first reduced to 60% of AGI, or $180,000. Next, the .5% floor is deducted, leaving them an actual charity deduction of $178,500. Harold and Maude's carryforward to 2027 is $21,500 ($300,000 – less $178,500). The carryforward includes the $1,500 floor reduction to ensure the same contributions are not reduced multiple times.

Example 3 – bunching strategy. Harold and Maude's AGI is typically about $300,000 and they normally itemize deductions, even without charitable contributions. Also, they typically donate around $6,000 to charity each year. Harold and Maude's charity deduction is reduced by $1,500 (.5% x 300,000) per year, leaving them a net deduction of $4,500 *each year*, or $18,000 total for 2026 – 2029. If Harold and Maude were to donate $12,000 in 2026, nothing in 2027, $12,000 in 2028 and nothing in 2029, their total deduction would be $21,000, giving them an additional $3,000 of deductions during the four years.

Charitable contribution deduction substantiation requirements (§170(f)(8)). All cash and non-cash charitable contributions must be substantiated to be deductible (§170(f)(8)). Substantiation may be a receipt or cancelled check, but for donations greater than $250, the taxpayer must get a written contemporaneous acknowledgment (no later than when return is timely filed) from the donee organization. This rule applies regardless if the donation is cash or other property.

For non-cash contributions of more than $500 the taxpayer is required to attach to Form 1040 Form 8283 to provide additional information about the donation. The taxpayer must also keep the same records required for contributions valued at less than $250, plus information documenting how and when the property was acquired, and its basis or cost (§1.170A-13(b)(3)).

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Contribution Documentation Summary

Amount	Non-Cash	Cash
<$250	Receipt Required	Receipt Required
>$249 and <$500	Receipt required ***and*** contemporaneous written acknowledgement from the charity	Receipt required ***and*** contemporaneous written acknowledgement from the charity
>$500 and Sold by Charity	Receipt required ***and*** Form 1098-C showing charity's sales price, ***and*** attach 1098-C to Form 1040, ***and*** *deduction limited to 1098-C amount*	Receipt required ***and*** contemporaneous written acknowledgement from the charity
>$500 and <$5,000 and retained for use or improved by charity	Receipt required ***and*** Form 8283 ***and*** contemporaneous written acknowledgement meeting certification of non-sale requirements, *deduction allowed at fair market value using private party sales pricing guidelines in used vehicle pricing guides*	Receipt required ***and*** contemporaneous written acknowledgement from the charity
Over $5,000 and retained for use or improvement by charity	Receipt required ***and*** written appraisal ***and*** signed Form 8283 ***and*** contemporaneous written acknowledgement meeting certification of non-sale requirements, *deduction allowed at fair market value using private party sales pricing guidelines in used vehicle pricing guides*	Receipt required ***and*** contemporaneous written acknowledgement from the charity
Over $500,000	All of the above, plus attach the appraisal to the tax return.	Receipt required ***and*** contemporaneous written acknowledgement from the charity

Taxpayer learns the hard way substantiation requirements are strictly enforced (Stephen Martin v. Comm., TC Memo 2026-39). Cousins Stephen and Clint Martin bid $22,000 to purchase 13 acres of property in Highland City, Utah in 2014. After winning the bid and acquiring the property, Stephen and Clint decided to donate the property to Highland City. In December 2018, the Highland City Council voted to accept the property donation. Clint, Stephen, and the mayor of Highland City signed a letter stating that Clint and Stephen will donate the property with all taxes paid current through the end of 2018 and all costs associated with the donation paid by the donors. Clint and Stephen signed a warranty deed conveying the property to Highland City, which was recorded, together with the Joint Letter, on December 28, 2018.

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IRS says no to crazy appraisal and argues paperwork is lacking. Todd Gurney, a licensed appraiser, valued the property at $665,000 at the time of the donation. Stephen filed his 2018 tax return and claimed half ($332,500) as a non-cash charitable donation. Due to AGI limits, the donation deduction was reduced to $146,553 on the return. The IRS argued the land donation was not deductible because Stephen failed to:

1. Obtain a contemporaneous written documentation from the charity;
2. Obtain a qualified appraisal; and
3. Attach a complete and correct appraisal summary to his 2018 tax return.

The IRS asked for summary judgment instead of a full-blown trial.

Court says no documentation, no deduction. The Court noted that §170(f)(8) requires that a contribution of $250 or more be substantiated by written documentation from the donee organization that includes:

- The amount of cash and a description (but not value) of any property other than cash contributed.
- Whether the donee organization provided any goods or services.
- A description and good faith estimate of the value of any goods or services provided.

Court noted documentation rules are strict. While such documentation does not have to take a particular form and may be made up of a series of documents, any credible documentation must include all the listed items. Stephen argued that the Form 8283, the Joint Letter, the 2018 deed, and the city council agenda taken together constituted the proper documentation. The Court ruled that the Form 8283, joint letter, the 2018 deed and the city council agenda did not expressly state that no goods or services were received by Stephen in return for the donation. As a result, the Court concluded there was no proper receipt from the city to Stephen and disallowed the entire deduction. The question of value was never discussed.

See also: William P. Wells v. Comm., TC Memo 2026-49, where the taxpayer lost a $4,4 million deduction because the documentation did not include a “no goods or services” clause. The Court denied the entire deduction. In this case, the IRS disallowed, and the Court upheld, the carryover contributions years after the statute had closed on the original contribution.

Volunteer Expenses as Charitable Contributions

Volunteers who incur expenses while providing volunteer services to charitable organizations may, subject to certain limitations, deduct these expenses. Expenses incurred on personal, living and/or family expenses are excluded. Other specific guidelines include:

- A deduction of $50 per month is allowed for each full month that a foreign or American exchange student (12th grade or lower, full-time) lives with the taxpayer, under a written agreement between the taxpayer and a qualified organization as part of a program of the organization to provide educational opportunities for the student. (15 days or more counts as a full month).
- Auto mileage at mileage 14¢ per mile, plus tolls and parking.
- Travel costs (including meals) performing services for a charitable organization where there is no significant element of personal pleasure.

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- The cost and upkeep of uniforms are not suitable for everyday use and that must be worn while performing donated services for a charitable organization.
- Foster care providers designated by a qualified organization, who have no profit motive in providing foster care, may deduct unreimbursed expenses for food, clothing, and care.
- Taxpayers chosen to attend a convention of a qualified organization as the organization's representative may deduct unreimbursed expenses for travel and transportation, including a reasonable amount for meals and lodging, while away from home overnight in connection with the convention.

Volunteers' Questions and Answers	
Question	**Answer**
I volunteer 6 hours a week in the office of a qualified organization. The receptionist is paid $10 an hour for the same work. Can I deduct $60 a week for my time?	No, you cannot deduct the value of your time or services.
The office is 30 miles from my home. Can I deduct any of my car expenses for these trips?	Yes, you can deduct the costs of gas and oil that are directly related to getting to and from the place where you are a volunteer. If you don't want to figure your actual costs, you can deduct 14 cents for each mile.
I volunteer as a Red Cross nurse's aide at a hospital. Can I deduct the cost of uniforms that I must wear?	Yes, you can deduct the cost of buying and cleaning your uniforms if the hospital is a qualified organization, the uniforms are not suitable for everyday use, and you must wear them when volunteering.
I pay a babysitter to watch my children while I volunteer for a qualified organization. Can I deduct these costs?	No, you cannot deduct payments for childcare expenses as a charitable contribution, even if you would be unable to volunteer without childcare.

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Casualty and Theft Losses (§165)

Overview. Personal casualty and theft loss deductions were originally limited to losses not compensated by insurance and only for events that were "sudden, unexpected, or unusual." In 1984, Congress added a $100 per-event floor to reduce small nuisance claims and in 1994 they added a 10% of AGI threshold. The TCJA drastically curtailed the deduction for 2018 through 2025, only allowing deductions for losses incurred as the result of Federally declared disasters that were "qualified" disasters. Casualty losses from non-declared disasters (e.g., a house fire, thefts, etc.) were no longer deductible.

Personal casualty losses are generally not deductible. OBBBA permanently eliminated the itemized deduction for personal casualty losses under §165. There is an exception for losses resulting from declared disasters. For tax years beginning in 2026 and after, the disaster losses may be Federally declared or declared by the state where the disaster occurred. For allowed disaster deductions after 2025, the $100 floor and the 10% AGI limits are applied.

Personal theft also disallowed (§165(h)(5)). Personal theft losses were also repealed by OBBBA. There was confusion about whether theft losses were treated the same as other casualties – the answer is yes, the deduction for personal thefts is repealed. The one glimmer of hope for theft losses is, if the stolen asset was used for trade, business or investment purposes, the argument can be made the theft loss was a business, not personal, loss, making it deductible. See additional discussion later in this section.

Defining Casualty Losses Under Federal Law (Pub. 547)

Before talking specifics of the tax treatment of casualty losses, it is critical to first understand how such losses are categorized for Federal tax purposes. Federal law recognizes three specific types of casualty loss:

1. Federal casualty losses;
2. Disaster losses;
3. Qualified disaster losses.

All three types of losses refer to Federally declared disasters, but the requirements for each loss vary. The main difference between the three is the types of property they cover, the location requirements, and the tax benefits available. A Federally declared disaster is a disaster determined by the President of the United States to warrant assistance by the Federal government under the Stafford Act. A Federally declared disaster includes a major disaster declaration, or an emergency declaration under the Stafford Act.

1. Federal casualty losses. A Federal casualty loss is an individual's casualty or theft loss of personal-use property that is attributable to a Federally declared disaster. Taxpayers who suffer a Federal casualty loss are eligible to claim a casualty loss deduction on Schedule A. The loss is an itemized deduction after subtracting $100 plus 10% of AGI. If the casualty or theft loss of personal-use property wasn't attributable to a Federally declared disaster, it isn't a Federal casualty loss and may not be claimed.

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2. Disaster losses. A disaster loss covers personal, business, and investment property. It is a loss that is attributable to a Federally declared disaster and that **occurs in an area eligible for assistance pursuant to the Presidential declaration.** The disaster loss must occur in a county eligible for public or individual assistance (or both). The loss is an itemized deduction after subtracting $100 plus 10% of AGI. Disaster losses may be deducted in the year of loss or in the prior year.

3. Qualified disaster loss. A qualified disaster loss includes an individual's casualty and theft loss of personal-use property that is attributable to specifically defined losses which include:

- A major disaster declared by the President under section 401 of the 2016 Stafford Act;
- Hurricane Harvey;
- Tropical Storm Harvey;
- Hurricane Irma;
- Hurricane Maria;
- The California wildfires in 2017 and January 2018;
- Any major disaster that was declared by the President under §401 of the Stafford Act and that occurred in 2018 and before December 21, 2019, and continued no later than January 19, 2020 (except those attributable to the California wildfires in January 2018 that received prior relief); and
- Any major disaster that was declared by the President during the period between January 1, 2020, and ***September 2, 2025 (as amended by OBBBA §70438)*** February 10, 2025. Also, this disaster must have an incident period that began on or after December 28, 2019, and ***on or before September 2, 2025 (as amended by OBBBA §70438)***.

"Qualified disaster losses" provide additional tax benefits. Taxpayers who suffered a qualified disaster loss are eligible to claim the following tax attributes from the casualty loss deduction:

1. Claim the loss in the preceding tax year;
2. Forgo the 10% of AGI limit;
3. Elect to claim the loss in the prior year;
4. Subtract a "deductible" of $500 instead of $100; and
5. ***Deduct the loss without itemizing.***

How to report without itemizing. If the loss is deducted without itemizing, it is treated as an add-on to the standard deduction. The increased standard deduction is calculated and reported by:

- Entering the amount from Casualty and Theft Loss Form 4684, line 15, on Schedule A, line 16 with the description "Net Qualified Disaster Loss."
- Also entering on line 16 your standard deduction amount and the description "Standard Deduction Claimed with Qualified Disaster Loss."
- ***New for 2026*** – the disaster loss and, if applicable, the standard deduction, are reported on Schedule A, lines 17b and 17c respectively.

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Other Itemized Deductions	**17**	Other itemized deductions (see instructions).				
	17a	Deductible gambling losses	**17a**			
		If you have gambling winnings that you reported on Schedule C or Schedule E, check here ☐				
	17b	Net qualified disaster loss	**17b**	$25,000		
	17c	Standard deduction claimed with qualified disaster loss	**17c**	$32,200		
	17d	Casualty and theft losses of income-producing property	**17d**			
	17e	Federal estate tax on income in respect of a decedent	**17e**			
	17f	Deduction for amortizable bond premium	**17f**			
	17g	Ordinary loss attributable to a contingent payment debt instrument or an inflation-indexed debt instrument	**17g**			
	17h	Deduction for repayment of amounts under a claim of right if over $3,000	**17h**			
	17i	Certain unrecovered investment in a pension	**17i**			
	17j	Impairment-related work expenses of a disabled person	**17j**			
	17k	Deductible educator expenses not reported on Schedule 1 (Form 1040)	**17k**			
	17z	Add lines 17a through 17k			**17z**	57,200

2026 Doug LaMalfa Federal Disaster Tax Relief Certainty Act Extends Disaster Benefits.

This law was passed by Congress and signed into law in September 2026. Mainly, it extends the more generous treatment of personal casualty losses resulting from disasters to January 1, 2027, by making all such disasters "qualified disasters." The law also excludes from income wildfire relief payments from taxable income regardless of when they are received, so long as the wildfire disaster declaration occurs after December 31, 2014, and before January 1, 2027. The primary benefit is the waiver of the 10% AGI threshold and deducting the losses in addition to the standard deduction.

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Comparison of Federal Disaster Types			
Description	**Federal Casualty Loss**	**Disaster Loss**	**Qualified Disaster Loss**
Declaration	Presidentially declared – a major or emergency disaster	Presidentially declared and specifies eligible area for aid	Congressionally determined disaster area
Eligibility	Covers personal property	Covers personal, business, and investment property	Covers personal-use property
Calculation	Loss less $100 plus 10% AGI	Loss less $100 plus 10% AGI	Loss less $500 – no AGI limit
Itemize deductions	Must itemize to claim	Must itemize to claim	Add-on to Standard Deduction – no Itemizing
Tax Year	May claim in prior year	May claim in prior year	May claim in prior year

Preparer note. If a taxpayer elects to deduct losses from a federally declared disaster on the prior tax year return, report *all* losses that qualify for the election on the prior year return (§1.165-11(d)). In other words, a taxpayer who owns several properties in the same disaster cannot elect to deduct a casualty loss on one property in the prior year and a casualty loss on another property in the current year.

Disaster losses (§165(h)(5). A Federally declared disaster is a disaster that occurred in an area declared by the President to be eligible for Federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act). It includes a major disaster or emergency declaration. FEMA operates a website that contains a list of Federally declared disasters at www.fema.gov/disasters.

State declared disasters (165(h)(5)(C). Beginning in 2026, state declared disasters will also qualify for disaster related casualty treatment. A state declared disaster is any natural catastrophe, including hurricanes, tornados, storms, high waters, wind-driven water, tidal waves, tsunamis, earthquakes, volcanic eruptions, landslides, mudslides, snowstorms, or droughts. A disaster qualifies when the Governor of that state (or the Mayor, in the case of the District of Columbia) and the secretary determine that the damage is severe and widespread enough to warrant applying the loss provisions. The term "state" includes Washington DC and the US territories.

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To chart below summarizes the deductibility of the various types of losses:

Casualty and Theft Loss Summary	
Description	**Deduction**
Personal theft loss	None
Business theft loss	Fully, no limits
Personal casualty loss	None
Business casualty loss	Fully, no limits
Federal declared disaster loss	Yes, subject to the $100 and 10% AGI limits
State declared disaster loss	Yes, subject to the $100 and 10% AGI limits
"Qualified Disaster Loss"	Yes, subject to the $500 limit, no AGI limit

Theft Losses and Related Deductions (§165)

Theft losses in the post-OBBBA world (CCM 202511015). OBBBA made the TCJA's suspension of casualty and theft losses permanent. Unless the loss is the result of a declared disaster, taxpayers may no longer deduct personal casualty and theft losses. Business casualty and theft losses continue to be deductible. In our world today, where scam artists seem to be more skillful than ever at ripping clients off, this is a particularly bitter pill to swallow.

Theft loss – any hope for deduction? The IRS addressed this specific circumstance in CCM 202511015 and gave us a glimmer of hope for people in Charlie's position. The taxpayer must first establish they have been a victim of a theft. The term "theft" is broadly defined to cover any criminal appropriation of another's property to the use of the taker, including theft by swindling, false pretenses and any other form of guile including larceny and embezzlement (§165; Rev. Rul. 2009-9; §1.165-8(d)). In addition, theft is treated as sustained in the taxable year in which the taxpayer discovers the loss. A loss has not been sustained, and no portion of the loss is deductible, if at the end of the year there is a reasonable prospect of recovery.

Theft loss limitations. A deductible theft loss is limited to the amount of the taxpayer's adjusted basis in the property, not the fair market value of the property at the time of the loss. For tax years 2018 and beyond, §165(h)(5) disallows the deduction of personal casualty losses unless attributable to a Federal (or, starting 2026 a state) declared disaster. Personal casualty losses include losses from thefts that ***are not connected with a trade or business, or a transaction entered for profit*** (§165(h)(3)(B)). As a result, individual taxpayers who sustain a theft loss in tax years after 2017 are only allowed a §165 deduction if the theft loss is incurred in a transaction entered into for profit.

"Entered into for profit" defined. There is no statutory definition of "a transaction entered into for profit." The courts have held that a primary profit motive is required under §(165(c)(2) (Helvering v. National Grocery Co., 304 U.S. 282, 289 n. 5 (1938); Dewees v. Comm., 870 F.2d 21, 33 (1st Cir. 1989); Fox v. Comm., 82 T.C. 1001, 1021 (1984); Ewing v. Comm., 20 T.C. 216 (1958), aff'd 213 F.2d 438 (2d Cir. 1954); Wright v. Comm. T.C. Memo. 2024-100). Rev. Proc. 2009-20 provides an optional safe harbor that allows taxpayers to claim a theft loss in limited circumstances, even if the loss would otherwise not be allowed due to the taxpayer having a reasonable prospect of recovery. See Rev Proc. 2009-20, as modified by Rev. Proc. 2011-58.

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Specifically, the safe harbor applies to losses from a criminally fraudulent investment arrangement, commonly known as a "Ponzi scheme," if specific requirements set forth in the revenue procedure are satisfied.

Profit motive is the key. The taxpayer must be able to prove the transaction where they lost their money was a transaction entered into for a profit. Otherwise, the transaction is personal and nondeductible. And, as stated above, there is no definition in the Code of what it means to enter the transaction for a profit. The IRS provided several examples in CCM 202511015 for our review:

Example 1 – Compromised Account Scam. In 2026 Charlie has $500,000 in his IRA when he is contacted by Scott, a person impersonating a fraud prevention officer from Charlie's bank. Scott tells Charlie that his computer and bank account have been compromised and there have been multiple attempts to break into his IRA account. Scott set up a new IRA account and asks Charlie to authorize a transfer so Charlie's IRA money can be moved from the compromised account into the new, safe account. While on the phone, Scott tells Charlie there was another attempt to break in while they were talking on the phone and that time is of the essence. Charlie agrees to move his IRA and authorizes the transfer. Scott transfers the money to the newly established account. Immediately after the transfer is complete, without Charlie's knowledge, Scott makes another transfer from Charlie's new IRA to an untraceable account located outside the U.S. Charlie's money is lost forever and local law enforcement and his bank both tell him there is no hope of getting the money back.

Conclusion. Charlie authorized the withdrawal from his IRA with a motive to safeguard and reinvest his investment funds in his IRA. Charlie's losses were from a transaction he entered for a profit. Charlie is entitled to deduct the loss in 2026 as there is no reasonable prospect of recovery. The amount of the loss allowable as a deduction is limited to the taxpayer's basis in the property. In this case, Charlie has a fully taxable IRA distribution of $500,000, giving him basis in the loss of $500,000. If Charlie is under age 59½ he still must contend with the §72(t) early withdrawal rules.

Example 2 – Pig Butchering Investment Scam. Samantha is a 2026 victim of a so-called pig butchering investment scam. Samantha received an unsolicited email from Jonus advertising an investment opportunity in cryptocurrency promising large profits. The email directed Samantha to the website of a new platform that would ostensibly invest in cryptocurrencies using proprietary methods. Samantha visited the website and deposited $500. Within a few days, the account balance increased to $700, which Samantha withdrew from the website. After receiving the payout, Samantha began to believe the website was legitimate. She deposited $2,500 and the investment quickly grew to $3,300. Once again Samantha withdrew the money, including the gain. After her success, Samantha invested $25,000 on the website, money distributed from her IRA. The account grew to $35,000 and Samantha decided to liquidate the investment. But when she attempted to withdraw the funds, she received an error message and customer support did not respond. After searching online, Samantha found several other people claiming they had been defrauded by the website and Jonus. Samantha contacted law enforcement and the financial institution from which the original funds were withdrawn and was informed that the transfer to the website's overseas account could not be undone and there was little to no prospect of recovery.

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Conclusion. Samantha transferred the funds to the website for investment purposes. This makes her scam-related losses incurred in a transaction entered for profit and she is entitled to deduct the loss in 2026. As with Charlie in Example 1, Samantha will be liable for Federal income tax on the IRA account distribution, but the distribution will give her basis in the investment.

Example 3 – Phishing Scam. Randy received an unsolicited email from Consumer Protection Fraud Agency (CPFA) claiming that Randy's investment accounts had been compromised. The email contained official looking letterhead and was digitally signed by Eddie, a "fraud protection analyst." The email contained a link, phone number, and directions to call the analyst to ensure Randy's funds would be protected. Randy immediately called the phone number in the email and spoke with Eddie, who claimed to be the fraud analyst handling the case. Eddie told Randy to click on the link in the email and then log into his tax-deferred retirement account so Eddie could inspect the account for any issues. By clicking the link in the email, Randy gave Eddie access to his computer. Eddie was able to identify Randy's account username and password as it was entered into the login screen. The next day, Randy logged into his investment accounts and found that his entire investment was gone, $400,000. Randy's basis in the account was $250,000. Randy contacted law enforcement and the financial institutions and was told nothing could be done. There was no prospect of recovery.

Conclusion. Unlike the first two examples, Randy did not authorize the transfers from his accounts to the scammer. As a result, rather than look at Randy's intent to determine profit interest, the underlying stolen property must be analyzed to determine if there was a profit motive. In Randy's case, the stolen funds were from an investment account he was planning to use for retirement income. Clearly, Randy's motive was to make a profit and thus, the loss was incurred in a transaction entered for profit. He is entitled to deduct the loss up to the amount of his basis, $250,000.

Example 4 – Romance Scam. Carter was the victim of an impersonator romance scam. Carter received an unsolicited text message from Kendra with whom he developed a virtual romantic relationship. Kendra convinced Carter she had a close relative in dire need of medical assistance, but she couldn't afford the expensive medical bills. Carter transferred money from his IRA to Kendra's overseas account to help. After he transferred the money, Kendra stopped responding to his text messages. Carter realized his relationship with Kendra was not real, and that she had stolen his money. Carter contacted his bank and law enforcement; both of whom told him the transfer to the overseas account could not be undone and there was little to no prospect of recovery.

Conclusion. Carter's motive was not to invest or reinvest any of the distributed funds but, rather, to transfer the funds to Kendra, albeit under false pretenses. Carter did not have a profit motive and, therefore, his loss was not incurred in a transaction for profit. The theft loss is a non-deductible personal theft loss. If Carter had no personal casualty gains, his theft loss is not deductible. Furthermore, the distribution from the IRA account is fully taxable and, if Carter is under 59½, it is also subject the early withdrawal penalties under §72(t).

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Example 5 – Kidnapping Scam. Marvin was the victim of a kidnapping scam involving an impersonator. Ferguson contacted Marvin and claimed to have kidnapped Marvin's grandson. Marvin demanded to speak to his grandson and heard his grandson's voice over the phone begging for help. Under extreme duress, Marvin transferred $50,000 from his IRA account to an overseas account and as directed, did not contact law enforcement. Marvin didn't know that Ferguson had used artificial intelligence to clone the grandson's voice and that no kidnapping had taken place. Later in the day Marvin was able to contact family members and learn that no kidnapping had taken place and his grandson was safe. Marvin immediately contacted law enforcement and his bank but was informed that the distribution to the overseas account could not be undone and there was little to no prospect of recovery.

Conclusion. Marvin's motive was to voluntarily transfer the funds to Ferguson, albeit under false pretenses and duress, not to invest the money. Fraud and duress do not create a profit motive. Marvin's loss was a personal theft loss that did not result from a declared disaster, it was nondeductible under current law. Furthermore, the distribution from the IRA account is subject to tax.

There is a profit motive - how do I claim the theft loss? (Form 4684). Once it's determined the theft loss is deductible, the loss is reported on Form 4684, Casualties and Thefts. Thefts of assets for which there is a profit motive are reported in Section B – Business and Income-Producing Property. The loss is calculated in Part I and then transferred to Part II, and, for an individual, is summarized on line 38b. Once Form 4684 is complete, the loss is then transferred to Schedule A, line 16 – Other Itemized Deductions. Note there are no thresholds or other reductions (e.g., 10% or $100) applied to the loss – the entire amount reported on Form 4684 is transferred to Schedule A.

Thanks to Rick Ebbinghouse. A word of thanks to Rick Ebbinghouse, a tax attorney from Indiana, for bringing this CCM to my attention. I appreciate Rick's support to help make sure this FTU class is always the most up to date class in the country. I have known Rick for many years and have worked with him on some tax representation issues, and he has always been outstanding. Thanks Rick!

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Miscellaneous Itemized Deductions (§67)

Overview. Miscellaneous itemized deductions subject to the 2% of AGI floor were permanently repealed by OBBBA for tax years beginning December 31, 2025. The one exception is educator business expenses. These were moved from the 2% miscellaneous itemized deductions group to "Other Miscellaneous Deductions", making them fully deductible. The most common such deductions that are gone are:

- Unreimbursed employee business expenses (e.g., travel, uniforms, tools)
- Tax preparation fees
- Investment advisory fees
- Hobby expenses (to the extent of income)
- Legal fees for producing taxable income

Gambling Losses (§165(d); NPRM REG-113229-25)

Overview. The gambling loss deduction was limited to the extent of winnings in response to concerns that allowing full deductibility of gambling losses could lead to tax avoidance schemes. In 1986 Congress clarified that professional gamblers (those in the trade or business of gambling) could deduct ordinary and necessary business expenses under §162, but §165(d) still limited losses more than winnings. The TCJA expanded the definition of gambling losses to include expenses incurred in conducting wagering transactions (e.g., travel and lodging for professional gamblers) and retained the overall winnings limitation. This law change effectively eliminated any gambling activity loss deduction, even for professional gamblers. Recreational gamblers deduct gambling losses on Schedule A, not subject to the 2% AGI threshold.

New loss limits can make gamblers pay tax on phantom income (§165(d)(1)(A)). The deduction for gambling losses was permanently modified to change the limits on gambling loss deductions starting in 2026. Gambling losses are now deductible up to the lesser of:

- 90% of the amount of such losses, or
- The amounts of winnings from such transactions.

Proposed regs provide clarification. The 2026 proposed regulations make it clear that the 90% loss limit is applied first, then the 100% of gambling income limit (§1.165-10). If 90% of gambling losses exceed 100% of gambling winnings, the taxpayer will still be able to offset 100% of gambling income.

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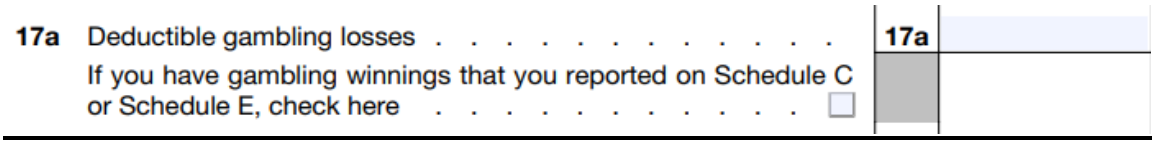
Example. Marilyn is married and is a retired teacher who occasionally gambles at casinos in her area. In 2026 Marilyn wins $9,200 gambling, of which $8,000 was reported to her on Form W-2G. Her documented gambling losses were $10,000. In 2026, her gambling loss deduction would be:

	Pre-OBBBA	Post OBBBA	
Gambling winnings	$ 9,200	$ 9,200	
Less deductible losses	(9,200)	(9,000)	90%
Phantom taxable income from gambling	$ 0	$ 200	

Variation. Marilyn is married and regularly gambles significant amounts at the local casinos. In 2026 Marilyn has gambling winnings of $920,000. Her documented gambling losses were $1,200,000. In 2026, her 2026 married filing joint return would reflect:

	Post OBBBA	
Gambling winnings	$920,000	
Less deductible losses ($1,200,000 x 90%, then income limit)	(920,000)	90%
Phantom taxable income from gambling	$ 0	

IRS requires additional reporting for Sch C gamblers. The IRS added a box to Sch. A to require taxpayers to highlight if they report gambling winnings on Sch. C.



Educator Miscellaneous Itemized Deductions

Overview. Historically, educator expenses qualified for deductions as 2% miscellaneous itemized employee business expense deductions on Schedule A. Like all other employee business expenses, the TCJA suspended, and OBBBA repealed all 2% miscellaneous itemized deductions.

Special treatment for qualifying educators (§62(a)(2)(D)). The Educator Expense Deduction was first enacted in 2002, allowing eligible K-12 teachers and other qualified educators to deduct documented out-of-pocket education related expenses as an above-the-line deduction of up to $250 annually. The inflation adjusted amount in 2026 is $350, $700 for married filing joint returns if both spouses are eligible.

Educator related business expenses allowed as a miscellaneous deduction (§67(g)). OBBBA removed educator expenses from the list of 2% miscellaneous itemized deductions and added them to allowable miscellaneous itemized deductions starting in 2026. They will be deducted in 2026 on Schedule A, 17k. The definition of education supplies was expanded to include nonathletic supplies for courses of instruction in health or physical education.

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17k	Deductible educator expenses not reported on Schedule 1 (Form 1040)	**17k**

Preparer note. The changes to the definitions of qualified educator and qualified education expenses apply to the itemized deduction only. The definitions of "eligible educators" and "eligible education expenses" for the above the line $350 deduction were not amended.

Coordination of above and below the line deductions. OBBBA made no changes to the pre-AGI educator expense deduction. Beginning in 2026, educators will be allowed to deduct their first $350 of out-of-pocket expenses above the line and any remaining expenses on Schedule A as miscellaneous (non-2%) itemized deductions.

Overall Itemized Deduction Limitation

Overview. Way back in 1991 U.S. Congressman, Dan Pease, introduced a limit on itemized deductions for higher income Americans known as the Pease limitation. For nearly 30 years, the Pease limitation reduced deductible itemized deductions for high-income taxpayers. The TCJA temporarily suspended the Pease limits through 2025.

Itemized deduction limits for high-income taxpayers (§68). OBBBA permanently replaced the old Pease limitations with new itemized deduction limits for taxpayers in the 37% tax bracket. Beginning in 2026, taxpayers who are in the 37% tax bracket must reduce their itemized deductions by 2/37ths (about 5.4%) of the ***lesser of***:

1. Total itemized deductions; or
2. The taxable income exceeding the 37% bracket threshold.

This limitation will be applied ***after*** any other itemized deduction limitations.

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Example. Sarah is a single taxpayer whose taxable income is $690,000 and she has itemized deductions, after all other limitations, of $52,000. Sarah calculates her itemized deduction limit:

a. Taxable income in excess of 37% bracket threshold ($690,000 – $640,600)	$ 49,400
b. Itemized deductions	$ 52,000
c. Lesser of a. or b.	$ 49,400
d. Reduction rate (2/37th)	x 5.4%
e. Itemized deduction reduction	$ 2,668
f. Net itemized deductions (b. less e.)	$ 49,332

Example. Bryce and Drew are married filing joint taxpayers whose 2026 taxable income is $10,000,000 and whose itemized deductions, after all other limitations, are $520,000. Bryce and Drew calculate their itemized deduction limit:

a. Taxable income in excess of 37% bracket threshold ($10,000,000 – $768,700)	$9,231,300
b. Itemized deductions	$ 520,000
c. Lesser of a. or b.	$ 520,000
d. Reduction rate (2/37th)	x 5.4%
e. Itemized deduction reduction	$ 28,108
f. Net itemized deductions (b. less e.)	$ 491,892

Preparer note. Although this provision applies to most itemized deductions, due to other limitations on the more common itemized deductions *(e.g., the dollar limitation on the SALT deduction and related phaseout, the permanent repeal of miscellaneous itemized deductions, and the cap on debt for the mortgage interest deduction),* this rule will most likely impact those high-income taxpayers with large charitable contribution deductions.

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Other Deductions – Schedule 1-A

Overview. OBBBA introduced three new deductions and brought back two previous deductions. All five of these deductions are unique in that they are not included in the AGI calculation, and they are not itemized deductions. They join QBI as deductions allowed after AGI and after itemized deductions but before taxable income. They are deductible for all taxpayers, itemizers, and non-itemizers alike. The new deductions are:

1. **Qualified Tip Deduction (§224).** Qualified taxpayers who receive and report tip income may be allowed a deduction of up to $25,000.

2. **Qualified Overtime Pay Deduction (§225).** Qualified taxpayers may claim a deduction for overtime pay received up to $12,500 ($25,000 MFJ).

3. **Senior Deduction (§151(d)(5)(C)).** Taxpayers aged 65 and older may claim a deduction of up to $6,000. Each spouse may claim $6,000 if filing jointly.

4. **Qualified Passenger Vehicle Loan Interest Deduction (§163(h)(4)).** Taxpayers may claim a deduction for interest paid on a loan used to buy a personal vehicle.

5. **Charitable Contribution Deduction for Non-Itemizers (§170(p)).** Taxpayers who do not itemize deductions may claim a deduction for qualifying charitable contributions of up to $1,000 ($2,000 for married filing joint filers). This deduction is the only one listed here that was permanently added to the IRC. It begins in 2026.

Sch. 1-A, Modified Adjusted Gross Income (MAGI)

AGI common definition. The deductions for tips, overtime, seniors, and auto loan interest are all limited based on the taxpayer's AGI. These four deductions use the same modified AGI (MAGI) definition: AGI per Form 1040 plus any excluded income from Puerto Rico or any amount of excluded foreign earned income or foreign housing reported on Form 2555. No other adjustments (e.g., muni-bond interest, COD exclusion, non-taxable Social Security, etc.) are required.

Deduction	Max Amount (2026)	Phase-Out (MAGI)	Effective	IRC Ref.
No Tax on Tips (qualified tipped workers)	**$25,000 per taxpayer**	$150,000 single / $300,000 MFJ	2025–2028	§ 62(a)(24)
No Tax on Overtime Pay (FLSA premium "half")	**$12,500 single / $25,000 MFJ**	$150,000 single / $300,000 MFJ	2025–2028	§ 62(a)(25)
Auto Loan Interest (new personal-use vehicles only)	**$10,000 per year**	$100,000 single / $200,000 MFJ	2025–2028	§ 163(l) (new)
Senior Bonus Deduction (age 65+, any filing method)	**$6,000 per qualifying individual**	$75,000 single / $150,000 MFJ (30% phaseout)	2025–2028	§ 62(a)(26)

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Preparer note. There is no AGI adjustment for the non-itemizer charitable deduction. This deduction is allowed regardless of the amount of MAGI.

Sch. 1-A, Part II, Qualified Tip Deduction (§224; §1.224-1, et. seq.)

Overview. Tip income has been taxable in the United States since the inception of the Federal income tax in 1913. Enforcement and reporting evolved significantly over time:

- Pre-1950s – tips were taxable but rarely reported or enforced due to a lack of clear guidance and administrative tools.
- 1955 – IRS issued its first formal guidance, stating that tips were taxable and required reporting.
- 1966 – Congress amended the IRC to explicitly require employees to report tips to their employers (§6053).
- 1982 – TEFRA introduced employer reporting requirements for allocated tips in "large" food and beverage establishments.
- 1993 – The Omnibus Budget Reconciliation Act established the Tip Reporting Alternative Commitment (TRAC) agreements, encouraging employer-employee cooperation in tip reporting. The employer tip credit (§45B) was introduced (Form 8846).
- 2007 – The IRS launched the Form 8027 system (Employer's Annual Information Return of Tip Income) for large food and beverage businesses.

In recent years, with the help of electronic tip tracking (e.g., credit and debit card sales, point-of-sale integration, etc.), tip reporting accuracy has greatly improved.

For 2025 – 2028 tipped workers may be allowed a tip deduction (§224). OBBBA adopted a temporary (2025-2028) deduction for qualified tips. The deduction is the lesser of qualified reported tips or $25,000. The regulations make clear the $25,000 limit is per tax return, not per taxpayer, regardless of filing status. A married couple may take a qualified deduction only when filing a joint return.

