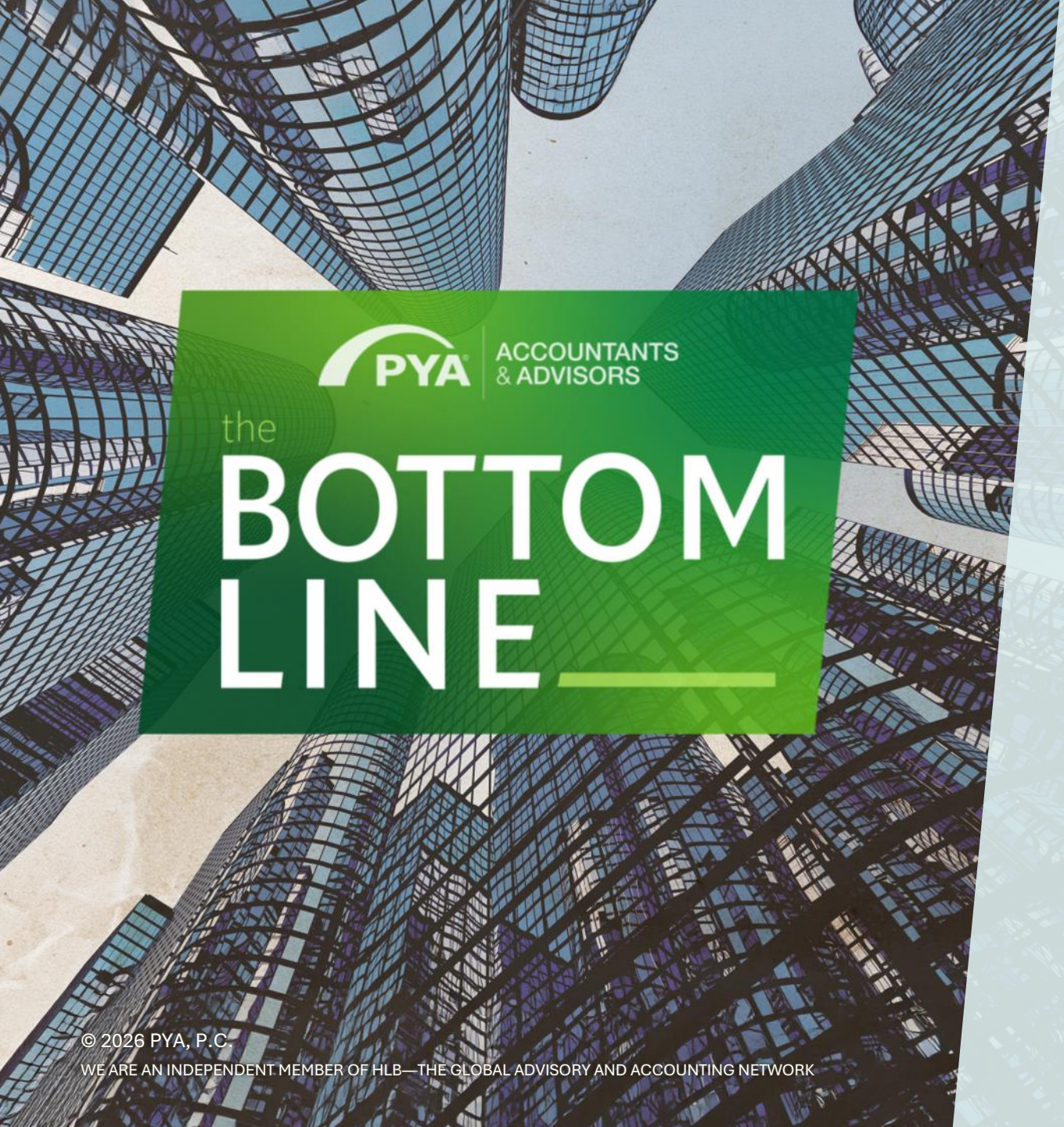


2026 Federal Tax Update:

From Tax Law to Client Action

November 5, 2026

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Introductions



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Learning Objectives

1. **Apply** 2026 tax law updates to individual and business tax planning strategies, including changes affecting tax brackets, deductions, credits, retirement plans, and estate planning.

2. **Evaluate** year-end planning opportunities related to SALT and PTET elections, charitable giving, Roth conversions, QBI deductions, depreciation, and research expenditures.

3. **Identify** areas of heightened tax risk and compliance focus, including digital asset reporting, information return requirements, AMT exposure, and documentation requirements.

