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Major Tax Changes Are Coming In 2026. Are You Ready?

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The 2017 Tax Cuts and Jobs Act (TCJA) brought sweeping changes to the tax code, impacting every taxpayer and business owner. The TCJA has many provisions that are set to expire (sunset) at the end of 2025. At that point, many provisions will revert to 2017 levels, adjusted for inflation.

Although a number of these provisions will negatively impact taxpayers starting in 2026, there a few changes that will be positive. Here's a summary of the major tax law changes coming in 2026 and some steps individuals and business owners can take to prepare.

The tax code has many provisions that are set to sunset at the end of 2025.
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Key tax changes coming in 2026

While not an exhaustive list, here are the key changes that will affect most taxpayers and business owners. Though Congress can still act to change the laws in advance, currently, there's little expectation that will occur, at least not unilaterally.

Higher tax brackets are coming back

The Act created new, lower, tax rates and increased the income thresholds before each new marginal tax bracket applied. For example, in 2017, the marginal tax brackets were 10%, 15%, 25%, 28%, 33%, 25%, and 39.6%. In 2018, the brackets dropped to 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

As currently legislated, taxpayers can expect to be in a higher marginal tax bracket, almost unilaterally across the board, before any deductions/credits. The most striking anticipated increase — 9% — would hit taxpayers in the ***middle*** of the brackets .

In addition, in 2026, taxpayers will once again have their tax rate for capital gains taxes linked to their ordinary income tax bracket. For some, this may lead to more taxes paid on capital gains.

The standard deduction will drop, but personal exemptions and unlimited SALT deductions are coming back

This change will be either positive or negative depending on the taxpayer. For individuals in high tax states, and families with a lot of dependents, it'll likely be a win.

The 2017 TCJA eliminated personal exemptions and put a $10,000 cap on state and local tax (SALT) tax deductions. This includes property taxes. In exchange for capping SALT tax deductions, the standard deduction went up — dramatically. As a result, fewer taxpayers benefit from itemizing their tax deductions. In recent years, a number of states developed a sort of workaround for business owners to navigate the SALT cap.

In 2026, this is all expected to change (again). The standard deduction for taxpayers under age 65, currently $14,600 (single) and $29,200 (married filing jointly), is expected to decline to $8,300 and $16,600, respectively , according to the Cato Institute. However, taxpayers will once again benefit from personal exemptions. Currently $0, in 2026 the Cato Institute anticipates the personal exemption will be $5,300 for each individual, spouse, and dependent child. In addition, the SALT cap, currently $10,000 per *tax return* (not per person) will be eliminated.

Mortgage interest will once again be tax-deductible on larger loans

As a result of the 2017 legislation, between 2018 and 2025, interest on new mortgages is only tax-deductible up to $750,000 of mortgage debt on a primary or second home. Older loans were grandfathered under the prior limits ($1 million in mortgage loan indebtedness).

In addition, the 2017 Tax Cuts and Jobs Act also changed the tax treatment of home equity lines of credit (HELOCs). Before 2018, homeowners could deduct interest on HELOCs up to $100,000, regardless of how the proceeds were used.

The HELOC limit was applied on top of the $1 million regular loan limit, for a total of $1.1 million. Between 2018 and 2025, homeowners can only deduct interest on home equity lines of credit if used to buy, build, or substantially improve the residence. And although the $100,000 limit didn't change, it was no longer in addition to the underlying limit.

Starting in 2026, unless changed by Congress, the mortgage interest tax deduction and HELOC rules will revert to pre-2018 levels.

Reduced alternative minimum tax (AMT) exemptions and phase-outs

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Another major change in the 2017 TCJA was a significant increase to the alternative minimum tax exemption amounts and phase-out limits. The Tax Policy Center estimates that over five million taxpayers were subject to the AMT in 2017. Due to the tax code changes, they estimate this figure fell to 200,000 in 2018. In 2016, it's widely expected that the 2017 tax laws will revert.