Final regulations issued (§1.224-1). Treasury and the IRS issued final regulations under IRC §224 implementing the OBBBA's "No Tax on Tips" deduction. The regulations define "qualified tips" and list 71 tipped occupations across eight categories. The final regulations provide clarification on the definition of qualified tips and expand the list of occupations that qualify for the deduction to include visual artists, floral designers, and gas pump attendants. The regulations detail the reporting requirements for taxpayers claiming the deduction startin8g in 2026. As a result, Schedule 1A has been changed significantly from the 2025 version. The final regulations do not address the specified service trade or business exclusion (SSTBs), and thus the transition relief provided in Notice 2025-69 remains in effect. These regulations are applicable for years beginning in 2025.

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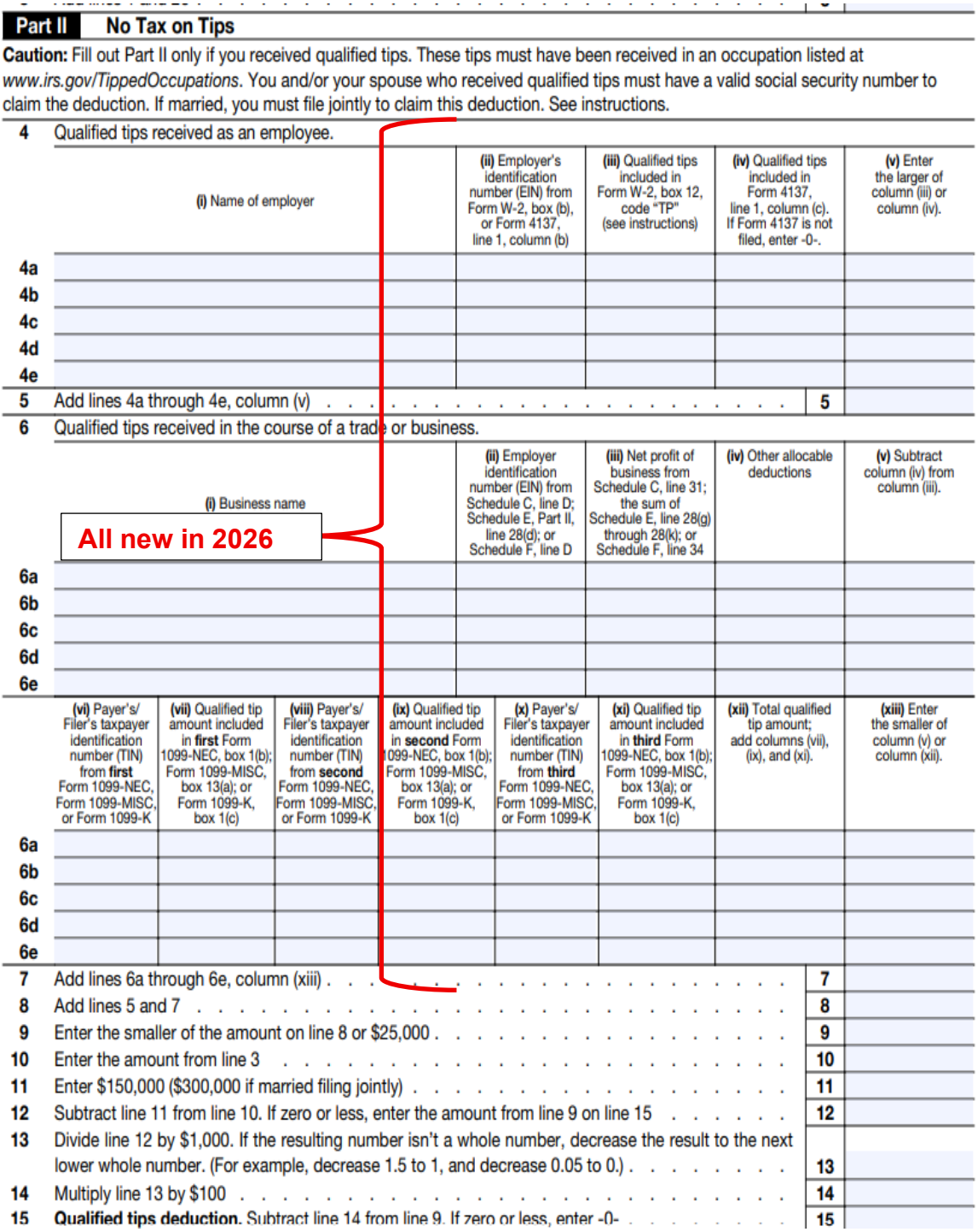
2026 Schedule 1-A. The 2026 version of Form 1040, Schedule 1-A, has been expanded from a 2-page to a 3-page form. Most of the added details addressed additional reporting required for the tip and overtime deductions starting in 2026. There was also additional reporting added for the car loan interest deduction. Schedule 1A does not include a section for non-itemizer charitable contributions. These are reported directly on Form 1040, line 12f. Each new section will be addressed in the relevant section below.



Part II No Tax on Tips

Caution: Fill out Part II only if you received qualified tips. These tips must have been received in an occupation listed at *www.irs.gov/TippedOccupations*. You and/or your spouse who received qualified tips must have a valid social security number to claim the deduction. If married, you must file jointly to claim this deduction. See instructions.

4 Qualified tips received as an employee.

	(i) Name of employer	(ii) Employer's identification number (EIN) from Form W-2, box (b), or Form 4137, line 1, column (b)	(iii) Qualified tips included in Form W-2, box 12, code "TP" (see instructions)	(iv) Qualified tips included in Form 4137, line 1, column (c). If Form 4137 is not filed, enter -0-.	(v) Enter the larger of column (iii) or column (iv).
4a					
4b					
4c					
4d					
4e					

5 Add lines 4a through 4e, column (v) 5

6 Qualified tips received in the course of a trade or business.

	(i) Business name	(ii) Employer identification number (EIN) from Schedule C, line D; Schedule E, Part II, line 28(d); or Schedule F, line D	(iii) Net profit of business from Schedule C, line 31; the sum of Schedule E, line 28(g) through 28(k); or Schedule F, line 34	(iv) Other allocable deductions	(v) Subtract column (iv) from column (iii).
6a					
6b					
6c					
6d					
6e					

All new in 2026

	(vi) Payer's/ Filer's taxpayer identification number (TIN) from **first** Form 1099-NEC, Form 1099-MISC, or Form 1099-K	(vii) Qualified tip amount included in **first** Form 1099-NEC, box 1(b); Form 1099-MISC, box 13(a); or Form 1099-K, box 1(c)	(viii) Payer's/ Filer's taxpayer identification number (TIN) from **second** Form 1099-NEC, Form 1099-MISC, or Form 1099-K	(ix) Qualified tip amount included in **second** Form 1099-NEC, box 1(b); Form 1099-MISC, box 13(a); or Form 1099-K, box 1(c)	(x) Payer's/ Filer's taxpayer identification number (TIN) from **third** Form 1099-NEC, Form 1099-MISC, or Form 1099-K	(xi) Qualified tip amount included in **third** Form 1099-NEC, box 1(b); Form 1099-MISC, box 13(a); or Form 1099-K, box 1(c)	(xii) Total qualified tip amount; add columns (vii), (ix), and (xi).	(xiii) Enter the smaller of column (v) or column (xii).
6a								
6b								
6c								
6d								
6e								

7	Add lines 6a through 6e, column (xiii)	7	
8	Add lines 5 and 7	8	
9	Enter the smaller of the amount on line 8 or $25,000	9	
10	Enter the amount from line 3	10	
11	Enter $150,000 ($300,000 if married filing jointly)	11	
12	Subtract line 11 from line 10. If zero or less, enter the amount from line 9 on line 15	12	
13	Divide line 12 by $1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)	13	
14	Multiply line 13 by $100	14	
15	**Qualified tips deduction.** Subtract line 14 from line 9. If zero or less, enter -0-	15	

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MAGI phaseout. The tip deduction is phased out at $100 for every $1,000 of MAGI above $150,000 for single filers and $300,000 for joint returns. Note that the reduction is applied to the tip amount, not to the $25,000 limit (see example 2 below).

Example 1 – Full deduction for server. Alma, a full-time waitress and is single. During 2026 Alma earns $26,000 of tips that are properly reported on her W-2. As Alma's total tips exceed the $25,000 threshold, her potential tip deduction is first reduced to $25,000. Alma's AGI is $68,000, well the $150,000 threshold. Alma may deduct the maximum $25,000 in tips, reducing her taxable income to:

Wages	$ 42,000
Tips	$ 26,000
AGI	$ 68,000
Standard deduction	($16,100)
Tip deduction	($25,000)
Taxable income	$ 26,900

Tax savings – assuming Alma is in the 12% bracket, her Federal tax savings is $3,000 ($25,000 x 12%).

Example 2. Partial phaseout for a high-end stylist. James is a salon stylist whose 2026 MAGI is $200,000, comprised of $170,000 in wages and $30,000 in cash tips. James's tip deduction is first reduced by the amount James's tips exceed the $25,000 maximum, so by $5,000 ($30,000 - $25,000). Second, as James's AGI is greater than $150,000, his tip deduction is reduced by $100 for each $1,000, or portion thereof. James is $50,000 over the threshold so he must reduce his tip deduction by $5,000 ($50,000 ÷ $1,000 = 50; $100 x 50 = $5,000). His 2026 tip deduction is $20,000 ($25,000 - $5,000).

Tax savings – If James is in the 22% tax bracket, his Federal tax savings is $4,400 ($20,000 x 22%).

Example 3 – Full phaseout for high earner. Kevin is a luxury restaurant maître d' who earned $320,000 in 2026, including $15,000 in tips. Kevin's MAGI exceeds the $150,000 single threshold by $170,000. Kevin must reduce his qualified tip deduction by $17,000 ($170,000÷1,000 × $100). Kevin isn't allowed any tip deduction, and he gets no tax savings.

Qualifying tips. Tips are amounts paid by payors for services that are more than the amount agreed to, required, charged, or otherwise reasonably expected to be paid for the services provided. Qualifying tips are amounts received as "cash tips" (defined in below) by an individual in an occupation that customarily and regularly received tips (see list below). The tips must be received directly from customers or through tip pools AND reported to the IRS via employer payroll systems, Forms W-2, or Form 4137 (self-declared unreported tip income). Tips must:

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- Be paid voluntarily without any consequence in the event of nonpayment, not be subject to negotiation, and be determined by the payor; and

- Not be received in the course of a trade or business that is a specified service trade or business (defined at §199A(d)(2)) – See additional discussion below.

IRS Regulations clarify details for tip deduction (§1.224-1). IRS regulations help to clarify many issues about the tip deduction. Listed below are several clarifying points directly from the regulations:

- **"Cash" tips defined.** "Cash" tips are tips received, directly or indirectly, from payors, including, in the case of an employee, tips received through a mandatory or voluntary tip-sharing arrangement (e.g., a tip pool). Qualifying tips must be paid by cash, check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash (such as casino chips), and any other form of electronic settlement or mobile payment application that is denominated in cash. Cash tips also include amounts paid in foreign currency. Cash tips do not include items paid in any medium other than cash, such as event tickets, meals, services, or other assets that are not exchangeable for a fixed amount in cash. Cash tips also do not include digital assets.

    - **Managers and supervisors.** Amounts received by a manager or supervisor through a voluntary or mandatory tip-sharing arrangement such as a tip pool are not qualified tips. However, amounts received directly by a supervisor or manager for services they provided are qualified tips if all other requirements of this section are met.

- **Other charges excluded.** Amounts are qualified tips only to the extent they are paid voluntarily and without any consequence in the event of nonpayment, are not the subject of negotiation, and are determined by the payor. Service charges, automatic gratuities, and other mandatory amounts automatically added to a customer's bill are not qualified tips unless the customer is expressly allowed to disregard or modify the amount without consequence. For example, an 18% charge automatically added to the bill for a large party is a service charge, not a tip. Such charges do not qualify for the tip deduction.

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Example 1. Wingnuts Restaurant's menu specifies that an automatic 18% charge will be added to all bills for parties of six or more customers. Customer Danielle's bill for food and beverages for her party of six includes the 18% charge on the "tip line" and the total bill includes this amount. Wingnuts distributes this amount to the waitstaff and bussers. Danielle did not determine the amount of the additional charge, nor was she expressly provided an option to disregard or modify the amount. The 18% charge is not a qualified tip for purposes of the deduction under §224.

Example 2. Assume the same facts as Example 1 except the bill has a line labeled "additional tip amount." Danielle adds $10 to the "additional tip line." The mandatory 18% charge is still not a qualified tip but the additional $10 is a qualified tip because Danielle voluntarily paid the extra $10 without compulsion.

Example 3. Evie dines at Wingnuts with seven of her friends. Evie's bill for food and beverages includes a "recommended tip" equal to 18% of the total food and beverage price. The bill includes a line for Evie to subtract (including zero) or add to the recommended tip before paying the bill. Evie decides to tip 15% of the price for food and beverages. Evie had a right to determine the amount she was expressly provided with the option to disregard or modify the "recommended tip" amount. The recommended 18% amount is not a service charge. The 15% amount that Evie voluntarily paid is a qualified tip.

- **Employees participating in voluntary tip reporting programs with tip rates.** Employees who enter into a Tipped Employee Participation Agreement as part of the Tip Reporting Determination Agreement (TRDA) program or a Model Gaming Employee Tip Reporting Agreement as part of the Gaming Industry Tip Compliance Agreement (GITCA) program may determine the amount of qualified tips using the applicable tip rate in their agreement (and amounts reported on Form 4137) in lieu of reporting actual tips received. The use of the TRDA or GITCA program to determine qualified tips does not affect the tip audit protection otherwise applicable to the employee's agreement. Employees participating in the TRDA or GITCA program remain subject to all remaining requirements of §224.

- **FICA and FUTA impact.** The tip deduction is not allowed as a trade or business expense for self-employed people (e.g., the tip deduction is for income tax only, not for FICA or FUTA).

- **Occupations where tips are customary and regularly received**. The proposed regulations provide a list of occupations that customarily and regularly receive tips. The proposed regulations provide that **only occupations included in this list are eligible for the tip deduction**. The initial list has 68 occupations grouped into 8 broad categories:

    - **100s - Beverage and Food Service.** Bartenders, wait staff, non-restaurant food servers (e.g., Door Dash, etc.), chefs and cooks, fast food, food prep, dishwashers, host staff, and bakers.

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- **200s - Entertainment and Events.** Gambling dealers, change persons, booth cashiers, and cage workers, sports book writers and runners, dancers, musicians and singers, DJs except radio, entertainers and performers, digital content creators, ushers, ticket takers, locker room and coat room attendants.

- **300s - Hospitality and Guest Services.** Porters, bellhops, concierges, desk clerks, maids, and housekeeping cleaners.

- **400s - Home Services.** Home maintenance and repair workers, landscaping and groundskeeping workers, home electricians, plumbers, and HVAC installers, home appliance install and repair, home cleaning services, locksmiths, and roadside assistance workers.

- **500s - Personal Services.** Personal care and service workers, private event planners and videographers, private event and portrait photographers, event officials, pet caretakers, tutors, nannies and babysitters and floral designers.

- **600s - Personal Appearance and Wellness.** Skincare specialists, massage therapists, barbers and hair (stylists, dressers, cosmetologists), shampooers, mani- and pedicurists, eyebrow threading and waxing techs, makeup artists, exercise trainers, group fitness instructors, tattoo artists and piercers, tailors, shoe and leather workers.

- **700s - Recreation and Instruction.** Caddies, self-enrichment teachers, tour and recreation pilots, tour guides/escorts, travel guides, sports and recreation instructors.

- **800s - Transportation and Delivery.** Valets, taxi and rideshare drivers, shuttle drivers, goods delivery people, personal vehicle and equipment cleaners, private and charter bus drivers, water taxi and charter boat operators/workers, rickshaw, pedicab and carriage drivers, and home movers.

Specified service trades or businesses. Any tip received in the course of a trade or business that is a specified service trade or business (SSTB) is not a qualified tip, even if the tip is received from one of the qualified services listed above. An employee who provides services for an employer whose trade or business is a SSTB is not eligible for the tip deduction. While these rules seem intuitive on the surface, performing artists are included as SSTBs. This means the performance of services by individuals such as actors, ***singers, musicians***, entertainers, directors, and similar professionals may not claim the tip deduction. The exception is for an employee who is providing a service that is a SSTB for an employer who is not engaged in a SSTB. What this means for performing artists is we have three rules to review to determine if tips received are qualified tips or not:

1. Is the employer a SSTB? If so, any tips received by the employee while working for the employer are tips from an SSTB and are disqualified;

2. Is the employee's work an SSTB but not the employer? If the employer is not a SSTB, even if the employee's work would normally be an SSTB, the tips are qualified tips. The determining factor is the trade or business of the of the employer, not the employee; and

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3. Is the taxpayer self-employed? If the taxpayer is self-employed, it is irrelevant who hires the taxpayer or what business the employer is in. The taxpayer's trade or business is evaluated and it is a SSTB, any tips received do not qualify for the tip deduction.

Example 1. Paula is hired to play keyboards for the Beagles, a band playing weekends at the Hickory Hotel and Restaurant. Paula is paid as an employee of the Beagles, and she keeps a tip jar at her piano while they perform. Patrons typically fill the tip jar on weekends, and Paula splits the tips with the other members of the band. Paula is a performing artist, a SSTB, employed by a band, also a SSTB. Paula must claim her tips as income, and she is not allowed to claim the tip deduction.

Example 2. Hickory Hotel is a hotel and restaurant which is not an SSTB. The hotel hires Paula as an employee to play the piano in the lobby of the hotel. The hotel's patrons often leave Paula cash tips in a jar on the piano. Even though Paula receives tips for services in the performing arts (a SSTB), she is providing services as an employee for an employer that is not operating a SSTB. Paula may claim her tips for the tip deduction.

Example 3. Calvin is a self-employed comedian who is hired by the Hickory Hotel to perform 2 nights a week for 6 weeks. Audience members regularly leave Calvin cash tips. Calvin is a performing artist and a SSTB. The cash tips are not qualified tips for the tip deduction. It doesn't matter that Hickory Hotel is not a SSTB because Calvin is self-employed, so the only consideration is what is his business – a SSTB.

Preparer note. Whether a business qualifies for the QBI deduction is irrelevant. The determining factor is whether a business would be a SSTB under 199A. If yes, then employees working in that business do not qualify for the tip deduction. For example, employees of a C corporation operating a trade or business that would be an SSTB under the QBI rules would not qualify for the tip deduction even though a C corporation may not claim the QBI deduction.

- **Married couples and Social Security numbers**. Social Security numbers are required for the individual who has received the qualified tips. Married taxpayers must file a joint return to claim the tip deduction and provide the SSN of the taxpayer who received the tips. If both taxpayers on a MFJ return receive qualified tips, then both spouse's SSNs must be provided. The total amount of qualified tips that can be deducted per calendar year is $25,000 regardless of filing status.

Example. Jon and Kerry are married and file a joint income tax return. They both received qualified tips as employees in 2026 – Jon $15,000 and Kerry $20,000. The maximum tip deduction Jon and Kerry may claim for 2026 is $25,000. Both of their SSNs must be provided on the return.

Variation. Assume the same facts as above except Jon and Kerry live together but are not legally married. Jon's tip deduction would be $15,000 and Kerry's would be $20,000, for a total between the two of $35,000. Being married creates a marriage penalty of $10,000 of additional taxable income.

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- **QBI impact.** A taxpayer taking the tip deduction may not take the §199A QBI deduction on the qualifying tip income.

- **Illegal activities.** Any amount received for performing a felony or misdemeanor under applicable law is not a qualified tip. For example, serving alcohol in an establishment that doesn't have a liquor license or a server who lacks the license to serve alcohol. The regulations also note that any tips received from prostitution and pornography don't qualify.

- **No ownership in or employment by payor.** A tip received by an employee or other service provider who has an ownership interest in or is employed by the payor of the tip is not a qualified tip.

Self-Employed Persons and the Tip Deduction (§1.224(e))

Reporting tips requirement. Employees and self-employed people are eligible for the tip deduction only if the tips are reported to the IRS. As mentioned above, employee tips are reported to the IRS via Form W-2 or Form 4137. The remaining question is how are tips reported to the IRS by a self-employed person? The regulations advise that a self-employed person must report any tips received in the gross income for their trade or business. Qualified tips are deductible only to the extent that the tips are included in gross income. The tip deduction is limited to the lesser of the reported tips and the net profit from the self-employment activity (excluding the deduction allowed for qualified tips). The tip deduction is not a trade or business deduction.

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Example 1. Morgan is a self-employed nail salon owner who has no other employment. Morgan's 2026 nail salon gross income is $100,000, $70,000 for nail salon services and $30,000 of qualified tips. Morgan's total Sch C deductible expenses (other than the deduction for qualified tips) are $40,000, giving her a profit from her nail salon of $60,000 ($70,000 + $30,000 - $40,000). Morgan's total tips exceed $25,000 and her net Sch. C profit is greater than her tip income. Morgan qualifies for the maximum $25,000 tip deduction. She meets the reporting requirement because the tips are included in her gross income on Schedule C.

Example 2. In 2027 Morgan's salon has gross income of $75,000 – $55,000 for salon services and $20,000 of qualified tips. Morgan's total deductible expenses (other than the deduction for qualified tips) are $60,000, giving her a profit of $15,000. Although Morgan received $20,000 in qualified tips, she is only allowed a qualified tip deduction of $15,000, her net profit before the tip deduction.

Preparer note. Unlike the QBI deduction, deductions that are derivatives of Schedule C profit or other self-employment income (e.g., SE tax, SE health insurance, pension deductions, etc.) are ignored when calculating the tip deduction. Only expenses directly allocable to trade or business itself are considered.

Reporting Required to Claim Tip Deduction (§1.224-1(d))

Qualified tips must be reported on an information return. To be eligible for the tip deduction, qualified tips must be included in the amount of cash tips that are separately reported on a statement furnished to the taxpayer. The statement can be Form W-2, 1099-MISC, 1099-NEC, all of which have been modified to include such information for 2026 and beyond. Employees may also report tips on Form 4137. Self-employed people may report on Schedule C.

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Sch. 1-A, Part III, Qualified Overtime Pay Deduction (§225)

Overview. Overtime pay most commonly refers to earnings for hours worked over 40 hours per week and paid 1½ or more times an employee's regular hourly rate. Enhanced overtime pay is required under the Fair Labor Standards Act (FLSA) for non-exempt employees. Overtime wages are included in gross income (§61). Withholding is based on total earnings, including overtime, using IRS formulas or the W-4 election. Overtime wages are included with regular wages and are reported in Box 1 of Form W-2. There has never been a special tax rate or exemption for overtime earnings. Instead, overtime is treated just like regular wages for all income and payroll tax purposes.

Overtime pay deduction guidance. The new overtime deduction law (§225) explicitly directs the IRS to issue regulations to provide clarity for the overtime pay deduction allowed under IRC §225. As of October 15th, 2026, the has not issued regulations, but it has issued Notice 2025-69, which provides interim guidance until regulations are issued; and IRS Fact Sheet FS-2026-13, which supersedes FS-2026-01. The information provided in this section largely relies on this guidance, as well as IRC §225.

Part III **No Tax on Overtime**

Caution: Fill out Part III only if you received qualified overtime compensation. See instructions to learn more about what is qualified overtime compensation. You and/or your spouse who received the qualified overtime compensation must have a valid social security number to claim this deduction. If married, you must file jointly to claim this deduction. See instructions.

16	Qualified overtime compensation reported on Form W-2.				
		(i) Name of employer		(ii) Employer's identification number (EIN) from Form W-2, box (b)	(iii) Qualified overtime compensation included in Form W-2, box 12, code "TT" (see instructions)
16a					
16b					
16c					
16d					
16e					
17	Add lines 16a through 16e, column (iii)			17	
18	Qualified overtime compensation reported on Form 1099-MISC or 1099-NEC.				
		(i) Business name	(ii) Employer identification number (EIN) from Schedule C, line D; Schedule E, Part II, line 28(d); or Schedule F, line D	(iii) Payer's taxpayer identification number (TIN) from Form 1099-NEC or Form 1099-MISC	(iv) Qualified overtime compensation included in Form 1099-NEC, box 1d, or Form 1099-MISC, box 14
18a					
18b					
18c					
18d					
18e					
19	Add lines 18a through 18e, column (iv)			19	
20	Add lines 17 and 19			20	
21	Enter the smaller of the amount on line 20 or $12,500 ($25,000 if married filing jointly)			21	
22	Enter the amount from line 3			22	
23	Enter $150,000 ($300,000 if married filing jointly)			23	
24	Subtract line 23 from line 22. If zero or less, enter the amount from line 21 on line 27			24	
25	Divide line 24 by $1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)			25	
26	Multiply line 25 by $100			26	
27	**Qualified overtime compensation deduction.** Subtract line 26 from line 21. If zero or less, enter -0-			27	

All new in 2026

Schedule 1-A (Form 1040) 2026

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Overtime pay deduction in general (§225). OBBBA created a deduction for the overtime premium paid to employees who work overtime. The deduction began in 2025 and sunsets after 2028. Like the tip deduction discussed above, the overtime deduction is claimed before taxable income and is available to non-itemizers. The annual overtime deduction limit is $12,500 of qualified overtime compensation ($25,000 for joint filers). The joint filing limit is for the joint return – there is no per person limit.

Example. Daniel and Rosa file jointly with a combined AGI of $275,000. Rosa earned $20,000 in eligible overtime premium pay in 2026. Daniel and Rosa may claim an overtime deduction of $20,000.

"Overtime pay" is defined by Federal, not state, law (§225(c)). Perhaps the biggest area of confusion about the new overtime deduction is how to calculate qualifying overtime wages. Qualified overtime compensation for this deduction is overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act (FLSA) that exceeds the regular pay rate at which the individual is employed. For example, if an individual is paid at "one and one-half times" their regular rate for an hour of overtime work as required by the FLSA, the "half" portion of the "one and one-half times" paid for an hour of overtime work is qualified overtime compensation.

Example. Brandon earned $40 per hour working in construction in 2026. In September, Brandon worked 50 hours in a week and was paid:

Regular (base) pay (50 hours x $40)	$2,000
Overtime premium pay (10 hours x $20)	$ 200
Total pay for the week	$2,200

The amount of qualified overtime pay allowed as a deduction for Brandon is $200, the premium payment. The base pay is not qualified overtime.

FSLA requirements. For overtime to be required under the FLSA, it must, among other requirements, be paid to an individual who is both covered by the FLSA and not exempt from the FLSA's overtime requirement (an FLSA overtime-eligible employee)[1]. See additional FSLA requirements at IRS FS-2026-13. An individual who is ineligible for overtime under the FLSA does not receive qualified overtime compensation regardless of other laws or circumstances (such as a collective bargaining agreement) providing for overtime pay. Individuals eligible for overtime under the FLSA generally must receive overtime pay for hours worked in excess of 40 in a workweek at a rate not less than one and one-half times their regular rate of pay. If an individual is eligible for overtime under the FLSA, but the individual's employer pays more than is required under the FLSA, the qualified overtime compensation is limited to the portion of the overtime that is required by the FLSA that is in excess of the regular rate.

[1] See additional FLSA definitions and exemptions at IRS FS-2026-13, www.dol.gov/agencies/whd/flsa, and the FLSA Handy Reference Guide at www.dol.gov/agencies/whd/compliance-assistance/handy-reference-guide-flsa

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Example. Brandon is normally paid $40 an hour by his employer. His employer asks Brandon to be on call Christmas Day, which falls on Brandon's normal day off. The employer agrees to pay Brandon $40 per hour to be on call and $80 per hour if he gets called out. Brandon was called out to work on Christmas and was paid $320 for 4 hours work. Brandon's weekly pay is calculated:

Regular pay – 40 hours	$1,600
On call standby Christmas day – 4 hours x $40	$ 160
Actual hours worked on Christmas day – 4 hours x $80	$ 320
Brandons total gross pay for the week	$2,080
Brandon's total overtime pay ($160 + $320)	$ 480
FSLA qualified overtime (4 hours x $20 – overtime @ ½ time	$ 80

Note – on call time does not qualify as no premium was paid.

Preparer note. Some states have overtime rules that require premium payments if a worker exceeds 8 hours of work in a day, rather than 40 hours per week. Other states require overtime pay rates in excess of 1½ times regular pay rate (e.g., double time). Barring IRS guidance to the contrary, none of these matters. Collective bargaining agreements and/or other employer policies are not considered. The deduction is reserved for overtime premiums as defined by the FLSA which are based on a 40-hour workweek rather than a daily hour limit.

Example. Terri works in a state that requires overtime premium pay for any day she works more than 8 hours. In September 2026, Terri's hours for her work week were:

Monday	10 hours
Tuesday	6 hours
Wednesday	12 hours
Thursday	12 hours
Total	40 hours

Overtime hours under **state law – 10 hours paid at 1½ times regular pay rate.**
Overtime hours under **Federal law – zero and no premium pay rate is required.**

Terri has no qualified overtime pay for the overtime deduction regardless of how much her employer pays her.

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Preparer note. FLSA says *if* an "exempt" employee is paid a salary above the $684 per week minimum, the employer does not have to adhere to the overtime or minimum wage rules. This means the company can hire someone to work an unlimited number of hours during a week, pay them a salary of $684 or more, and they would be in compliance with all FLSA rules if the employee is in one of the categories listed above. OBBBA clearly states that only overtime paid subject to FLSA is eligible for the overtime deduction. If an exempt employee is being paid a salary above $684 per week, even if the employee were paid overtime, it would not qualify for the overtime deduction.

However, if an employee who is normally exempt is paid hourly instead of salary, FLSA applies and the hourly employee must be paid an overtime premium for more than 40 hours in a week. Any such overtime premium paid would qualify for the overtime deduction as the overtime pay is required by FLSA. In other words, if the employer treats an employee as a non-exempt employee, even if they could be exempt, they are treated as non-exempt for FLSA purposes and the overtime deduction rules could apply.

High income phaseout. As with the tip deduction, the overtime deduction phases out once the taxpayer's MAGI exceeds a threshold. The threshold phaseout begins at $150,000 for single filers and $300,000 for joint filers. If these thresholds are exceeded, the deduction is reduced by $100 for every $1,000, or portion thereof, MAGI above the threshold. The overtime deduction is fully phased out for those with MAGI more than $275,000 ($550,000 for joint filers).

Example. Jacob's 2026 MAGI is $170,000, comprised of a $165,000 regular income plus $5,000 of overtime premium pay. Jacob's MAGI exceeds the $150,000 limit by $20,000. His deduction is reduced by $2,000 ($100 x 20). Jacob's deduction is limited to $3,000 ($5,000 overtime less $2,000 excess MAGI adjustment).

Married filing joint and SSNs required. As with the tip deduction, if the taxpayers are married, the overtime deduction only applies if they file a joint return for the tax year. In addition, the taxpayer must include his or her SSN on their income tax return. The SSN is valid only if it is issued to a U.S. citizen or a person authorized to work in the U.S. and issued before the due date of the taxpayer's return. If the SSN is omitted, the omission is treated as a mathematical or clerical error, which allows the IRS to summarily assess additional tax due.

Overtime deduction and tip deduction coordination. Tip income does not qualify for the overtime pay deduction. A taxpayer may, however, qualify for the separate tip deduction and the overtime deduction at the same time if they have qualifying income under both provisions. The SSTB prohibition under the tip deduction ***does not apply*** to the overtime pay deduction.

Employer reporting. Employers must separately include the total amount of qualified overtime pay on the employees' W-2 or 1099 to substantiate the deduction. Beginning in 2026, employers will have to adopt practices to allow them to correctly identify overtime premium and report the amounts on Form W-2 or Form 1099. ***Workers may not estimate or calculate their own version of overtime premium. Starting in 2026, if the amount is not reported, the employee cannot claim the deduction.***

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Example – One last planning note. Dave is retired but works at Home Lumber when they need him. At busy times he often works 50 hours a week, but some weeks he doesn't work at all. Dave is 66 years old, single, and contributes to the Home Lumber §401k. In 2026, Dave's income and tax situation is summarized:

Home Lumber W-2 income	$ 65,000 ($8,000 of qualified overtime)
401k deferral	($30,000)
Overtime deduction	($ 8,000)
Senior deduction	($ 6,000)
Standard deduction	($18,150)
Taxable income	$ 2,850

Dave made $65,000 and paid only $285 ($2,850 x 10%) of Federal income tax. Be like Dave!!

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Sch. 1-A, Part V, Senior Deduction (§151(d)(5))

Personal exemptions are gone but senior deduction is available (§151(d)(5)). OBBBA made two significant changes to exemptions:

1. The personal exemption suspension adopted by the TCJA was made permanent. Personal exemptions are no longer part of the IRC.

2. A temporary senior deduction of $6,000 was added to the IRC for years 2025 through 2028.

Senior deduction. The new senior deduction is $6,000 per qualified person, $12,000 for married joint if both spouses qualify. A qualified person is an individual that reached age 65 by the end of the year and is not claimed as a dependent. A taxpayer is considered to be 65 on the day before their 65th birthday, so taxpayers who turn 65 January 1st are treated as if they reached age 65 on December 31st and may claim the senior deduction. This rule also applies to the age 65 add-on to the standard deduction.

MAGI phaseout applies. The senior deduction is phased out if MAGI exceeds $75,000 ($150,000 for joint returns). The phaseout rate is 6% of MAGI in excess of the base threshold. Taxpayers are fully phased out once MAGI reaches $175,000 for singles or $250,000 for married filing joint filers. The MFJ phase out is applied to each spouse's deduction, although multiple AI sources think otherwise! Here is the calculation from Sch 1A:

Example. Jim and Colleen are both 76 years old and their MAGI is $180,000. The partial phase-out of their senior deduction is calculated:

	Total
MAGI	$ 180,000
MFJ threshold	($150,000)
Excess over threshold	$ 30,000
Phaseout rate	x 6%
Phase out reduction	$ 1,800
Net senior deduction ($6,000 - $1,800) x 2	$ 9,300

Part V Enhanced Deduction for Seniors

Caution: You and/or your spouse must have a valid social security number. If married, you must file jointly to claim this deduction. See instructions.

37	Enter the amount from line 3	37	180,000
38	Enter $75,000 ($150,000 if married filing jointly)	38	150,000
39	Subtract line 38 from line 37. If zero or less, enter $6,000 on line 41	39	30,000
40	Multiply line 39 by 6% (0.06)	40	1,800
41	Subtract line 40 from $6,000. If zero or less, enter -0-	41	4,200
42a	If you have a valid social security number (see instructions) and were born before January 2, 1962, enter the amount from line 41	42a	4,200
42b	If you are married filing jointly, your spouse has a valid social security number (see instructions), and your spouse was born before January 2, 1962, enter the amount from line 41	42b	4,200
43	**Enhanced deduction for seniors.** Add lines 42a and 42b	43	8,400

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Standard deduction and related add-ons provide big breaks for seniors. No changes were made to the existing age 65 and over additional standard deduction add-on or the additional deduction for the blind. These, along with the new senior deduction are available to all Americans age 65 or over without regard to whether they are drawing Social Security and it does not reduce taxable amounts for folks under age 65 drawing Social Security.

Planning Information and Examples

2026 Standard Deduction Plus Add Ons				
	Standard Deduction	65 and over, or Blind	Senior Addition	Maximum Std. Deduction
Single	$16,100	$2,050	$6,000	$24,150
Head House	$24,150	$2,050	$6,000	$32,200
Joint	$32,200	$1,650 each	$12,000	$47,500

Senior Bracket Tops Assuming 65 and Older					
	Std. Deduct	Taxable Income for 10% Limit	TRUE Top of 10% Bracket	Taxable Income for 12% Limit	TRUE Top of 12% Bracket
Single	$24,150	$12,400	**$36,550**	$50,400	**$74,550**
Head House	$32,200	$17,700	**$49,900**	$67,450	**$99,650**
Married Joint	$47,500	$24,800	**$72,300**	$100,800	**$148,300**

Example. Art and Carol are both age 85, retired and have $80,000 of gross income from pension distributions, taxable Social Security, interest, and dividends. Carol has $300,000 in her IRA. They have three children, all of whom are in the 35% or higher tax bracket. After reviewing their tax situation, their tax advisor suggests they consider rolling at least some of Carol's IRA into a Roth IRA.

	No Conversion	$63,650 Converted	Heirs' tax
AGI	$80,000	$ 80,000	$ 63,650
Roth conversion	$ 0	$ 68,300	NA
Deductions	($47,500)	($47,500)	NA
Taxable income	$ 32,500	$100,800	$ 63,650
Tax	$ 3,404	$ 11,600 ($8,196 Difference)	$ 23,905 ($15,709 more)

Great time for seniors to seriously consider converting some or all traditional retirement accounts to Roth IRAs!

