Financial Strategies

News You Can Use!!

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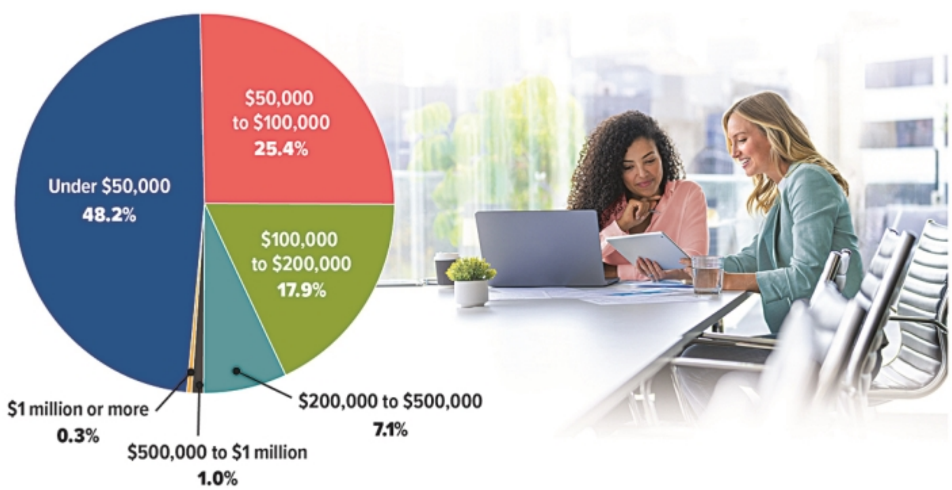
8.7%

Percentage of taxpayers who itemized deductions on their 2024 returns. This compares with 30.6% who itemized on their 2017 returns, the last year before the Tax Cuts and Jobs Act almost doubled the standard deductions. The One Big Beautiful Bill Act of 2025 made the higher standard deductions permanent.

Source: Internal Revenue Service, 2019, 2025 (for tax year 2024 returns processed through July 24, 2025)

How Does Your Income Compare?

Almost half of U.S. taxpayers had an adjusted gross income (AGI) of less than $50,000 in 2024, and about one in four had an AGI of $50,000 to $100,000.



Source: Internal Revenue Service, 2025 (for tax year 2024 returns processed through July 24, 2025; does not total 100% due to rounding)

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Taxing Social Security Benefits: Clearing the Confusion

When the One Big Beautiful Bill Act (OBBBA) was passed in the summer of 2025, there was some confusion in messaging from the Social Security Administration about taxation of benefits.[1–2] Here is an overview that may help clarify any questions you have about the new law and taxing Social Security benefits.

What does OBBBA do and not do for seniors?

First and foremost, OBBBA does *not* change the rules for taxing Social Security benefits. The process used to pass OBBBA in the Senate — called budget reconciliation — prohibits any changes to the Social Security program.

OBBBA *does* provide an additional $6,000 deduction for taxpayers 65 and older ($12,000 for a married couple) for tax years 2025–2028. However, this deduction has no direct relationship with Social Security benefits. It is available regardless of whether the taxpayer age 65 and older is receiving benefits. And it is not available to taxpayers who are receiving benefits if they are under age 65. The deduction phases out at higher income levels: $75,000–$175,000 for single filers, $150,000–$250,000 for joint filers.

Taxation of Social Security benefits is based on income. That means the additional senior deduction should reduce the number of people who have to pay taxes on their Social Security benefits by reducing their taxable income. And many of those who do pay taxes will pay less.

According to the White House, 64% of Social Security beneficiaries did not pay taxes on their benefits before OBBBA, and the new senior deduction will increase that to 88%.[3] Other analysts indicate that both figures are too high, because they assume that all deductions are applied directly to Social Security income, whereas many seniors receive other taxable income. The nonpartisan Urban-Brookings Tax Policy Center estimates that about half of beneficiaries will still pay some taxes on their Social Security benefits.[4]

How are Social Security benefits taxed?

The tax liability for Social Security benefits is based on your *combined income,* defined by the IRS as your adjusted gross income plus tax-exempt interest plus one-half of your Social Security benefits.

If your combined income exceeds a base amount of $25,000 for single filers or $32,000 for joint filers, you may owe federal income taxes on up to 50% of your Social Security benefits. If your combined income exceeds a higher base amount of $34,000 for single filers or $44,000 for joint filers, you may owe federal income taxes on up to 85% of your benefits.

Three Deductions

The new senior deduction is available regardless of whether a taxpayer takes the standard deduction or itemizes. For those who take the standard deduction, it is in addition to the standard deduction (which applies to all taxpayers) and the already existing additional standard deduction for taxpayers age 65 and older. The combination of all three deductions could result in a substantial reduction of taxable income. These are the deductions for tax year 2025, with deductions for tax year 2026 in parentheses.

	Filing status			
Deduction	Single	Joint	Head of household	Married filing separately
Standard	$15,750 ($16,100)	$31,500 ($32,200)	$23,625 ($24,150)	$15,750 ($16,100)
Additional standard 65+	$2,000 ($2,050)	$1,600 each $3,200 total ($1,650/$3,300)	$2,000 ($2,050)	$1,600 ($1,650)
OBBBA 65+ 2025–2028	$6,000	$6,000 each $12,000 total	$6,000	Not available
Total	$23,750 ($24,150)	$46,700 ($47,500)	$31,625 ($32,200)	$17,350 ($17,750)

Considering these rules, the only taxpayers for whom taxation of benefits will be completely eliminated by the new law are those whose combined income drops below the $25,000/$32,000 base amount.

