What's new with personal taxes in 2026?

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2026 taxes: What's changing and why it matters

Key points

- The One Big Beautiful Bill Act (OBBBA) has extended or made permanent several tax changes first implemented in the 2017 Tax Cuts and Jobs Act (TCJA).[1] These include shifts in income tax brackets, changes to deductions and credits, and adjustments to estate and gifts tax thresholds. While these adjustments may seem subtle on the surface, their impact on a financial plan can grow over time.
- This report outlines what's changing in 2026, why it matters, and the financial planning decisions that families may want to revisit with their financial advisor and tax advisor as part of their overall retirement strategy.
- While tax policy changes over time, applying consistent frameworks—such as using a savings waterfall to build tax diversification and a spending waterfall to manage withdrawals—may help families navigate near-term tax changes while staying focused on their long-term goals.
- For a quick reference guide on key tax information this year, see the CIO Global Investment Management team's report, 2026 Tax fact sheet (published 15 January 2026).

Personal tax changes in effect for 2026: The big picture

Income tax brackets

In 2026, the IRS increased tax bracket thresholds for inflation. These adjustments raise the income levels at which higher marginal tax rates apply which can help prevent "bracket creep." Bracket creep occurs when inflation pushes taxpayers into higher tax brackets resulting in an increase in taxes without an increase in real income over time. For 2026, the annual adjustment for ordinary income tax brackets and other inflation-adjusted tax thresholds was 2.3%. Owing to the OBBBA, the bottom two ordinary income brackets (10 percent and 12 percent) received a larger inflation adjustment of 4%.[2] This effectively widens those lower brackets, increasing the income that will be taxed at those lower tax rates, resulting in a lower income tax liability for most families.

Standard deduction and a new "bonus" deduction

Because of the OBBBA, the higher standard deduction that resulted from the TCJA has been made permanent. In 2026, the deduction limit is $16,100 for individuals and $32,200 for married couples filing jointly (MFJ).

Additionally, for tax years 2025 through 2028, seniors are entitled to a "bonus" deduction, which is available to both taxpayers who itemize their deductions and those claiming the standard deduction. This bonus deduction is $6,000 per taxpayer over the age of 65 and is subject to a phase-out to the extent that modified adjusted gross income (MAGI) exceeds $75,000 for individuals and $150,000 married filing jointly (MFJ). The deduction is reduced by 6 cents for every $1 of income over these thresholds until it is completely phased out at $175,000 for single filers and $250,000 MFJ.

State and local tax (SALT) deduction

For tax years 2025 through 2029, taxpayers who itemize their deductions can deduct a larger amount of state and local income and property taxes for federal income tax purposes. In 2026, this deduction is capped at $40,400 (single or MFJ) and is subject to a phase-out for those with MAGI exceeding $505,000. The deduction cap and income phase-out levels will increase by 1% each year for tax years 2026 through 2029, and then the cap will revert to $10,000 beginning in tax year 2030.

Estate and gift tax exemption

The OBBBA permanently increased the lifetime amount of wealth that someone can give or bequest to others without triggering federal gift and estate taxes. In 2026, the lifetime exemption is increased to $15 million (single) and $30 million (MFJ) and will be indexed for inflation in tax year 2027 and thereafter.

Charitable deduction limits

Taxpayers who take the standard deduction typically have not been able to deduct their charitable donations from their taxable income. However, beginning in 2026, non-itemizers can deduct charitable donations up to $1,000 per filer ($2,000 for married couples filing jointly), on top of the standard deduction.

For those who itemize their deductions, there are several new deduction limitations to note:

- Only charitable contributions that exceed 0.5% of adjusted gross income (AGI) will be deductible. The 0.5% floor is multiplied by AGI to determine the portion of the donation that is disallowed, so smaller donations might no longer reduce a family's tax burden unless it exceeds this floor.
- Those in the top tax bracket will have the value of their charitable deduction capped at 35% of the donation. This cap was previously set to 37%. So, for an individual in the top tax bracket, a $100,000 donation that once generated $37,000 in tax savings is now limited to $35,000.
- Cash gifts to qualified charities will remain subject to a limit of 60% of AGI. Cash gifts to private foundations remained capped at 30%.