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Example. Art and Carol are both age 65, are retired and have $80,000 of gross income comprised of pension distributions, taxable Social Security, interest, and dividends. Carol owns 500 shares of Disney stock with an FMV of $75,000 and a cost basis of $10,000. After reviewing their tax situation, their tax advisor suggests they consider selling the Disney stock and recognizing the gain.

	No Stock Sale	With Stock Sale
Income before stock sale	$ 80,000	$ 80,000
Capital gain on stock sale	$ 0	$ 65,000
Deductions	($47,500)	($47,500)
Taxable income	$ 32,500	$ 97,500
Tax	$ 3,404	$ 3,404

Caution. Seniors need to closely watch other factors that may impact their tax and cash flow:

1. The additional $6,000 per person senior exemption begins phasing out at $75,000 MAGI single and $150,000 MAGI joint. Because MAGI is calculated before the standard deduction, watch gross income amounts carefully.

2. The taxable portion of Social Security would be included in the MAGI income floor and will cause unexpected tax issues if ignored – use your software to see the overall effect.

3. The IRMAA Medicare surcharge penalty kicks in at $109,000 MAGI single and $218,000 MAGI joint, so conversions must be calculated carefully. The IRMAA surcharge applies 2 years after the income is included.

4. State income tax effects must be calculated in states where retirement income is taxed.

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Sch. 1-A, Part IV, Qualified Passenger Vehicle Loan Interest (QPVLI) Deduction (§163(h)(4); §1.163.16; §1.6050AA-1)

Overview. Prior to 1986, taxpayers were allowed to deduct non-business interest other than mortgage interest as itemized deductions on Schedule A. This included credit card interest, personal auto loans, and most other personal interest expenses. The Tax Reform Act of 1986 eliminated all deductions of personal interest other than mortgage interest and equity debt (up to $100,000 borrowed and secured by the taxpayer's personal residence). The TCJA further restricted personal interest deductions when it suspended the deduction for interest paid on home equity debt. The law change essentially eliminated all personal interest expense other than interest paid on acquisition debt for a personal residence.

IRS issues final regulations to address QPVLI deduction (§1.163.16). The IRS issued final regulations in September 2026 to clarify the rules for deducting auto loan interest. The IRS also modified Schedule 1A to improve reporting and compliance. The new form looks like:

Schedule 1-A (Form 1040) (2026) Page 3

Part IV No Tax on Car Loan Interest

Caution: Fill out Part IV only if you, or your spouse if married filing jointly, paid or accrued qualified passenger vehicle loan interest (QPVLI). Certain vehicle loan interest paid in 2026 should be reported to you on Form 1098-VLI, box 1. Column (iii) is the total QPVLI paid in 2026 less the amounts reported in column (ii). See instructions.

28 Applicable passenger vehicle (see instructions). If more than two VINs, see instructions.

	(i) Vehicle identification number (VIN)	Interest for this loan: (ii) Deducted on Schedule C, Schedule E, or Schedule F	(iii) Schedule 1-A
28a			

(1) Did the original use of this vehicle start with you, or your spouse if married filing jointly (a used vehicle does not qualify)? ☐ Yes ☐ No

(2) Did final assembly of this vehicle occur within the United States (see instructions for information on how to determine final assembly)? ☐ Yes ☐ No

28b			

(1) Did the original use of this vehicle start with you, or your spouse if married filing jointly (a used vehicle does not qualify)? ☐ Yes ☐ No

(2) Did final assembly of this vehicle occur within the United States (see instructions for information on how to determine final assembly)? ☐ Yes ☐ No

29	Add lines 28a and 28b, column (iii)	29	
30	Enter the smaller of the amount on line 29 or $10,000	30	
31	Enter the amount from line 3	31	
32	Enter $100,000 ($200,000 if married filing jointly)	32	
33	Subtract line 32 from line 31. If zero or less, enter the amount from line 30 on line 36	33	
34	Divide line 33 by $1,000. If the resulting number isn't a whole number, increase the result to the next higher whole number. (For example, increase 1.5 to 2, and increase 0.05 to 1.)	34	
35	Multiply line 34 by $200	35	
36	**Qualified passenger vehicle loan interest deduction.** Subtract line 35 from line 30. If zero or less, enter -0-	36	

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Auto loan interest deductible for the first time in 40 years (§163(h)(4)). Beginning in 2025, a deduction is allowed for qualified interest paid on auto loans for personal vehicles. The deduction is allowed to itemizers and non-itemizers. The deduction sunsets after 2028. Only individuals, decedent estates, or non-grantor trusts may claim the deduction.

Requirements for deductibility. The annual maximum amount of interest that may be claimed on a return is $10,000. To qualify for deduction:

- The interest must be paid on a loan that originated after Dec. 31, 2024;
- The loan was used to purchase a new vehicle (used vehicles do not qualify);
- The vehicle was intended for a personal use vehicle (not for business or commercial);
- The taxpayer must provide the VIN with the tax return (see Schedule 1-A); and
- The loan is secured by a lien on the vehicle.

Certain loans do not qualify. The regs specifically state that interest paid on the following loans does not qualify:

- A loan to finance fleet sales.
- A loan incurred for the purchase of a commercial vehicle that is not used for personal purposes.
- Any lease financing.
- A loan to finance the purchase of a vehicle with a salvage title.
- A loan to finance the purchase of a vehicle intended to be used for scrap or parts.
- Any indebtedness owed to a person who is related to the taxpayer.

Original use requirement. The vehicle's original use must be with the taxpayer for the loan to qualify. Original use of a vehicle commences with the first person that takes delivery of the vehicle after the vehicle is sold, registered, or titled. In the case of a purchaser that incurs indebtedness for the vehicle purchase, original use of the vehicle does not commence with that purchaser unless the loan documentation treats the vehicle as a new vehicle. Demo vehicles owned by a car dealer are originally used when they are sold to a customer. Using the auto as a demo is not original use.

Personal use. A taxpayer is considered to have purchased a vehicle for personal use if, at the time the indebtedness is incurred, that taxpayer expects that the auto will be used for personal use by the taxpayer, the taxpayer's spouse, or a dependent, or any combination of these individuals, for more than 50% of the time. This determination is based on the expected use during the period the taxpayer expects to own the vehicle.

Qualifying vehicle. A qualified vehicle is a car, minivan, van, SUV, pick-up truck, or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds that has undergone final assembly in the United States[2]. Vehicles are required to have at least two wheels so motorcycles count. Campers, trailers, and motor homes don't count, but any interest paid to purchase such items may be deductible as mortgage interest on Sch. A.

[2] The term "final assembly" means the process by which a manufacturer produces a vehicle at, or through the use of, a plant, factory, or other place from which the vehicle is delivered to a dealer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.

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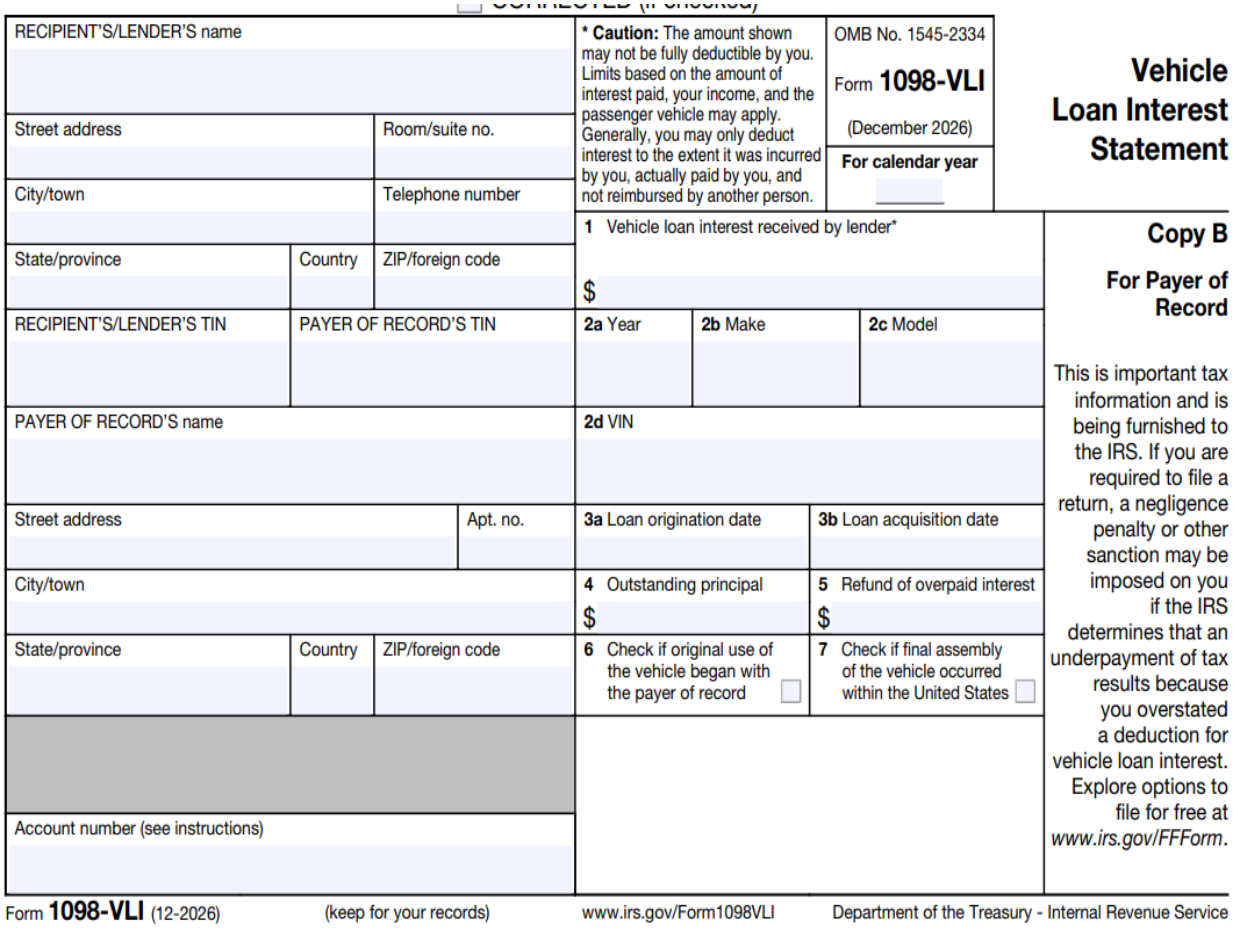
Secured by first lien. The term secured by a first lien means a valid and enforceable security interest under State or other applicable law in an APV that is the first voluntary security interest recorded against the vehicle, regardless of subsequent involuntary liens such as tax liens or other similar security interests that may be given temporary higher priority at a later date following the date of purchase.

Reporting required. Lenders or other recipients of qualified interest must file Form 1098-VLI with the IRS and furnish a copy to the taxpayer. The form shows the total amount of interest paid, the year, make and mode of the vehicle, loan origination and loan acquisition date, and the outstanding balance at year end.



RECIPIENT'S/LENDER'S name

Street address | Room/suite no.

City/town | Telephone number

State/province | Country | ZIP/foreign code

RECIPIENT'S/LENDER'S TIN | PAYER OF RECORD'S TIN

PAYER OF RECORD'S name

Street address | Apt. no.

City/town

State/province | Country | ZIP/foreign code

Account number (see instructions)

* **Caution:** The amount shown may not be fully deductible by you. Limits based on the amount of interest paid, your income, and the passenger vehicle may apply. Generally, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.

OMB No. 1545-2334

Form **1098-VLI**

(December 2026)

For calendar year ____

Vehicle Loan Interest Statement

1 Vehicle loan interest received by lender* $

2a Year | 2b Make | 2c Model

2d VIN

3a Loan origination date | 3b Loan acquisition date

4 Outstanding principal $ | 5 Refund of overpaid interest $

6 Check if original use of the vehicle began with the payer of record ☐ | 7 Check if final assembly of the vehicle occurred within the United States ☐

Copy B

For Payer of Record

This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for vehicle loan interest. Explore options to file for free at *www.irs.gov/FFForm*.

Form **1098-VLI** (12-2026) (keep for your records) www.irs.gov/Form1098VLI Department of the Treasury - Internal Revenue Service

Deduction phased out for some. The deduction begins to phase out once MAGI exceeds $100,000 ($200,000 for married filing joint). The phase out is $200 for each $1,000 of MAGI above the threshold. The phaseout will apply against the actual qualifying deductible amount, which may be less than the $10,000 limit. Taxpayers with MAGI of $150,000 ($250,000 married filing joint) will completely phase out of this deduction.

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Phaseout calculation example. Evan and Briar file MFJ and their MAGI is $190,000. They paid interest of $6,800 on a qualified auto loan in 2026. All other auto interest deduction requirements are met. Evan and Briar may deduct the entire $6,800 on Schedule 1-A as they are below the MAGI phase out range.

Variation. In 2027, Evan and Briar's auto loan interest is $5,400 and their MAGI increases to $220,000. They can deduct $1,400 of auto loan interest on Schedule 1-A, calculated:

Total qualifying interest paid	$ 5,400
Phase out ($200 x 20)	($4,000)
Net deduction	$ 1,400

Refinancing debt (§1.163(d)(4)). If a taxpayer refinances a qualified loan, the new loan also qualifies if the new loan is secured by a first lien on the qualifying vehicle. The amount of the new loan is limited to the outstanding balance of the refinanced loan as of the date of the refinancing. If there is a change in the borrower as part of the refinancing, the new loan is not qualified unless the new loan was obtained as the result of the original borrower's death.

Charitable Contributions for Non-Itemizers (§170(p))

Overview. From 1981–1986, Congress experimented with a temporary above-the-line deduction for non-itemizers, allowing limited deductions even without Schedule A – but this expired in 1986. The TCJA temporarily raised the limit on cash gifts to 60% of AGI (2018–2025), aimed at encouraging giving among high-income donors. Finally, the 2020 CARES Act created a $300 above-the-line deduction for non-itemizers and temporarily lifted the 60% limit on cash donations.

Charity deduction permanently allowed for non-itemizers (§170(p). The OBBBA permanently re-instates a deduction for non-itemizers for tax years beginning in 2026. The deduction is the lesser of actual qualifying contributions or $1,000 ($2,000 on a joint return).

Qualifying contributions. The charitable non-itemizer deduction applies only to cash donations made to public charities under §501(c)(3). Taxpayers must retain a contemporaneous written acknowledgment from the charity for each donation claimed that satisfies the receipt requirements of §170(f)(8) (i.e., includes donee name, amount donated, date, etc.). Certain contributions are not allowed, including:

- Contributions to donor-advised funds, private foundations, and supporting organizations;
- Contributions carried over from a prior year; and
- In-kind or property donations (e.g., clothing or household items).

Preparer note. There is no AGI limit and this provision is permanent.

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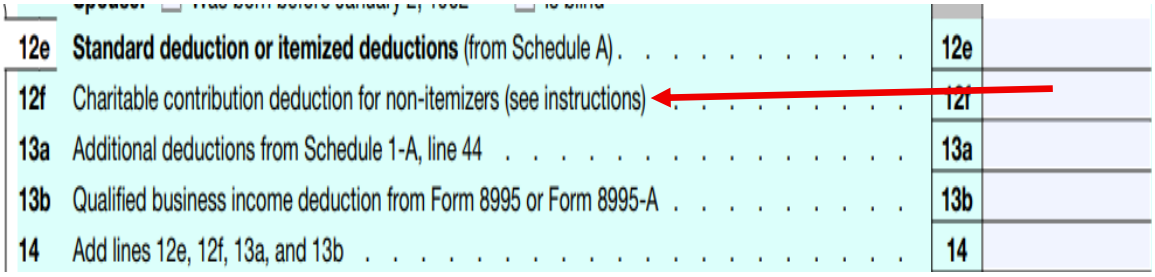
Contributions reported on Form 1040. Non-itemizer charitable contributions are not reported on Schedule 1A. They are reported directly on Form 1040. Line



12e	**Standard deduction or itemized deductions** (from Schedule A)	12e
12f	Charitable contribution deduction for non-itemizers (see instructions)	12f
13a	Additional deductions from Schedule 1-A, line 44	13a
13b	Qualified business income deduction from Form 8995 or Form 8995-A	13b
14	Add lines 12e, 12f, 13a, and 13b	14

Itemize or not? The above-the-line charitable deduction is only available to those who choose not to itemize deductions. Taxpayers are not allowed to itemize and then claim the above the line charitable contribution deduction. If they itemize, charitable contributions must be itemized. This will become more of an issue in 2026 and beyond, when the .5% charitable contribution floor (see Itemized Deduction chapter) is enforced.

Preparer note. Taxpayers should be reminded of the documentation requirements for charitable contributions. Further, bunching planning strategies is more important than ever. Noncash contributions and donations to donor advised funds should be emphasized in years the taxpayer itemizes deductions.

Charity planning idea #1 – utilize donor-advised funds (§4966). A donor-advised fund ("DAF") is a charitable vehicle housed within a §501(c)(3) public charity that allows a donor to make a gift, take an immediate charitable deduction, and recommend, typically with strong persuasive authority, future grants made from funds in the DAF. Unlike private foundations that require a minimum annual distribution, DAFs have no distribution requirements and can allow investment funds within the account to build up for years or even decades. In years where the taxpayer has enough itemized deductions to exceed the standard deduction these are incredibly useful tools.

A donor-advised fund is a great way to work around the relatively high standard deduction on taxes, which may limit a taxpayer's ability to gain additional write-offs for charitable contributions. It also allows the taxpayer to generate the deduction this year but divvy out the funds in future years. By making charitable contributions to a DAF (before year end), the taxpayer can deduct the contribution in the current year (subject to the 60% of AGI limit). Then the funds can be distributed in later years to charities as desired. In the meantime, the money may grow tax-free in the fund.

From the perspective of the organizations the taxpayer supports, nothing changes, but the DAF allows the taxpayer to control the timing and amount of the charitable tax deduction.

DAFs are offered by multiple charities, as well as by Fidelity, Vanguard, and most brokerage houses.

Charity planning idea #2 – donate appreciated stock. Giving appreciated stock, bonds or mutual funds held for more than a year is usually better than giving cash. If a taxpayer donates stock that has increased in value since purchased more than a year ago, and the taxpayer

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itemizes deductions, a charitable deduction is allowed for the stock's FMV on the day donated. This provides the taxpayer with the following benefits:

- No capital gains tax as the stock is not sold.
- The charitable contribution deduction is the full FMV of stock if held at least one year.
- Donor advised mutual funds provide a wide range of charitable giving options for the investor wishing to provide a contribution other than to a specific charity.

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Credits, Other Taxes, Tax Payments

SCHEDULE 2 (Form 1040)
Department of the Treasury
Internal Revenue Service

Additional Taxes

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2026
Attachment Sequence No. 02

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | Your social security number

Part I Tax

1	Additions to tax:		
1a	Excess advance premium tax credit repayment. Attach Form 8962	1a	
1b	Repayment of new clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part II. Attach Form 8936 and Schedule A (Form 8936)	1b	
1c	Repayment of previously owned clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part IV. Attach Form 8936 and Schedule A (Form 8936)	1c	
1d	Recapture of net EPE from Form 4255, line 2a, column (l)	1d	
1e	Excessive payments (EPs) on gross EPE from Form 4255. Check applicable box and enter amount. See instructions. (i) ☐ Line 1a (ii) ☐ Line 1c (iii) ☐ Line 1d (iv) ☐ Line 2a	1e	
1f	20% EP from Form 4255. Check applicable box and enter amount. See instructions. (i) ☐ Line 1a (ii) ☐ Line 1c (iii) ☐ Line 1d (iv) ☐ Line 2a	1f	
1y	Other additions to tax (see instructions):	1y	
1z	Add lines 1a through 1y		1z
2	Alternative minimum tax. Attach Form 6251		2
3	Add lines 1z and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17		3

Part II Additional Taxes

Section A—Additional Income Taxes

4	Self-employment tax. Attach Schedule SE. Check if any exemption from (see instructions): 1 ☐ 4361 2 ☐ 4029 3 ☐		4
5	Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here ☐		5
6	Net investment income tax. Attach Form 8960		6
7	Interest on tax due on installment income from the sale of certain residential lots and timeshares		7
8	Interest on the deferred tax on gain from certain installment sales with a sales price over $150,000		8
9	Recapture of low-income housing credit. Attach Form 8611		9
10	Recapture of net EPE from Form 4255, line 1d, column (l)		10
11	Additional Medicare Tax on self-employment income. Attach Form 8959		11
12	Section 965 net tax liability installment from Form 965-A	12	
13	Other additional income taxes:		
13a	Recapture of other credits. List type, form number, and amount:	13a	
13b	Recapture of federal mortgage subsidy. If you sold your home, see instructions	13b	
13c	Additional tax on HSA distributions. Attach Form 8889	13c	
13d	Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889	13d	
13e	Additional tax on Archer MSA distributions. Attach Form 8853	13e	
13f	Additional tax on Medicare Advantage MSA distributions. Attach Form 8853	13f	
13g	Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property	13g	
13h	Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A	13h	
13i	Compensation you received from a nonqualified deferred compensation plan described in section 457A	13i	
13j	Section 72(m)(5) excess benefits tax	13j	
13k	Golden parachute payments	13k	
13l	Tax on accumulation distribution of trusts	13l	

(continued on page 2)

Part II – 2 Sections and 22 lines in 2026. Only 13 lines in 2025.

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Schedule 2 (Form 1040) 2026 Page 2

Part II Additional Taxes *(continued)*

Section A—Additional Income Taxes *(continued)*

13m	Excise tax on insider stock compensation from an expatriated corporation	13m		
13n	Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866	13n		
13o	Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR	13o		
13z	Any other taxes. List type and amount:	13z		
14	Total additional income taxes. Add lines 13a through 13z		14	
15	Add lines 4 through 11 and line 14		15	

Section B—Additional Employment and Other Taxes

16	Additional social security and Medicare taxes:			
16a	Social security and Medicare tax on unreported tip income. Attach Form 4137	16a		
16b	Uncollected social security and Medicare tax on wages. Attach Form 8919	16b		
16c	Total additional social security and Medicare tax. Add lines 16a and 16b			
17	Other employment taxes:			
17a	Household employment taxes. Attach Schedule H	17a		
17b	Additional Medicare tax on Medicare wages and RRTA compensation. Attach Form 8959	17b		
17c	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	17c		
17d	Total other employment taxes. Add lines 17a through 17c		17d	
18	Additional tax on excess contributions or accumulations in IRAs or other tax-favored accounts. Attach Form 5329		18	
19a	Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund	19a		
19b	Any interest from Form 8621, line 24	19b		
19c	Add lines 19a and 19b		19c	
20	Total additional employment and other taxes. Add lines 16c, 17d, 18, and 19c		20	

Section C—Total Additional Taxes

21	Add lines 15 and 20. These are your **total additional taxes**. Enter here and on Form 1040 or 1040-SR, line 23; or Form 1040-NR, line 23b	21	

Schedule 2 (Form 1040) 2026

Section B and Section C New in 2026

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SCHEDULE 3 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Credits and Payments

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2026

Attachment Sequence No. **03**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

Part I Nonrefundable Credits

1	Foreign tax credit. Attach Form 1116 if required			1
2	Credit for child and dependent care expenses from Form 2441, line 11. Attach Form 2441			2
3	Education credits from Form 8863, line 19			3
4	Retirement savings contributions credit. Attach Form 8880			4
5a	Residential clean energy credit from Form 5695, line 3			5a
5b	Reserved for future use			5b
6	Other nonrefundable credits:			
6a	General business credit. Attach Form 3800	6a		
6b	Credit for prior year minimum tax. Attach Form 8801	6b		
6c	Adoption credit. Attach Form 8839	6c		
6d	Credit for the elderly or disabled. Attach Schedule R	6d		
6e	Reserved for future use	6e		
6f	Clean vehicle credit. Attach Form 8936	6f		
6g	Mortgage interest credit. Attach Form 8396	6g		
6h	District of Columbia first-time homebuyer credit. Attach Form 8859	6h		
6i	Qualified electric vehicle credit. Attach Form 8834	6i		
6j	Alternative fuel vehicle refueling property credit. Attach Form 8911	6j		
6k	Credit to holders of tax credit bonds. Attach Form 8912	6k		
6l	Amount on Form 8978, line 14. See instructions	6l		
6m	Credit for previously owned clean vehicles. Attach Form 8936	6m		
6z	Other nonrefundable credits. List type and amount:	6z		
7	Total other nonrefundable credits. Add lines 6a through 6z			7
8	Add lines 1 through 4, 5a, and 7. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 20			8

No significant changes in 2026.

Part II Other Payments and Refundable Credits

9	Net premium tax credit. Attach Form 8962			9
10	Amount paid with request for extension to file (see instructions)			10
11	Excess social security and tier 1 RRTA tax withheld			11
12	Credit for federal tax on fuels. Attach Form 4136			12
13	Other payments or refundable credits:			
13a	Form 2439	13a		
13b	Section 1341 credit for repayment of amounts included in income from earlier years	13b		
13c	Net elective payment election amount from Form 3800, Part III, line 6, column (j)	13c		
13d	Deferred amount of net 965 tax liability (see instructions)	13d		
13e	Total section 1062 applicable net tax liability. Enter amount from Form 1062, line 14	13e		
13z	Other refundable credits (see instructions):	13z		
14	Total other payments or refundable credits. Add lines 13a through 13z			14
15	Add lines 9 through 12 and 14. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 31			15

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71480G **Schedule 3 (Form 1040) 2026** Created 4/27/26

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New Form 1040, Schedule 3-A – Federal Public Benefit. The IRS is now requiring additional eligibility verification for those claiming refundable tax credits. Starting in 2026, taxpayers claiming EIC, additional child tax credit, refundable American Opportunity Credit, or the refundable adoption credit are required to attach Schedule 3-A to their return to claim their "Federal Public Benefit." It appears the main purpose of the form is to ensure the taxpayer claiming the relevant credit is a US citizen, qualified alien, or US national.

SCHEDULE 3-A (Form 1040)
Department of the Treasury
Internal Revenue Service

Federal Public Benefit

Attach to Form 1040, 1040-SR, 1040-NR, or 1040-SS.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2026
Attachment Sequence No. **3A**

Name(s) shown on Form 1040, 1040-SR, 1040-NR, or 1040-SS | **Your social security number**

CAUTION Complete Schedule 3-A (Form 1040) only if you are claiming the earned income credit (EIC), additional child tax credit (ACTC), refundable American opportunity credit, or refundable adoption credit.

Part I Federal Public Benefit (Refunded Portion of Certain Refundable Credits)

1a	Enter the amount from Form 1040 or 1040-SR, line 32a. If you are filing Form 1040-NR or Form 1040-SS, enter -0-	1a		
1b	Enter the amount from Form 1040 or 1040-SR, line 31. If you are filing Form 1040-NR or Form 1040-SS, enter -0-	1b		
2	Subtract line 1b from line 1a. If you are filing Form 1040-NR, add Form 1040-NR, lines 28 and 30, and enter the total. If you are filing Form 1040-SS, enter the amount from Part I, line 10		2	
3	Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 24a. If you are filing Form 1040-SS, enter the amount from Part I, line 7	3		
4	Enter the amount from Schedule 2 (Form 1040), line 20. If you are filing Form 1040-SS, enter the amount from Part I, line 6e	4		
5	Subtract line 4 from line 3		5	
6	Is line 2 more than line 5? ☐ **Yes.** Subtract line 5 from line 2. This is your federal public benefit. Enter the result here, and go to line 7. ☐ **No.** Stop. Enter -0- here. Enter -0- on Form 1040, 1040-SR, or 1040-NR, line 32b. If you are filing Form 1040-SS, enter -0- on Part I, line 12b		6	
7	Do you want to receive your federal public benefit? ☐ **Yes.** Go to line 8. ☐ **No.** Stop. Enter the amount from line 6 on Form 1040, 1040-SR, or 1040-NR, line 32b. If you are filing Form 1040-SS, enter the amount from line 6 on Part I, line 12b.			

Part II Verification of Eligibility for Federal Public Benefit

8	Are you or your spouse a U.S. citizen, U.S. national, or qualified alien? See instructions. ☐ **Yes.** Enter -0- here and on Form 1040, 1040-SR, or 1040-NR, line 32b. If you are filing Form 1040-SS, enter -0- on Part I, line 12b. ☐ **No.** Enter the amount from line 6 here and on Form 1040, 1040-SR, or 1040-NR, line 32b. If you are filing Form 1040-SS, enter the amount from line 6 on Part I, line 12b		8	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 96175A **Schedule 3-A (Form 1040) 2026** Created 6/24/26

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Tax Credits

Individual Federal tax credits apply against income and other taxes on the return. Credits may be either refundable or nonrefundable. Refundable credits first offset any income tax and then any remaining credit is refunded to the taxpayer. Nonrefundable credits may only be used against the current year tax balance. Any unused portion either expires immediately or carries forward to a future year depending upon the type of credit. Most individual tax credits are non-refundable.

Refundable credits

- Adoption credit (Form 8839) (up to $5,000 per OBBBA)
- Credit for excess Social Security or Railroad Retirement tax withheld (Form 843)
- Child tax credit – partially refundable (Form 8812)
- Education (partial) credits (Form 8863)
- Earned income credit (Form 1040, Sch. EIC)
- Premium assistance credit (Form 8962)

Nonrefundable credits

- Adoption credit (Form 8839) (amount greater than $5,000 per OBBBA)
- Alternative motor vehicle credit (Form 8910)
- Alternative fuel vehicle refueling credit (Form 8911)
- Child and dependent care credit (Form 2441)
- Credits to holders of tax credit bonds (Form 8912)
- Disabled access credit (Form 8826)
- Foreign tax credit (Form 1116)
- Mortgage interest credit (Form 8396)
- Other dependent credit (Form 8812)
- Residential clean energy credit/Energy efficient home improvement credit (Form 5695)
- Retirement savings contributions credit (Form 8880)

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Scholarship Granting Organizations Contribution Tax Credit (§25F; TD 10057; NPRM REG-117199-25)

Overview. OBBBA included the Scholarship Granting Organization Contribution Credit (SGOC), a new tax credit meant to expand private educational access for lower-income students. The new tax credit is allowed for taxpayers who make donations to qualified elementary and secondary education scholarship granting organizations. States have the option whether to establish scholarship granting organizations. Taxpayers cannot claim a credit unless the contribution is made to a state sponsored organization. Credits are allowed for qualified donations made in 2027 and after.

SGOC detailed guidance issued (§1.25F-1T, §1.25F-4T, and §1.25F-5T; NPRM REG-117199-25). The IRS issued temporary and proposed regulations to clarify details related to the new SGOCs and the related state organizations. The regulations provide:

- Detailed information about the requirements for an organization to qualify as an SGO, the requirements for contributions to qualify as a "qualified contribution" eligible for the credit, and the requirements for states to qualify as a "covered State" under §25F.

- Reporting and recordkeeping requirements for SGOs and requirements for elections that States must make to participate.

Preparer note. Our focus here will be on the individual taxpayer and his or her tax credit rather than state SGO qualifications.

Pertinent Definitions

The proposed and temporary regulations provide definitions of terms generally applicable for purposes SGOC and related issues:

- **Eligible credit –** The credit is a dollar-for-dollar credit but is limited to $1,700 ($3,400 for joint filers). The amount of the credit must be reduced by any amount allowed as a credit on any State tax return.

- **Eligible student** – A student eligible to enroll in a public elementary or secondary school qualifies for a scholarship if the student's family income in the prior year did not exceed 300% of the area's median gross income.

- **Qualifying contribution** – A "qualified contribution" is a charitable cash contribution made by an individual to an SGO to the extent it is designated as such by the donor at the time of contribution. As with all charitable contributions, the donee organization must identify if any goods or services were provided to the donor, and if so, ensure the value of those goods and services were subtracted from the contribution amount. For this purpose, the term "cash" means physical currency, check, money order, electronic transfer (including, for example, by credit or debit card), after-tax payroll deduction, or other similar method,

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in each case all in U.S. dollars, but does not include any digital assets. The donor is required to designate to the recipient SGO that the contribution is intended to be a qualified contribution that the SGO will deposit into a §25F designated fund.

- **Covered state** – a covered state is a state that has elected to participate in the §25F SGO program.

- **IRS SGO list** – the IRS SGO list is the aggregated list of SGOs included on one or more State SGO lists that the IRS maintains and publishes on www.irs.gov as per §1.25F-5T(d)(9).

- **Scholarship granting organization (SGO)** – Only donations made to a qualified SGO may be claimed for the credit. A qualified SGO must:

    - Be qualified as a 501(c)(3) organization;
    - Not be a private foundation;
    - Not comingle funds of qualified and non-qualified contributions; and
    - Be included on the state list of qualifying organizations.

Preparer note – Any qualified contribution for which a credit is claimed cannot also be claimed as a charitable contribution deduction.

Idaho SGO survives state Supreme Court Challenge (Committee to Protect and Preserve Idaho's Constitution v. State of Idaho, ID SCt., Dkt. #53264, Feb. 5, 2026). Arguments in multiple states have been made that the new tax credits associated with SGOs are unconstitutional. In one of the first cases to go to court, the Idaho Supreme Court ruled 5-0 that the Idaho version of the program is constitutional. Under the Idaho program, the state provides up to $5,000 per student for non-public educational expenses (like private school tuition, books, tutoring, and curriculum) or up to $7,500 for students with qualifying disabilities. The Idaho State Tax Commission prioritizes families with adjusted gross incomes below 300% of the federal poverty level. The annual cap was set at $50,000.

Supreme Court rejects all arguments. The Supreme Court held that the Idaho constitution establishes a baseline requirement for public education, not a restriction preventing the legislature from enacting broader educational programs. The Court rejected claims that the refundable credit failed the public purpose test by benefiting private interests over public ones. Lastly, the Justices ruled that arguments claiming the $50 million tax credit program would directly harm public school financing were hypothetical at best.

Why do I care about a state case? This is the first appellate level case to win a constitutional challenge since the SGO related credit was adopted. Many states are proceeding cautiously and watching these state court cases before adopting their own SGOs. We need to keep an eye on legislation to property advise our clients.

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Adoption Tax Credit (§23; Form 8839)

Adoption credit overview. Taxpayers that incur expenses to adopt children are allowed a tax credit for payments for qualified adoption expenses. The credit is phased out for taxpayers with AGI more than certain thresholds.

Description	2025	2026	2027
Credit amount	$ 17,280	$17,670	
AGI phaseout	$259,190 – $299,190	$265,080 – $305,080	

Qualified adoption expenses – broad definition (§23(d)(1)). Qualified adoption expenses are defined as reasonable and necessary adoption fees, court costs, attorney fees, travel expenses (meals and lodging), and other expenses directly related to the legal adoption of an eligible child by the taxpayer. All reasonable and necessary expenses required by a state as a condition of adoption are qualified adoption expenses, including the cost of construction, renovations, alterations, or purchases specifically required by the state to meet the needs of the child. Expenses that are not qualified are:

1. Paid to adopt a spouse's child;
2. In violation of state or Federal law;
3. Paid by a Federal, state, or local program;
4. Paid to conduct a surrogate parenting arrangement; or
5. Reimbursed under an employer program.

When and how much? The adoption credit is allowed in the earlier of 1) the taxable year following the year the expenses (including expenses for an unsuccessful effort to adopt an eligible child) are paid or incurred; or 2) the taxable year in which the adoption becomes final.

Foreign adoption. For the adoption of a child who is not a citizen or resident of the U.S., the credit is not allowed until the adoption is finalized. Rev. Proc. 2005-31 provides safe harbors for determining the finality of the adoption of a foreign-born child. Foreign adoption expenses are considered as if the expenses were paid or incurred during the year that the adoption becomes final, not before (§23(e)(2)).

Adoption credit is now partially refundable (§23(a)(4). Beginning in 2025, a portion of the adoption credit is refundable. The 2025 amount was up to $5,000, which is subject to inflation adjustments each year. For 2026, the refundable portion is $5,120. Carryover credits from prior years are not refundable.

Adopting more than one child in the same year. The adoption credit limits are set per adoption, not per taxpayer. This emails that a taxpayer who incurs qualified adoption expenses to adopt two children in 2026, may claim and benefit from the adoption tax credit for multiple adoptions. The taxpayer could claim an adoption tax credit up to the $17,670 per child limit for each child, and the $5,120 refundable portion per child, assuming, all other requirements are met.

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Special needs determination. Taxpayers who adopt children with special needs are allowed the full adoption credit ($17,670 in 2026) regardless of amounts spent on adoption expenses. A special needs child must be certified by the state or local government agency to qualify, and the certification can be for a variety of reasons, including ethnic background, age, or membership in a minority or sibling group, or medical conditions or physical, mental, or emotional handicaps. OBBBA added Indian Tribal governments to the list of entities eligible to identify special needs designees.