4. **Analyze** planning alternatives for business owners and high-income taxpayers, including deductions, credits, entity-level elections, and retirement strategies.

5. **Develop** actionable year-end tax planning recommendations that support compliance.

Legislative Overview:
Permanent vs. temporary tax law changes

Permanent

TCJA-style individual rates, larger standard deduction, Section 199A and 100% bonus

2025 – 2028

Several individual deductions remain temporary and require separate eligibility tests

Indexed

Thresholds still move annually, software and projection assumptions must be refreshed

Planning Reset
Reopen projections built in 2023–2025 that assumed a 2026 rate cliff.

Discussion Prompt
Do your projections still assume higher post-TCJA rates?

Individual Rates

Thresholds are important planning opportunities

Individual Rates	Single Filer	Married Filing Joint
10%	up to $12,400	up to $24,800
12%	$12,401–$50,400	$24,801–$100,800
22%	$50,401–$105,700	$100,801–$211,400
24%	$105,701–$201,775	$211,401–$403,550
32%	$201,776–$256,225	$403,551–$512,450
35%	$256,226–$640,600	$512,451–$768,700
37%	over $640,600	over $768,700

Sources: IRS Rev. Proc. 2025-32

Standard Deduction

Standard vs. itemized deductions

	2025	2026	Increase
Single	$15,750	$16,100	$350
Married filing jointly	$31,500	$32,200	$700
Head of household	$23,625	$24,150	$525

BUNCHING TEST

Compare two- or three-year deductions against the floor, then model DAF timing and state effects.



NEW FOR 2026

Nonitemizers may deduct up to $1,000 cash ($2,000 MFJ) to qualifying organizations.

Sources: IRS Rev. Proc. 2025-32

Charitable Giving
What “bunching” can do for you

$1,000	$2,000	$250+
• Nonitemizer cash deduction • Most filers	• Nonitemizer cash deduction • MFJ	• Contributions requiring written documentation at this threshold

Bunching/DAF

- ✓ Group gifts in a high-itemization year
- ✓ Consider appreciated property before cash
- ✓ Recognize that the sponsor controls DAF assets

Substantiation

- ✓ Bank record or charity communication for cash
- ✓ Acknowledgment for gifts of $250 or more
- ✓ Qualified appraisal and Form 8283 where required

Sources: IRS Topic 506; IRS donor-advised fund guidance

SALT and PTET
SALT planning matters!

$40,400

- 2026 SALT deduction limit
- $20,200 MFS

$505,000

- MAGI where the 2026 reduction begins
- $252,500 MFS

$10,000

- Minimum cap after phaseout
- $5,000 MFS

Illustrative PTET case

$800k S corporation income × Assumed 6% elective PTET = $48k entity payment

Potential federal benefit at 37% ≈ **$17,760**

DO NOT STOP THERE.

Test state eligibility, owner credits, resident-state treatment, cash timing, basis and added compliance cost.

Sources: IRS 2026 Form 1040-ES correction; IRS Notice 2020-75

Retirement Limits

2026 increased the contribution amounts

	Standard Limit	Additional Catch Up
401(k), 403(b), gov. 457	$24,500	$8,000 age 50+ $11,250 special catch-up for ages 60 - 63
Traditional / Roth IRA	$7,500	$1,100 age 50+
SIMPLE IRA	$17,000	$4,000 age 50+
SEP / defined contribution	lesser of 25% or $72,000	No SEP catch-up

PLANNING LENS

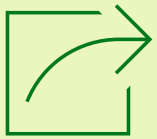
Contribution room is valuable only if payroll, plan terms and year-end execution support it.

Sources: IRS Notice 2025-67; IR-2025-111

Retirement Strategy
Traditional vs. Roth IRA

- **Traditional now**
  - Deduction at the current marginal rate
  - Tax-deferred growth
  - Ordinary income on distribution
  - Potential RMD and IRMAA effects

- **Roth now**
  - No current deduction
  - Tax-free qualified growth
  - No owner RMD for Roth IRA
  - Hedge against higher future rates



Conversion Test:
Convert only the dollars whose lifetime tax cost is lower now than under the expected distribution path.