Gambling loss deduction cap

Beginning in tax year 2026, OBBBA changes how gambling losses are deducted for tax purposes. Under prior law, taxpayers could deduct gambling losses up to the amount of their gambling winnings—meaning that if the taxpayer won $10,000 and lost $10,000, they could fully offset their winnings with any gambling losses, resulting in no taxable gambling income. Starting in 2026, taxpayers will only be able to deduct 90% of gambling losses against gambling winnings.[3] This means that even if losses exactly match winnings, the taxpayer will still have to report taxable gambling income equal to 10% of their losses. This creates so-called “phantom income”—income the individual must pay tax on even though, in reality, they did not come out ahead.

Other notable changes under the OBBBA

- Car loan interest deduction: Some taxpayers may be able to deduct interest paid on car loans, potentially reducing taxable income. Eligibility limits apply.
- Qualified business income (QBI) deduction: The deduction for eligible pass-through business owners was extended, continuing to benefit certain self-employed individuals and small business owners.
- Child tax credit: The credit was expanded and extended, increasing potential benefits for qualifying families, subject to income limits.
- Deductions for tips and overtime: Certain workers may deduct income earned from tips and overtime, which may lower taxable income depending on occupation and earnings.

These are only some of the provisions changed by the OBBBA. To learn more, see the CIO Global Investment Management team's report, Five key tax changes in the One Big Beautiful Bill Act (published 15 July 2025) and the UBS Advanced Planning Group's report, *Planning Opportunities for Individuals after the 2025 Tax Law Changes* (published 28 July 2025).

Key retirement planning decisions families may wish to revisit

The impact of changes like the inflation-adjusted brackets and the permanently increased standard deduction may seem subtle on the surface, but the shift may seem more meaningful when viewed over the full retirement planning horizon. As a result, families may want to revisit certain decisions when it comes to saving for retirement, transitioning to retirement, and managing their finances in retirement. With this in mind, the following section explores which retirement planning decisions families may want to revisit in light of recent updates, and what considerations to keep in mind.

Contributing pretax versus Roth. Those saving for retirement may want to revisit whether pretax or Roth contributions are more advantageous over the long run. A key consideration is how a family's current tax rate compares with their estimated tax rate in the future. For example, if an individual anticipates being in a higher tax bracket later in their career or during retirement, then they may want to consider taking advantage of the lower tax burden today by making Roth contributions, while pretax contributions may be more appealing when current tax rates are relatively high.

One important change beginning in 2026 is that employees age 50 and older who earned more than $150,000 in wage income from their current employer in the prior year must make catch-up contributions to workplace retirement plans—such as 401(k)s—on a Roth basis. If a plan does not offer a Roth 401(k) option, catch-up contributions for these individuals may not be permitted. For more information on this new rule, see the CIO Global Investment Management team's report, 2026 Roth catch-up explained (published 21 January 2026).

While this shift may affect take-home pay and overall tax strategy for a household, this does not suggest investors should avoid making catch-up contributions. Catch-up contributions remain a valuable way to boost retirement savings as one approaches retirement age. What's more, adding more tax-exempt dollars to a family's balance sheet can help enhance tax diversification: having both pretax and Roth savings may provide flexibility in managing taxable income during retirement.

As a starting point for revisiting retirement contributions, families may want to review how current income fits within the new brackets and reassess whether expected income in retirement may fall into higher brackets. Consulting with a financial advisor and tax advisor can help families ensure they're making the decision within the context of their overall long-term financial plan.

For more details on the difference between Traditional pretax contributions and Roth contributions, see the CIO research report, Traditional or Roth? (published 29 May, 2024).

How might partial Roth conversions affect after-tax wealth potential? Higher bracket thresholds and expanded deductions may increase the amount of income that can be recognized at lower marginal rates in certain years. Individuals may therefore consider whether there are periods of relatively lower taxable income—such as in early retirement years when they are no longer receiving a salary, aren't yet receiving social security, and aren't yet subject to RMDs—when partial Roth conversions may be more tax-efficient.