Tribal government special needs designations (IRS FS-2026-03). The IRS makes it clear that a child with special needs for purposes of the adoption tax credit may have a different meaning from "a child with special needs" for other purposes. For a Native American child to be considered a "child with special needs," a State or Indian tribal government must have determined that:

- The child cannot or should not be returned to the home of the child's parents;
- The State or Indian tribal government determined there is a specific factor or condition that exists (e.g., ethnic background, age, membership in a minority or sibling group, or the presence of factors such as medical conditions or physical, mental, or emotional handicaps) that makes it reasonable to conclude that the child cannot be placed with adoptive parents without providing adoption assistance; and
- The child is a U.S. citizen or resident, including U.S. possessions.

If a Native American child is subject to the Indian Child Welfare Act (ICWA), the child meets the definition of "special needs."

Employer tax-free adoption reimbursements (§137). Taxpayers are allowed to exclude employer paid adoption expenses as a tax-free fringe benefit. The excludable amount is the same as the limit for the adoption credit - $17,670 for 2026.

Preparer note. Employees may exclude employer reimbursements for qualified adoption expenses and claim the adoption credit for the same adoption in the same year. The same expenses cannot be claimed for both benefits but otherwise, there is no issue for taxpayers who wish to claim both benefits. This effectively allows an adopting parent to receive a credit of up to $17,670 and a tax-free reimbursement of up to $17,670, a total of $35,340 for 2026.

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Child Tax Credit (§24(h)

Overview. The non-refundable child tax credit (CTC) was first introduced in 1997. The credit was originally $400 per qualifying child under age 17. The credit slowly increased to $2,000 and up to $1,400 is currently refundable. The refundable amount was adjusted for inflation and phased out at higher income levels. A separate non-refundable credit of $500 is allowed for dependents who do not qualify for the child tax credit. Under TCJA, the $2,000 CTC was set to revert to $1,000 after 2025, with additional reductions in the refundable portion and lower income phaseouts.

Increased CTC permanent and more. Under the current CTC rules, the credit was permanently increased to $2,200 per qualifying child under age 17 starting in 2025. To qualify the child's, and at least one parent's, Social Security numbers are required to be reported. The credit is adjusted for inflation in $100 increments starting in 2026, although no adjustment was made to the 2026 credit. The refundable CTC is still calculated based on earned income, allowing taxpayers to receive a refund equal to 15% of their earned income above $2,500, up to the maximum CTC refundable amount. The maximum refundable amount for 2026 is $1,700. The $500 other dependent credit was also made permanent, but it is not inflation adjusted.

Dependent Care Credit (§21)

Overview. Qualified individual taxpayers were allowed to claim a nonrefundable credit for costs incurred for dependent care. The credit is 35% on the first $3,000 of qualifying expenses for one dependent and up to $6,000 for two or more dependents. The credit is provided to allow a taxpayer or their spouse to work or go to school and it is based on the earned income of the lesser earner (or $250 monthly for a student).

Qualified dependents include children under age 13, disabled spouses and other disabled dependents of the taxpayer. Qualified expenses include care for the dependent while working and various other costs. Qualified expenses are reduced by employer-paid and excluded dependent care amounts. Other items to note:

- Credit is nonrefundable.
- Credit rate dropped from 35% down to 20% based on AGI.
- $3,000 maximum for one dependent, $6,000 for more than one dependent.
- Reduce expenses by excluding employer paid amounts.
- Credit reduction begins at AGI of $15,000.
- Minimum credit is 20% regardless of AGI.
- Pre-tax cafeteria maximum deferral $7,500 (OBBBA change).

Dependent care benefits increased in 2026. OBBBA increased the maximum dependent credit rate to 50% (was 35%) beginning in 2026. The new rate is phased down based on AGI. The phaseout is one percentage point, but not below 35%, for each $2,000 or fraction thereof by which the taxpayer's AGI exceeds $15,000. For married couples filing jointly, the phaseout is 1% for every $4,000 or portion thereof for AGI above $150,000. See the chart below for details.

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Child and Dependent Care Credit Rates		
Credit Rate	AGI Ranges	
	Single, HOH, MFS	MFJ
50%	$0 - $15,000	$0 - $15,000
49% – 36%	$15,001 - $43,001	$15,001 - $43,001
35%	$43,001 - $75,000	$43,001 - $150,000
34% - 21%	$75,001 - $105,000	$150,001 - $210,000
20%	$105,001 and above	$210,001 and above

Dependent care qualifying expenses. Qualifying Expenses include amounts paid for household services and care of the qualifying person while the taxpayer worked or looked for work if the primary purpose of the employee is dependent care. Household services are ordinary and usual services done in and around the taxpayer's home that are necessary to run the home. They include the services of a housekeeper, babysitter or cook. However, they do not include the services of a chauffeur, bartender, or gardener. Other notable qualifications include:

- Payments to the taxpayer's spouse or the dependent's parent (non-spouse) do not qualify for the credit (but payments to parents and other non-dependents including children of the taxpayer over age 18 qualify).

- A care provider's room and board qualify as well.

- Care includes the cost of services for the qualifying person's well-being and protection. It does not include the cost of clothing or entertainment.

- If the care was provided by a dependent care center, the center must meet all applicable state and local regulations.

    a. A dependent care center is a place that provides care for more than 6 people (other than people who live there) and receives a fee, payment, or grant for providing services for any of those people, even if the center is not run for profit.

    b. Nursery schools and similar preschools qualify as day care, but kindergarten does not because it is considered primarily for education rather than employment related.

    c. Specialty day camps for soccer, computers, etc., are qualified costs, **unless for overnight stays**.

    d. Summer school and tutoring programs are not qualified expenses.

- Include amounts paid for items other than the care of the child (such as food and schooling) only if the items are incidental to the care of the child and cannot be separated from the total cost.

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Education Credits

New reporting requirements for education credits (§25A). For tax years beginning in 2026 and after, the American Opportunity and Lifetime Learning credits are no longer available to taxpayers unless they provide their Social Security number. If the taxpayer is claiming either credit for a dependent, they must provide dependent's name and Social Security number to claim the credits. Failure to do so will result in the credit(s) being disallowed and the IRS is allowed to immediately assess tax. Taxpayers claiming the American Opportunity credit are also required to include the employer identification number for the institution to which the taxpayer paid qualified tuition and related expenses.

Premium Assistance Credit (§36B)

Overview. The Affordable Care Act included tax credits to subsidize health insurance costs for qualified taxpayers who purchase health insurance through the Marketplace, a Federal or State-run website where health insurance is sold. Taxpayers who qualify may receive the tax credits in advance and use them as a direct offset to insurance costs. The amount of the subsidy varies depending on the taxpayer's AGI in relation to the Federal Poverty Level (FPL). The chart below summarizes the percentage of income a taxpayer is expected to spend on health insurance.

Applicable Percentage Table for 2026 (Rev. Proc. 2025-25)		
As a % of the Poverty Level	Initial Premium %	Final Premium %
Up 133%	2.10%	2.10%
133% to 150%	3.14%	4.19%
150% to 200%	4.19%	6.60%
200% to 250%	6.60%	8.44%
250% to 300%	8.44%	9.96%
300% to 400%	9.96%	9.96%

Changes for years 2021 through 2025. ARPA 2021 changed the formulas used to calculate the premium assistance credits and the credit recapture to do two things:

1. Reduce or eliminate the premium assistance credit recapture; and
2. Allow more people to qualify for the premium assistance credit.

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Applicable Percentage Table for 2021 and 2025		
As a % of the Poverty Level	Initial Premium %	Final Premium %
Up 150%	0%	0%
150% to 200%	0%	2.00%
200% to 250%	2.00%	4.00%
250% to 300%	4.00%	6.00%
300% to 400%	6.00%	8.50%
400% or higher	8.50%	8.50%

2026 Federal Poverty Levels							
Family Size	100% FPL	138% FPL	150% FPL	200% FPL	250% FPL	300% FPL	400% FPL
1	$15,960	$22,025	$23,940	$ 31,920	$ 39,900	$ 47,880	$ 63,840
2	$21,640	$29,863	$32,460	$ 43,280	$ 54,100	$ 64,920	$ 86,560
3	$27,320	$37,702	$40,980	$ 54,640	$ 68,300	$ 81,960	$109,280
4	$33,000	$45,540	$49,500	$ 66,000	$ 82,500	$ 99,000	$132,000
5	$38,680	$53,378	$58,020	$ 77,360	$ 96,700	$116,040	$154,720
6	$44,360	$61,217	$66,540	$ 88,720	$110,900	$133,080	$177,440
7	$50,040	$69,055	$75,060	$100,080	$125,100	$150,120	$200,160
8	$55,720	$76,894	$83,580	$111,440	$139,300	$167,160	$222,880

Preparer note. For 2021 through 2025, the 400% of AGI premium assistance cliff no longer exists. Taxpayers who receive premium assistance credits and whose AGI is greater than 400% of AGI are required to pay 8.5% of their income towards their health insurance premiums. Anything over 8.5% of AGI that is needed to cover the cost of the health insurance is paid via premium assistance credits. There is no longer an overall income limit.

Important change for 2026 – no limit on PAC repayments – there are no longer any limits on PAC repayments, regardless of income. Anyone who received advanced premium assistance credits will have to repay them in full if their AGI was even $1 over the 400% of Federal poverty line amount.

Premium Assistance Credit (PAC) – Planning (Form 8962 Instructions)

Occasionally a taxpayer may purchase health insurance through the Marketplace that covers two (or more) adults who file separate tax returns. This situation is most common where a non-dependent child is still receiving health insurance coverage on the parent(s)' health plan. This situation allows a unique planning opportunity for the taxpayers.

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Allocation allowed in any fashion taxpayers agree to. Under the rules in this section, taxpayers who share the same Marketplace insurance policy may agree to allocate the premiums and any related PAC between themselves in any fashion. Any allocation of the policy amounts is allowable to the IRS. Taxpayers may use the same percentages for each month during the year, or they may agree on different percentages for different months. Essentially, almost anything goes if the allocations are consistent across all aspects of the policy (i.e., taxpayer share of costs, advance premium assistance credit, etc.).

Example. Jenna is 55 years old and earned $65,000 in 2026. Jenna's son, Jacob, is 23 years old and earned $21,000 in 2026. Jacob was not a full-time student at any time in 2026, and Jenna does not claim him on her tax return.

Jenna purchased her health insurance through the Marketplace and Jacob was included in the policy. When Jenna originally signed up through the Marketplace, she estimated her income at $35,000, which qualified her for a 2026 advance PAC of $12,324.

When Jenna prepared her 2026 tax return, she found her AGI was more than 400% of the Federal level for a family of 1, so she owes the entire $12,324 advance PAC back when she files her return. However, using the rules for allocation, Jenna and Jacob agree to report 100% of the advance PAC and related health coverage on Jacob's return instead of Jenna's. As a result, Jacob's PAC is $13,797, $1,473 more than the advanced PAC Jenna already received. This additional credit is refundable on Jacob's return and Jenna doesn't owe anything to the IRS. Win – win for sure!

Example variation. Assume the facts above except Jacob is no longer on Jenna's insurance policy. If Jenna were to make a $2,000 IRA contribution, her AGI would be below the 400% of Federal poverty level threshold. Jenna's Marketplace health insurance total cost for 2026 was $15,000. She would qualify for a PAC of $8,725, leaving her to pay $6,275 for 2026 ($63,000 AGI x 9.96%). Far better than $15,000 if she doesn't do the IRA!

Household income defined (§1.36B-1(d) and (e)). Household income is the sum of the taxpayer's modified AGI plus the aggregate modified AGI of all other individuals who are included in the "taxpayer's family" and are required to file a return. The "taxpayer's family" means **individuals the taxpayer properly claims as personal exemption deduction** under §151. The IRS Form 8962 instructions reflect these regulations where they explicitly state:

"Household income. For purposes of the PTC, household income is the modified adjusted gross income (modified AGI) of you and your spouse (if filing a joint return) plus the modified AGI of each individual ***whom you claim as a dependent*** (emphasis added) and who is required to file an income tax return."

While there are no dependent deductions currently available, the definition of a dependent is still used where applicable in the tax law. This certainly includes the PAC calculations and the related household income.

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Citizenship Info Added to Paid Preparer Due Diligence Checklist

Form 8867 updated. Paid tax return preparers are required to exercise due diligence when preparing any client's return or claim for refund. Preparers demonstrate this due diligence by completing Form 8867, the Paid Preparer's Due Diligence Checklist. Specific due diligence requirements are established for returns where claims for refunds involve EIC, CTC/ACTC/ODC, AOTC, and/or HOH filing status. For 2026, some new lines were added to the checklist, lines 10a, 10b and 13a. These new lines require the preparer to attest that they have determined that the taxpayer's social security number is eligible to claim the CTC/ACTC and the AOTC. We are now also required to attest that each person qualifying the taxpayer for the CTC/ACTC and AOTC is a U.S. citizen, national, or U.S. resident.

Part III **Due Diligence Questions for Returns Claiming CTC/ACTC/ODC** (If the return does not claim CTC, ACTC, or ODC, go to Part IV.)

		Yes	No	N/A
10a	Have you determined that the taxpayer's social security number is eligible to claim the CTC/ACTC?	☐	☐	
10b	Have you determined that each qualifying person for the CTC/ACTC/ODC is the taxpayer's dependent who is a citizen, national, or resident of the United States?	☐	☐	
11	Did you explain to the taxpayer that he/she may not claim the CTC/ACTC if the child has not lived with the taxpayer for over half of the year, even if the taxpayer has supported the child, unless the child's custodial parent has released a claim to exemption for the child?	☐	☐	☐
12	Did you explain to the taxpayer the rules about claiming the CTC/ACTC/ODC for a child of divorced or separated parents (or parents who live apart), including any requirement to attach a Form 8332 or similar statement to the return?	☐	☐	☐

Part IV **Due Diligence Questions for Returns Claiming AOTC** (If the return does not claim AOTC, go to Part V.)

		Yes	No
13a	Have you determined that the taxpayer's social security number is eligible to claim the AOTC?	☐	☐
13b	Did the taxpayer provide substantiation for the credit, such as a Form 1098-T and/or receipts for the qualified tuition and related expenses for the claimed AOTC?	☐	☐

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Other Taxes – Schedule 2

Alternative Minimum Tax (§55; Form 6251)

Overview. AMT was added to the tax law in 1969 *"to ensure that no taxpayer with substantial economic income can avoid significant tax liability by using exclusions, deductions, and credits."* The AMT system is a parallel tax calculation that begins with regular taxable income and, by disallowing various deductions and requiring slower or different calculations of expenses, results in a different amount of taxable income (AMTI) and then applies minimum tax rates to that AMTI. In the early days of AMT only high-income taxpayers were subject to AMT because many deductions used by high income taxpayers were added back for AMT purposes. As time went by, the lack of inflation adjustments to AMT amounts resulted in taxpayers with increasingly lower income levels being subject to AMT. The percentage of taxpayers subject to AMT climbed from one-tenth of taxpayers in 1986 to about 6.8% in 2017.

AMT calculation (Form 6251). Taxpayers file Form 6251to determine if they pay the AMT and, if so, to calculate the amount. Taxpayers begin by making adjustments (which may add or subtract from income) and then adding preference items. Next, the taxpayer subtracts the AMT exemption amount (if any) to arrive at AMTI. AMTI is multiplied times the AMT tax rates (either 26% or 28%, depending on amount of income) to determine the AMT. The taxpayer then compares the AMT to the regular tax and pays the higher of the two amounts. The calculation formula is summarized in the chart below.

AMT Calculation	
Step	**Description**
One	Begin with regular taxable income
Two	Add back preferences and make adjustments
Three	Subtract the AMT exemption amount
Four	Multiply result times the AMT tax rates
Five	Subtract any AMT credits
Six	Compare amount to regular tax – AMT tax is any excess

Most common adjustments and preferences. The most common AMT adjustments and preferences are:

Adjustments:

- State and local taxes (much less impact after SALT deduction restrictions)
- Incentive stock options
- Standard deduction
- Depreciation (AMT has its lives and methods)
- NOLs (AMT has its own)

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Preferences:

- Private activity bond interest
- Excess intangible drilling costs
- Depletion

Exclusions and deferrals. One other note – AMT adjustments and preferences can be either an exclusion item or a deferral item. The primary difference is that exclusion items are permanent and there is no future impact. Examples include standard deduction, non-AMT itemized deductions, etc. Deferral items are timing differences. For deferral items, the taxpayer is receiving an accelerated benefit under the regular tax law, but the deductions eventually equal out under both systems. A common example is incentive stock options. Any AMT created because of a deferral item creates an AMT credit that may offset regular tax in future years.

TCJA greatly reduced AMT by increasing the exemption amount and the exemption amount phaseouts. The TCJA greatly reduced the number of taxpayers subject to AMT by making three changes to the AMT law:

1. Increased the AMT exemption amount;
2. Increased the threshold after which the exemption amount is phased out. Once the threshold is reached, the AMT exemption is reduced by 25% of the amount of AMTI more than the threshold; and
3. Provided inflation adjustments to the exemption amount and the phaseout threshold for years after 2018.

TCJA changs were made permanent (§55; OBBBA §70107). OBBBA made all the TCJA changes permanent, which keeps all but very high-income taxpayers from paying AMT into the future. While OBBBA made all these changes permanent, the MFJ threshold amount was reset to $1 million, the original amount in the TCJA law. The $1 million will be inflation adjusted starting in 2027. OBBBA also changed the formula for the exemption amount phase out once the threshold is exceeded. The new formula reduces the exemption amount by 50% of the amount of AMTI more than the threshold. The result is a much faster exemption phaseout.

Exemption Amounts and Phaseout Thresholds			
Description	**Prior to 2018**	**TCJA: 2018 – 2025**	**OBBBA: 2026 & Beyond***
Exemption amount	S - $54,300 MFJ - $84,500	S – $88,100 MFJ - $137,000	S – $90,100 MFJ - $140,200
Phaseout threshold	S - $120,700 MFJ - $160,900	S - $626,350 MFJ - $1,252,700	S - $500,000 MFJ - $1,000,000
* Amount is annually adjusted for inflation.			

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Preparer note. The changes made by TCJA and OBBBA should keep all but the highest income taxpayers from paying AMT. But those who paid AMT in 2025 and have relatively the same income in 2026 can expect a significant increase in AMT due to the OBBBA changes. The example below illustrates how this change will impact taxpayers.

Example. Gary and Shirley's AMTI is $1,400,000 in 2025 and is expected to be about the same in 2026. Their AMT is calculated:

	2025	2026
a. AMTI	$1,400,000	$1,400,000
b. Threshold	$1,252,700	$1,000,000
c. Excess over threshold	$ 147,300	$ 400,000
d. Reduction (c. x 25% 2025; c. x 50% 2026)	$ 36,825	$ 200,000
e. Net exemption ($137,000 MFJ less d.)	$ 100,175	$ 0
f. Net AMTI	$1,299,825	$1,400,000
g. AMT	$ 359,169	$ 387,218

Difference in 2026 due to OBBBA changes = $28,049!

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Net Investment Income Tax (NII Tax)

The 3.8% net investment income surtax is a 3.8% surtax on a filer's income from sources like interest, dividends and capital gains that applies if adjusted gross income, or AGI, is above $200,000 for most single filers or $250,000 for most married couples. It affects one-time spikes as well as recurring income, so taxpayers who typically earn less can owe it on a windfall.

When lawmakers enacted it to help fund the Obamacare health-coverage expansion, they chose not to adjust the $200,000/$250,000 thresholds for inflation to collect more tax.

As a result, NIIT revenue has more than tripled since the tax took effect in 2013, rising from $16 billion to more than $60 billion in 2024, according to the Internal Revenue Service's latest data. Over that period the number of taxpayers owing it more than doubled, from about 3 million to about 7 million. Had the $200,000/$250,000 thresholds been inflation indexed, the thresholds would be closer to $264,000 and $330,000.

Surtax Guide SELECTED Business Items			
Type of Income	**Subject to .9% Medicare Tax**	**Subject to 3.8% NII Tax**	**Exempt from both surtaxes**
Capital Gains: 1231 gains from active business			X
C Corp Dividends-Closely Held, even if actively involved		X	
C Corp Stock Sale-Closely Held, even if actively involved		X	
Dividends-Qualified or Not		X	
Expense reimbursements-Accountable Plan			X
Fringe Benefits-Qualified			X
Guaranteed Payments	X		
Installment sales-current or deferred portion *if active and either RE professional, S Corp or 1065 when sold*			X
Interest Income		X	
Interest income from company accounts receivable			X
Partnership K-1 Income-Actively Involved	X		
Partnership K-1 Income-Passive		X	
Real estate professional income			X
Rental Income-Normal		X	
S Corporation K-1 income-actively involved			X
S Corporation K-1 income-passive		X	
Sale of active S corp stock or partnership/LLC interest			X
Self-Rental Income			X
Self-Charged Interest Income			X
Self-Employment Income	X		

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Investors, Landlords, and K-1s – Sch. D and Sch. E

Sales and Capital Gains

Schedule D is used to summarize the net transactions of capital asset sale details reported on other forms. It is used to report:

- Flow through items from other forms:

    a. Form 4797 – Sales of Business Property
    b. Form 6252 – Installment Sale Income
    c. Form 8949 – Sales and Other Dispositions of Capital Assets
    d. Form 1099-DA – Digital Asset Proceeds from Broker Transactions

Asset sales that are not reported on Schedule D via Form 8949 include:

1. Business equipment sales, (reported on Form 4797)
2. Rental property sales, (reported on Form 4797)
3. Assets sold inside of retirement plans, (not reported)
4. Inventory sales (reported on business schedule)
5. Gifts to individuals (reported on Form 709)

Capital assets defined (§1221). The Code defines capital assets as generally everything owned by the taxpayer for personal, pleasure, business, or investment purposes including:

- Stocks, bonds, mutual funds (Investment).
- Personal and secondary residences and furnishings.
- Vehicles and personal property.
- Coins, stamps, jewelry, gems, gold, silver, paintings, sculptures (collectibles).
- Gains and losses on investment assets are taxable or deductible.
- Gains on personal and pleasure assets are taxable, but losses are not deductible.

The Code **(§1221)** further defines capital assets by listing what are NOT capital assets (i.e., ordinary income on sale):

- Inventory for resale, including homes bought to flip, mobile homes and cars on “buy here, pay here” car lots).
- Personally created copyrights, musical or artistic compositions.
- Depreciable business property.
- Business accounts and notes receivable.

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Schedule D Review

Short term capital gains are taxed as ordinary income tax rates. The current long-term capital gain rates are 0%, 15% and 20%. These rates are tied to capital gain tax brackets, not to the ordinary income brackets. Below are the brackets for long-term capital gains and qualified dividends. Those with AGI more than $250,000 ($200,000 for unmarried taxpayers), pay an additional tax of 3.8% net investment income tax (NII tax) on nonbusiness capital gains.

2026 Capital Gain Tax Brackets (Rev. Proc 2025-32)			
Filing Status	**0%**	**15%***	**20%***
Single	**$0 - $49,450**	**$49,451 - $545,500**	**$545,501 or more**
HOH	**$0 - $66,200**	**$66,201 - $579,600**	**$579,601 or more**
MFJ	**$0 - $98,900**	**$98,901 - $613,700**	**$613,701 or more**
MFS	**$0 - $49,450**	**$49.451- $306,850**	**$306,851 or more**
Estates/trusts	**$0 - $3,300**	**$3,301 - $16,250**	**$16,251 or more**
*** Gains for those with AGI in excess of $250,000 (MFJ), $200,000 (single, HOH), are generally subject to the additional 3.8% NII tax**			

Planning point. Retirees with invested assets should consider realizing capital gains to take advantage of the 0% tax rate if there is no Social Security or Medicare impact. For clients who support or help support aged parents, transferring stock to the parent for the parent's sale can capture the 0% rate. But watch to make sure it doesn't make Social Security taxable.

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Where to Report Various Types of Sales		
Type of Sale	**Form 8949**	**Form 4797**
Stocks & Bonds	X	
§1244 qualifying stock losses		X
Personal assets	X	
Personal involuntary conversions (not casualty)	X	
Nonbusiness bad debts	X	
Personal residence sales	X	
Business bad debts		X
Business property		X
Digital asset sales	X	
Oil, gas & mineral property		X
Business involuntary conversions (not casualty)		X
Flow through 1231 items from K-1		X
Section 179 recapture		X
Depreciable property		X
Capital gain distributions	On Sch. D directly	
Stock sales where both cost and sales price are reported to IRS and there are no basis adjustments	On Sch. D directly	

Basis & Holding Periods		
Type of Acquisition:	**Basis**	**Holding Period**
Gift	Lesser of donor's basis plus gift tax ***or*** FMV (if sold at gain use donor's basis, if sold at loss use lesser of donor's basis or FMV)	Donor's holding period unless valued at FMV then use gift date
Inheritance	FMV date of death or alternate valuation date	Always long term-of sold show acquisition date as "inherited"
Inherited by spouse in joint tenant state	½ of cost basis plus ½ of FMV at date of death (but use full estate tax value for property purchased by decedent before 1977)	Same as above on inherited value
Divorce	Transferor's basis	Transferor's holding period

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§83(b) Election and Related Update (§83)

Overview. Generally, if property is received for services, the taxpayer is required to include the property's FMV in income in the year the property is received. However, if the taxpayer receives stock or other property that is subject to a substantial risk of forfeiture (e.g., vesting claw back, etc.), the FMV of the property is excluded from income until the forfeiture risks are removed. When the property becomes substantially vested, the taxpayer includes its FMV, minus any amount paid for property, in income for that year. The holding period for the property begins when the property becomes substantially vested. Any income from the property, or the right to use the property, is included in the taxpayer's income as additional compensation in the year the income or right to use the property is received.

Example 1. Cassie's employer, Titan Tech, grants Cassie 1,000 stock options on her one year anniversary date in June 2026. The options allow Cassie to buy Titan stock for $50 per share. The option agreement also requires Cassie to continue working for Titan until her five-year anniversary date or her stock options become void and any stock she's acquired must be sold back to Titan. In October 2026, Cassie exercises the stock options when the Titan stock is trading at $110 per share, realizing income of $60,000 (stock price $110 less $50 option price = $60 multiplied times 1,000 shares). Because there is a substantial risk of forfeiture, Cassie is not required to recognize income when the options are exercised. The income recognition is delayed until June 2031, when the vesting period lapses and the FMV of the Titan stock is $200 per share. Titan includes $150,000 in Cassie's 2031 W-2 (FMV of stock $200 less $50 option price = $150 x 1,000 options = $150,000). The entire $150,000 is recognized and taxed as ordinary income.

Election to include in income for year of transfer (§83(b)). Taxpayers may choose to include the value of restricted property in income in the year the property is transferred instead of waiting for the end of any vesting period. If the election is made, future appreciation is taxed at capital gain rates instead of ordinary rates. Basis is equal to the amount paid plus any amount included in income as compensation.

Example 2. Assume the same facts as the example above except Cassie files an §83(b) election to recognize the option income in 2026, the year the options are exercised. Titan includes option income of $60,000 (stock FMV $110 less $50 option price = $60 times 1,000 shares) in Cassie's 2026 W-2, taxed as ordinary income. When Cassie sells the stock in 2031 or later, any amount received above her $110,000 basis ($50,000 option price plus $60,000 W-2 income) will be taxed at long-term capital gain tax rates instead of ordinary rates.

Beware – no going back. The §83(b) election cannot be revoked without IRS consent. If property is forfeited after being included in income, any loss is the amount paid plus income recognized. The loss is a capital loss, even though the recognized income was ordinary income.

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Example 3. Assume the same facts as the examples above except that, after filing the §83(b) election and recognizing $60,000 of income in 2026, Cassie leaves her job in 2029. Because she did not stay until the end of the vesting period, Cassie is required to forfeit her stock back to Titan. Cassie realizes a loss of $110,000, which is a capital loss with all related loss limitations (e.g., $3,000 max against ordinary income). There is no way for Cassie to accelerate her stock loss unless she has unrealized capital gains.

Example 4. Assume the same facts as the example above except that, after filing the §83(b) election and recognizing $60,000 of income in 2026, Titan's stock price drops to $10 per share when Cassie's vesting period ends in 2031. Cassie has an unrealized loss of $100,000 ($110,000 basis less $10,000). If Cassie sells the stock, her loss will be a capital loss with all related loss limitations (e.g., $3,000 max against ordinary income). There is no way for Cassie to accelerate her stock loss unless she has unrealized capital gains.

Preparer note. The §83(b) election is not available for non-statutory stock options.

§83 Controls, Not §83(b) Election (Connie Feige v. Comm., TC Memo 2025-88).

Background. Connie Feige worked for Linc Energy where she earned stock options at various times during 2010-2014. In July 2013, Feige accepted an allocation of 400,000 option rights, scheduled to vest in four tranches of 100,000 shares each starting December 21st, 2013, and continuing through 2016. For each tranche that vested, Feige had Linc Energy sell 33% of the shares to cover her taxes and she kept the other 67%. Under the option plan, any unvested option rights lapsed when employment ended, subject to a determination of the Board.

Financial troubles are precursor to tax troubles. Linc Energy became financially distressed by the fall of 2014 so on November 24, 2014, Feige signed a separation agreement that ended her employment as of November 5, 2014. The agreement forfeited all unvested performance rights on termination. It did not impose any ongoing obligations, no noncompete, and no duty to return any payments. On Dec. 3, 2014, Linc transferred 100,000 that made up the 2014 tranche of option rights into Feige's her Schwab account. She learned of the transfer in January 2015 from her year-end brokerage statement. Linc issued Conie a Form W-2 reporting $75,660 of compensation for the shares. She never sold them, and Linc Energy never tried to recover them.

Feige did not include the $75,660 of stock related wages on her 2014 tax return. While she conceded she was not expected to perform any further services to receive the shares, Feige argued:

1. **Shares were not transferable.** The Court ruled that the employer had deliberately transferred the option rights under the Plan and that Feige had full ownership and control, with nothing preventing her from selling, and no buyer would have faced a forfeiture risk.

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2. **Alleged mistaken transfer.** She argued the transfer violated the Plan and the separation agreement because her unvested rights had been forfeited. The court disagreed, finding that the separation agreement did not supersede the Plan, since the Plan expressly let the board allow post-termination vesting. The early transfer was circumstantial evidence that the board had used that discretion. More importantly, Linc Energy never sought to recover the shares.

3. **§86(b) election not made**. Feige argued §83 did not apply because she never made the §83(b) election. The Court rejected her argument, noting there is nothing in §83 that makes the section's application depend on an election. §83(b) is only a timing election that accelerates inclusion to the year of transfer. It does not decide whether §83 applies or whether property received for services is excludable. The options rights were fully vested upon receipt as there was no obligation on Feige's part to keep the shares – there was no substantial risk of forfeiture. Therefore, the election was not relevant.

Court rules pay up. The Court held that the shares were both transferable and not subject to a substantial risk of forfeiture. Their value as reported on the Form W-2, $75,660, was includible in Feige's 2014 gross income and she owed tax accordingly.

New Reporting Required for §83(b) Election

Rules change for making §83(b) election (Form 15620). The IRS recently introduced Form 15620, which is used by taxpayers who want to make the §83(b) election. The form is submitted to the IRS via mail with the IRS office where the person making the election files her/his Federal income tax return. The taxpayer making the election is also required to submit a copy of Form 15620 to their employer. The election must be filed no later than 30 days after the date the property was transferred.

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Form **15620** (April 2025)	Department of the Treasury - Internal Revenue Service **Section 83(b) Election**	OMB Number 1545-0074

The undersigned taxpayer hereby elects, pursuant to § 83(b) of the Internal Revenue Code of 1986, as amended, to include in gross income as compensation for services the excess (if any) of the fair market value of the property described below over the amount paid for the property.

1. The taxpayer's name, taxpayer identification number (TIN), and address:

Taxpayer's name	Taxpayer's TIN

Address *(number and street)*

City	State or province	ZIP or postal code	Country

2. The property subject to this election is *(describe property and quantity below)*

3. The date the property is transferred

4. Taxable year for which the election is being made *(taxable year that includes the date the property is transferred as reported in Box 3)*

5. The property is subject to the following restrictions *(describe applicable restrictions below)*

6. The total fair market value of the property at the time of transfer is

a. Value per item		b. Quantity		c. Total fair market value
	x		=	

7. The total amount paid for the property is

a. Price paid per item		b. Quantity		c. Total price paid
	x		=	

8. The total amount to include in gross income for the taxable year is *(the result of the amount reported in Box 6(c) minus the amount reported in Box 7(c))*

9. Name, TIN, and address of the person for whom the taxpayer is providing services in connection with the transfer of property *(optional)*

Name	TIN

Address *(number and street)*

City	State or province	ZIP or postal code	Country

The undersigned taxpayer is the person performing the services in connection with which the property is transferred. The undersigned taxpayer agrees to provide a copy of the election to (i) the person for whom the services are performed and (ii) the transferee of the property, if the taxpayer and the transferee of the property are not the same person.

Under penalties of perjury, the undersigned taxpayer declares that, to the best of undersigned taxpayer's knowledge and belief, the information entered on this Form 15620 is true, correct, and complete.

Taxpayer signature	Date signed

Catalog Number 95376D www.irs.gov Form **15620** (Rev. 4-2025)

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Qualified Farmland Sales (§1062)

Provides payment flexibility for farmland sales (§1062). For tax years beginning after July 4, 2025, taxpayers who realized a gain from the sale or exchange of qualified farmland property to a qualified farmer may elect to pay the tax associated with that gain in four equal annual installments. Sellers must allocate the tax associated with the eligible gain and tax on any other income as the installment payment election only applies to the tax attributable to the farmland sale gains. No interest is required to be paid.

Proposed Regulations issued (NPRM REG-117095-26; §1.1062-0 et. seq.). The IRS released proposed regulations to the installment tax payment rules related to farm real estate sales. The following information reflects these proposed regulations.

Preparer note. Caution should be used in relying on the proposed regs. The regs themselves state that they only apply to qualified sales or exchanges occurring in taxable years ending after the date of the final regulations are published in the Federal Register.

Farmer to farmer sale required. To qualify to defer tax payments, the farmland seller and buyer must each be farmers with the intent to keep the transferred farmland use for farming.

Qualified farmland property defined (§1062(d)(2); §1.1062-1(o)). "Qualified farmland property" is defined as real property located in the United States that, for substantially all the prior 10-year period, has been used by the taxpayer as a farm for farming purposes, or leased by the taxpayer to a qualified farmer for farming purposes. Additionally, during substantially all of the 10-year period ending on the date of the qualified sale or exchange, the property was subject to a covenant or other legally enforceable restriction which prohibits the use of the property other than as a farm for any period before 10 years after the date of the sale or exchange. Other items of note:

- **§1062 Covenant.** With respect to real property, the term §1062 covenant means a covenant or other legally enforceable restriction that:
    - Prohibits the use of the real property other than as a farm for farming purposes for 10 years after the date of the sale or exchange of the real property;
    - Is executed prior to or contemporaneously with the closing of the sale or exchange;
    - Is recorded in the land records office of the jurisdiction in which the real property is located prior to or contemporaneously with the filing of the deed of transfer of the real property;
    - Is enforceable against the buyer and all future owners of the real property; and
    - Does not cease to be enforceable earlier than 10 years after the date of the sale or exchange.

  The term §1062 covenant includes an easement or other interest in real property that, under applicable law, has attributes like a covenant (for example, an equitable servitude).

- **Partial use.** If only a portion of the real property is used or leased for farming purposes, only that portion of the real property is qualified farmland property.

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- **Certain periods of non-use disregarded.** If all necessary functions, such as land management activities (for example, protecting the soil from erosion), continue to be performed to maintain real property for farming purposes, real property will not fail to be considered as real property during periods in which:

  1. The real property is taken out of production pursuant to a Federal, State, Tribal, or local government program;
  2. The real property is taken out of production pursuant to recognized good farming practices (for example, laying fallow or conditioning the soil); or
  3. The real property is taken out of production due to unforeseen events caused by factors outside the taxpayer's control, such as natural disasters.

- **Use of qualified farmland property by a pass-through entity (§1.1062-2(a)-(2)(ii)).** Real property used or leased by a pass-through entity as qualified farmland property is considered used or leased by each person who holds a direct or indirect beneficial or equity interest in that pass-through entity. For qualified sales by a pass-through entity, a partner, shareholder, beneficiary, or other owner may make the election for that owner's or beneficiary's applicable net tax liability arising from the qualified sale or exchange.

Qualified farmer. The term "qualified farmer" means any individual who is actively engaged in farming (within the meaning of subsections (b) and (c) of §1001 of the Food Security Act of 1986).