Sources: IRS retirement contribution guidance

What to Do

The 2026 retirement checklist for employer sponsored plans



Employer Action

- Coordinate payroll, the recordkeeper, and plan counsel
- Identify affected employees and implement required plan changes



Employee Action

- Review plan communications and contribution elections
- Confirm Roth catch-up treatment and update elections before payroll deadlines

Sources: IRS catch-up guidance; DOL FAB 2026-02

Estate and Gift

Estate planning still matters

$15.0M

2026 basic exclusion amount per individual

$30.0M

Potential combined exclusion for a married couple, before prior gifts

$19,000

2026 annual exclusion per recipient; same as 2025

- **Estate planning still solves:**
  - Probate and incapacity
  - Asset protection and control
  - Business succession
  - Family governance and liquidity

- **Estate planning still needs:**
  - Prior gift history
  - Portability status
  - Asset titling and beneficiary designations
  - Valuation and basis records

Sources: IRS Rev. Proc. 2025-32

Alternative Minimum Tax (AMT)

AMT is concentrated, not gone

$90,100

2026 exemption
Single

$140,200

2026 exemption
MFJ

$500k / $1m

Phaseout starts
Single / MFJ

- **Three recurring triggers:**
  - Incentive stock option exercise
  - Large capital gains combined with preference items
  - State taxes that do not reduce AMTI

- **The big changes:**
  - The single phaseout range start has decreased by $126,350.
  - The MFJ phaseout range start has decreased by $252,700.
  - The phaseout rate changed from 25% to 50%.

Sources: IRS Rev. Proc. 2025-32; 2026 Form 1040-C instructions

Qualified Business Income (QBI)
Section 199A Permanence

20%

Potential deduction on eligible QBI, subject to limits

$201,750

2026 threshold
Most non-joint filers

$403,500

2026 threshold
MFJ

Decision sequence…

1. **Compute QBI by qualified trade or business**
2. **Apply taxable-income and net-capital-gain cap**
3. **Test SSTB status, W-2 wages and UBIA**
4. **Apply expanded phase-in range and aggregation rules**

New Floor:
Active businesses with at least $1,000 of QBI may qualify for a $400 minimum deduction, subject to rules.

Sources: IRS Rev. Proc. 2025-32; IRS QBI guidance

Partnerships
Business-loss deductions shrink in 2026

- **Basis limits loss**
  - Partnership-loss deductions generally cannot exceed the basis in the business
  - Unused losses may be available later; three other limits can reduce the deduction
- **Three more checks:**
  - How much money is truly at risk
  - Whether the activity is passive
  - The annual cap on business losses

BOTTOM LINE: Less business loss can offset income outside the business in 2026. The unused amount carries forward.

2025 Maximum Deduction	18% LOWER	2026 Maximum Deduction
$313,000 *Single*	**$57,000 less**	**$256,000** *Single*
$626,000 *MFJ*	**$114,000 less**	**$512,000** *MFJ*

Sources: IRS Rev. Proc. 2025-32 §4.31; IRC §§704(d), 741, 751; IRS Form 461 instructions

Tips and Overtime
2026 separate reporting requirements

2025 Reporting	2026 Reporting	Forms Affected
Forms stayed unchanged; payors received penalty relief for missing separate detail	Report qualified overtime separately; identify cash tips and tipped occupation	Form W-2 plus applicable Forms 1099-MISC and 1099-NEC

- **Payroll and AP workflow**
  - Map cash tips, occupation codes and overtime premium in source systems
  - Separate qualified overtime from regular pay and non-FLSA premiums
  - Reconcile W-2 and 1099 amounts to deduction-support schedules
  - Retain time, tip and occupation records supporting each reported amount

Sources: IRS Notices 2025-62 and 2025-69; IRS Fact Sheet 2026-13; IRS Pub. 1099 (2026)



Bonus Depreciation

100% bonus returned; economics still comes first

- **Model the tax**
  - Qualified property and acquisition date
  - Placed-in-service evidence
  - Business-use and listed-property rules
- **Model the business**
  - Cash need and financing
  - Expected useful life
  - State conformity and future deductions

ELECTION DECISION

Is 100% bonus truly the most tax advantageous position? Should you consider electing out of this decision for the current year to follow previous tax law? What factors will affect this decision?

Sources: P.L. 119-21 §70301; IRS Notice 2026-11

Bonus Depreciation
QPP bonus depreciation is limited

1. Qualify the property

- Nonresidential real property; original use begins with the taxpayer
- Integral to manufacturing, production or refining of tangible personal property
- Taxpayer must elect QPP treatment; ADS cannot apply

2. Meet the timing test

- Construction starts after Jan. 19, 2025 and before Jan. 1, 2029
- Property is placed in service in the U.S. before Jan. 1, 2031
- Existing property can satisfy both tests if acquired under a written binding contract in the same window

3. Prove the qualified use

- Exclude office, administrative, engineering, research, software-development and sales areas
- Identify, document and segregate construction cost and qualified use including research use
- Limited reach may mean only minimal valuation impact in some industries

BOTTOM LINE: The benefit is only as strong as the evidence, cost segregation and use allocation.