While conversions accelerate the payment of income taxes on the dollars converted, they may help families in a few ways:
1. Move taxable income from high-tax years to low-tax years,
2. Boost the portfolio's ability to generate tax-exempt growth,

3. Protect against the risk of higher taxes, and
4. Increase tax diversification, creating more options for managing taxable income in retirement.

For steps on how to determine whether a family may benefit from implementing a series of partial Roth conversions, see the CIO Global Investment Management team's report, Should 401(k) millionaires consider a Roth conversion? (published 10 December 2025).

Should you claim the standard deduction or itemize?
For many households, the higher standard deduction means that claiming the standard deduction may be more valuable than in prior years, but itemizing may produce a better outcome in certain circumstances, especially for households with significant state and local taxes, mortgage interest, medical expenses, or charitable contributions. The "bonus" deduction available to taxpayers age 65-plus adds another layer of complexity since this additional deduction applies whether someone itemizes or not and it's also subject to a phaseout based on income.

The decision to claim the standard deduction or itemize has never been static—it is always something that should be revisited annually. But these changes enhance the complexity of the decision and therefore underscore the importance of coordinating the decision with a financial advisor and tax advisor. Together, they can work with the family to evaluate the decision in a planning context, determine the optimal timing of income and charitable giving, and ensure the decision is implemented correctly.

How can you maximize the impact of charitable gifts? Charitable giving decisions will also benefit from a refreshed perspective this year. New limitations including the 0.5% of adjusted gross income (AGI) floor and the reduced deduction cap for top-bracket taxpayers place a greater emphasis on how and when gifts should be made, and this is especially true considering the permanently higher standard deduction.

For instance, smaller recurring donations may no longer generate the same tax benefit unless they exceed the new threshold. As a result, families may want to consider "bunching" multiple years of charitable donations into a single tax year in order to exceed the 0.5% of AGI floor.

In years when families claim the standard deduction, they can still support the charitable organizations they care about while lowering their tax bill by taking advantage of the universal deduction for charitable cash contributions ($1,000 single/$2,000 MFJ).

Qualified charitable distributions (QCDs) are another strategy to consider for those age 70½ or older who are looking to make tax-efficient gifts, and this strategy may be an option even for those who do not itemize deductions.

QCDs allow Traditional IRA owners to transfer funds from their IRA directly to a qualified charity—up to $111,000 for the 2026 tax year—and have the distribution count toward their annual required minimum distribution (RMD), but not be included in the IRA owner's federal taxable income. The QCD must go directly from a Traditional IRA to a qualified charity, and must be completed by year-end to qualify for the current tax year. It's important to note that QCDs cannot be directed to donor advised funds or private foundations. Married couples may each utilize this limit from their respective IRAs.[4]

For more information on QCDs, please see the CIO research report, Beyond RMDs: Strategies for IRA owners and beneficiaries (published 25 February 2025).

Should you give during your lifetime? With the permanent increase in the lifetime gift and estate tax exemption, families may have an opportunity to transfer significant wealth without incurring federal gift or estate taxes. While the immediate risk of a lower exemption has been postponed (the lifetime exemption was set to expire at the end of 2025 until the OBBA permanently extended its increased level), the possibility of future legislative changes remains, making proactive planning especially important.

By acting now, families can lock in the current exemption since gifts made today utilize the exemption in effect at the time of transfer, protecting against potential future reductions. Lifetime gifting also helps shift future growth out of the taxable estate, further reducing potential future estate tax exposure. Strategic gifting also helps support family members, fund education or medical expenses, and advance philanthropic goals.