Whether or not your Social Security benefits are taxed, the new senior deduction should reduce your tax burden to some extent. Unfortunately, it comes with a long-term effect on the Social Security and Medicare programs, which are funded in part by taxes on Social Security benefits. One estimate suggests that the new deduction will move the expiration date of the trust funds that help fund Social Security and Medicare up from 2033 to 2032, unless Congress takes action to strengthen the programs.[5]

Estimates are based on current conditions, are subject to change, and may not come to pass.

1) Social Security Administration, July 3, 2025

2) MarketWatch, July 25, 2025

3) The White House, July 1, 2025

4) Urban-Brookings Tax Policy Center, July 9, 2025

5) Committee for a Responsible Federal Budget, June 27, 2025

Key Retirement and Tax Numbers for 2026

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are some of the key adjustments for 2026.

Estate, gift, and generation-skipping transfer tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2026 is $19,000, unchanged from 2025.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2026 is $15,000,000, up from $13,990,000 in 2025.

Standard deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2026, the standard deduction is:

- $16,100 (up from $15,750 in 2025) for single filers or married individuals filing separate returns
- $32,200 (up from $31,500 in 2025) for married joint filers
- $24,150 (up from $23,625 in 2025) for heads of households

The additional standard deduction amount for the blind and those age 65 or older in 2026 is:

- $2,050 (up from $2,000 in 2025) for single filers and heads of households
- $1,650 (up from $1,600 in 2025) for all other filing statuses

Special rules apply for an individual who can be claimed as a dependent by another taxpayer.

The One Big Beautiful Bill Act, signed into law in July 2025, introduced a new senior deduction of $6,000 for taxpayers filing individually who are age 65 or older for tax year 2026. A deduction of up to $12,000 may be claimed by married couples filing jointly if they are both age 65 or older. This deduction is stacked on top of the standard deduction and additional deduction for the blind and those age 65 or older or on top of itemized deductions.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $7,500 in 2026 (up from $7,000 in 2025), with individuals age 50 or older able to contribute an additional $1,100 in 2026 (up from $1,000 in 2025). The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges *(see table).* For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges *(see table).* The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges:
Contributions to a Roth IRA

	2025	2026
Single/Head of household	$150,000–$165,000	$153,000–$168,000
Married filing jointly	$236,000–$246,000	$242,000–$252,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges:
Deductible Contributions to a Traditional IRA

	2025	2026
Single/Head of household	$79,000–$89,000	$81,000–$91,000
Married filing jointly	$126,000–$146,000	$129,000–$149,000

Note: The 2026 phaseout range is $242,000–$252,000 (up from $236,000–$246,000 in 2025) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer-sponsored retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $24,500 in compensation in 2026 (up from $23,500 in 2025); employees age 50 or older can defer up to an additional $8,000 in 2026 (up from $7,500 in 2025). For employees ages 60 to 63, the additional deferral limit is $11,250 for 2026 (unchanged from 2025).
- Employees participating in a SIMPLE retirement plan can defer up to $17,000 in 2026 (up from $16,500 in 2025), and employees age 50 or older can defer up to an additional $4,000 in 2026 (up from $3,500 in 2025), with an increase to $5,250 in 2026 (unchanged from 2025) for ages 60 to 63.

Kiddie tax: child's unearned income

Under the kiddie tax, a child's unearned income above $2,700 in 2026 (unchanged from 2025) is taxed using the parents' tax rates.

Wealthy Colleges Face Expanded Endowment Tax

Over the past year, colleges have faced several headwinds, including funding cuts, political entanglements, and student concerns about affordability and return on investment. Now, some wealthy colleges are facing another obstacle: an expanded tax on their endowments.

A new tiered endowment tax

The One Big Beautiful Bill Act (OBBBA), signed into law in July 2025, established a new tiered tax rate on the endowments of wealthy colleges and universities starting in 2026.

Previously, private schools with at least 500 tuition-paying students and an endowment of at least $500,000 per student paid a 1.4% tax on the net investment income from their endowments. This tax, enacted by the Tax Cuts and Jobs Act of 2017, was the first time a federal tax had been levied on educational institutions. In 2023, 56 schools paid $381 million in endowment tax.[1]

Under OBBBA, starting in 2026, private colleges and universities with more than 3,000 tuition-paying students will be subject to a new tiered tax rate based on an "endowment dollars per student" model as follows:

- $500,000 to $750,000 endowment per student: 1.4%
- $750,001 to $2 million endowment per student: 4%
- Over $2 million endowment per student: 8%

Based on prior endowment values and enrollment numbers, 15 universities — many of the nation's top research institutions — are expected to be subject to the new rates in 2026, with 10 schools facing an 8% or 4% tax rate and five schools remaining at the 1.4% rate.[2] Congressional tax analysts have estimated that the new tiered tax rates will bring in $761 million over 10 years, money that will flow into the general coffers of the U.S. Treasury.[3] The winners under the new rules are the more than two dozen smaller, highly selective colleges that were paying a 1.4% tax pre-2026 but will now be exempt from any endowment tax because they enroll fewer than 3,000 tuition-paying students.[4]

Impact on colleges and students

Colleges generally rely on income from their endowments to act as a cushion to help protect their budgets from cyclical pressures, unanticipated changes in enrollments, and other temporary revenue disruptions. Colleges also use their endowments to fund research, institutional operations, and financial aid programs for undergraduate and graduate students, among other things. Schools impacted by the new endowment tax could potentially adjust their spending in these areas, possibly leaving students with reduced financial aid packages, research opportunities, and/or college enrichment programs.

1-2, 4) *Forbes,* July 5, 2025

3) Joint Committee on Taxation, July 1, 2025