



Your 2026 Tax Planning Checklist

Includes Updates for the “One Big Beautiful Bill” Tax Changes

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As we begin the new year, we are here to help you make the most of this important season. We've compiled our tax planning expertise into a practical guide designed to support your year-end planning. We have incorporated the relevant provisions from the recently passed "One Big Beautiful Bill" in this guide.

Retirement Accounts

Retirement accounts can represent a substantial portion of your savings, so it makes sense to understand actions you can take to help maximize your income when you are ready to retire.

Here are five approaches you might want to consider that may optimize retirement savings before the end of the year:

1. Mega Backdoor Roth Contributions Using Your Company 401(k)

Assuming that full tax-deductible contributions have been maximized, consider making after-tax contributions to your 401(k) account and immediately converting those after-tax contributions to a Roth IRA account, where they will grow tax-free forever and won't be subject to Required Minimum Distributions (RMDs). Your 401(k) plan must allow post-tax contributions in order to carry out the Mega Backdoor Roth strategy. The maximum contribution (pre- and post-tax) to a 401(k) for 2026 is \$72,000 and \$80,000 (if over 50). For ages 60-63, the limit can be as high as \$83,250 due to the enhanced catch-up provision introduced by the 2025 Tax Bill. The special catch-up amount is \$11,250 for 2026 and applies to participants in 401(k), 403(b), and governmental 457(b) plans. View [Here's a Mega Strategy to Turbo-Charge Your Retirement Savings](#) for more details.

2. Fund Traditional IRA Accounts

Contributions can be made up to \$7,500 for 2026 from earned income (with a \$1,100 catch-up contribution if over 50 years old), per person. Where the taxpayer or the taxpayer's spouse is covered by a qualified plan with an employer, the deductibility of the contribution may be limited or lost entirely. The deduction for the contribution starts to be limited at modest income levels (\$81,000 for 2026 if single, \$129,000 if MFJ). In such situations, consider the Backdoor Roth conversion strategy below. When neither spouse is covered by a plan at work, contributions can be made on a fully deductible basis, regardless of income. 2026 contributions must be made by April 15, 2027, to be deductible.

3. Fund Roth IRA Accounts

Roth IRAs can grow tax-free indefinitely and can be accessed tax-free in retirement. Contributions can be made up to \$7,500 for 2026 from earned income (with a \$1,100 catch-up contribution if over 50 years old). These amounts remain unchanged from 2024. Roth contributions are subject to income limits (\$168,000 if filing single for 2026 and \$252,000 for MFJ). Due to income restrictions, direct Roth contributions may only be relevant for younger, lower-earning taxpayers. You can contribute to your 2026 Roth IRA up until the tax-filing deadline of April 15, 2027.

4. Convert Traditional IRA Accounts to Roth IRAs

Convert Traditional IRAs to Roth IRA accounts where they can grow tax-free indefinitely. No Required Minimum Distributions (RMDs) are mandated for Roth IRA accounts. Roth conversions work best in years with lower total income. Unlimited amounts can be converted to a Roth under this strategy; however, the conversion is considered a taxable event.

5. "Backdoor" Roth IRA Conversion

Consider a backdoor Roth Conversion, where income exceeds the direct Roth contribution limits. Make contributions to a Traditional IRA on a post-tax (non-deductible) basis, then convert that Traditional IRA contribution to a Roth IRA. Because of the Pro-Rata Rule, this strategy may not be appropriate for those clients with significant existing pre-tax IRA accounts, such as rollovers.

*Beginning in Tax Year 2026, all age-based Catch-Up contributions to employer-based retirement plans, such as a 401(k), must be made as Roth contributions and are no longer tax-deductible.

New “Above-the-Line Deductions” for 2026

1. No Tax on Income from Tips and Overtime

If you earn part of your income from tips or overtime pay, make sure your employer is accurately reporting these amounts. Starting in 2025, you may qualify for new tax deductions:

- **Tip Income Deduction:** Up to \$50,000 per couple (each spouse can deduct up to \$25,000 for qualified tip income).
- **Overtime Income Deduction:** Up to \$25,000 per couple (each spouse can deduct up to \$12,500 for qualified overtime pay).