Figure 1 - Lifetime gifting strategies may enhance the after-tax value of intergenerational wealth transfers
A selection of potential gift and estate planning strategies

Strategy	Description & Benefits
Annual gift tax exclusion	Allows gifts up to $19,000 per spouse per recipient (2026) each year, free of gift tax and without using lifetime exemption.
Medical and education gifts	Payments made directly to providers for tuition or medical expenses, are excluded from gift tax and do not use the lifetime exemption.
Lifetime exemption gifts	Larger gifts that use part of the lifetime exemption, removing future appreciation from the estate.
Tax-efficient irrevocable trusts	Irrevocable trusts (e.g., SLATs, GRATs, ILITs) can be funded with exemption gifts, providing control, asset protection, and potential estate tax benefits.
Transfer of discounted interests	Gifts of minority or non-controlling interests in family entities (LLCs, partnerships, corporations), fractional real estate, or investment holding companies may qualify for valuation discounts, reducing the lifetime exemption being used.
529 plan "superfunding"	Allows up to five years of annual exclusions to be contributed at once per beneficiary without using the lifetime exemption.

Source: UBS. For illustration purposes only.

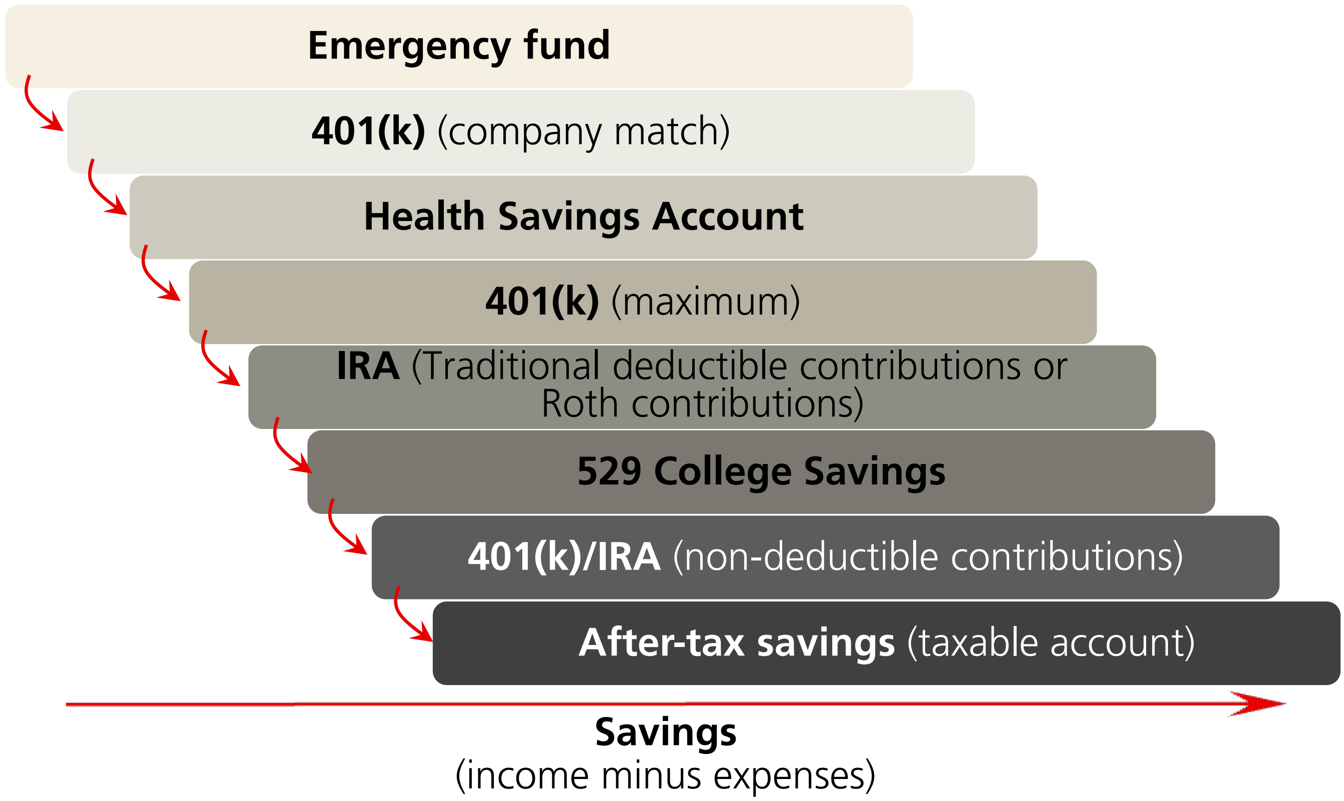
Timeless strategies for managing taxes over time

Even as tax rules evolve, some foundational retirement planning strategies remain just as important. In particular, focusing on tax diversification while saving and managing taxes with distribution strategies in retirement can help families adapt to changing rules over time.