Bonus vs. 179 Refresher – 15 Year Assets

Land Improvements

- Land improvements include improvements made directly to or added to land, whether section 1245 or section 1250 property. A structure is not a land improvement unless it is inherently permanent.
- Most land improvements are section 1250 property.
  - Certain land improvements are section 1245 real property because described the improvement is used as an integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services.
  - ***Examples of land improvements**: sidewalks and walkways, roads, parking lots, drainage, sewers, landscaping, shrubbery*
- Allowable for bonus depreciation only.

Qualified Improvement Property (QIP)

- Any improvement that is Sec. 1250 property made by the taxpayer to an interior portion of a nonresidential building placed in service after the date the building was placed in service.
- However, expenditures attributable to the 1) enlargement of the building, 2) elevators or escalators, or 3) internal structural framework of the building are excluded
  - Allowable for bonus depreciation and Sec. 179 expensing.
  - Improvements to residential rental property are not QIP.

Qualified Real Property (QRP)

- In addition, there are certain improvements to nonresidential real property that fall outside the definition of QIP and are therefore not eligible for bonus depreciation, but Sec.179:
  - Roofs
  - Heating, ventilation, and air conditioning property
  - Fire protection and alarm systems
  - Security systems

Cost Recovery

Section 179 and bonus solve different constraints

	Section 179	Bonus
2026 deduction limit	$2,560,000	No dollar cap
Phaseout begins	$4,090,000 of qualifying purchases	No purchase phaseout
Business-income limit	Yes	No
Election	Affirmative election by class/asset	Generally automatic unless elect out
State conformity	Varies	Varies—often different
Planning fit	Selective assets; manage state treatment	Broad immediate recovery; can create loss

Sources: IRS Rev. Proc. 2025-32; IRS Notice 2026-11

Research Expenditures (R&E)
Domestic research costs – method choices now matter

- **Domestic R&E**
  - The full year can be immediately expensed OR can elect to still amortize over 5 years.
  - 2026 was the final year for domestic catch-up deductions and amended filings.
- **Foreign R&E**
  - Continue to capitalize and amortize over 15 years under current rules.

- **Decision Tree**
  - Start up company or running large losses
  - Choose immediate deduction or permitted capitalization election
  - State conformity, 163(j), post TCJA NOL considerations

Sources: P.L. 119-21 §70302; IRS Rev. Procs. 2025-28 and 2026-32

Corporate Gifts
Old Law – Tax Years Beginning Before 2026

Ceiling	10% of taxable income, figured before the charitable deduction, the dividends-received deduction and certain other special deductions
Floor	None. The first dollar given was deductible
Carryforward	Excess over 10% carried forward 5 years; current-year gifts used first, then oldest carryovers
Timing	Accrual-basis C corporations could deduct gifts authorized by the board during the year and paid by the 15th day of the 4th month after year-end

79¢

after-tax cost of each $1 donated at the 21% corporate rate

New Law – How the Deduction Is Now Calculated

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Start with taxable income

Same modified taxable income as before: figured before the charitable deduction and the same special deductions

Subtract the 1% floor

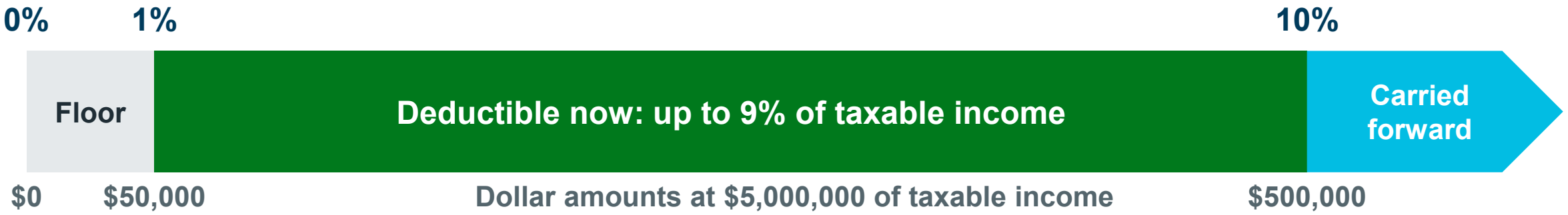
Gifts up to 1% of taxable income produce no deduction at all

Apply the 10% ceiling

Per the JCT, the maximum deduction is 9% of taxable income.