Timing and manner of making election (§1.1062-2(b); Form 1062; Schedule A – Form 1062). The election under §1062 must be made by the due date (including extensions) for filing the taxpayer's return for the relevant taxable year. Eligible taxpayers make the election by completing and attaching Form 1062, Schedule A (Form 1062) and a §1062 covenant to their return for the year of sale. Form 1062 and Schedule A are filed to:

- Provide information on each qualified farmland property;
- Report on each qualified sale or exchange for which the taxpayer wants to make the §1062 election;
- Calculate and report the taxpayer's total §1062 applicable net tax liability and the amount of the first installment due; and
- Elect to pay net income tax attributable to gain from a qualified sale or exchange in four equal annual installments.

Partnerships and S corporations. If a partnership or an S corporation has a qualified sale or exchange, the §1062 election is made at the partner or shareholder level. Partnerships and S corporations do not file Form 1062. However, the partnership or S corporation must file Schedule A (Form 1062) with its return to establish that a qualified farmland sale occurred. The partnership or S corporation must also provide partners or shareholders information regarding the qualified sale or exchange, including each partner's or shareholder's share of the gain, a copy of the partnership's or S corporation's Schedule A (Form 1062), and a copy of the §1062 covenant. If a partner or shareholder decides to make a §1062 election, the partner or shareholder will file a Form 1062 and complete and file a Schedule A (Form 1062). The pass-through entity must also identify and report on the Schedule K-1 the owner's or beneficiary's allocable share of the gain attributable to the qualified sale or exchange and such other information as may be required by the prescribed forms and the accompanying instructions.

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Revocation of election. Once made, a §1062 election may be revoked only by paying the full amount of the remaining unpaid applicable net tax liability.

Due date of installment payments. If the §1062 election is made, the first installment payment is due on the due date (without regard to extensions) for filing the return for the year the sale occurred. Each succeeding installment payment is due on the due date (without regard to extensions) for succeeding the tax year.

Amount of deferred tax and related payments. With respect to a taxpayer, the amount of "applicable net tax liability" equals the excess of:

1. The taxpayer's net income tax for the relevant taxable year; over
2. The taxpayer's net income tax for the relevant taxable year determined without regard to the taxpayer's gain that is recognized from the qualified sale or exchange.

Example. Marty, a calendar-year individual, has farmed a 300-acre parcel in Iowa since 2012. In August 2026 he sells the land for $1,500,000 to Tom, an individual who runs a working crop operation. Marty's adjusted basis is $300,000, so his gain is $1,200,000. As part of the deal, the deed carries a recorded restriction that requires the land continue to be used for farming. Marty is allowed to defer the tax applicable to the property sale, what the IRS calls the "applicable net tax liability." Marty calculates his 2026 tax liability twice:

1st – Tax with the $1,200,000 farmland sale gain = $340,000.
2nd – Tax without the farmland gain = $40,000

The difference, $300,000, is the applicable net tax liability. Marty must pay the other $40,000 tax liability no later than with his 2026 tax return. Assuming Marty makes the §1062 election, the remaining $300,000 is paid:

April 15, 2027	$ 75,000
April 15, 2028	$ 75,000
April 15, 2029	$ 75,000
April 15, 2030	$ 75,000

If Marty fails to make an installment payment when due, the remaining unpaid balance immediately becomes due and payable.

Estimated tax payments (Notice 2026-3). As we know, the estimated tax rules require taxpayers to pay Federal income taxes as they earn income. To the extent these taxes are not withheld from wages or other income, taxpayers normally are required to make estimated tax payments or be subject to underpayment penalties. However, the IRS has waived underpayment penalties that are attributable to the qualified sale or exchange covered by a §1062 election if the taxpayer qualifies to make the election and properly does so. This waiver applies to the applicable net tax liability deferred by the §1062 election. Essentially, the payment due under §1062 election is excluded from the estimated tax calculation and any related penalties.

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Landlords and Schedule E

SCHEDULE E (Form 1040)
Department of the Treasury
Internal Revenue Service

Supplemental Income and Loss
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)
Attach to Form 1040, 1040-SR, 1040-NR, or 1041.
Go to *www.irs.gov/ScheduleE* for instructions and the latest information.

OMB No. 1545-0074
2026
Attachment Sequence No. 13

Name(s) shown on return | Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 3, line 40.

A Did you make any payments in 2026 that would require you to file Form(s) 1099? See instructions . . . . . ☐ Yes ☐ No
B If "Yes," did you or will you file required Form(s) 1099? . . . . . ☐ Yes ☐ No

1a Physical address of each property

	Number and street	Apt. no.	City or town	State	ZIP code
A					
B					
C					

1b Type of property (from list below)		2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.		Fair rental days	Personal use days	QJV
A			A			☐
B			B			☐
C			C			☐

Type of Property:
1 Single family residence 3 Vacation/Short-term rental 5 Land 7 Self-rental
2 Multi-family residence 4 Commercial 6 Royalties 8 Other (describe)

			Properties: A	Properties: B	Properties: C
Income:					
3	Rents received	3			
4	Royalties received	4			
Expenses:					
5	Advertising	5			
6	Auto and travel (see instructions)	6			
7	Cleaning and maintenance	7			
8	Commissions	8			
9	Insurance	9			
10	Legal and other professional fees	10			
11	Management fees	11			
12	Mortgage interest paid to banks, etc. (see instructions)	12			
13	Interest (see instructions)	13			
13a	Vehicle loan	13a			
13b	Other	13b			
14	Repairs	14			
15	Supplies	15			
16	Taxes	16			
17	Utilities	17			
18	Depreciation expense or depletion	18			
19	Other (list)	19			
20	Total expenses. Add lines 5 through 19	20			
21	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If the result is a (loss), see instructions to find out if you must file Form 6198	21			
22	Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22	( )	( )	( )

23a	Total of all amounts reported on line 3 for all rental properties	23a	
23b	Total of all amounts reported on line 4 for all royalty properties	23b	
23c	Total of all amounts reported on line 12 for all properties	23c	
23d	Total of all amounts reported on line 18 for all properties	23d	
23e	Total of all amounts reported on line 20 for all properties	23e	

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Purpose of Schedule E. Schedule E is used to report income or loss from rental real estate, royalties, partnerships, S corporations, estates, trusts, and residual interests in REMICs. Regarding rental activities, only real estate rentals are reported on Schedule E. Personal property rentals are reported on Schedule C. Losses associated with real estate rental activities are deductible up to a maximum of $25,000 if the taxpayer's AGI is no more than $100,000. For taxpayers whose AGI is greater than $150,000, rental losses are passive and generally not currently deductible (see real estate professional exception later). And for those with AGI between $100,000 and $150,000, the $25,000 loss limitation is prorated. These AGI thresholds have not been adjusted since 1986.

Rental activity defined (§1.469-1T(e)(3)). Rental activities result when the gross income from the activity is received primarily for the use of real property by customers pursuant to a lease or other arrangement. However, there are several specific exceptions to this general rule, including:

1. Average period of customer use is 7 days or less (e.g., vacation rentals or Airbnb).

2. Average period for customer use is 30 days or less and significant personal services are provided (e.g., hotels).

3. Extraordinary personal services are provided regardless of length of stay (e.g., hospitals).

4. Property rental is incidental to nonrental activity (taxpayer is holding property for appreciation and the rents are less than 2% of the lesser of:

    - The unadjusted basis of the property, or
    - The FMV of the property.

5. Property is regularly available for nonexclusive use by various customers.

6. Self-rentals.

7. Other situations based on facts and circumstances.

Author's note. It is my observation that the big reason we keep seeing all the court cases about real estate rentals is the flood of information about the "short term rental (STR) tax loophole" so-called "internet tax experts" are pushing to whomever will listen. There are multiple videos extolling the virtues of the "short-term rental" (STR) loss loophole. While at least some of these videos cover most of the information correctly, the random internet tax strategy surfer often interprets this detailed area of tax law incorrectly. In our office we've had to continually explain to clients why they can't buy a rental, use a cost segregation study to write it all off, and use the loss to offset their wages! Good luck!

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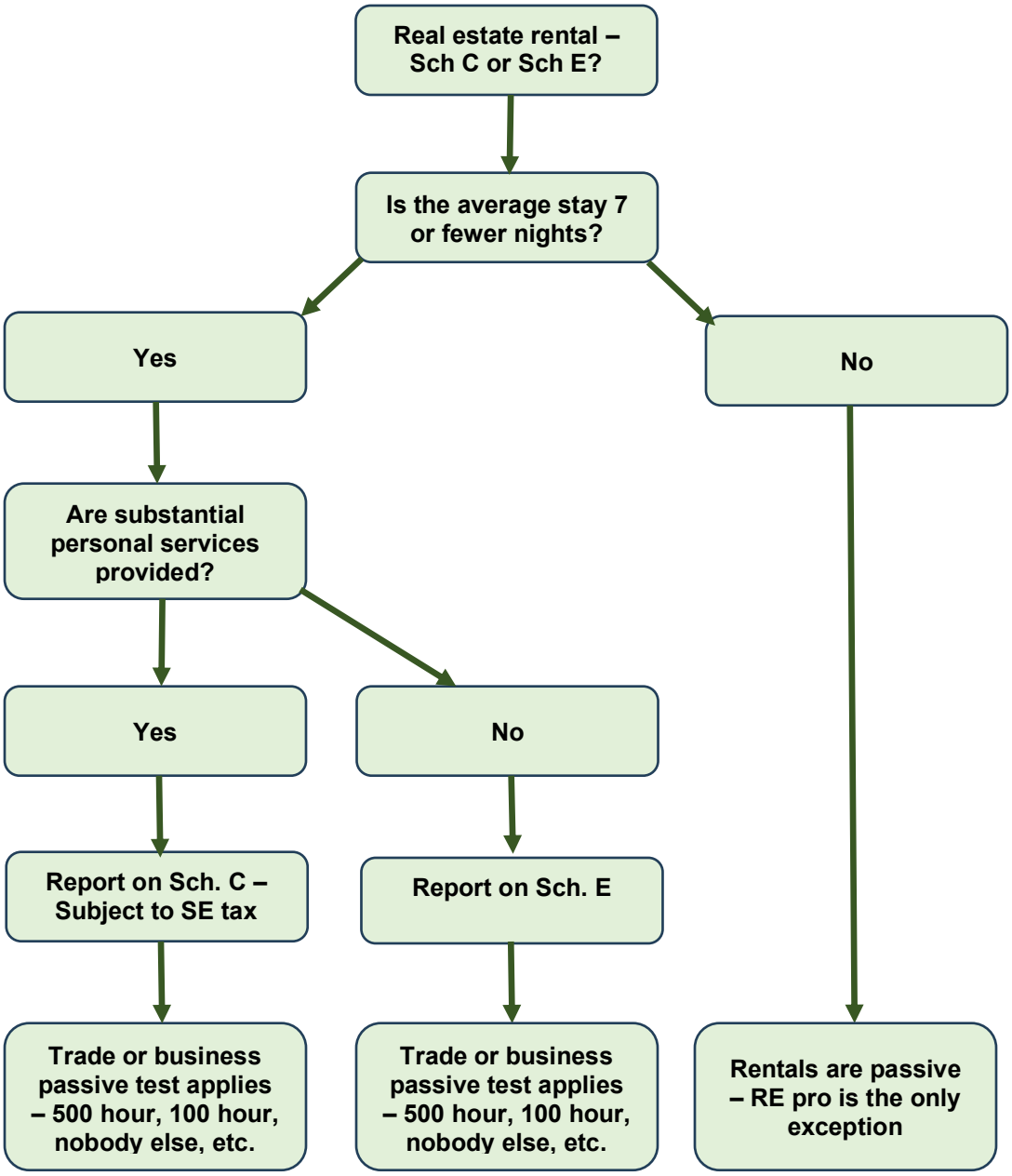
Real estate rental – Sch C or Sch E? Practitioners and taxpayers alike continue to be confused about where to report short-term rental activities and whether the rental activities are passive. The decision is dictated by a combination of the number of days rented and the level of services provided. Hopefully, this chart helps to clarify the reporting. Note that the chart assumes there were fewer than 14 days of personal use for the rental activity.



OTHER NOTABLES – short-term rentals on Schedule E stand alone:

- **No grouping for material participation hours with other rentals.**
- **Not available to satisfy RE professional hour requirements.**
- **Passive income cannot be offset by long-term rental passive losses.**

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Real Estate Professionals (§469(c)(7))

Overview. Real estate professionals and related rental activities continue to be an area of contention between the IRS and taxpayers. Taxpayers who meet real estate professional rules may deduct the full amount of any losses they realize from rental real estate activities. Such losses are deductible regardless of the taxpayer's AGI and regardless of how much the rental losses are.

Example. Roland is a qualified real estate professional who realizes real estate rental losses of $150,000 in 2026 when his AGI is $350,000. Because Roland is a qualified real estate professional, he may deduct the entire $150,000 of real estate rental losses on his 2026 Form 1040 if he materially participates in the rental activities. The automatic classification of rental losses as passive does not apply to Roland.

Qualifying to be a real estate professional. Taxpayers must meet two rules to qualify as a real estate professional:

- More than half of the personal services performed by the taxpayer in all trades or businesses during the tax year must be performed in real property trades or businesses.
- More than 750 hours of services during the tax year must be provided in real property trades or businesses.

For both tests, the taxpayer may combine hours spent in multiple real estate trade or business activities rather than test each activity separately. The taxpayer may not include any time spent by a spouse to meet these tests. For these tests, a real estate trade or business includes:

a. Real estate brokers and agents
b. Landlord activities
c. Property management
d. Construction contracting
e. Real estate developers

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Example. Roland is trying to determine if he qualifies as a real estate professional in 2025. The total hours he worked in 2026 were:

Managing rentals	365 hours
Part time construction contractor	520 hours
Part-time work as an employee as a carpenter	690 hours
Total hours worked	1,575 hours

Roland worked 885 hours in real estate related activities (365 hours managing rentals plus 520 hours contracting) so he meets the first test. In addition, because his total real estate related activity hours are greater than 750 hours, Roland meets the second test, and he is a real estate professional.

IRS targets time tests as vulnerable when auditing real estate professionals. The IRS has audited dozens of taxpayers over the past decade regarding the real estate professional rules. The IRS regularly targets the two-time tests in audit. Specifically, the IRS attacks whether the taxpayer met either the 750 hour or the 50%-time test and whether the documentation the taxpayer prepared is adequate.

Preparer note. The IRS has regularly argued that the taxpayers must prepare a contemporaneous log to justify the claimed real estate professional hours. Neither the law nor the regulations require contemporaneous recordkeeping, and the courts have often sided with the taxpayer on this issue. However, if contemporaneous recordkeeping is not prepared, the courts have consistently held that it is the taxpayer's responsibility to produce credible documentation to prove the hours worked.

Other items to note for RE professional tests include:

- Personal services performed as an employee of a real property trade or business do not count unless the taxpayer owns 5% or more of the employer.
- Hours spent as an investor, such as studying and reviewing financial information or summaries or managing finances do not count towards this test.
- It is difficult for an employee with a job in a non-real estate field to meet this test. Because of the 50% test, a full-time employee essentially must argue they spend 2081 hours or more during the year working in real estate related activities. A very high bar (see Timothy Foradis and Jessica Moore v. Comm., TC Summary 2024-13; Krishan and Kavita Gossain v. Comm., TC Memo 2024-97; etc.).

Post event ballpark guesstimates not sufficient (James. M. Warren v. Comm., TC Summary 2024-20). James Warren was an engineer who worked for Lockheed Martin Corp. 1,913 hours in 2017. Warren also operated a Gilbert, AZ group home where he rented rooms, but did not provide any services. He deducted a $41,733 rental loss on his 2017 tax return, arguing he was a real estate professional. Warren acknowledged that he did not keep contemporaneous logs of time

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spent working on his rental activity, but he presented time logs to show he worked between 1,421 and 1,628 hours at the rental. The Court agreed that some of the hours listed on Warren's logs were supported by reference to emails, work permits, and invoices, but most were unsupported beyond Warren's testimony. They ruled that Warren was not a real estate professional for two reasons:

1. Warren worked 1,913 hours at Lockheed, which are not real estate professional qualifying hours, and, even if the Court accepted Warren's log as accurate, the total time spent on the rentals totaled 1,628 hours, failing the 50% test.

2. While contemporaneous records are not required, they noted that a post event "ballpark guesstimate" is not sufficient. Warren's logs were prepared the week of the trial and relied heavily on his testimony for support.

Implausible testimony not enough (Timothy Foradis and Jessica Moore v. Comm., TC Summary 2024-13). Tim Foradis and Jessica Moore filed married jointly in 2020 when they both worked as employees approximately 40 hours per week. During 2020, Tim constructed a second home on the same property where he and Jessica lived. The second home was rented once construction was complete. Tim and Jessica's AGI was well more than $150,000 in 2020, when they deducted rental losses of $22,000 on their return. The IRS audited and disallowed the deduction for rental related losses. Tim argued that he was a real estate professional as he spent about 2,500 hours constructing the second home. The Court found it implausible that Tim would work 40 hours each week at a full-time job and then work an additional 48 hours each week constructing the second house. The Court also noted it is not required to accept the self-serving testimony of a taxpayer as gospel and ruled that Tim failed the 50% test. The rental losses were not deductible.

See also:

- *Greg and Rachel Teague v. Comm.,* TC Summary 2023-16, where a married couple failed to show that either spouse qualified as a real estate professional because the time requirements couldn't be met by combining the time spent by each spouse. To be a real professional, one spouse or the other must meet the 50% and the 750 hours test by themselves.
- *Christian and Francine Sezonov v. Comm.,* T.C. Memo 2022-40**,** where Ohio HVAC wholesaler claimed to be a real estate pro to claim losses from two Florida single family homes. Long-distance land-lording with a full-time business makes it almost impossible to have the required hours to be a RE professional.

Taxpayer is a real estate professional – so what?

The general passive activity rule under §469 is that an activity is passive unless the activity's owner can establish material participation. Rental activities, however, are passive by definition – owners are not allowed to even test for material participation. But that still means the taxpayer must materially participate in the underlying activity to deduct losses. Without material participation, the rental real estate activity reverts to a non-deductible passive activity.

Real estate professionals get to test – that's it. Taxpayers who qualify as a real estate professional are allowed to test for material participation. If they can substantiate their material participation, the rental losses are treated as non-passive activities, the same as any other business, and are fully deductible assuming the taxpayer has adequate basis. There are seven ways to prove material participation:

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1. Taxpayer participates in the activity for more than 500 hours a year.

2. Taxpayer is the only person that performs any services in the activity.

3. Taxpayer participates more than 100 hours during the tax year and participated at least as much as any other individual (including individuals who did not have any interest in the activity) for the year.

4. The activity is a significant participation activity (SPA), and the taxpayer participated in all significant participation activities for more than 500 hours. A significant participation activity is any trade or business activity in which the taxpayer participated for more than 100 hours during the year and in which they did not materially participate under any of the other material participation tests.

5. Taxpayer materially participated in the activity for any 5 of the preceding 10 years.

6. The activity is a personal service activity in which the taxpayer materially participated for any 3 (whether consecutive) preceding tax years.

7. Based on all the facts and circumstances, the taxpayer participated in the activity on a regular, continuous, and substantial basis during the year.

The first three tests are most used in the real estate professional environment.

Spousal participation counts. Participation by a spouse during the tax year in an activity owned by the taxpayer may be counted as the taxpayer's participation in the activity even if the spouse did not own an interest in the activity and whether the taxpayer and the spouse file a joint return for the tax year. However, taxpayers cannot count the spouse's hours for work not normally performed by an owner.

Example. Nita is a full-time real estate agent who also owns six rental homes. The rental homes generated combined losses of $52,000 in 2026. Nita has no other trade or business activities.

Nita clearly meets the real estate professional tests – she spends 100% of her working time on real estate related activities and she worked more than 750 hours in 2026. The next hurdle is material participation. Nita needs to spend 500 hours on each rental, spend 100 hours on each rental and no one spends more time, or be the only one ever to work on each rental. The problem is Nita hired a property manager who collects rents, takes applications, and arranges for repairs to be made. Nita cannot meet any of the material participation tests so she cannot deduct the losses even though she is a real estate professional.

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Preparer note. The IRS and the courts have held numerous times the material participation test is per activity, not for activities combined. Real estate professionals have an aggregation election available to them that combines all rentals together as one activity (discussed below). Absent that election, the material participation test must be met for each property.

Grouping Activities

Overview. When it comes to passive activity losses, there are two different grouping/aggregation rules to consider:

1. **Grouping rules (§1.469-4(c))** – these rules are used to group one or more activities together to more easily meet the material participation requirements under §469. For example, a taxpayer owns a business interest through a partnership that she does not work in often and owns a related business through an S corporation where she works full time. By grouping the two activities together, they both meet the material participation requirements under §469.

2. **Aggregation rules (§1.469-9(q))** – real estate professionals use these rules to aggregate two or more real estate rental activities into one activity to satisfy the material participation test more easily under §469. See additional discussion below.

In this section the focus will be on the grouping rules. Later in the chapter, the aggregation rules will be discussed.

Grouping in general. Taxpayers may treat one or more trade or business activity as a single activity if those activities form an appropriate economic unit for measuring gain or loss under the passive activity rules. The taxpayer must make an appropriate grouping election (see below).

Grouping is important for several reasons. If two activities are grouped into one larger activity, the taxpayer only needs to show material participation in the group, not in the individual activities. Caution however, as once two or more activities are grouped into one larger activity, the disposition of one of the two activities making up the group means only a portion of the entire interest in the activity was disposed of, and, accordingly, suspended passive losses may not be deducted until the remaining group components are sold.

Appropriate economic unit. To determine if activities form an appropriate economic unit, taxpayers must consider all the relevant facts and circumstances. Any reasonable method of applying the relevant facts and circumstances in grouping activities is allowed. The following factors have the greatest weight in determining whether activities form an appropriate economic unit. All the factors do not have to apply to treat more than one activity as a single activity.

Grouping factors to consider include:

- The similarities and differences in the types of trades or businesses,

- The extent of common control,

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- The extent of common ownership,
- The geographical location, and
- The interdependence between or among activities, which may include the extent to which the activities:
    - Buy or sell goods between or among themselves,
    - Involve products or services that are generally provided together,
    - Have the same customers,
    - Have the same employees, or
    - Use a single set of books and records to account for the activities.

Real property rentals and personal property rentals cannot be grouped together. However, if personal property is provided in connection with the real property or the real property in connection with the personal property then grouping is appropriate.

Certain activities may not be grouped. Generally, limited partnership interests in one of the following activities may not be grouped with any other activity in another type of business:

- Holding, producing, or distributing motion picture films or video tapes.
- Farming.
- Leasing any section 1245 property.
- Exploring for, or exploiting, oil and gas resources.
- Exploring for or exploiting, geothermal deposits.

Interest in a limited partnership in an activity in the list above may be grouped with another activity in the same type of business if the grouping forms an appropriate economic unit.

Regrouping (Rev. Proc. 2010-13). Once grouped, activities may not be regrouped in a later tax year. If it is later determined that the taxpayer's original grouping was clearly inappropriate or a material change in the facts and circumstances has occurred, that makes the original grouping clearly inappropriate, the taxpayer must regroup the activities. If such a determination and regrouping is made, the taxpayer is required to file a written statement with the taxpayer's original income tax return for the taxable year in which the trade or business activities or rental activities were regrouped. A new grouping election is required to add new purchases to an existing group.

Grouping election (Rev. Proc. 2010-13). Written grouping elections are required for activities grouped. The election must:

- Be filed with the tax return for the year;
- Disclose the names, addresses and EIN's of trade, business or rental activities that are grouped; and

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- Include an attestation that the activities together form an appropriate economic unit.

The election also requires that the taxpayer attach justification for any change in grouping. The IRS allows taxpayers a "fresh start" where they may regroup their activities in tax years beginning in 2013. The regrouping must comply with the disclosure and reporting requirements of Reg. §1.469-4(e) and Revenue Procedure 2010-13.

Grouping Election Example

Grouping Election for New or Modified Activities on or after 1/25/2010

<CLIENT> <FEIN>

"In accordance with Reg. 1.469-4, the taxpayer hereby states that the grouped activities listed below constitute an appropriate economic unit for the measurement of gain or loss for purposes of section 469."

Name/Address and/or EIN: _____
Name/Address and/or EIN: _____
Name/Address and/or EIN: _____
Name/Address and/or EIN: _____

Grouping for active treatment. In general, rental activities cannot be grouped with trade or business activities. However, can group them together if the activities form an appropriate economic unit and:

1. The rental activity is insubstantial in relation to the trade or business activity,

2. The trade or business activity is insubstantial in relation to the rental activity, or

3. Each owner of the trade or business activity has the same ownership interest in the rental activity, in which case the part of the rental activity that involves the rental of items of property for use in the trade or business activity may be grouped with the trade or business activity.

Aggregation Election (§1.469-4) for Real Estate Professionals

The aggregation election is only available for real estate professionals and is therefore different from the grouping election because the aggregation is all or none, but grouping elections are flexible as to inclusion. New properties purchased are automatically included in the aggregation election for real estate professionals, but they are not automatically included in grouping elections. Non-rental activities are not allowed to be included in the aggregation election (Bailey v. Comm. T.C. Memo 2001-296).

Late aggregation election allowed (Rev. Proc. 2011-34). The IRS established a special procedure to make a late election to treat all real estate activities as a single activity for the material participation rules (real estate professional test). To request this relief, the taxpayer must

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attach the statement required by Reg. §1.469-9(g)(3) to an amended return for the most recent tax year and mail it to the IRS service center where the taxpayer will file a current-year income tax return. The statement must contain the declaration required by Treas. Reg. § 1.469-9 (g)(3); explain the reason for the failure to file a timely election; state that the taxpayer meets the eligibility requirements set out in the revenue procedure; identify the tax year for which the late election is sought; and reference the revenue procedure in a heading. It also must contain the declaration prescribed in the revenue procedure and be dated and signed by the taxpayer.

Late election eligibility. Taxpayers are eligible for relief under Rev. Proc. 2011-34 if they:

- Failed to make the election solely because they failed to timely meet the requirements in Treas. Reg. § 1.469-9 (g) and have reasonable cause for the failure.
- Filed consistently with having made the election on any previous return that would have been affected if they had timely made the election.
- Have reasonable cause for failure to previously file the election.
- Have filed all required federal income tax returns consistent with the requested aggregation for all the years including and following the year they intend the election to be effective, and no tax returns containing positions inconsistent with the request have been filed by or with respect to the taxpayer during any of those years.
- Have timely filed each return (within six months of its due date, not including extensions) that would have been affected by the election if it had been timely made.

Aggregation procedures. When aggregating rental activities into appropriate economic units, may not regroup those activities in a later tax year. must meet any disclosure requirements of the Internal Revenue Service when first group activities and when add or dispose of any activities in aggregations. However, if the original aggregation is clearly inappropriate or there is a material change in the facts and circumstances that makes the original aggregation clearly inappropriate, must reaggregate the activities and comply with any disclosure requirements of the IRS.

The election to treat all interests in rental real estate as a single rental real estate activity is binding for all future years unless there is a material change in a taxpayer's facts and circumstances. If in an intervening year the taxpayer fails, the real estate professional rules the aggregation election still applies unless the taxpayer revokes the election because material facts and circumstances changed (§1-469-9(g)(3)). The aggregation has no bearing if the taxpayer is not a real estate professional, but the election does not go away and will be in force in any future year where the taxpayer is again a RE pro.

Election procedure. The taxpayer makes the election by filing a statement with his or her original income tax return. Failure to make the election in one year does not preclude the taxpayer from making it in another year. The statement must contain a declaration that the taxpayer is a qualifying real estate professional for the taxable year and is making the election pursuant to §469 (c)(7)(A) [Reg. § 1.469-9 (g)].

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Aggregation Election for Real Estate Professional

<CLIENT> <FEIN>

"In accordance with Reg. § 1.469-9 (g)(3), the taxpayer hereby states that he (or she) is a qualifying real estate professional under IRC §469 (c)(7) and elects under IRC §469 (c)(7)(A) to treat all interests in the real estate listed below as a single rental real estate activity."

Property Description/Address: _____
Property Description/Address: _____
Property Description/Address: _____
Property Description/Address: _____

Final note. Even though a taxpayer is a real estate professional, real estate rental activities are generally still reported on Schedule E, and any net profit is still exempt from self-employment tax.

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FinCEN 114 – Report of Foreign Bank & Financial Account (FBAR)

Congress enacted the BSA in 1970 "to require certain reports or records where such reports or records have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings." A primary purpose of the BSA was to curb the "serious and widespread use" of foreign financial accounts to evade taxes. The FBAR is required because foreign financial institutions may not be subject to the same reporting requirements as domestic financial institutions. The FBAR is also a tool used by the U.S. government to identify persons who may be using foreign financial accounts to circumvent U.S law. The form is available through the BSA E-Filing System.

Information contained in FBARs can be used to identify or trace funds used for illicit purposes or to identify unreported income maintained or generated abroad. ***The FBAR does not report income****, which is taxable and required to be reported elsewhere on the return.* ***It reports the existence and value of certain overseas assets****; therefore, asset reporting is required even if the assets are not generating income.*

Filing Requirements. The FBAR is a calendar year annual report and must be filed on or before April 15th of 2026 for 2025 by any individual with ownership, joint ownership, or signature authority over one or several accounts, investments, foreign pension or mutual fund, or foreign life insurance policies when the aggregate total value of all the accounts is over $10,000 on any day of the year**.** Because there is no tax due, but the failure to file penalties are incredibly high, when in doubt, file!

FBAR penalty amounts. Different penalties attach to non-willful and willful violations. For non-willful violations, the penalty amount cannot exceed $10,000. The non-willful penalties are waived if the account owner can establish the failure to file was due to a reasonable cause. For a willful violation, the maximum penalty increases to the greater of $100,000 or 50% of the balance in the account at the time of the violation (when a violation involves "a failure to report the existence of an account"). Failure to report an account is a violation – if there are multiple accounts, the penalty is assessed on each account. There is no reasonable cause relief for willful violations.

FBAR Penalty Update

IRS granted summary judgement by 11th Circuit for FBAR penalties (US v. Eugene J. Niksich, US CA 11th , No. 242-12882, June 4, 2026). Eugene Niksich self-prepared his 2006 – 2012 personal tax returns. Although he consistently reported income from multiple domestic investments, Niksich did not disclose his investments in foreign bank accounts. Each return included Schedule B-Interest and Ordinary Dividends, on which he marked no in 2006 to the question about foreign account interests. In 2007-2012, Niksich left the same question blank.

Niksich testified that he first became aware of the FBAR reporting rules in 2013 or 2014 and, after consulting with an attorney, he entered the IRS Offshore Voluntary Disclosure Program (OVDP). Niksich's late FBARs reported he owned foreign securities of:

- 2006 – $2,392,780
- 2007 – $3,340,310
- 2008 – $2,083,662

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- 2009 – $3,527,321
- 2010 – $4,361,860
- 2011 – $3,603,058
- 2012 – $3,240,850

In 2017, after filing all delinquent FBAR reports, Niksich elected out of OVDP. Instead, he entered into a settlement agreement with the IRS where he agreed to pay FBAR penalty of $419,123. For some reason, Niksich paid only $331,376 and the IRS agent confirmed Niksich had fulfilled the requirements of his settlement agreement.

In May 2020, the IRS Technical Services team reviewed Niksich's case and told him they would not agree to the settlement and Niksich requested a return of his settlement payment. Instead, the IRS sent him a bill for $2,286,954 and then sued him to collect.

District Court rules for IRS. The district court found that Niksich had a duty to file FBARs because he self-prepared his tax returns and signed them under penalty of perjury. His answer of "no" to the foreign account inquiry in 2006 and leaving the inquiry blank in 2007-2012 supported a finding of recklessness. Further indicators of recklessness included opening foreign accounts to protect funds from potential creditors, using an alias for foreign accounts to hide his identity, paying a fee for the banks to hold his mail, and engaging with banks that later signed prosecution agreements after assisting American taxpayers in hiding from the IRS. The District Court let the new penalties stand.

Opening accounts in your dog's name is problematic. Niksich argued his failure to file FBARs was not willful, and therefore not reckless. However, the 11th Circuit CA opined that willfulness based on recklessness is established if a defendant "(1) clearly ought to have known that (2) there was a grave risk that an accurate FBAR was not being filed and if (3) he was in a position to find out for certain very easily. Niksich testified that he opened the foreign account to protect himself from potential creditors and intentionally hid his foreign bank account from his then-wife. He kept at least one foreign account in his dog's name, and he paid a fee for the foreign bank to hold his mail. Niksich knew of and discussed FATCA with multiple other people. Further, his professional experience and master's degree in business administration suggest he should have known about filing FBARs. Niksich's tax returns included the Schedule B questions which ask if the taxpayer has any interest in a financial account in a foreign country, such as a bank account, securities account, or another financial account. The question is written in plain language, using examples expressly identifying what needs to be reported, and asks for a simple yes or no response. The self-prepared nature of Niksich's tax returns indicates that he "even more probably read the instructions and would have seen Line 7a of Schedule B" of his 2006 Form 1040 tax return. Any argument that Niksich was not aware of the FBAR requirements is undermined by his 2006 tax return, in which he actively answered Line 7a of Schedule B. Niksich responded "No" to the 2006 tax return question, followed by five years of leaving the question blank. There is no record evidence showing that the omission from 2007 to 2012 was accidental.

Small silver lining for Niksich. The 11th Circuit did find that the District Court incorrectly found that FBAR fines are not subject to the Eighth Amendment's Excessive Fines Clause so they reversed and remanded for this issue only.

Win some, lose most (Isac Schwarzbaum v. U.S., 11th Circuit CA, Dkt. 22-14058, 2025). Isac Schwarzbaum was a wealthy naturalized US citizen who was born in Germany. Schwarzbaum held significant amounts in numerous bank accounts in Switzerland and Costa Rica. After review

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of his accounts, the IRS found, and the Tax Court agreed, that he violated the FBAR statutes in three years, 2007 – 2009, and the violations were reckless, thus satisfying the statutes' "willful" requirement.

Massive penalties assessed. After determining that Schwarzbaum's actions were willful, the IRS assessed maximum penalties. This meant accounts with less than $200,000 during the year were assessed $100,000 penalties. For accounts with balances greater than $200,000, the IRS assessed penalties at 50% of the highest balances in the accounts during the year. The result was that final total was Schwarzbaum was assessed penalties of $12,555,813 plus interest and late fees. Schwarzbaum argued the penalties violated the Excessive Fines Clause of the 8th Amendment to the Constitution.

11th Circuit CA sides with taxpayer, but not much of a happy day. The Appeals Court recognized that one of Schwarzbaum's accounts had a small balance (less than $20,000) in each year that the $100,000 penalties were levied. The $300,000 total assessment was grossly disproportionate to the offense of concealing that account, and therefore, was in violation of the Excessive Fines Clause. The Court also held, however, that penalties levied against the other accounts, which had much higher balances, did not violate the Excessive Fines Clause. The penalties on the higher balance accounts were not grossly disproportionate to Schwarzbaum's willful concealment of tens of millions of dollars in overseas accounts. The Court struck the $300,000 penalty due to the smaller accounts from the judgment but upheld the remaining penalties of $12,255,813.

Other Foreign Investor Reporting (§6038; §6046; Form 5471)

The intent of this section is not to make anyone an expert in international taxation. However, there are some traps out in the foreign reported world that may catch an unsuspecting U.S. taxpayer. U.S. persons, who are officers, directors, or shareholders in certain foreign corporations, in many cases may be required to provide additional information about the foreign corporation they are involved with. Form 5471 is a 6-page form used to satisfy these additional reporting requirements.

Who must file. Generally, all U.S. persons (includes US citizens or residents, domestic partnerships and corporations, or estate or trust that is not a foreign estate or trust) who own directly or indirectly, 10% or more of the combined voting power or value of shares of all classes of stock, of an applicable or specified foreign corporation must complete Form 5471 and related schedules and statements.

> **Preparer note.** A separate Form 5471 and all applicable schedules must be completed for each applicable foreign corporation.

Non-filing penalties. Failure to file Form 5471 and related Schedule M when required typically generates two types of penalties:

1. A $10,000 penalty for each annual accounting period of each foreign corporation for failure to furnish the information required by §6038(a) (Form 5471) within the time prescribed. If the information is not filed within 90 days after the IRS has mailed a notice of the failure to the

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U.S. person, an additional $10,000 penalty (per foreign corporation) is charged ***for each 30-day period***, or fraction thereof, during which the failure continues. The additional penalty is limited to a maximum of $50,000 for each failure.

2. Any person who fails to file or report all the information required within the time prescribed will be subject to a reduction of 10% of the foreign taxes available for credit under §§901 and 960. If the failure continues 90 days or more after the date the IRS mails notice of the failure to the U.S. person, an additional 5% reduction is made for each 3-month period, or fraction thereof, during which the failure continues after the 90-day period has expired.

3. When a schedule is required but all amounts are zero, the schedule should still be filed with one or more zero amounts.