Taxpayers who will benefit from a large increase in itemized deductions and executives with incentive stock options should take particular notice of this pending change.

Lowering the estate and gift tax limits

The current exemption was raised dramatically in 2018. In 2024, a single taxpayer can claim a federal estate and lifetime gift tax exemption of $13.61 million (twice that for couples making joint gifts). In 2026, these limits are set to decrease. Adjusted for inflation, many expect the limit for a single taxpayer to be roughly $7 million. The annual gift exclusion, currently $18,000 per person, is not expected to change. Further, the current estate tax rate of 40% is anticipated to increase to 45% in 2026.

Business owners will lose the 20% qualified business income deduction and bonus depreciation

As a result of the 2017 tax changes, owners of many pass-through businesses such as S-corporations could start deducting up to 20% of their qualified business income (QBI). Like many other aspects of the tax reform, this provision is also set to expire in 2026.

Bonus depreciation was also introduced as part of the TCJA. Business owners could claim an additional first-year allowance on qualifying equipment purchases. Bonus depreciation was as high as 100% at one point. This tax benefit is scheduled to sunset at the end of 2026.

Tax planning for 2026

Depending on your situation, income, and goals, your planning options will vary. As with anything in tax planning, it's important not to let the tax-tail wag the dog. In another words, making a decision that's incongruent with your whole financial picture, solely for tax purposes, is unwise. That said, here are some strategies taxpayers can consider with their financial and tax advisor to soften the blow.

Accelerate the recognition of income

Not everyone can do this, but those who can should run an analysis to consider the pros and cons. For example:

- Employees with stock options may want to consider exercising, early exercising, and sale of their stock
- More aggressively diversifying a concentrated stock position or advancing the timeline on a planned sale of an asset
- Business owners considering selling their company in the next few years may want to accelerate their timeline
- Individuals with pre-tax money in an IRA may want to consider a Roth conversion, especially pre-RMD retirees

Delay harvesting losses

If individuals have large unrealized losses, it may make sense to consider delaying harvesting those losses until 2026. Again, taxpayers must consider their current and future tax and income situation, the time value of money, and so forth.

Taking advantage of the estate and gift tax limits

For affluent individuals and families expecting to have a federally taxable estate, it's worth considering the merits of a pre-2026 gifting strategy. Generally, this approach is most advantageous for individuals looking to make a gift in excess of the 2026 limits. For example, suppose you gift $7 million in 2024 when the individual limit is $13.61 million. In 2026, the limit drops to $7 million. You have no exemption left. If you gifted the full $13.61 million this year, you'd still have no exemption left, but were able to nearly double your gift without federal gift tax implications.

Delay (and bunch) charitable deductions

If the expiring tax code is likely to raise your tax liability, consider delaying planned charitable gifts until 2026. Given the changes to the tax brackets, tax deductions could be much more valuable in 2026 than they are today.

Maximize employee benefits

Working taxpayers should consider pre-tax versus Roth 401(k) contributions now and again in 2026. For some, it may make sense to max out after-tax Roth contributions now and revert in 2026. Workers can also consider flexible savings accounts, health savings accounts, and the pros and cons of deferred compensation. Business owners may be able to accelerate tax-deferred savings even more through different retirement plan structures.

Optimize your investments with asset location

If investors haven't already been working to optimize their tax situation with asset location, now is the time. Asset location means utilizing the tax treatment of different investment accounts to your advantage when investing across your portfolio. Since investors pay tax annually on dividends, interest, and capital gains distributions in a taxable brokerage account, even if they don't sell assets, it can be worthwhile to consider allocating more tax-efficient investments here.

Plan for change

There have been many major changes to the tax code in the last ten years, so taxpayers shouldn't get comfortable with the current tax code. At this time, the major tax changes in 2026 are widely expected, but nothing is set in stone. Taxpayers looking for multi-year planning should speak with their tax and financial professionals as soon as possible to avoid running out of time. Especially on the estate planning side, attorneys and tax professionals will likely be in high demand as 2026 nears and legislative clarity improves.

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