Prioritize after-tax growth potential when saving
During a family's working years, they may benefit from a "Savings waterfall" approach, which prioritizes account contributions based on each account type's after-tax growth potential, as illustrated in the figure below.

Figure 2 - A "savings waterfall" may help prioritize savings

Potential sequence of savings contributions based on each account type's after-tax growth potential



Source: UBS. For illustration purposes only.

Another benefit of the savings waterfall approach is that it helps families build and maintain "tax diversification," which involves saving and investing across a mix of taxable, tax-deferred, and tax-exempt accounts. Tax diversification can help enhance a family's ability to defer or accelerate taxable income during retirement depending on their taxable income each year, effectively giving them flexibility to manage their retirement tax burden.

The CIO Global Investment Management team's Savings waterfall worksheet (published 11 December 2025) provides a good tool for evaluating where a family may want to direct their savings each year.

Consider tax-efficient distribution strategies in retirement

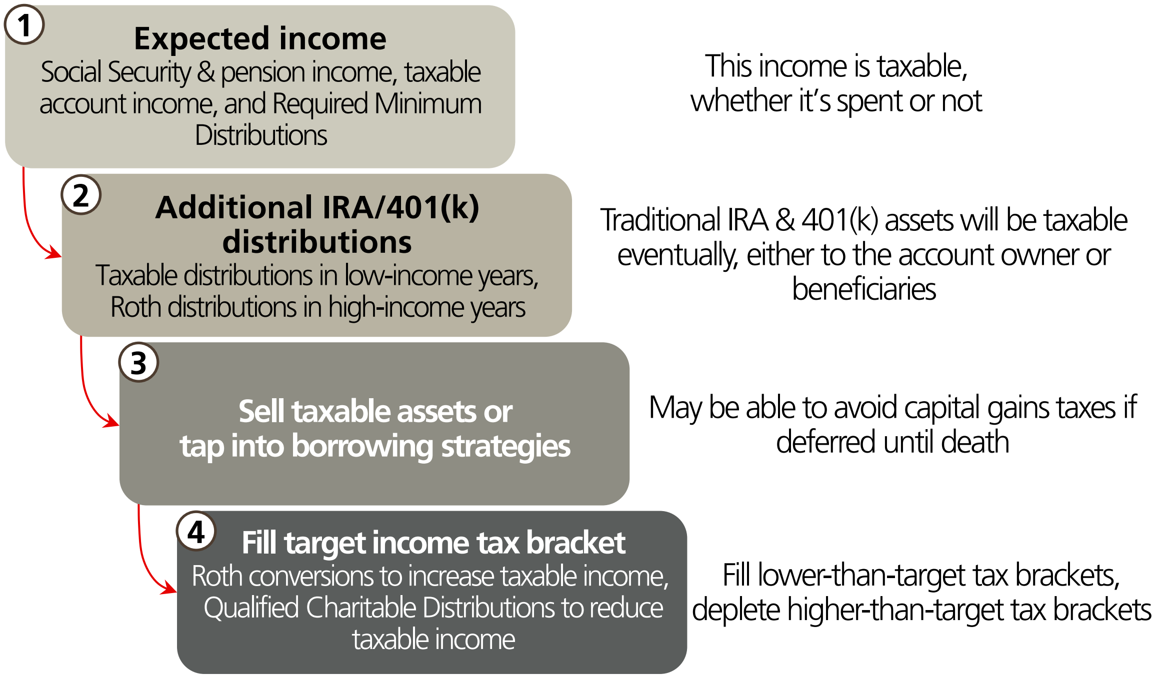
In retirement, a family's attention turns from accumulating wealth to turning their savings into a stream of retirement income to support spending. Just as the savings waterfall can help to identify how to prioritize account contributions to improve after-tax growth potential, the spending waterfall strategy aims to help families take tax-efficient retirement account withdrawals.