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2026 Estate and Trust Developments

2026 – Estates by the Numbers (§2010(c)(3))			
Description	**2025**	**2026**	**2027**
Basic exclusion amount (BEA)	$13,990,000	$15,000,000	
Special-use valuation ceiling	$1,420,000	$1,460,000	
Maximum 2% estate tax installment	$1,900,000	$1,940,000	
Basic credit amount	$5,5,41,800	$5,945,800	

Estate basic exclusion increased in 2026 and beyond. OBBBA permanently increased the estate and gift exemption to $15,000,000 for decedents who die and for gifts made in 2026 and later ($30,000,000 for married couples who elect portability). The exemption amount is adjusted for inflation beginning in 2027. The generation-skipping transfer (GST) exemption is based on the estate exemption, so the GST exemption will also be $15 million beginning in 2026. This change is permanent so no going back!

Estate Tax Rates

Table A—Unified Rate Schedule

Column A Taxable amount over	Column B Taxable amount not over	Column C Tax on amount in column A	Column D Rate of tax on excess over amount in column A
$0	$10,000	$0	18%
10,000	20,000	1,800	20%
20,000	40,000	3,800	22%
40,000	60,000	8,200	24%
60,000	80,000	13,000	26%
80,000	100,000	18,200	28%
100,000	150,000	23,800	30%
150,000	250,000	38,800	32%
250,000	500,000	70,800	34%
500,000	750,000	155,800	37%
750,000	1,000,000	248,300	39%
1,000,000	– – – –	345,800	40%

Estate Return Filing Requirements

Which Estates Must File – For decedents who died in 2026, Form 706 must be filed by the executor of the estate of every U.S. citizen or resident:

- Whose gross estate, plus adjusted taxable gifts and specific exemption, is more than $15,000,000; or

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- Whose executor elects to transfer the deceased spousal unused exclusion (DSUE) amount to the surviving spouse, regardless of the size of the decedent's gross estate.

To calculate the gross estate, the responsible person must add:

- The adjusted taxable gifts (as defined in section 2503) made by the decedent after December 31, 1976;
- The total specific exemption allowed under section 2521 (as in effect before its repeal by the Tax Reform Act of 1976) for gifts made by the decedent after September 8, 1976; and
- The decedent's gross estate valued as of the date of death.

Two or more persons responsible for filing. If two or more people are liable for filing an estate tax return, they should join and file one complete return. However, if they are unable to join to file one complete return, each responsible person is required to file a separate return on which all the information the person has about the estate is disclosed. This includes the name of every person holding an interest in the property and a full description of the property.

Estate Form 706 Update

Most recent version of Form 706 was released in August 2025 – no significant changes since (Form 706). The most recent Form 706 was released in August 2025. The most recent form changes include:

- **Schedule separation.** All schedules have been separated from Form 706. The schedules are now completed and attached to Form 706, as necessary, but are not part of Form 706.

- **New Schedule T** replaces former Schedule A-1 – Section 2032A Property Valuation. The functionality of this schedule wasn't changed. It is still required to be completed and attached to Form 706, as necessary.

- **New Schedule W** replaces the former Continuation Schedule for Form 706. The functionality of this schedule wasn't changed. It should be completed and attached to Form 706, as necessary.

- **Representation authorization.** The representation authorization included in previous versions of Form 706 has been removed. Estate executors or representatives must file Form 2848, Power of Attorney and Declaration of Representative, or Form 8821, Tax Information Authorization, to authorize another person to act on behalf of the estate.

- **Electronic payments.** As with all taxpayers, the IRS is phasing out physical payments, both to collect balances due to the IRS and for refunds to taxpayers. The IRS strongly encourages estates to use U.S. banking services or electronic payment systems to pay any tax due or collect refunds.

- **Direct deposit.** Direct deposit fields have been added to Form 706 in Part II, lines 23.

- **Making payments.** For returns with a balance due, the Form 706 instructions direct executors to IRS.gov/Payments to make the required payment.

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New Regs Send Estate Closing Letter Fee Back Up (TD 10055; §300.12)

Yoyo continues up and down! May 21, 2025, the user fee to receive an estate closing letter was reduced from $67 to $56. But, for estate closing letters requested after October 26, 226, the user fee will be $76. Those wishing to obtain a closing letter must go to Pay.gov, search for “estate tax” or "closing letter" and select the Estate Tax Closing Letter User Fee from the menu. Paying the fee requests the letter. The fee can be paid via credit card, ACH, debit card or through your Amazon or PayPal account.

Alternative to closing letter. An account transcript issued by the IRS can be used in lieu of an estate closing letter. The Transcript Delivery Service (TDS) provides authorized practitioners with the ability to view and print instant account transcripts for estate tax returns. It is available at IRS.gov. Hardcopy account transcripts are also available if a valid request is made via mail or fax using Form 4506-T, Request for Transcript of Tax Return. Refer to Transcripts in lieu of Estate Tax Closing Letters for specific instructions on how to request an estate tax account transcript using TDS or by using Form 4506-T.

Transcript Delivery Service (TDS) provides alternative to Estate Closing Letter. The Transcript Delivery Service (TDS) which provides authorized practitioners with the ability to view and print instant account transcripts for estate tax returns. Account transcripts reflect transactions including the acceptance of Form 706 and the completion of an examination, making them an acceptable substitute for the estate tax closing letter. To register for TDS, access e-Services - Online Tools for Tax Professionals and:

1. Select "GO" under Transcript Delivery System (TDS).
2. Sign up or log in.

If you have difficulty registering online via Secure Access, or you are an existing e-Services user and need exception processing, call the e-Help desk at 1-888-841-4648 between 7:30 a.m. and 7 p.m. Eastern time.

For more information see Frequently Asked Questions on the Estate Tax Closing Letter.

Gifting Update (§2503; Rev. Proc. 2025-32; 2026 Form 709)

Gift tax update.

- The annual gift limit was increased to $19,000 in 2026 and 2025 (up from $18,000 in 2024).
- The IRS offers an option to file Form 709 electronically. Gift returns with balance due are included and an option to use electronic funds withdrawal from a bank account is available.
- Gifts to a spouse who is a U.S. citizen are unlimited. Gifts made to a spouse who is not a U.S. citizen are limited to a $194,000 (2026) gift tax exclusion.
- Unlimited gifts may be given to charities and political organizations.

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- Payment of tuition expenses are unlimited if the individual makes the payment directly to the educational institution. Books, supplies and living expenses do not qualify.

- Payment of medical expenses are unlimited if they are paid directly to the medical facility/care provider.

Gift-splitting. Married couples are not allowed to file "joint" gift tax returns. However, married spouses are allowed to split gifts made by either spouse as if each spouse made a portion of the gift. Effectively, everyone is allowed to claim their $19,000 annual exclusion for his or her part of the gift. In 2026, gift-splitting allows married couples to give up to $38,000 to one person without making a taxable gift. This is known as gift-splitting.

To qualify, both individuals must agree to split the gift and:

- The spouses were married at the time of the gift;
- If divorced or widowed after the gift, neither spouse was remarried;
- Neither spouse was a non-resident or non-US citizen at the time of the gift; and
- Neither spouse had given the other spouse a general power of appointment over the property transferred.

Generally, each spouse must file Form 709 to split gifts. The general rules for gift splitting require each spouse to file Form 709 to report the gift split. However, only one spouse is required if either exception is met:

- **Exception #1** – During the calendar year, only one spouse made any gifts, the total value of which was no more than $38,000, and all gifts were of present interests.

Or,

- **Exception #2** – During the calendar year:

    - Only one spouse (the donor spouse) made gifts of more than $19,000 but not more than $38,000 to any third-party donee; and
    - The only gifts made by the other spouse (the consenting spouse) were gifts that do not exceed $19,000 to any third-party donee other than those to whom the donor spouse made gifts; and
    - All the gifts by both spouses were of present interests.

Form 709 reporting. If Form 709 is required, Part III must be completed for spouses electing to split gifts.

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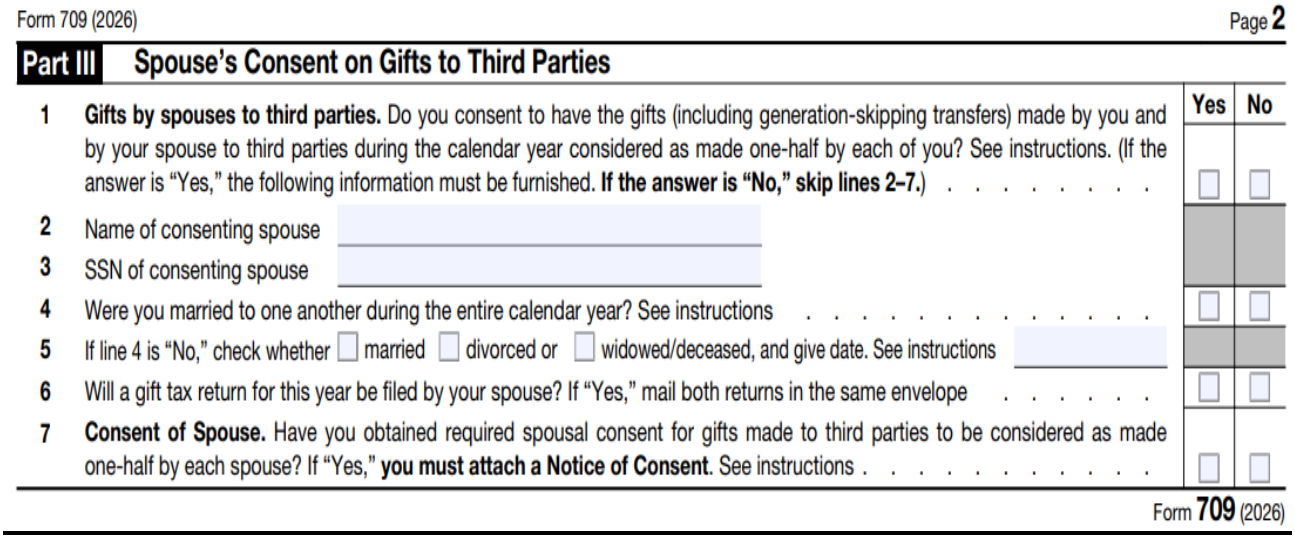

Form 709 (2026) Page 2

Part III Spouse's Consent on Gifts to Third Parties

		Yes	No
1	**Gifts by spouses to third parties.** Do you consent to have the gifts (including generation-skipping transfers) made by you and by your spouse to third parties during the calendar year considered as made one-half by each of you? See instructions. (If the answer is "Yes," the following information must be furnished. **If the answer is "No," skip lines 2–7.**)	☐	☐
2	Name of consenting spouse		
3	SSN of consenting spouse		
4	Were you married to one another during the entire calendar year? See instructions	☐	☐
5	If line 4 is "No," check whether ☐ married ☐ divorced or ☐ widowed/deceased, and give date. See instructions		
6	Will a gift tax return for this year be filed by your spouse? If "Yes," mail both returns in the same envelope	☐	☐
7	**Consent of Spouse.** Have you obtained required spousal consent for gifts made to third parties to be considered as made one-half by each spouse? If "Yes," **you must attach a Notice of Consent.** See instructions	☐	☐

Form 709 (2026)

Contributions to Trump Accounts Are Not Future Gifts (Rev. Proc. 2026-25). Future interests are any gift where the recipient's right to use, possess, enjoy, or receive income from the property does not begin until sometime in the future. Because the donee lacks immediate access, these gifts do not qualify for the $19,000 annual Federal gift tax exclusion. The IRS recognized that there is an argument that Trump Account contributions are future interests in a gift, and therefore not subject to the annual exclusion amount. The IRS also admitted that most Trump Account individual donors are unlikely to ever owe Federal gift, estate, or GST tax. For many donors, the cost and other burdens of complying with gift tax reporting requirements could outweigh the anticipated financial savings benefit of making one or more contributions to a Trump account. Gift tax reporting compliance by these donors would also dramatically increase the burden on the IRS to process gift tax returns for individual donors who are unlikely to ever be subject to gift, estate, or GST tax. Accordingly, the IRS provided a safe harbor to allow Trump Account contributors not to be considered future interests for gift purposes and to, therefore, skip gift reporting.

Safe harbor requirements. The Trump Account gift reporting safe harbor applies for a particular calendar year only if:

1. Taxpayer is an individual;
2. The only taxable gifts made by the taxpayer during the calendar year are cash contributions (in the form of cash, check, money order, or electronic funds transfer) to one or more Trump accounts and made before the account beneficiary attains age 18;
3. The taxpayer's total gifts during the calendar year to each individual who is an account beneficiary, including contributions to that account beneficiary's Trump account, do not exceed the $19,000 annual exclusion;
4. Such contributions to Trump Accounts made during the calendar year do not generate for that calendar year either a gift or GST tax liability, after application of the taxpayer's remaining applicable credit amount against the gift tax, or remaining GST exemption; and
5. Disregarding the Trump Account contributions, no gift tax return is required to be filed, and no gift tax return is otherwise filed, for the calendar year on behalf of the taxpayer, whether for GST tax, portability, or other purposes.

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Safe harbor. If each of the requirements are met, each Trump account contribution made by the taxpayer during that calendar year will be treated as a completed gift to the account beneficiary that is not a future interest in property. The contribution will be subject to the annual exclusion for gift tax, GST tax, and gift tax reporting. Essentially, the taxpayer is not required to file a gift tax return reporting such contributions.

Portability Election Update

OBBBA requires another look at portability election. Since the portability provisions were first put into law in 2010, the base exclusion amount has been constantly in flux. Either Congress changed the amount, or the current base exclusion amount was set to expire at some point in the future. OBBBA brought an end to all the uncertainty. We now know that the base exclusion amount will be $15 million, and it will likely increase as inflation adjustments are made. The result is we can finally help our clients plan with relative certainty about future tax years.

Portability Overview. The portability election is available to any estate of a person who was married at the time of their death. The election allows the surviving spouse to apply the deceased spouse's unused exemption (DSUE) amount to the surviving spouse's own transfers during life and at death. The law provides that the estate of a deceased spouse must elect portability of the DSUE amount on an estate tax return (Form 706) that is timely filed including extensions. Essentially, this means a married couple who elects portability may pass up to $30 million of assets to heirs tax-free.

DSUE calculation (§20.2010-2(b)(1)). DSUE is the lesser of:

A. the basic exclusion amount in effect on the date of death of the decedent whose DSUE is being computed, or
B. the decedent's applicable exclusion amount less the amount on Form 706, Line 5 of Part 2–Tax Computation for the estate of the decedent.

Amounts on which gift taxes were paid are excluded from adjusted taxable gifts for the purpose of this computation.

What about estates not required to file Form 706? For estates that are not required to file an estate tax return, regulations clarify that a decedent's DSUE must be computed on Form 706, the estate tax. Filing Form 706 is the only way to make the portability election. The Form 706 due date is the same as any other estate tax return - nine months after the decedent's date of death or the last day of the period covered by an extension (if an extension of time for filing has been obtained).

Form 706 not required but portability election needed (§20.2010–2(a)(7)(ii)). Executors of estates not required to file Form 706 under §6018(a) but are filing to elect portability to the surviving spouse, are not required to report the value of certain property eligible for the marital deduction under §2056 or §2056A or the charitable deduction under §2055. The value of those assets must, however, be estimated and included in the total value of the gross estate (see instructions for Form 706, Part 5) The gross estate must be less than the applicable exclusion amount for this rule to apply.

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Late portability election allowed (Rev. Proc. 2022-32). The IRS outlined simplified procedures for estate administrators to elect portability. The simplified procedure extends the period during which an estate may make a portability election to the fifth anniversary of the decedent's date of death. No letter ruling is required. To use simplified procedures an estate must meet four requirements:

1. The decedent:
    a. Was survived by a spouse;
    b. Died after December 31, 2010, and
    c. Was a US citizen or resident at the date of death.
2. The estate is not required to file an estate tax return as the estate value is below the filing threshold.
3. The executor did not in fact file an estate tax return within the original due date.
4. The executor:
    a. Is a person permitted to make the election on behalf of the decedent;
    b. Is a person who files Form 706 on or before the 5th anniversary of the decedent's date of death.
    c. Ensures the phrase "FILED PURSUANT TO REV. PROC. 2022-32 TO ELECT PORTABILITY UNDER §2010(c)(5)(A) is included at the top of page 1 of Form 706.

Example 1. Corbin died on January 10, 2026, and was survived by his spouse Charlene. Corbin's estate included cash of $12,500,000 in bank accounts held jointly with Charlene. Neither Corbin nor Charlene made any taxable gifts during their lifetime. The estate exemption amount in 2026 was $15,000,000. Corbin's executor did not file an estate tax return because his estate was well below the filing threshold, and no return was filed.

Story continues. Charlene died June 29, 2028, when her estate value was $20,000,000 and the exemption amount was $15,500,000. The executor of Charlene's estate filed Form 706 on October 29, 2029, and claimed an applicable exclusion amount (AEA) of $15,500,000. The executor reported a taxable estate of $4,500,000 and paid estate tax of $1,648,300 with Form 706. Had Corbin's executor filed Form 706 and made the portability election, Charlene's applicable exclusion amount would have been $30,500,000 ($15,500,000 of her AEA plus DSUE of $15,000,000 from Corbin's estate, in which case Charlene's estate tax would have been zero.

Example – last chapter. Corbin's estate executor finds out about the tax Charlene's estate had to pay, and, after doing some research, decides to make late portability election based on the rules of Rev. Proc. 2022-32. The executor files Form 706 for Corbin's estate, elects portability, and then files a claim for credit or refund of tax for Charlene's estate. Charlene's estate receives a refund of the entire $1,648,000 estate tax it previously paid.

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Portability requires Form 706 to be filed correctly (Estate of Billy S. Rowland, James Park Executor v. Comm., TC Memo 2025-76).

Background. Billy Rowland died January 2018, two years after Fay Rowland, his wife, passed away. The value of Billy's estate was well beyond the estate exclusion amount. The taxable value of the Fay's estate was $1,738,000, leaving DSUE of $3,712,000. The executor of Fay's estate did not file the Form 706 until January 2018, making it late even with an extension. When the return was filed, it listed assets including real property, shares of Rowland Motors, Inc., shares of Rowland Marietta, Inc., a note receivable of Rowland Enterprises, and various bank accounts. But the return did not include any FMV information of those assets, instead providing one gross estate value estimate.

IRS takes issue with Billy Rowland's estate exclusion amount. Billy Rowland's estate timely filed Form 706 and included DSUE from Fay's estate of $3,712,000. The exclusion amount for 2018 was $11,180,000, giving Billy's estate a total exclusion of $14,892,000. The IRS reviewed Form 706 for Fay's estate and determined a proper portability election was not made and denied the DSUE election. The IRS noted that Fay's 706 was not a complete and properly prepared estate tax return because:

1. It did not provide complete descriptions or valuation information for the property making up Fay's Estate; and
2. It was ineligible to estimate the value of the property under §20.2010-2(a)(7)(ii).

The IRS also took issue because Fay's will provided for specific nonmarital bequests of property which should have been itemized and valued on Form 706. The estate was precluded from using the estimated reporting approach and was required itemize and value of all property. Because the estate merely used estimates, the gross value of the estate did not comply with §20.2010-2(a)(7). The safe harbor was not available.

Court sides with IRS. In its ruling, the Court noted there is a Form 706 special reporting rule for marital or charitable deduction property where the total estate value is below filing threshold (§6018(a)). In such a case, the executor is not required to report the value of each property but only the description, ownership, and/or beneficiary of such property, along with all other information necessary to establish the right of the estate to the deduction. In essence, the Regs relax the reporting requirements governing valuation of property that will ultimately be deducted from the value of the gross estate in the case of a return being filed solely to elect portability. However, the Regs are clear that the relaxed reporting does not apply to marital or charitable deduction property if the value of such property relates to, affects, or is needed to determine, the value passing from the decedent to a recipient other than the recipient of the marital or charitable deduction property. For example, assume a will provides that 50% of a decedent's property is passed under the will terms to a marital trust for W and 50% is to be paid to a trust for W and their descendants. Full reporting is required because the amount passing to the non-marital trust cannot be verified without knowledge of the full value of the property passing under the will. Therefore, the value of the property of the marital trust relates to or affects the value passing to the trust for W and the descendants of H and W. In summary, the Court ruled Fay's estate's Form 706 failed to make a proper portability election. Fay's 706 was ineligible for the DSUE election.

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Preparer note. This case demonstrates the pitfall of not fully understanding the portability rules. Even with the 5-year rule no allowed to make a late election it is imperative to understand the applicable rules.

Final Regulations Issued for Basis Reporting Rules (§1014; TD 9991; §1.1014-1 et. al.)

The final regulations under §1014 require that basis of assets inside of an estate be consistent with the basis used by beneficiaries for the same assets. The law requires estates to furnish basis information to the IRS and to the property recipients (§6035(a)). Notable sections of the regulations require:

- **Assets not reported on Form 706.** Assets discovered after the estate is closed or after Form 706 is filed still have basis in the hands of the beneficiaries. Failure to report the assets on Form 706 does not make the basis zero.

- **Basis notification statements (Form 8971) due date** – Form 8971 must be filed with the IRS, and each required Schedule A must be furnished to the beneficiary no later than the earlier of:

    - The date that is 30 days after the date on which Form 706 is required to be filed (including extensions) with the IRS; or

    - The date 30 days after the date Form 706 is filed with the IRS.

- **Subsequent gifts**. Only trustees are required to report this information when they distribute inherited property from a trust.

Form 8971 – Information Regarding Beneficiaries Acquiring Property from a Decedent. Form 8971 is ***required to be filed by an estate that is required to file Form 706***. The form reports basis of the underlying assets to the IRS. Form 8971, Sch. A is used to report basis for each asset to each separate beneficiary and the IRS. One Schedule A is provided for each beneficiary receiving property from the estate. Form 8971 is only provided to the IRS. Form 8971 and related Sch. A(s) are filed directly with the IRS.

Form 8971 not always required. Form 8971 is not required when:

- The gross estate plus adjusted taxable gifts and specific exemption is less than the basic exclusion amount applicable in the year of decedent's death;
- Estate tax-related forms other than Form 706 or Form 706-NA (for example, Forms 706-QDT, 706-CE, and 706-GS(D)), are filed; or
- The estate tax return is filed solely to make an allocation or election respecting the generation-skipping transfer tax, solely to elect portability of the deceased spousal exclusion amount (DSUE), or solely as a protective filing to avoid a penalty or satisfy a state law requirement.

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Copy of Schedule A required. A complete Form 8971 includes a copy of each Schedule A (if any) furnished or required to be furnished to a beneficiary. Form 8971 and copies of Schedules A must be filed with the IRS separate from all other tax returns filed by the estate. The executor is required to timely file a Form 8971 even if no Schedules A are furnished or required to be furnished when the Form 8971 is filed.

SCHEDULE A—Information Regarding Beneficiaries Acquiring Property From a Decedent

▶ **Information about Form 8971 (including Schedule A) and its separate instructions is at *www.irs.gov/form8971*.**

Check box if this is a supplemental filing ☐

Part 1. General Information

1 Decedent's name	2 Decedent's SSN	3 Beneficiary's name	4 Beneficiary's TIN

5 Executor's name	6 Executor's phone no.

7 Executor's address

Part 2. Information on Property Acquired

A Item No.	B Description of property acquired from the decedent and the Schedule and item number where reported on the decedent's Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return. If the beneficiary acquired a partial interest in the property, indicate the interest acquired here.	C Did this asset increase estate tax liability? *(Y/N)*	D Valuation Date	E Estate Tax Value *(in U.S. dollars)*
1	Form 706, Schedule _____ , Item _____ Description —			

Disclosure Required for Recipients of Large Gifts from Foreign Persons

U.S. individuals are not required to pay tax if they receive a gift or bequest of money from a nonresident alien individual or a foreign estate (including foreign persons related to that nonresident alien individual or foreign estate). While such gifts are not taxable, if the total amount exceeds $100,000, the recipient must report the gift on Form 3520. Taxpayers may also need to report the gift in the questions at the bottom of Schedule B, FinCen 114 and Form 8938. The penalty for filing a delinquent Form 3520 is 5% of the value of the unreported gift for each month it is late, with a maximum penalty of 25%.

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Decedent Filing Issues

Claiming refunds for deceased taxpayers. When filing a decedent's return and claiming a refund, Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, must be filed with the return to claim the refund unless:

- The person claiming the refund is a surviving spouse filing an original or amended joint return with the decedent, or
- The person claiming the refund is a personal representative filing an original Form 1040, Form 1041A, Form 1040EZ or Form 1040NR for the decedent and a court certificate showing the appointment is attached to the return.

When preparing Form 1310:

- Line A. Check the box on Line A if a refund check was received in the surviving spouse's name and the deceased spouse's name. The surviving spouse returns the joint name check with Form 1310 to the local IRS office or the Internal Revenue Service Center where the return was filed. A new check will be issued in the surviving spouse's name and mailed to her or him.
- Line B. Check the box on line B if the personal representative is claiming a refund on a Form 1040X, US Individual Income Tax Return, or Form 843, Claim for Refund and Request for Abatement. The personal representative must attach a copy of the court certificate showing their appointment. If the court certificate was already sent to the IRS, then write 'Certificate Previously Filed' at the bottom of the form.
- Line C. Check the box on Line C if an individual claiming the return is not a surviving spouse and there is no court-appointed personal representative. Part II must also be completed and a copy of the death certificate or formal notification from an appropriate government office (for example the Department of Defense) informing the next of kin of the decedent's death.

Preparer note. A death certificate or other proof of death is not required to be attached to Form 1310. The documentation should be kept with the records and provided if requested.

Example. Harry died on January 31, 2026. Gary is Harry's son and his sole heir. Harry did not have a will, and the court did not appoint a personal representative for his estate. Gary prepares Harry's final tax return and calculates a refund of $4,000. Gary is entitled to the refund if he files Harry's final Form 1040 and completes and attaches Form 1310. Gary checks the box on Form 1310, line C, answers all the questions in Part II, and signs his name in Part III.

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Form **1310**
(Rev. December 2025)
Department of the Treasury
Internal Revenue Service

Statement of Person Claiming Refund Due a Deceased Taxpayer

Go to *www.irs.gov/Form1310* for the latest information.
See instructions below and on back.

OMB No. 1545-0074

Attachment Sequence No. **87**

Tax year decedent was due a refund:

Calendar year 2025 , or other tax year beginning , 20 , and ending , 20

	Name of decedent. If filing a joint return and both taxpayers are deceased, complete a Form 1310 for each. See instructions.	Date of death	**Decedent's social security number**
	Harry	Jan. 31, 2025	555-55-5555
Please print or type	Name of person claiming refund		**Your social security number**
	Gary		555-55-5551
	Address of person claiming refund (number and street). If you have a P.O. box, see instructions.		Apt. no.
	123 Green Street		
	City, town or post office, state, and ZIP code. If you have a foreign address, see instructions.		
	Jeffersonville, IN 81111		

Part I **Check only one box. Complete Part II only if you check the box on line C. However, you must complete Part III.**

A ☐ Surviving spouse requesting reissuance of a refund check received in the name of both the decedent and the surviving spouse.

B ☐ Court-appointed or certified personal representative (defined below) claiming a refund on Form 1040-X or Form 843. If you check the box on line B, you must attach a court certificate showing your appointment, **even if** you have previously filed that certificate with the IRS.

C ☑ Person, **other** than A or B, claiming refund for the decedent's estate. If you check the box on line C, you must complete Part II.

Part II **Complete this part only if you checked the box on line C above.**

		Yes	No
1	Did the decedent leave a will?	☐	✔
2a	Has a court appointed a personal representative for the estate of the decedent?	☐	✔
b	If you answered "**No**" to 2a, will one be appointed?	☐	✔
	If you answered "**Yes**" to 2a or 2b, the personal representative must file for the refund.		
3	As the person claiming the refund for the decedent's estate, will you pay out the refund according to the laws of the state where the decedent was a legal resident?	✔	☐
	If you answered "**No**" to 3, a refund cannot be made until you submit a court certificate showing your appointment as personal representative or other evidence that you are entitled under state law to receive the refund.		

Part III **Signature and verification. All filers must complete this part.**

I request a refund of taxes overpaid by or on behalf of the decedent. Under penalties of perjury, I declare that I have examined this claim, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature of person claiming refund **Date**

Phone no. (optional)

Allocation of Decedent's Income

The income and deductions included on a decedent's final return is generally determined as if the person was still alive except that the taxable period is shorter because it ends on the date of death. The method of accounting used by the decedent before death also determines the income includible on the final return. Some anomalies include:

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- Cash method taxpayers include only items actually or constructively received before death.

- Checks received but not cashed prior to death are constructively received and are income taxable on the decedent's final 1040.

- If the decedent used an accrual method (Sch. C income), only the income items normally accrued before death are included in the final return.

Wages. Only wages received prior to death are reported on the final return. If a paycheck was received, but not cashed, prior to death, the payroll check should be returned, and a new check should be issued to the estate. The entire amount of wages or other employee compensation earned by the decedent but unpaid at the time of death is income in respect of a decedent (IRD) and is included as an asset in Form 706. If the income is $600 or more, the employer should report it in box 3 of Form 1099-NEC, Non-Employee Compensation, and give the recipient a copy of the form or a similar statement. Wages paid as IRD:

1. Are not subject to federal income tax withholding.

2. During the calendar year of death are subject to withholding for Social Security and Medicare taxes. These taxes should be included on the decedent's Form W2 along with the taxes withheld before death. The wages are ***NOT*** included in box 1 of Form W2.

3. After the year of death generally are not subject to withholding for any federal taxes, Social Security or Medicare taxes.

Interest and dividends. Interest posted and subject to withdrawal before decedent's death (last statement prior to death) is includible in the final return. Interest posted on a monthly or quarterly statement issued prior to the decedent's death is the benchmark for calculating interest to be includible.

> **Example.** Stone Hansen died on July 21. The interest to be included in Stone's final 1040 is the interest earned to date through the last statement, which was June 30. The interest accrued after June 30 is includible as income on the estate's Form 1041.

Joint ownership. For an account or security titled in the name of the decedent and another as joint owners with right of survivorship, interest earned after the date of death is reported on the joint tenant's income tax return. There will be no income earned and reported by the estate.

Dividends. Declared but unpaid dividends paid after death are not included on the decedent's final return. These dividends are reported as an asset of the estate and considered as IRD.

Form 1099 matching problems. If Form 1099-INT or 1099-DIV are received and it includes income earned both before and after the date of death, the preparer should show the reported amount on Schedule B on the final 1040, subtotal all amounts reported on Form 1099, and then show any interest or dividends (including amounts received as a nominee) belonging to another recipient separately and subtract it from the subtotal. Identify the amount of the adjustment as 'Nominee Distribution' or other appropriate designation. For example:

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RECONCILIATION OF INTEREST AND DIVIDEND INCOME

CONRAD GRAYSON ESTATE

CONRAD GRAYSON

	Total Amount Shown On Form 1099	Amount Included in Decedent's Form 1040 **111-22-3333**	Amount Included on Estate Income Tax Return **20-6677556**
Interest Income			
BB&T Bank	517	374	143
Bank of the Ozarks	2,965	2,259	706
Capital One Bank	1,312	887	425
Fifth Third Bank	1,127	1,127	0
PNC Bank	357	297	60
SunTrust Bank	962	650	312
Wachovia Bank	363	241	122
Totals	7,603	5,835	1,768
Dividend Income			
Florida Power & Light	3,400	1,700	1,700
Publix Supermarkets, Inc	2,200	1,200	1,000
Walt Disney Corporation	2,500	1,300	1,200
Totals	8,100	4,200	3,900

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SCHEDULE B (Form 1040)

Department of the Treasury
Internal Revenue Service

Interest and Ordinary Dividends

Attach to Form 1040 or 1040-SR.
Go to *www.irs.gov/ScheduleB* for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment Sequence No. **08**

Name(s) shown on return: CONRAD GRAYSON

Your social security number: 111-22-3333

Part I Interest

(See instructions and the Instructions for Form 1040, line 2b.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address:		
	BB&T	1	517
	BANK OF THE OZARKS		2965
	CAPITAL ONE BANK		1312
	FIFTH THIRD BANK		1127
	PNC BANK		357
	SUNTRUST BANK		962
	WACHOVIA BANK		363
	REPORTED BY 20-6677556 - CONRAD GRAYSON ESTATE		-1768
2	Add the amounts on line 1	2	5835
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040 or 1040-SR, line 2b	4	5835

Note: If line 4 is over $1,500, you must complete Part III.

Part II Ordinary Dividends

(See instructions and the Instructions for Form 1040, line 3b.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

			Amount
5	List name of payer:		
	FLORIDA POWER AND LIGHT	5	3400
	PUBLIX SUPERMARKETS, INC		2200
	WALT DISNEY CORPORATION		2500
	REPORTED BY 20-6677556 - CONRAD GRAYSON ESTATE		-3900
6	Add the amounts on line 5. Enter the total here and on Form 1040 or 1040-SR, line 3b	6	4200

Note: If line 6 is over $1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

You must complete this part if you (**a**) had over $1,500 of taxable interest or ordinary dividends; (**b**) had a foreign account; or (**c**) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

Caution: If required, failure to file FinCEN Form 114 may result in substantial penalties. Additionally, you may be required to file Form 8938, Statement of Specified Foreign Financial Assets. See instructions.

		Yes	No
7a	At any time during 2025, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions		✔
	If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements		✔
b	If you are required to file FinCEN Form 114, list the name(s) of the foreign country(-ies) where the financial account(s) is (are) located:		
8	During 2025, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions		✔

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N **Schedule B (Form 1040) 2025** Created 4/23/25

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Other items of income.

- **Capital gains and losses** – the date of sale (or transaction date) and not the settlement date is date to report the sale. Capital loss carryovers not used on the final 1040 are lost. If the capital loss was a joint capital loss, 50% of the carryforward is lost.

- **Schedule C and Schedule F** – income earned by businesses owned by the decedent will be income of the estate as of the date of death as calculated using the decedent's accounting method.

- **Partnership income** – the death of a partner closes the partnership's tax year for that partner. Subsequently the estate would become a partner at least until the estate is settled. The decedent's distributive share of partnership items must be figured as if the partnership's tax year ended on the date the partner died. To avoid an interim closing of the partnership books, the partners can agree to estimate the decedent's distributive share by prorating the amounts the partner would have included for the entire partnership tax year. Self-employment income would be prorated through the end of the month of the date of death.

Example. Shari O'Leary was a partner in the Green Ptomaine Restaurant, a partnership, and reported her income on a tax year ending December 31. The partnership uses a tax year ending December 31. Shari died August 31, 2025. Her estate established its tax year through August 31, 2026.

The distributive share of partnership income based on the decedent's partnership interest is reported as follows:

- **Final return for the decedent** – January 1 through August 31, 2025, includes Green Ptomaine's Restaurant partnership items from January 1 through August 31, 2025.

- **Income tax return of the estate** – September 1, 2025, through August 31, 2026, includes Green Ptomaine's Restaurant partnership items for the period September 1, 2025, through December 31, 2025.

- **S Corporation income** – shareholders in S corporations include the decedent's share of the S corporation's items of income, loss, deduction, and credit on the decedent's final return for the following periods:

    1. The corporation's tax year that ended within or with the decedent's final tax year (the year ending on the date of death).

    2. The period, if any, from the end of the corporation's tax year in (1) to the decedent's date of death.

- **Community income** – if the decedent was married and domiciled in a community property state, half of the income received, and half of the expenses paid during the decedent's tax year by either the decedent or spouse may be considered the income and expenses of the other.

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- **Trust income** – if decedent was the beneficiary of a non-grantor trust (often a bypass trust), the income paid by the trust and received by the decedent prior to death is reported on the final Form 1040. Income received after the DOD is reported on Form 1041.

    1. All income earned prior to death by a grantor trust (revocable living trust) is reported on the final return. If the grantor retained control of the trust, serving at least as a co-trustee, the trust status will be ignored for income tax purposes.

    2. Upon death, grantor trusts become irrevocable, and income earned is reported on a Form 1041. A Schedule K-1 may be issued to each beneficiary.

1. **US Savings Bonds** – If the savings bonds are Series EE or I savings bonds and are transferred because of death and were owned by a cash method individual who had chosen **NOT** to report the interest each year and had purchased the bonds entirely with personal funds, interest earned before death is reported:

    1. The person who is required to file the decedent's final income tax return elects to include **ALL** the interest earned on the bonds before the decedent's death on the decedent's final return. The estate or beneficiary then includes as taxable income only the interest earned after the date of death on its return.

    2. If the election to include the interest is not made, the interest earned to the date of death is IRD and is not included in the decedent's final return. Instead, all the interest earned before and after the decedent's death is taxable income to the estate or beneficiary. Cash method beneficiaries may choose to forgo annual reporting of the Savings Bond interest until the earlier of when the bonds are cashed or reach the date of maturity. In the year the interest is reported, the transferee may claim a deduction for any federal estate tax paid that arose because of the part of interest (if any) included in the decedent's estate.