Amounts over 10% carry forward

The New Deduction Band



Below 1%: the floor

Not deductible. Lost for good unless total gifts for the year exceed 10%

1% to 10%: deductible band

Deductible in the current year, up to 9% of taxable income under the JCT reading

Above 10%: carryforward

The excess and the 1% floor amount carry forward up to 5 years, used after that year's own gifts

Carryforwards – When the Floor Amount Survives

Total gifts at or below 10%	No carryforward. The amount under the 1% floor is permanently lost
Total gifts above 10%	Both the excess over 10% and the 1% floor amount carry forward for up to 5 years
In the carryforward year	That year's own gifts are applied first. Carryovers from 2026 on are again subject to the 1% floor and 10% ceiling

When the Corporation Has Losses

Loss year	Taxable income is $0 or less, so the 10% limit is $0. No deduction; the full gift carries forward 5 years. Same result under old and new law
NOL years	The limits are measured on taxable income after the NOL deduction, so NOLs shrink the ceiling (and, from 2026, the floor). The 80% NOL cap makes the math circular
No double benefit	§170(d)(2)(B): gifts that lowered income used to absorb an NOL reduce the charitable carryover
Watch expiration	Charitable carryovers last 5 years; post-2017 NOLs never expire. Gifts can expire unused while NOLs soak up income

Example: a loss year, then a recovery

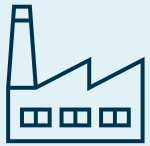
	Old law	New law
2026: $1M loss $50,000 gift	Deduct $0 $50,000 carries	Deduct $0 $50,000 carries
2027: $6M income, $1M NOL, $50,000 gift	Deduct $100,000	Deduct $50,000 2027 gift hits floor
Two-year deduction	**$100,000**	**$50,000**
Tax savings at 21%	**$21,000**	**$10,500**

Takeaway: a loss-year gift isn't lost, but under new law the next year's own gifts hit the floor first.

Source: IRC §§170(b)(2), (d)(2), 172; Treas. Reg. §1.170A-11(c)(2); CCA 201928014; Quesenberry & Walker (KPMG), Bloomberg Tax (Sept. 2026); presenter calculations.

Example – Same Company, Old Law vs. New Law

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Volunteer Manufacturing, Inc. (hypothetical C corp):

taxable income $5M | 21% rate | floor $50,000 | ceiling $500,000

Annual gift	Old law: deduction	Old law: after-tax cost	New law: deduction	New law: after-tax cost	The $50,000 floor amount
$50,000 (1%)	$50,000	$39,500	$0	$50,000	**Lost permanently**
$200,000 (4%)	$200,000	$158,000	$150,000	$168,500	**Lost permanently**
$500,000 (10%)	$500,000	$395,000	$450,000	$405,500	**Lost permanently**
$550,000 (11%)	$500,000	$445,000	$450,000	$455,500	**Carried forward ($100,000 total)**

The Ceiling Cliff – One Extra Dollar Matters

Give $500,000 (exactly 10%)	
Total gifts	$500,000
Less: 1% floor	($50,000)
Deduction (9% maximum)	$450,000
Above the 10% ceiling?	No
Carryforward	**$0**

$50,000 permanently lost

Give $500,001 (just over 10%)	
Total gifts	$500,001
Less: 1% floor	($50,000)
Deduction (9% maximum)	$450,000
Above the 10% ceiling?	Yes, by $1
Carryforward	**$50,001**

Floor amount preserved for up to 5 years

For Heavy Givers

Once a carryforward exists, current gifts of about 9% of taxable income plus the carryover keep the total above 10%, so the floor amount keeps rolling forward instead of disappearing.