The spending waterfall strategy aims to smooth taxable income over time—generating the cash flow that a family needs while aiming to fill up lower income tax brackets and avoid realizing taxable income that would fall into higher income tax brackets. Rather than relying on a fixed withdrawal order, this approach encourages annual review, allowing retirees to adjust withdrawals in response to changes in income, deductions, tax brackets, and market conditions.

The full strategy is explained in the CIO research report, Managing taxes with a "spending waterfall" (published 30 June 2025), and summarized in this figure from that report:

Figure 3 - A "spending waterfall" approach can help manage retirement spending taxes

Potential sequence of withdrawals to help improve tax efficiency



Source: UBS

Together, these frameworks reinforce an important takeaway: while tax rules change, maintaining tax diversification and revisiting decisions regularly can help families navigate both current and future tax environments with confidence.

Conclusion

As 2026 brings a new set of tax rules under the OBBBA, families have a timely opportunity to revisit key elements of their long-term financial plans. While the changes may appear incremental, their cumulative impact across income taxes, deductions, charitable planning, and wealth transfer strategies may meaningfully influence after-tax outcomes over the family's full retirement horizon. By pairing these potential updates with tax diversification, and tax efficient savings and spending strategies, families can remain flexible in a shifting tax environment while keeping their long-term goals in focus.

Here's a checklist of key decisions to revisit covered in this report:

- Confirm pretax versus Roth contributions given 2026 tax brackets and the new mandatory Roth catch-up contributions.
- Enhance tax diversification using the savings waterfall.
- Look for low-income years to consider implementing partial Roth conversions at potentially lower income tax rates.
- Compare this year's standard deduction (including the new age 65+ bonus deduction) with itemizing deductions, and review timing of large deductible expenses.
- Before making charitable contributions this year, be mindful of the 0.5% AGI floor and revised deduction caps. Families may want to consider bunching gifts or using QCDs (if eligible).
- Consider evaluating lifetime gifting strategies to lock in today's lifetime gift and estate tax exemption and shift future growth out of the estate.
- Retirees may want to consider using the spending waterfall framework when funding spending in retirement to help spread income over more tax years and potentially avoid higher tax brackets in the future.
- Revisit decisions annually as income and tax rules evolve.

Endnotes

[1] York, Erica & Kraschel, Emily. Tax Foundation. (2025). Is the OBBBA the "Largest Tax Cut in American History?". https://taxfoundation.org/blog/obbba-largest-tax-cut-in-american-history/.

[2] Watson, Garrett & Durante, Alex. Tax Foundation. (2024). 2026 tax brackets. https://taxfoundation.org/data/all/federal/2026-tax-brackets/.

[3] RSM US LLP. (2026). Big Beautiful Bill: Tax reporting changes for the casino industry. https://rsmus.com/insights/tax-alerts/2026/big-beautiful-bill-tax-reporting-casino-industry.html

[4] It is important to note that QCDs are only an option if you are at least age 70½, can generally only be done with Traditional IRA assets, and they cannot exceed the annual limit ($111,000 in 2026). Another limitation is that, if you are also planning to make deductible contributions to your IRA during any tax year beginning with the year you turn age 70½, that deductible contribution may reduce the portion of QCDs that you're able to exclude from future taxes. Qualified charitable distributions from IRAs include a one-time election to transfer assets via a QCD to a charitable gift annuity (CGA), charitable remainder unitrust (CRUT), or a charitable remainder annuity trust (CRAT). This one-time election for QCDs to a split-interest entity is limited to $55,000 per individual (up from $54,000 in 2025). There are restrictions on the type of CRUTs and CRATs that can receive a QCD. For instance, they must be funded exclusively by the QCD.

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