Preparer note. When U.S. savings bonds are cashed that were acquired from a decedent, the bank or other payer that redeems them must give the redeemer a Form 1099-INT if the interest part of the payment received is $10 or more. The Form 1099-INT should show the difference between the amount received and the cost of the bond. The interest shown on the Form 1099-INT will not be reduced by any interest reported by the decedent before death, or, if elected, by the personal representative on the final income tax return of the decedent, or by the estate on the estate's income tax return. The redeemer's Form 1099-INT may show more interest than they must include in their income.

The redeemer must make an adjustment on their tax return to report the correct amount of interest. They report the total interest shown on Form 1099-INT on Schedule 1 (Form 1040A) or Schedule B (Form 1040). Enter a subtotal of the interest shown on Forms 1099-INT, and the interest reportable from other sources for which Forms 1099-INT were not received. Show the total interest that was previously reported and subtract it from the subtotal. Identify this adjustment as "U.S. Savings Bond Interest Previously Reported."

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Table B. **Worksheet To Reconcile Amounts Reported** in **Name of Decedent on Information Returns (Forms W–2, 1099–INT, 1099–DIV, etc.) (Keep for your records)**

Name of Decedent	Date of Death	Decedent's Social Security Number		
Name of Personal Representative, Executor, or Administrator		Estate's Employer Identification Number (If Any)		
Source (list each payer)	A Enter total amount shown on information return	B Enter part of amount in column A reportable on decedent's final return	C Amount reportable on estate's or beneficiary's income tax return (column A minus column B)	D Part of column C that is *income in respect of a decedent*
1. Wages				
2. Interest income				
3. Dividends				
4. State income tax refund				
5. Capital gains				
6. Pension income				
7. Rents, royalties				
8. Taxes withheld*				
9. Other items, such as social security, business and farm income or loss, unemployment compensation, etc.				
* List each withholding agent (employer, etc.)				

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Allocation of Decedent's Deductions

Medical expenses. Medical expenses paid before death by the decedent are deductible, subject to limits, on the final income tax return if deductions are itemized. This includes expenses for the decedent, as well as for the decedent's spouse and dependents. Medical expenses that were not paid before death are liabilities of the estate and are shown on Form 706.

Election allows post death medical expenses to be deducted on decedent's final return. An election is available to treat all, or part of the decedent's medical expenses paid out of the estate during the one-year period beginning with the day after the decedent's death as paid by the decedent ***at the time they were incurred***. If the election is made, all or part of the expenses are claimed on the decedent's final Form 1040 rather than on the Form 706.

The election is made by attaching a statement to Form 1040 and Form 706 stating that these amounts were not claimed on Form 706 and that the estate waives the right to claim these expenses as deduction on Form 706. This election only applies to expenses incurred for the decedent, not to expenses incurred to provide medical care for dependents.

Preparer note. Insurance reimbursements of previously deducted medical expenses due a decedent at the time of death are includible as income on the Form 1041 of the estate and will be included as an asset on Form 706.

Example. Graham Hess, a minister, used the cash method of accounting and filed his income tax return on a calendar year basis. Graham died on June 1, 2026, after incurring $8,000 in medical expenses. Of that amount, $5,000 was incurred in 2025 and $3,000 was incurred in 2026. Graham itemized his deductions when he filed his 2025 income tax return. The personal representative of the estate paid the entire $8,000 of medical expenses in August 2026.

The personal representative may file an amended return (Form 1040X) for 2025 claiming the $5,000 medical expense as a deduction. The $3,000 expense incurred in 2026 can be deducted on the final tax return if deductions are itemized.

The personal representative must file a statement in duplicate with each return stating that these amounts have not been claimed on the federal estate tax return (Form 706) and waiving the right to claim such a deduction on Form 706 in the future.

Medical expenses of decedents and HSAs (§223(f)(8)). HSAs that have a balance remaining in the account at the time of the account owner's death may be transferred to another person with two different results:

1. If the decedent's spouse inherits the HSA, he or she may treat the HSA as their own HSA.

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2. If someone other than a spouse inherits the HSA, the account shall cease to be an HSA as of the date of death, and the fair market value of the assets in the account are includible in the income of the beneficiary who inherited the account.

Example. Jeannie dies on March 1, 2026, at which time she owned an HSA with an account balance of $27,600. Jeannie has three children, Richard, Jose, and Alyssa named as beneficiaries of the HSA. The HSA ceases to be an HSA on March 1, 2026, the balance of the account is distributed to the beneficiaries each must pay tax on $9,200.

Taxpayer friendly HSA third option exists (§223(f)(8)(B)(ii)). The death of the HSA owner does not preclude additional distribution from the HSA to reimburse for medical expenses of the decedent. In fact, the executor or trustee may make withdrawals from an HSA to reimburse for qualified medical expenses incurred by the decedent before the date of death for up to 12 months after the date of death.

Qualified medical expenses defined for this purpose (§223(d)(2); Notice 2004-2; Form 8889). The term "qualified medical expenses" means amounts paid by the HSA owner for medical care (as defined in §213(d)) for such individual, their spouse, and their dependents (as defined in §152), to the extent such amounts are not compensated for by insurance or otherwise. The qualified medical expenses must be incurred after the HSA was established and may be reimbursed at any time up to 12 months after the account owner dies. Form 8889 is completed:

- Enter "Death of HSA account beneficiary" across the top of Form 8889.
- Enter the name(s) shown on the beneficiary's tax return and the beneficiary's SSN in the spaces provided at the top of the form and skip Part I.
- On Part II, line 14a, enter the fair market value of the HSA as of the date of death.
- On Part II, line 15, for a beneficiary other than the estate, enter qualified medical expenses incurred by the account beneficiary before the date of death that were paid within 1 year after the date of death.
- Complete the rest of Part II.

Example - variation. Assume the same facts as the last example, except Jose is the executor of Jeannie's estate and he is familiar with the HSA rules. After Jeannie's death, the estate receives medical bills of $9,000 for medical services Jeannie received during the last 3 months of her life. Jose uses the HSA to pay the medical bills, reducing the account balance by $9,000 and saving he and his two siblings some tax. However, Jose doesn't stop there. He reviews statements of the HSA account for the past 5 years and notes that Jeannie never made any withdrawals. He also notes that she paid medical expenses of more than $30,000, not including her Medicare supplemental plan, over that 5-year period. Jose withdraws the remaining balance from the HSA in December 2026 (within the one-year time limit) and records it as a qualified medical distribution on the Form 8889 he files with Jeannie's final return. There is nothing left to distribute to him or his siblings, and no tax is paid on the distribution. Jose reports the distribution as a qualified distribution on Form 8889 and saves the tax on the distribution of the entire HSA account balance.

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Sample Election
Ray Kinsella (Deceased 12/31/25)
111-22-3333

Election to Expense Decedent's Medical Expenses

Under IRC §213(c) and Regulation §1.213-1(d)(2), the taxpayer hereby elects to deduct the following expenses, paid within one year of the decedent's death, on Form 1040 for the year ended December 31, 2025. These expenses have not been claimed under IRC §2053 on Form 706; and further, the taxpayer hereby waives the right to deduct the expenses at any time for estate tax purposes under IRC §2053.

Doctors and hospitals	$ 7,625
Prescriptions	1,222
Total	$ 8,847

Deductions in respect of a decedent. Items such as business expenses, income-producing expenses, interest, and taxes, for which the decedent was liable but that are not properly allowable as deductions on the final return will be allowed as a deduction when paid either by the estate or by the person who inherited the property subject to the liability.

Deduction for losses. A decedent's net operating loss deduction from a prior year and any capital losses (including capital loss carryovers) can be deducted only on the decedent's final income tax return. Unused NOLs or capital losses cannot pass through to the beneficiaries, including the surviving spouse. Such losses also cannot be deducted on the estate's income tax return.

1. **Passive activity losses** – Generally, accumulated unused passive activity losses are allowed as a deduction against the decedent's income in the year of death. However, such loss deductions are limited to the extent the loss is greater than the excess of the beneficiary's basis in the property over the decedent's adjusted basis in the property immediately before death (i.e., the amount the basis is stepped up). The part of the accumulated losses equal to the excess is not allowed as a deduction for any tax year.

Example. At the time of his death, Bill Poole owned a passive activity with a basis of $30,000. The FMV of the activity at the DOD was $45,000. Bill had suspended passive losses from the activity of $25,000.

A loss of $10,000 would be deducted on Bill's final return calculated:

Suspended passive loss	$ 25,000
Less step up in basis	($15,000)
Loss deductible	$ 10,000

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Unrecovered investment in pension or annuity. If decedent owned an annuity or pension contract which ended at death, the amount of any unrecovered investment in the contract may be deducted on the decedent's final return. Such amounts are deducted on Schedule A, NOT subject to the 2% limit.

Mortgage loan costs. Any unamortized mortgage loan costs are deductible on the final return.

Request for Prompt Assessment (§6501(d); Form 4810)

IRS ordinarily has 3 years from the date an income tax return is filed, or its due date, whichever is later, to charge any additional tax that is due. Fiduciaries may request the IRS perform a prompt assessment, which reduces the time for making the assessment to 18 months from the date the written request for prompt assessment was received. The request can be made for any decedent's income tax return and for any estate tax return.

Making the request. The request may only be filed after the return it covers has been filed and it must be filed separately from all other forms. The request is typically made by filing Form 4810, but taxpayers can substitute a letter or statement which includes the year(s) involved and clearly states that a request for prompt assessment is being made. The requester must verify her or his authority to act for the taxpayer (e.g., letters testamentary or letters of administration, etc.). The request is made at the same IRS Service Center where the affected returns were originally filed. It may be beneficial to include copies of the returns for which the request(s) is made. If so, be sure to write "COPY – DO NOT PROCESS AS ORIGINAL" at the top of the copy. An executor can request prompt assessment of any of the decedent's taxes for any years for which the statutory period for assessment is open.

Request for Discharge from Personal Liability (§2204; §6905; Form 5495)

IRS ordinarily has 3 years from the date after an income tax, gift tax, or estate tax return has been filed to assess tax and demand payment of any deficiency. The executor representing a decedent's estate, or a fiduciary of a decedent's trust, may request a discharge from personal liability for a decedent's income, gift, and estate taxes before the 3-year period expires. Requests can be made for 9 months (6 months in the case of a fiduciary's request) after the IRS's receipt of the request for discharge, or the earlier payment of any amount determined by the IRS to be owed. If the IRS agrees, the executor or fiduciary will be discharged from personal liability for any deficiency in such tax thereafter found to be due.

Making the request. The request must be made on Form 5495 after the returns for those years are filed. The fiduciary must attach all information and documents required to accompany Form 5495. Even if the executor is discharged from personal liability, the IRS will still be able to assess tax deficiencies against the executor to the extent that he or she still has any of the decedent's property.

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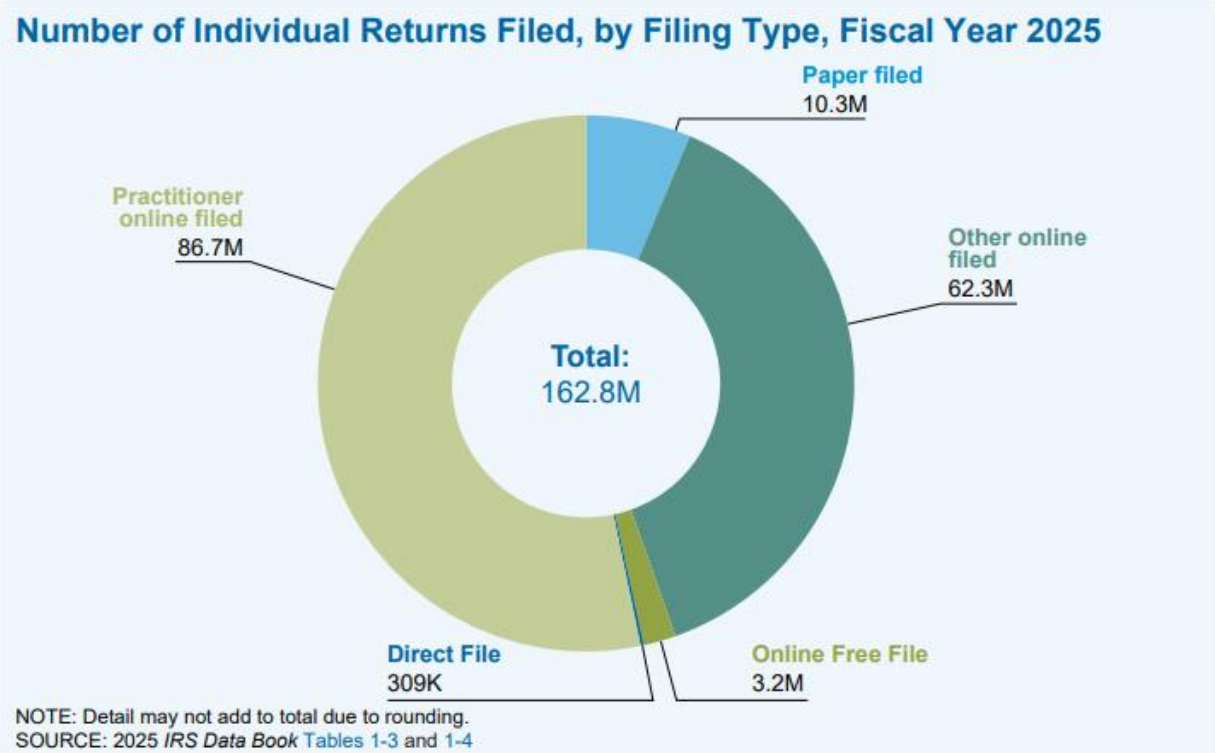
IRS Changes and Updates

IRS Data Book Fast Facts (2025 IRS Data Book)

Filing Stats. The IRS processed more than 271 million Federal tax returns in FY 2025. Paid preparers filed nearly 87 million individual tax returns electronically, and taxpayers filed about 3.2 million returns using the Free File programs. More than 224 million returns were filed electronically, which represented 82.6% of all filings. 93.7% of individual tax returns were filed electronically. The IRS collected the most total tax from California ($767 billion), Texas ($480 billion), and New York ($411 billion) in FY 2025. Collectively, these three states generated about 31% of total revenue collections.



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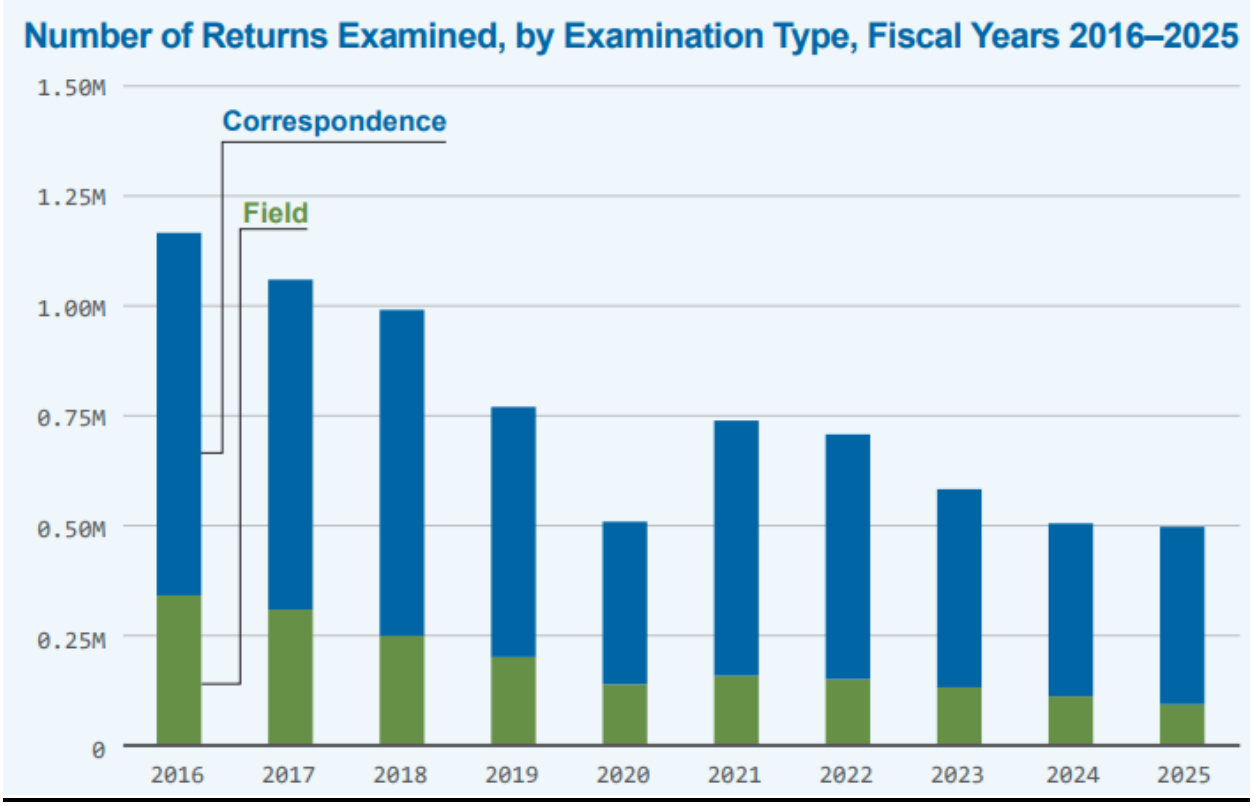
Audit Update. For tax years 2015 through 2025, the IRS audited 0.36% of all individual returns filed. They audited 7.9% of taxpayers who reported income greater than $10 million.



For perspective, in 2010 the IRS audited 1,581,394 income tax returns, 342,762 field audits and 1,238,632 correspondence audits. In 2025, the IRS audited 497,621 income tax returns, 403,059 via correspondence and 94,562 field audits. I'm certain the decline is due to improved compliance amongst taxpayers!!

2025 and 2024 IRS Audits of Individual Tax Returns (2023 Tax Returns)		
Taxpayer Income	**2024**	**2025***
Up to $100,000	.23%	.12%
$100,000 to $1,000,000	.10%	.038%
$1,000,000 to $10,000,000	1.22%	.33%
More than $10,000,000	3.95%	5.16%
Returns with Earned Income Credit	0.74%	0.74%
Total percentage of returns audited	0.29%	0.10%
* Per Table 3-1 in the 2025 IRS Data Book		

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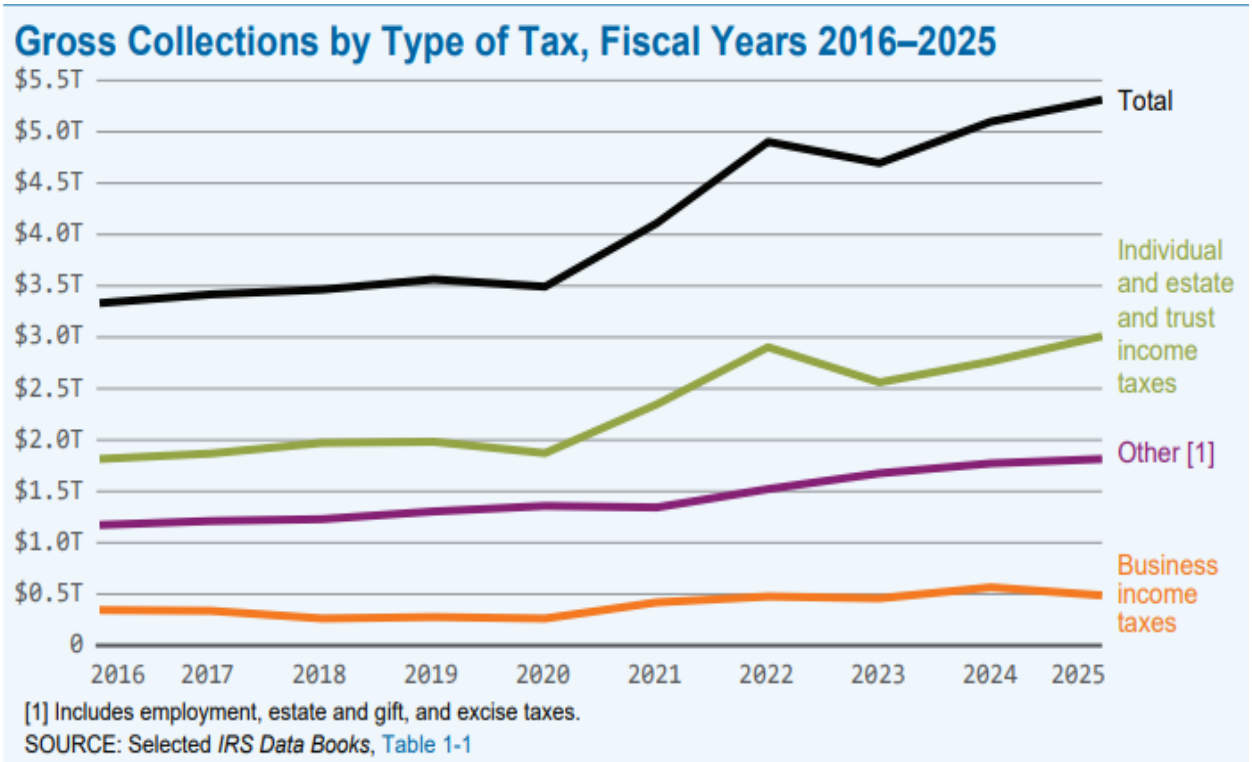
Where does the Federal government revenue come from?



IRS Workforce Woes!

In FY 2024 the IRS employed 90,516 FTEs and had 99,628 personnel receive paychecks. By September 2025, the number of paid employees had dropped to 80,967. Most of this decline was due to employees electing to accept the OPM Deferred Resignation Program, the Treasury Deferred Resignation Program, Voluntary Early Retirement Authority, and Voluntary Separation Incentive Payment, all of which went into effect on or before September 30, 2025. According to a recent TIG report, The units within the IRS that have seen the most reductions in staff include:

- 28% Management and Program Analysis
- 27% Tax Examiners
- 26% Revenue Agents
- 23% Contact Representatives
- 23% IT Management
- 22% Miscellaneous Clerks and Assistants

It will be interesting to see what impact this has over the next few years.

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New Software and Systems at the IRS

Service Center Recognition/Image Processing System (SCRIPS) System. The IRS is expected to rely more on its information system technology to fill in the human gaps in employment by using the Service Center Recognition/Image Processing System (SCRIPS) process. The IRS believes that artificial intelligence will be able to perform functions (data input, math error corrections, issuance of examination notices, etc.) in a timelier and more accurate manner. The IRS began using digital scanning and processing on paper returns to replace the clerks who input the data into the IRS computer system in 2023. The digital high-speed scanning and imaging technology is used in processing tax documents. The plan to expand automated processes for all paper filed tax and information returns.

- High Quality Digital Scanners
- OCR Recognition
- Artificial Intelligence

The IRS also uses digital scanning on about 50% of the correspondence paper mailed to the service centers and expects to use it for all correspondence in the near future.

Customer Account Data Engine (CADE). CADE is the "new" foundation for modernized systems. The IRS Individual Master File (IMF) is migrating to CADE, which is expected to allow the IRS to address technology security, financial material weaknesses, and long-term architectural planning and viability. The system is built to upgrade the decades-old IRS sequential tape-drive systems into a modern relational database architecture. The idea is to allow daily processing instead of current system's weekly or monthly processing updates. Taxpayer accounts will be updated daily maintenance. This includes the standard 1040 forms and related schedules (A, B, C, D, E, F, R), dependent data, and head-of-household returns.

Customer Account Data Engine 2 (CADE 2). CADE 2 expands the work of CODE to include more timely data access, managing cases and resolving account issues. It is meant to be a single system that uses a relatable database to process accounts daily.

IRS Mobile App In, Paper Banking On the Way Out

IRS mobile app name change – IRS2Go is the IRS app. The IRS replaced IRS2Go with a new app simply called the IRS app. The new app allows taxpayers to:

- Check refund status on originally filed or amended returns;
- View, pay, or schedule future payments on the taxpayer's account;
- Access and download tax records, including transcripts and info return docs;
- Read notices and letters from the IRS about tax returns;
- Access IPIN info; and
- Access free filing options.

The IRS plans to continue to expand the app with new capabilities and services over time. The app is free and available through the Apple App Store and Google Play. Current IRS2Go users do not need to download a separate app. Users with automatic updates enabled will receive the IRS app through the normal update process.

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Paper refunds are going away. The Internal Revenue Service began phasing out paper tax refund checks for individual taxpayers in Sept. 2025, as required by Executive Order 14247. This marked the first step of the broader transition to electronic payments. Currently, the options for payments to and from the IRS include:

Refunds of tax to taxpayers:

- Direct deposit to the taxpayer's bank account of choice;
- Deposit to debit or credit card;
- Deposit to digital wallet; and
- Other modern electronic payments.

Payments from taxpayers to IRS including tax, penalty, Federal tax deposits, etc.:

- EFTPS.gov – No new individual registrations for EFTPS after October 17, 2025.
- All individuals currently using EFTPS will be required to transition away at some point in 2026.
- DirectPay – a free online service provided by the IRS that allows taxpayers to pay Federal taxes directly from their checking or savings account. No sign in or account is required to use Direct Pay. Payments can be scheduled up to 365 days in advance and may be modified up to two business days before the payment is scheduled.
- Cash through certain retail partners.
- Payment directly through individual or Business Accounts on IRS.gov.

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Differences between Direct Pay and Individual Online Account

Feature	Direct Pay	Individual Online Account
Forms you can submit payments for	1040, shared responsibility (health care), civil penalty, 706, 706A, 706GS(D), 709, 926, 5329, 6069, 8288, 8404, 8697, 8725, 8876, CT-2	1040, shared responsibility (health care), civil penalty, 5329
Registration required	No	Yes
Limitations on multiple payments (each payment must be under $10 million)	• Up to 5 current or future payments per day (24 hours) • If you exit the application, you must verify your identity again when you return	• 1–5 payments in a transaction • 4 transactions per day
View past and pending (upcoming and future) payments	If you save your confirmation number, you can look up one Direct Pay payment at a time. (For full payment history 24 months back, register for and log in to your account.)	View all payments from all payment channels on the payment activity page. Includes pending, scheduled, canceled, returned and processed payments.
Payment options	Balance due/payment plan, estimated tax, extension, amended, proposed tax assessment, CP2000/CP2501/CP3219A, IRC 965/transferee, bipartisan budget act, offshore voluntary disclosure, offshore streamlined filing compliance, offer in compromise	Pay balance in full, pay toward your balance, minimum monthly payment, additional payment towards plan, amended return, estimated tax, extension, proposed tax assessment, IRC 965 transition tax, bipartisan budget act, offer in compromise

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E-banking exceptions. The IRS provides limited exceptions to the new paperless banking rules for extenuating circumstances including individuals who lack access to bank accounts or electronic payment services. Alternative electronic payment methods, including payments via certain mobile apps and prepaid debit cards, are available to serve these individuals. Taxpayers may file a waiver application by calling the Waiver Line at 855-290-1545.

Preparer note. Taxpayers who filed a 2025 tax return without bank information received a CP53E notice from the IRS that requested the taxpayer sign in or create their Individual Online Account and enter bank information for the refund to be directly deposited. If the notice went unanswered, the IRS sent a check after six weeks.

Preparer note. It is a good idea to remind clients that IRS will NOT ask for bank information to be submitted in any other way than entered online. IRS employees are prohibited from taking bank information over the phone or messaging. The ONLY notice will be the CP53E by mail – the IRS will not call, email, or text to request the information.
Anyone else asking is likely a scammer/fraudster.

Individual taxpayer impacts. The IRS says individual taxpayers should:

- Continue to file their returns as they normally would, using one of the existing filing options.
- Receive refunds via direct deposit or other secure electronic methods.
- Get help if they do not have access to bank accounts. Options such as prepaid debit cards, digital wallets or limited exceptions will be available.

IRS notes that most refunds are already delivered electronically. During the 2025 tax filing season, the IRS issued more than 93.5 million tax refunds to individual income tax filers, and 93% of those, almost 87 million refunds, were issued through direct deposit. Only 7 percent of individual refund recipients received their refunds by check through the mail.

IRS Online Services – Is the Future Here?

The IRS is strongly encouraging taxpayers to explore the growing number of IRS.gov online tools to improve interaction with the IRS. Many tax related tasks can be accomplished quickly and securely using these tools. IRS.gov offers secure, self-service options to individual taxpayers, businesses, and tax professionals. The website tools can help users access tax records, check refund status, make payments, manage payment plans, view notices, request an Identity Protection PIN, and handle authorization requests.

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Online account access. The IRS has expanded the ability of taxpayers and their representatives to access IRS records without intervention of IRS employees through:

- IRS Individual Tax Accounts
- IRS Business Tax Accounts
- Transcript Delivery System for representatives
- Tax Pro Accounts

IRS Individual Online Account. After signing in, taxpayers can use IRS Individual Online Account to securely access personal tax information and complete many tasks online, including:

- View balance information by tax year;
- Make same-day payments or schedule payments up to 365 days in advance from a bank account;
- View payment history and pending or scheduled payments;
- View key tax return information, including adjusted gross income;
- Access transcripts and available information return documents, including Forms W-2 and certain Forms 1099;
- Check the status of a refund or amended return. The refund tracker is available without signing into a personal account. Refund information is generally available 24 hours after the IRS receives an electronically filed current-year return, three days after an electronically filed prior-year return, or four weeks after a paper return is mailed; and
- View digital notices from the IRS.

IRS Business Tax Account. Eligible businesses can use Business Tax Accounts to manage certain Federal tax responsibilities online. Available features depend on the business structure and the user's role, but most users may be able to:

- View business information on file with the IRS;
- View account balances and payment history;
- Make Federal tax deposits, balance due payments, and other payments;
- View tax transcripts, an employer identification number verification letter, and tax compliance reports;
- View certain IRS notices and letters; and
- Manage account access for authorized users.

Business Tax Accounts are available to sole proprietors, partnerships, S corporations, C corporations, federal, state, and local governments, Indian tribal governments, and tax-exempt organizations. Some users may have limited access based on their role in the entity.

Tax Pro Account. Tax professionals can use Tax Pro Account to manage authorization requests and authorized taxpayer relationships. The Tax Pro Account allows eligible tax professionals to:

- Request power of attorney and tax information authorizations;
- View taxpayer information, check authorization request status, view active authorizations, and withdraw authorizations; and
- When both the tax professional and individual taxpayer use IRS online accounts, certain authorization requests can be handled electronically.

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Other IRS.gov tools. IRS.gov also offers helpful online tools and resources, including:

- Get transcripts to access personal tax records, including transcripts of past tax returns, tax account information, wages, and income statements, and verification of non-filing letters.
- Direct Pay with Bank Account to make secure tax payments directly from a bank account.
- Payment Plan to apply for or manage a payment plan when taxpayers cannot pay in full.
- Tax Withholding Estimator to help employees and pension recipients estimate Federal income tax withholding.
- Interactive Tax Assistant to find answers to many tax law questions.
- IRS Mobile App to check refund status, make a payment, find free tax preparation assistance, and sign up for tax tips.

Info security. The IRS reminds taxpayers to use only IRS.gov to access IRS online services. The IRS does not initiate contact with taxpayers by email, text messages, or social media to request personal or financial information. Taxpayers should not share usernames, passwords, or other account information with anyone. Taxpayers who receive a suspicious message claiming to be from the IRS should not click links, open attachments, or respond.

IRS Introduces Online Tax Compliance Report (IR-2026-97)

The Internal Revenue Service now provides a digitally authenticated Tax Compliance Report available through IRS Individual Online Account. Taxpayers can securely obtain and download the report when applying for a job, a loan, a government benefit, or another service that requires tax compliance information. Financial institutions, government agencies, and other organizations that receive the report can use its built-in digital certificate to confirm its authenticity. The certificate also helps protect taxpayer information and maintains the integrity of the report.

Key benefits include:

- Authenticated and secure – each Tax Compliance Report includes an IRS-issued digital certificate that confirms its authenticity.
- Built-in verification – verification features are embedded directly in the downloadable file.
- On-demand access – taxpayers can access and download their report at any time through their IRS Individual Online Account.
- Standardized assurance – each report includes the same authentication and verification features.

Tax Debt Tool. The IRS introduced an online tool to help taxpayers who owe a tax debt to the IRS to get it paid. The tool first walks the taxpayer through a questionnaire to help determine what options are available:

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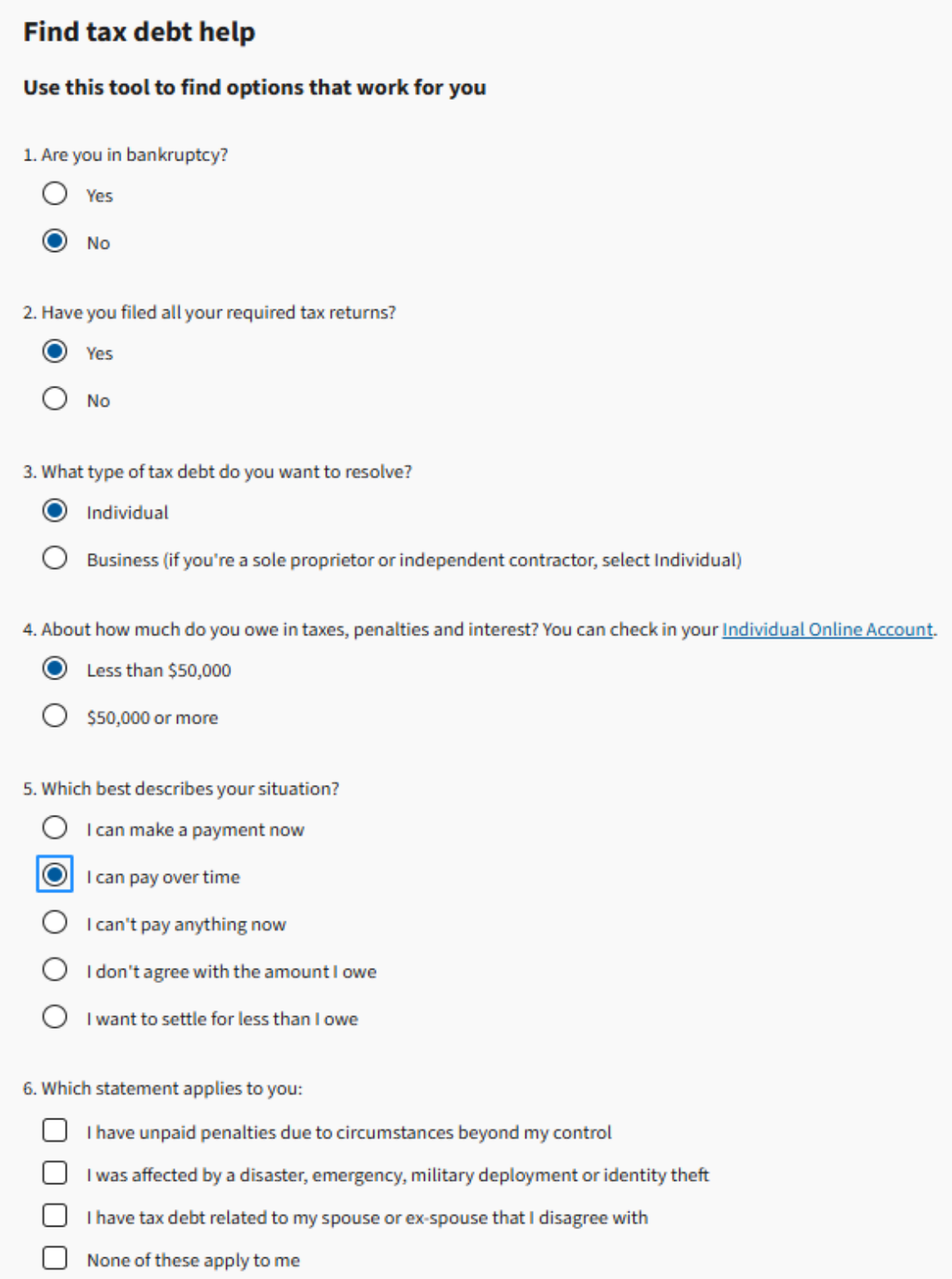

Find tax debt help

Use this tool to find options that work for you

1. Are you in bankruptcy?
   - ○ Yes
   - ◉ No

2. Have you filed all your required tax returns?
   - ◉ Yes
   - ○ No

3. What type of tax debt do you want to resolve?
   - ◉ Individual
   - ○ Business (if you're a sole proprietor or independent contractor, select Individual)

4. About how much do you owe in taxes, penalties and interest? You can check in your Individual Online Account.
   - ◉ Less than $50,000
   - ○ $50,000 or more

5. Which best describes your situation?
   - ○ I can make a payment now
   - ◉ I can pay over time
   - ○ I can't pay anything now
   - ○ I don't agree with the amount I owe
   - ○ I want to settle for less than I owe

6. Which statement applies to you:
   - ☐ I have unpaid penalties due to circumstances beyond my control
   - ☐ I was affected by a disaster, emergency, military deployment or identity theft
   - ☐ I have tax debt related to my spouse or ex-spouse that I disagree with
   - ☐ None of these apply to me

After answering these questions, the online tool next gives the taxpayer options:

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Your results

Short-term payment plan

Pay your balance within 180 days.