2027 Planning – Bunch Gifts into One Year

	2027	2028	2029	2030	Tax savings
Give $50,000 every year	**Deduction $0** Gift $50,000	**Deduction $0** Gift $50,000	**Deduction $0** Gift $50,000	**Deduction $0** Gift $50,000	**$0**
Give $200,000 in 2027 via a DAF	**Deduction $150,000** DAF grants $50,000	**Deduction $0** DAF grants $50,000	**Deduction $0** DAF grants $50,000	**Deduction $0** DAF grants $50,000	**$31,500**

The deduction comes from bunching, not from the DAF

- A direct $200,000 gift to one charity gets the same $150,000 deduction. A DAF or foundation keeps the $50,000-a-year schedule
- The cash must leave in the bunching year. A pledge paid $50,000 a year is deductible only as paid
- Forecast taxable income; watch DAF fees

2027 Planning – Other Levers

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Reclassify to §162 where facts support it

Sponsorships, advertising and cause-marketing payments with a reasonable expectation of a commensurate return are business expenses: no floor, no ceiling

Use the accrual-basis board election

Board authorizes by year-end; pay by the 15th day of the 4th month. Size the gift once taxable income is known. C corporations only

Clear the 10% ceiling on purpose

Heavy givers can exceed 10% by a small amount so the floor amount carries forward instead of disappearing

Model NOLs and other limits together

The floor uses taxable income after the NOL deduction. With the 80% NOL limit, simultaneous equations may be needed, and NOL carryovers can erode

Donate inventory instead of cash

Donated inventory's cost stays in cost of goods sold, outside the floor. Qualifying gifts for the ill, needy or infants earn up to 2x cost

Check state conformity

States that start from federal taxable income may or may not adopt the floor. Confirm each filing state's conformity before year-end

What Are Opportunity Zones (OZs)?

- Tax Cuts and Jobs Act (TCJA) policy used as an economic development tool to revitalize distressed communities across the country.
- OZs are census tracts that meet the definition of “low-income community” and that are eligible areas for qualified investments to be made in exchange for certain tax benefits.
- Investments in an OZ must be made through a Qualified Opportunity Fund (QOF). The initial round had a max investment term of 10 years.



Opportunity Zones Under The Previous Law

- The OZ program operates over a 10-year window and provides investors with two tax benefits for investing their capital gains into eligible distressed communities:

1. A deferral on taxes for capital gains rolled over from a non-OZ investment into a QOF to be invested into an OZ.

   The deferred gain tax is recognized on the earlier of December 31, 2026, or the date of disposition.

2. A step-up in basis on their previously earned capital gains that were invested in a QOF.

   Investments held for five years receive a 10 percent step-up in basis and investments held for seven years receive an additional five percent step-up in basis (for a total 15 percent).



Note: *For investments held for at least 10 years, taxpayers receive a permanent exclusion of taxable income on the gains resulting from the original investment.*

OZs – OBBB Provision

OZs Under the Current Law

1. Creates a second round of OZs that maintains the OZ designation process from TCJA and adds that at least 33 percent of designated OZs must comprise entirely a rural area.
2. Creates “rural qualified opportunity funds” (RQOFs). In rural areas, investments must be made into a RQOF and will receive a 30 percent step-up in basis when held for at least five years.
3. Investments made in a QOF receive a single step-up in basis of 10 percent when held for at least five years, as was the case during initial round of OZ.



This second round of OZs will begin on January 1, 2027, and end on December 31, 2033, and will include additional reporting requirements than the initial OZ round.

OZs – Big Changes

5TH ANNIVERSARY

For investments beginning January 1, 2027, gain deferred will now be recognized on the 5th anniversary of the date of investment, if not sold earlier.

10% BASIS STEP-UP

If the 5-year mark is met, a 10% step up in basis will be placed on the investment, resulting in gain on 90% of the initial investment.

10-YEAR MARK

If an investor decides to keep the investment in the QOF, the 10-year mark will now be used to eliminate any additional appreciation in the investment.

Example: *The initial deferred gain was $1 million and after a 10-year period has a value of $3 million. The $2M unrealized gain would not be subject to capital gains tax upon exit).*



Note: *Tougher eligibility standards and reporting requirements.*

Business Credits

Empowerment zone credit no longer available in 2026

2026 Wages: No Further Credit

Absent another extension, qualified wages paid or incurred in calendar 2026 do not generate the empowerment zone employment credit.

Tax Effect

Higher federal tax and cash-tax outflow

2025 Wages for Non-Calendar-Year Taxpayers: 2025 Returns May Still Qualify

A non-calendar-year taxpayer that has not filed its 2025 return can still claim the credit for qualifying wages paid or incurred during calendar 2025.

Action

Confirm wage-period and return-year mapping

PLANNING IMPACT

Remove the credit from 2026 forecasts, provisions and estimated-tax models; update budgets for the resulting increase in tax expense and cash taxes.

Sources: IRS Form 8844 and Instructions; IRS About Form 8844



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