- No setup fee
- Lower penalties and interest accrue over short term
- Collection actions are usually stopped while the plan is in effect

Apply in your online account

Sign in or create account

If you owe over $100,000, apply by phone. Contact the number on your notice or call 800-829-1040.

Long-term payment plan

Pay your balance monthly over a longer period.

- Setup fee applies
- Higher penalties and interest accrue over long term
- Collection actions are usually stopped while the plan is in effect
- No supporting financial information or tax lien required

Apply in your online account

Sign in or create account

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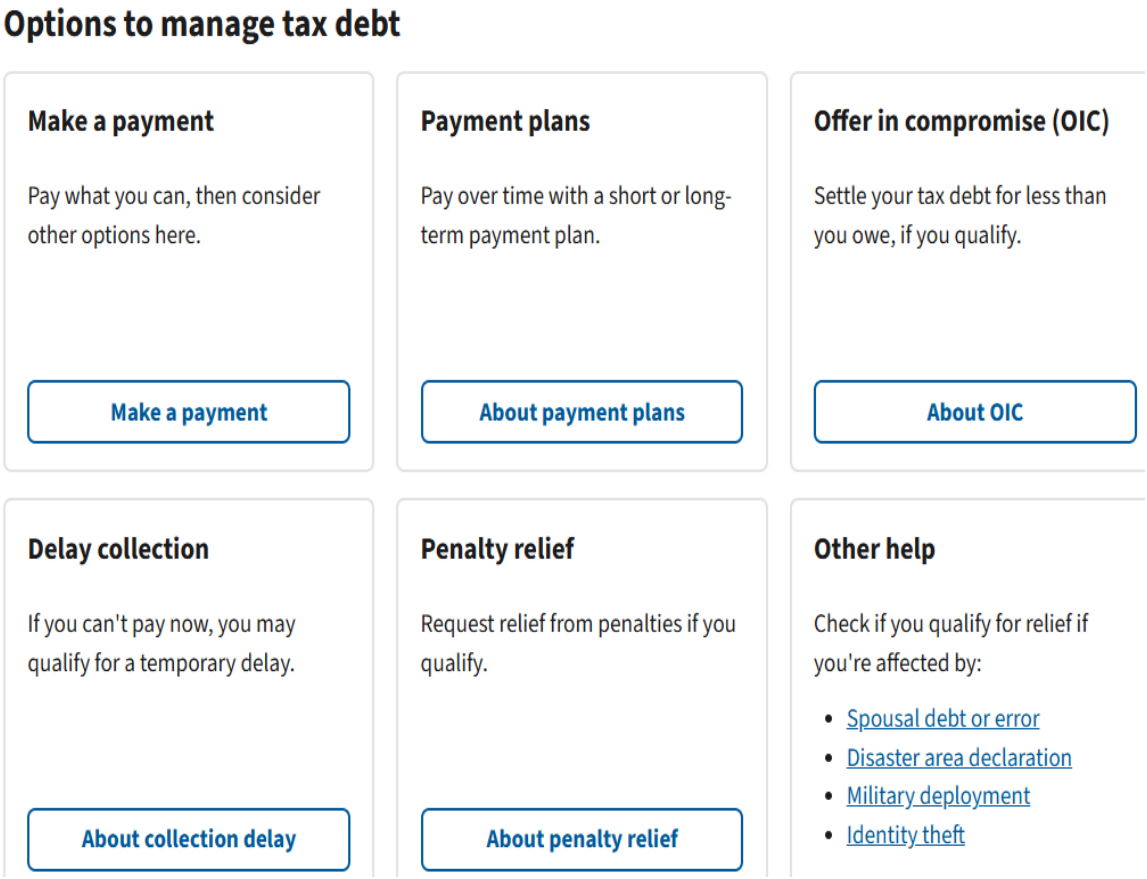

Document Upload Tool Catching On (IR-2024-155)

The IRS officially launched its Document Upload Tool in 2021, and it has since officially accepted its more than two million taxpayer submissions. Use of the Document Upload Tool, sometimes referred to as DUT, has continually grown since its launch. DUT offers taxpayers and tax professionals the option to respond digitally to IRS notices by securely uploading required documents online through IRS.gov. For anyone with a smart phone or computer, this means that replying to IRS notices is now often as easy as scanning required documents and uploading them to the tax agency. The document submissions cover a wide range of tax issues, including responding to IRS Notice CP2000, where the agency notifies taxpayers of potentially underreported income. The IRS estimates that more than 94% of individual taxpayers will have the option of communicating only digitally with the IRS.

Preparer note. The IRS posted a transcript of a training seminar they hosted about the Document Upload Tool and the related processes. You can read the transcript of the DUT training here.

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Revoking a POA/TIA

Revoking POAs best practice. As a best practice, tax professionals should revoke POAs for taxpayers who are no longer clients and for staff who are no longer employed. Each representative with a CAF number should annually request the IRS listing of their active Powers of Attorney or review their Tax Pro account to view and maintain their listed POAs.

What if there is no tax pro account? Tax professionals may also request a listing of current POAs from the IRS by sending a letter to the FOIA Public Access Portal. The following will need to be uploaded:

- Letter (on letterhead) requesting the list; and
- Copy of driver's license (with signature) and enlarged so that it is easily readable.

The Public Access Portal requires that the tax pro log in with your ID.me credentials. When it asks what type of information, choose "Other" and "non-commercial or personal use." There is a form to fill out online with your name and address. Please note a quirk – you must choose the country United States prior to entering the state.

You may also request the CAF listing by signing the letter, attaching a copy of your valid photo id, and faxing it to 877-891-6035, or mailing it to:

Internal Revenue Service
Central Processing Unit
Stop 93A
PO Box 621506
Atlanta, GA 30362

When you receive the listing, it will list each client and each year you have representation rights for. You will need to review the listing for accuracy and completeness.

Methods for revoking POAs. There are four ways to revoke a POA:

1. Using your Tax Pro account, go to the listing of active POAs and withdraw the POA from that screen without having to use forms;
2. Write WITHDRAW across the top of page 1 of the Form 2848, sign, and date immediately below, and fax both pages of that form to the CAF unit;
3. Send a statement of withdrawal that indicates the authority, the matters, years/periods, and the name, address, taxpayer identification number of the taxpayer, and is signed and dated by the representative; and
4. Take the Freedom of Information Act listing and draw a line through the Powers that you wish to KEEP. Fax the listing back to the CAF. Any clients listed that do NOT have lines drawn through them will be revoked.

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Preparer note. When the IRS processes the POA revocation, they will send a letter to the client to let them know the Power of Attorney was revoked and that the individual is no longer representing them.

Practitioner note. It is a best practice to immediately revoke any POA held by a firm's employees when they retire or otherwise terminate employment. However, please be aware that the retired or terminated CAF holder will be required to initiate the revocation. If that employee does not revoke their POAs, the only option for the Firm is to prepare new POAs for the affected clients to revoke the prior POA.

Practitioner Priority Phone Service (PPS)

Reaching out to Practitioner Priority Service. The Practitioner Priority Service can be reached at 866-860-4259. The IRS representative will require a valid authorization, such as Form 2848, 8821, and/or 8655. The service is available from 7am to 7pm local time, except for Hawaii and Alaska who follow Pacific Time and Puerto Rico who has availability from 8am to 8pm in their time zone.

This service is provided to tax professionals to be their first point of contact with the IRS. The representatives who handle the phone calls are specially trained to handle the questions from tax professionals. The PPS is unable to handle international questions and will transfer you to 267-941-1000.

Topic options available through PPS. The options when calling PPS are to press the following (option 9 will repeat the options at all levels):

1. General law questions regarding, press 1:
    a. Filing, dependents, income and credits for the Form 1040, press 1;
    b. Schedule D, self-employment, or pensions/IRAs, press 2;
    c. Affordable Care Act, press 3.
    d. All Others, press 4.

2. Individual accounts not in collection or examination, press 2:
    a. Locating or applying payments;
    b. Explaining IRS communications (i.e., notices and letters);
    c. Providing general procedural guidance and timeframes;
    d. Making account adjustments including some penalty abatement;
    e. Security Income verification from taxpayers;
    f. Providing transcripts;
    g. Providing lost or forgotten CAF numbers;
    h. Representatives can discuss up to 5 clients per call and can get transcripts for 10 clients at a time; and

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i. Without a valid authorization, PPS can take information and document in the taxpayer's file but cannot disclose information.

3. Business Accounts not in collection or examination, press 3:
    a. Locating and applying payments;
    b. Explaining IRS communications;
    c. Providing general procedural guidance and timeframes;
    d. Making account adjustments including some penalty abatement;
    e. Security Income verification from taxpayers;
    f. Providing transcripts;
    g. Employer Identification Number (EIN) verification;
    h. Providing lost or forgotten CAF numbers;
    i. Representatives can discuss up to 5 clients per call, can get transcripts for 10 clients at a time; and
    j. Without a valid authorization, PPS can take information and document in the taxpayer's file but cannot disclose information.

4. Client is in Automated Collection System Status, ACS, or needs to address balance due issues, press 4:
    a. Ask for a stay in collection status due to new information or requests;
    b. Submit a streamlined installment plan orally;
    c. Request a Non-Collectible status orally; and
    d. Discuss collection or payment issues.

Preparer note. SB/SE's Automated Collection System (ACS) will now exclusively resolve collection issues. Under this new division of duties, PPS assistors cannot take any action for collection activities, including installment agreements and short-term payment plans. The taxpayer, or their authorized representative, must contact ACS to resolve these account issues. The IRS will update its notices to ensure it contains the appropriate phone number for the area that is best suited to assist with the customer/client issue. Please note that third parties who are authorized by Forms 8821 and 8655 cannot act on behalf of the taxpayer to resolve collection delinquencies. With changes to call routing, some third-party callers may need to be transferred to the correct IRS office. To minimize any service disruptions, the IRS updated the PPS's automated recording to say: "If your client's account is in Automated Collection System status, ACS, or you need to address balance due issues, press or say 4."

5. Questions about Automated Underreporter Notice, AUR, press 5:
    a. If the number in the upper right-hand corner of the notice is:
        i. 800-829-8310, press 1.
        ii. 800-829-3009, press 2.
        iii. 877-571-4712, press 3.
    b. Allows representative to Fax documents supporting the answer to the notice.
    c. Discuss and resolve underlying issues with notice.

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Other IRS Developments

IRS Withholding Estimator Updated

The IRS encourages taxpayers to use the IRS Tax Withholding Estimator to ensure their withholding is calculated correctly. This digital tool provides workers, self-employed individuals and retirees with wage or retirement income a user-friendly resource to effectively adjust the amount of income tax withheld from their wages or pensions. The Tax Withholding Estimator is available on the IRS's website at irs.gov.

Post Appeals Mediation Pilot Program Initiated (IR-2025-100)

The IRS Independent Office of Appeals launched a two-year pilot program to make Post Appeals Mediation (PAM) more attractive to taxpayers. The hope is that this new Alternative Dispute Resolution program will provide a cost-effective option for resolving cases. Taxpayers can request PAM at the conclusion of an unsuccessful Appeals proceeding, and if the request is accepted, the parties meet in an accelerated mediation session where they make a final attempt to negotiate a mutually acceptable resolution. These sessions are expected to last no more than one day and will be facilitated by an appeals mediator with no connection to the underlying case. Taxpayers may invite a co-mediator at their own expense. The mediators promote settlement negotiations between the parties while helping them define the issues and identify common ground.

The change is not intended to create a new appeal, but instead to facilitate an expedited fresh look at the case in which mediators help the parties explore all potential paths to resolution prior to potential litigation. The IRS believes PAM proceedings typically have an elevated level of success. Appeals is continually looking to increase usage of its five ADR programs: Fast Track Settlement, Fast Track Mediation Collection, PAM, the Rapid Appeals Process, and Early Referral in ways that better serve taxpayers and the IRS and contribute to the quick and efficient resolution of tax controversies.

IRS Sets PTIN Fee at $18.75 for 2026 – Releases Final PTIN Regs (§300.11)

After much back and forth between the IRS, the tax preparation profession, and the courts, the U.S. Court of Appeals for the District of Columbia ruled Federal agencies that provide services that confer benefits on identifiable recipients are allowed to charge user fees to recover the full cost of providing the service. The Court further ruled that the PTIN program provides benefits to tax professionals (*Brittany Montrois* v. U.S., D.C. Cir. No. 17-5204, March 1, 2019). After conducting the required biennial review of the PTIN program, the IRS set the 2025 user fee at $10 plus $8.75 processing fee (paid to third-party contractor) for a total cost of $18.75. The IRS also issued final regulations to establish the PTIN at $10 plus the related administrative fee.

Who needs a PTIN? Anyone who prepares or assists in preparing any Federal tax return for compensation is required to have a PTIN. All enrolled agents must have a PTIN. For 2023, the IRS has issued more than 781,000 PTINs.

IRS updates PTIN application process. The IRS updated the Tax Professional PTIN System sign-in process for tax return preparers who have a Social Security number (SSN). Tax preparers with SSNs will now sign in using ID.me, a technology provider that conducts identity verification

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and credential management for access to IRS online services. Soon, the existing sign-in method of using a Username and Password will no longer be supported and tax preparers won't be able to access the PTIN system without an ID.me account. Tax preparers who don't have a SSN continue using their current sign-in process.

Existing ID.me users. Tax preparers who already have an ID.me account can sign in without re-verifying their identity. New users will have to create a new ID.me account, which includes identity verification. ID.me credentials enable access to various IRS online services including the PTIN System, Tax Pro Account, Business Tax Account, Individual Online Account, and more.

New ID.me users. Users who don't currently have an account will be required to create one with ID.me to access the PTIN Online Registration System. To create a new ID.me account, users will need a government-issued photo ID, an email address, and a camera enabled computer or mobile device. ID.me offers multiple registration options and 24/7 customer assistance.

For more information, go to:

- www.irs.gov/ptin
- www.irs.gov/register

IRS Continues to Encourage Use of IP PINs to Cut Down Identity Theft (Pub 5367)

The Internal Revenue Service expanded the Identity Protection PIN Opt-In Program to include all taxpayers who can verify their identities. The IP PIN is a 6-digit number assigned to eligible taxpayers that is required to be submitted with the tax return, in addition to the taxpayer's name and Social Security number, to verify the taxpayer's identity. Bottom line, the IP Pin helps prevent identity thieves from filing fraudulent tax returns with stolen Social Security numbers (SSNs).

IP PIN is available to all taxpayers, not just those subject to ID theft. For more than a decade the IRS issued IP PINs to identity theft victims. That process is unchanged. What's new is that any taxpayer who wants an IP PIN, even if they are not victims of identity theft, may now obtain one to protect against potential identity theft. Here's what you need to know before applying for your IP PIN:

1. This is a voluntary program.

2. You must pass a rigorous identity verification process.

3. Spouses and dependents are eligible for an IP PIN if they can verify their identities.

4. The IP PIN is valid for one year. Each January, the taxpayer must obtain a newly generated IP PIN.

5. You must obtain a new IP PIN each filing season, using the online IP PIN tool.

6. The IP PIN tool is unavailable generally mid-November through mid-January each year.

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7. Correct IP PINs must be entered on electronic and paper tax returns to avoid rejections and delays.

8. The IRS offered an opt out feature to the IP PIN program in 2022 if taxpayers find it is not right for them.

The easiest way to get an IP PIN is to use the "Get an IP PIN"' online tool on the IRS website. The steps are:

1. Go to IRS.gov/IPPIN, select the Get an IP PIN tool, verify your identity, and create an account.

2. Once you have a username, password, and security code, enter the Get an IP PIN tool.

3. Your IP PIN will be revealed to you.

Can't pass online identity proofing? There are alternatives for those who cannot pass the online ID proofing but there will be a delay in obtaining an IP PIN. These taxpayers will have to:

1. File Form 15227 for those with a valid SSN or ITIN, an AGI of $72,000 or less, and access to a telephone. An IRS assistant will call you, validate your identity, and ensure that you receive an IP PIN in the next filing season.

2. Those ineligible to file Form 15227 will have to call the IRS for in-person options.

IRS Launches Webpage to Streamline Fraud Reporting (IR-2026-26)

The IRS launched a new web page that allows taxpayers to confidentially report suspected tax fraud, scams, evasion, or other tax-related illegal activities to enhance how referrals are used to stop illegal activity. The IRS anticipates that the new webpage will make reporting suspected wrongdoing easier and simpler, not only for the reporter but also for those at the IRS who are charged with following up on leads.

The new web page consolidates multiple IRS fraud-reporting options into a single, centralized location, making it easier for taxpayers to report suspicious activity. The web page can be found by selecting the new 'Report Fraud' button on the IRS.gov homepage or at IRS.gov/SubmitATip. The new web page is only an initial improvement to the IRS's fraud reporting process. Over the longer term, the IRS plans to streamline fraud reporting by reducing forms, automating processes, and using modern case management software.

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Death of the 150-Hour Education Requirement for CPAs

AICPA and state CPA societies are looking to address the serious shortage of young accountants entering the profession. In 2024 it was estimated that approximately 75% of CPAs in the U.S. were Baby Boomers (born 1946 – 1964). Prior to 1988, most states allowed those with bachelor's degrees to qualify to be a CPA. In 1988, the AICPA pushed for the 150-hour education requirement, which was then adopted in all 50 states and jurisdictions. Since 2000, there has been considerable debate about whether the requirement was necessary or helpful and today many states are considering reducing the 150-hour requirement or at least providing an alternative pathway to the CPA license. Interestingly, most Baby Boomers were able to obtain their CPA licensing before the 150-hour requirement was implemented. The AICPA has voiced concerns about maintaining uniform standards and preserving the CPA designation's integrity, while overall, agreeing that a change to fewer hours is reasonable.

States making changes. As of September 2026, there were at least 44 states that had adopted new laws that provide CPA licensing routes that require 120-hours of education instead of the 150-hour requirement. Most of these states require 2 years of supervised experience in addition to the 120 hours of education. The AICPA and NASBA have both endorsed alternative pathways to licensure. While the 150-hour requirement remains a pathway, most states now offer other options using education and experience in lieu of the 150-hour requirement. The alternative pathways generally require a bachelor's degree and some level of experience. All applicants must pass the Uniform CPA exam to be licensed. Education and experience are where the changes are occurring.

> **Example.** California's new licensing law takes effect January 1, 2027. The law allows a person who has received a bachelor's degree with an accounting concentration, and has completed two years of general accounting experience, to obtain their CPA license. The law also provides that a candidate may also be licensed if they complete a qualifying master's degree program and they have at least one year of qualifying experience. Candidates who complete an approved accounting certificate program may reduce the experience requirement by six months (so they must have 18 months experience).

Taxpayer and Preparer Penalties

IRS Simplifies Penalty Relief, Introduces Automatic Process (IR-2026-83).

The IRS recently announced a new automatic process to provide penalty relief for taxpayers with a history of filing and paying on time, reducing the need for them to request assistance. The new Automatic Exemption from Penalty will replace the long-standing First Time Abate administrative relief.

New automatic penalty relief began in summer 2026. The new Automatic Exemption from Penalty, or AEP, is a systemic administrative relief program that began in the summer 2026. AEP applies to eligible original returns beginning with tax year 2025 and 2026 quarterly returns, as well as future tax periods. Taxpayers qualify if they have a history of timely filing the return and paying any tax due in the three prior years (or 12 consecutive quarters for quarterly returns). When taxpayers qualify, penalties are automatically waived for:

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- Failure to file.
- Failure to pay.
- Failure to deposit.

No action required. Taxpayers do not need to take action to receive this relief. If eligible, the IRS automatically applies AEP and issues a notice confirming that the relief was granted. Not all returns are eligible for AEP. For example, information returns and returns that are filed only in response to specific transactions or infrequent events (such as Form 706, U.S. Estate Tax Return or Form 709 Gift Tax Return) are not eligible.
First Time Abate phased out. The prior First Time Abatement began phasing out last summer. During this transition, some qualifying taxpayers may still receive penalty notices for eligible tax year 2025 and 2026 quarterly returns. Taxpayers who believe they qualify may contact the IRS to request First Time Abate. AEP provides relief automatically and will replace First Time Abate for eligible returns with original due dates on or after Jan. 1, 2027.

What if I don't qualify? Taxpayers who do not qualify for AEP may still request penalty relief based on reasonable cause. The IRS will review those requests and notify taxpayers of the outcome.

Preparer note. According to the tax practitioner liaison, there is no mechanism to allow a qualifying taxpayer to request reasonable cause abatement instead of AEP. The AEP is automatic if the taxpayer is qualified. This may present a problem in specific circumstances where the AEP is used up for a reasonable cause event and then not available for an AEP event.

Substantial Underpayment Penalties and Related Relief.

Overview (§6662). Taxpayers who report a substantial understatement of income on their tax return are subject to an underpayment of tax penalty equal to 20% of the understated tax. The penalty increases to 40% in the case of gross valuation misstatements, nondisclosed noneconomic substance transactions, or undisclosed foreign financial asset understatements. There is a substantial understatement of income tax if the understated tax[1] exceeds the greater of:

- 10% of the amount of tax required to be shown on the return for the taxable year, or
- $5,000 (see §6662(d)(1)(B) for special rules that apply to C corporations).

Preparers also subject to penalties (§6694). Tax return preparers who prepare a return that reflects an understatement of liability due to an "unreasonable position" which the tax return preparer knew (or reasonably should have known) about. The preparer penalty is the greater of $1,000 or 50% of the income derived by the preparer for the respective return. If the IRS determines the understatement was due to willful neglect or reckless conduct, the penalty is equal to the greater of $5,000 or 75% of the income derived.

[1] An understatement is the excess of the amount of tax required to be shown on the return for the taxable year over the amount of the tax that is shown on the return reduced by any rebate (§6662(d)(2)).

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Example. Adam and Cambria Green hired MJ to prepare their 2026 tax returns. During their interview, Adam and Cambria advised MJ they want to deduct auto and travel expenses of $50,000 on Cambria's Schedule C. They also say they do not have any contemporaneous documentation to prove the deductions. MJ decides to allow Adam and Cambria to claim the deductions on their tax return. She charges the Greens $1,500 to prepare the return.

The IRS audited Adam and Cambria's tax return and determined the auto and travel expenses were not deductible and added $50,000 to taxable income. Their 2026 Federal income tax increased $15,000 and the IRS assessed a substantial understatement penalty of $3,000 ($15,000 x 20%). MJ was assessed a preparer penalty of at least $1,000 (greater of $1,000 or 50% of her $1,500 fee). If the IRS determines MJ willfully ignored the law – she did – the preparer penalty would be increased to $5,000 (greater of $5,000 or 75% of $1,500).

Using disclosure to avoid taxpayer and preparer penalties. The understatement penalties do not apply if the taxpayer and/or preparer has a reasonable basis for the tax treatment (and the item in question is not a non-tax shelter or reportable transaction[2]). A tax position is generally treated as reasonable if:

1. There is or was substantial authority for taking the position, or

2. The position was adequately disclosed (per §6662(d)(2)(B)(ii)(I)) and the taxpayer and preparer had a reasonable basis for taking the position.

What is adequate disclosure? Rev. Proc. 2020-54 defines the procedures required to provide adequate disclosure and avoid taxpayer and preparer penalties. The Rev. Proc. requires the taxpayer to furnish all required information in accordance with the applicable forms and instructions in a clear manner and in accordance with the form instructions. For example, in the example above, Adam and Cambria's tax return needed to include Sch. C, and all expenses deducted were supported with proper documentation. Additionally, Form 8275 or Form 8275R must be included with the return. Finally, Rev. Proc. 2020-54 has general and specific disclosure requirements for specific types of tax return income and deduction. The general disclosure requirements are:

1. All amounts entered on forms must be verifiable (i.e., taxpayer can prove the origin of the amount, even if the IRS does not accept the number) and the taxpayer can show good faith in entering that number on the applicable form.

2. The disclosed amounts are not related party transactions (disclosure is not adequate when the understatement arises from a transaction between related parties (defined at §267(b)).

3. For amounts and items shown on a line that do not have a preprinted description (e.g., Sch. C other deductions) the taxpayer clearly describes the item on the line. For example, to disclose a bad debt for a sole proprietorship, the words "bad debt" must be written or typed on the line of Schedule C that shows the amount of the bad debt, not say "Other

[2] If the position is with respect to a tax shelter (§6662(d)(2)(C)(ii)) or a reportable transaction to which §6662A applies, the position is treated as unreasonable unless the position would more likely than not be sustained on the merits (Notice 2009-5).

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expense." If space limitations on a form do not allow for an adequate description, the description must be continued on an attachment.

4. Even if the taxpayer meets the literal disclosure requirements, the disclosure has no effect if the item or position: 1) does not have a reasonable basis; 2) is attributable to a tax shelter; or 3) is not properly substantiated due to inadequate books and records.

Example - variation. Assume the same facts as described above except that Adam and Cambria agree when MJ suggests they include Form 8275 with the return to meet the disclosure requirements of Rev. Proc. 2020-54. Unfortunately, the expenses were not substantiated due to inadequate books and records. Therefore, the disclosure does not exempt Adam and Cambria from the penalties. MJ also is not exempt.

Final Note – Line by line instructions available. Rev. Proc. 2020-54 has specific disclosure guidelines for specific return items (e.g., medical expenses, charitable contributions, trade or business expenses, repair expenses, etc.). Specific details for each line are too voluminous to cover here. Refer to the Rev. Proc. for more detailed discussion.

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Preparer Penalties under the Law: Reference is to IRC Section

§6694 – Understatement of taxpayer's liability by tax return preparer.

- §6694(a) – Understatement due to unreasonable positions. The penalty is the greater of $1,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.

- §6694(b) – Understatement due to willful or reckless conduct. The penalty is the greater of $5,000 or 75% of the income derived by the tax return preparer with respect to the return or claim for refund.

§6695 – Other assessable penalties with respect to the preparation of tax returns for other persons.

- §6695(a) – **Failure to furnish copy to taxpayer**. The penalty is $65 for each failure to comply with IRC §6107 regarding furnishing a copy of a return or claim to a taxpayer. The maximum penalty imposed on any tax return preparer shall not exceed $32,500 in calendar year 2026.

- §6695(b) – **Failure to sign return**. The penalty is $65 for each failure to sign a return or claim for a refund as required by regulations. The maximum penalty imposed on any tax return preparer shall not exceed $32,500 in calendar year 2025.

- §6695(c) – **Failure to furnish identifying number**. The penalty is $65 for each failure to comply with IRC § 6109(a)(4) regarding furnishing an identifying number on a return or claim. The maximum penalty imposed on any tax return preparer shall not exceed $32,500 in calendar year 2025.

- §6695(d) – **Failure to retain copy or list**. The penalty is $65 for each failure to comply with IRC § 6107(b) regarding retaining a copy or list of a return or claim. The maximum penalty imposed on any tax return preparer shall not exceed $32,500 in calendar year 2025.

- §6695(e) – **Failure to file correct information returns**. The penalty is $65 for each failure to comply with IRC § 6060. The maximum penalty imposed on any tax return preparer shall not exceed $32,500 in calendar year 2025.

- §6695(f) – **Negotiation of check**. The penalty in calendar year 2025 is $650 for a tax return preparer who endorses or negotiates any check made in respect to taxes imposed by Title 26 which is issued to a taxpayer.

- §6695(g) – **Failure to be diligent in determining eligibility for certain tax benefits**. This penalty is for failure to determine eligibility or the amount for earned income credit, child tax credit, additional child tax credit, other dependent credit, American opportunity credit, and/or the head of household filing status. The penalty for returns filed in 2025 is $650 for each failure on each return.

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§6700 – Promoting abusive tax shelters. The penalty is for taxpayers who organize or sell abusive tax shelters. The penalty is calculated differently depending on the taxpayer's conduct. If the taxpayer makes false statements regarding the tax benefits of the transaction which he knows or has reason to know are false, the penalty is equal to 50% of the gross income derived from the activity. If the taxpayer provides a gross valuation overstatement the penalty is $1,000 for each organization or sale (or, if less, 100% of the income derived from the activity).

§6701 – Penalties for aiding and abetting understatement of tax liability. The penalty is $1,000 ($10,000 if the conduct relates to a corporation's tax return) for aiding and abetting in an understatement of a tax liability. Any person subject to the penalty shall be penalized only once for documents relating to the same taxpayer for a single tax period or event.

§6713 – Disclosure or use of information by preparers of returns. The penalty is $250 for each unauthorized disclosure or use of information furnished for, or in connection with, the preparation of a return. The maximum penalty on any person shall not exceed $10,000 in a calendar year. If a disclosure or use is made in connection with a crime relating to the misappropriation of another person's taxpayer identity, whether such crime involves any tax filing, the penalty increases to $1,000 for each use or disclosure, with a maximum of $50,000 per person per calendar year.

§7206 – Fraud and false statements. Guilty of a felony and, upon conviction, a fine of not more than $100,000 ($500,000 in the case of a corporation), imprisonment of not more than three years, or both (together with the costs of prosecution).

§7207 – Fraudulent returns, statements, or other documents. Guilty of a misdemeanor and, upon conviction, a fine of not more than $10,000 ($50,000 in the case of a corporation), imprisonment of not more than one year, or both.

§7216 – Disclosure or use of information by preparers of returns. Guilty of a misdemeanor for knowingly or recklessly disclosing information furnished in connection with a tax return or using such information for any purpose other than preparing or assisting in the preparation of such return. Upon conviction, a fine of not more than $1,000, imprisonment of not more than 1 year, or both (together with the costs of prosecution).

§7407 – Action to enjoin tax return preparers. A Federal district court may enjoin a tax return preparer from engaging in certain proscribed conduct, or in extreme cases, from continuing to act as a tax return preparer altogether.

§7408 – Action to enjoin specified conduct related to tax shelters and reportable transactions. A Federal district court may enjoin a person from engaging in certain proscribed conduct (including any action, or failure to act, which is in violation of Circular 230).

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IRS and Tax Related Contact Phone Numbers

Service	Description	Phone #	Comments
Practitioner Priority Service	Practitioner's first point of contact for account-related issues - *for tax preparers ONLY*	(866) 860-4259	Monday–Friday, 7:00 a.m.–7:00 p.m., Local Time
e-Help Desk	For questions on e-file, EFTPS, and e-services	(866) 255-0654	Monday- Friday 6:30 a.m.–6:00 p.m., Central Time
Business and Specialty Tax Line	For Small Businesses, Corporations, Partnerships, and Trusts	(800) 829-4933	Monday–Friday, 7:00 a.m.–7:00 p.m., Local Time
IRS Tax Help Line for Individuals	Procedural or tax law information to help file	(800) 829-1040	Monday–Friday, 7:00 a.m.–7:00 p.m., Local Time
Refund Status	Check the status of the current year's return. When you call, you will need your Social Security number, your filing status, and the refund amount shown on your return.	(800) 829-1954	Automated service is available 24/7
IRS Debt	Taxpayers can use the IRS Tax Help line.	(800) 829-1040	Monday–Friday, 7:00 a.m.–7:00 p.m., Local Time
FMS Debt	***Treasury Offset Program***	(800) 304-3107	
Social Security Administration		(800) 772-1213	Automated service is available 24/7 Monday–Friday, 7:00 a.m. – 7:00 p.m.
IRS Disaster Hotline	Help with disaster losses.	(866) 562-5227	Monday–Friday, 7:00 a.m.–10:00 p.m., Local Time
Employer Identification Number (EIN)	EIN applications and changes (Business and Specialty Tax Line). **EIN applications can also be submitted online.**	(800) 829-4933	Monday–Friday, 7:00 a.m.–7:00 p.m., Local Time

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Service	Description	Phone #	Comments
Tax Exempt and Government Entities (TEGE) Help Line	Tax Exempt or Government Entities, Bonds, Pension Plans, Tribal Agreements	(877) 829-5500	Monday–Friday, 7:00 a.m. – 7:00 p.m., Central Time
Form 706 or Form 709	For questions related to Form 706 and Form 709	(866) 699-4083	
Excise Tax and Form 2290 Help Line	***Heavy Vehicle Tax issues***	866) 699-4096	Monday–Friday, 8:00 a.m.–6:00 p.m., Eastern Time
Criminal Investigation Informant Hotline	Report Tax Fraud	(800) 829-0433	
Electronic Federal Tax Payment System (***EFTPS***)	Business or individuals who want to pay taxes through electronic transfer of funds	(800) 555-4477 (800) 733-4829 (TDD) (800) 244-4829 (SP)	24/7
Pay by credit card - phone	**See list of IRS providers**	(888) 555- 4477	
Pay by credit card - online			
Forms and Publications	For IRS forms, instructions, tax publications	(800) 829-3676	Monday–Friday, 7:00 a.m.–7:00 p.m., Local Time
National Taxpayer Advocate	For tax problems that have not been resolved through normal channels	(877) 777-4778	
Telephone Device for the Deaf	For hearing-impaired taxpayers or practitioners	(800) 829-4059	Monday–Friday, 7:00 a.m.–7:00 p.m., Local Time

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Glossary

Agricultural Chemicals Security Credit

30% credit available for eligible agricultural businesses for the costs of protecting certain agricultural chemicals

Alcohol Fuel Credit

Comprised of the straight alcohol credit, the alcohol fuel mixture credit, the small ethanol producer credit, and the cellulosic biofuel producer credit; qualifying alcohol includes methanol and ethanol

Alternative Fuel Motor Vehicle Credit

A nonrefundable credit covering five distinct areas of motor vehicles – qualified hybrid vehicles, qualified fuel cell vehicles, qualified alternative fuel motor vehicles and heavy hybrids, advanced lean-burn technology vehicles, and the plug in conversion credit

Biodiesel and Renewable Diesel Credit

Comprised of the straight biodiesel credit, the biodiesel mixture credit, and the small agri-biodiesel producer credit

Business Energy Credit

Available for businesses with costs incurred for alternative energy sources; 30% of costs for solar, fuel cells, and small wind turbines, and 10% of costs for geothermal systems, microturbines, and combined heat and power

Disabled Access Credit

A nonrefundable credit available for small businesses that incur costs to provide access to disabled persons under the 1990 ADA Act

Employer Provided Child Care

A 25% credit for qualified childcare facility expenditures plus 10% of resource and referral expenditures up to a maximum of $150,000 per tax year

Federal Renewable Electricity Production Credit

A per-kilowatt-hour tax credit available for those generating electricity through qualified energy resources and sold by the taxpayer to an unrelated person during the tax year

Fuel Tax Credit

Tax is paid on fuel to provide funds for repairing and replacing highways damaged by the vehicles using the fuel; this credit is typically for those using fuel for off-road purposes (i.e. farming) whose vehicle use does not damage roadways

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Full Time Equivalents

The number of full time employees an employer would have if based upon the hours worked by every employees (up to a maximum of 2,080 per employee) during the year; the hours worked, excluding owners family members, and seasonal employees, is divided by 2,080 to determine the full time equivalents for purposes of the small business health care credit

Indian Employment Credit

Designed to encourage businesses to hire certain individuals who live on or near an Indian reservation

New Hire Credit

Available for businesses that hire unemployed workers that meet certain qualifications; designed to speed of the hiring of the unemployed

New Markets Tax Credit

Available for businesses that made Qualified Equity Investments to acquire stock/capital interest in designated Community Development Entities whose proceeds are invested in qualified low-income community developments

Qualified Plug-In Vehicle Credit

Available for vehicles with GVW under 14,000 lbs, is designed for highway use, and which is propelled significantly by an electric motor drawing power from a battery with a capacity of at least 4 kilowatt hours; you must be able to recharge the battery from an external source

Rehabilitation Credit

A credit available for the rehabilitation or reconstruction of certain buildings; 10% of costs for building place in service before 1936 and 20% of costs for certified historic structures

Research Activities Credit

A complex credit available to businesses that increase their research activities during the year

Small Business Health Care Credit

Credit designed to assist employers with less than 25 employees with providing their employees health insurance; the credit begins to phase out at 11 employees and is completely gone at 25 employees; wage restrictions also apply

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Small Employer Pension Plan Startup

Designed for small businesses to offset the costs of setting up and administering a new qualified employer plan

Tip Credit

Available to food and beverage establishments where tipping is customary; equal to the employer's portion of social security and Medicare taxes paid on tips received by employees

Work Opportunity Credit

Credit to reduce the federal tax of private-for-profit employers; many states also offer similar credits for state taxes

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