These deductions begin to phase out at \$150,000 Modified AGI for single filers and \$300,000 for MFJ. This deduction does not require taxpayers to itemize deductions and reduces Adjusted Gross Income (AGI).



2. Deduction for New Car Loan Interest (Made in the USA)

This interest deduction is up to \$10,000 for new vehicles assembled in the United States, but the eligibility phase-out starts at \$100,000 AGI (single) and \$200,000 AGI (MFJ).

This deduction does not require taxpayers to itemize deductions and reduces Adjusted Gross Income (AGI).

New “Below-the-Line Deductions” for Seniors

Taxpayers aged 65 or older, by the end of the tax year, can claim a new deduction of up to \$6,000 (\$12,000 if married filing jointly (MFJ) and both spouses meet the age requirement). This deduction begins to phase out when AGI exceeds \$75,000 for single filers and \$150,000 for joint filers and is fully phased out at \$175,000 for single filers and \$350,000 for joint filers, if both spouses qualify.

This deduction does not require taxpayers to itemize deductions and does not reduce Adjusted Gross Income (AGI).

State and Local (SALT) Tax Deduction

Starting in 2025, the SALT (State and Local Tax) deduction limit increases to \$40,000 (from \$10,000) for qualifying taxpayers. The phaseout threshold is \$500,000 to \$600,000 (for both single and MFJ). Taxpayers with income above the phaseout threshold are still eligible to claim the “old” \$10,000 SALT deduction. This deduction does require taxpayers to itemize deductions and does not reduce Adjusted Gross Income (AGI).

Charitable Contributions

Beginning with the 2026 tax year, the charitable contribution deduction for individual taxpayers who itemize is only available to the extent the taxpayer's contributions, in aggregate, exceed 0.5% of the taxpayer's AGI (computed without regard to the charitable deduction) for the taxable year. Also in 2026, the maximum tax rate that donations to charity can be deducted will be 35%, not the top marginal tax rate of 37%.

Starting in tax year 2026, a new federal tax law introduces a permanent above-the-line deduction for charitable contributions for taxpayers who take the standard deduction:

- **Deduction Limits:** The maximum deduction is \$1,000 for single filers and \$2,000 for married couples filing jointly.
- **Qualifying Gifts:** The deduction applies only to cash donations made directly to qualified 501(c)(3) public charities.

Here are three approaches to consider for 2026:

1. Contribute Highly Appreciated Assets (Stocks)

Contribute stock to a charity to avoid paying capital gains tax on the unrealized gain and receive tax deductions. Such contributions also remove assets from the taxable estate.

The tax deduction will be equal to the Market Value of the stocks, even if there is a very low or no tax basis. The tax deduction may be limited to 30% of adjusted gross income (AGI); however, any unused deduction in the year may be carried forward for five years. Such contributions can also be made to donor-advised funds such as Fidelity Charitable and Schwab Charitable.

2. Contribute Cash to a Public Charity

For 2026, up to 60% of AGI can be deducted if paid in cash to a public charity. This percentage remains unchanged from 2024.

3. Make Use of Qualified Charitable Distributions (QCDs)

Due to the large Standard Deduction (\$46,700 for Seniors filing MFJ in 2026), charitable donations claimed as itemized deductions are often not tax-effective.

In these circumstances, it is often more beneficial to make a yearly QCD from your IRA to a public charity if you are over 70.5 years old. Such QCDs can also count towards meeting your RMDs for the year and transfer highly taxed ordinary income to the charity without creating taxable income for you. There is a limit of \$111,000 per year for a QCD per person.

Capital Gains Tax

Capital gains tax can end up impacting your investment portfolio income in big ways. Here are some strategies to consider to help minimize this impact, maximize your investment returns, and share your wealth with heirs and your favorite charities:

1. Harvest Unrealized Capital Losses

Stock sitting at an unrealized loss can be sold, creating a tax loss, and can be used to offset realized taxable gains. Such strategies need to consider the Wash Sale rules.

2. Establish Installment Sale Agreements

Push tax liability further into the future by "stretching" the receipt of proceeds into the future. This is particularly appropriate for an existing business.

3. Rollover Real Estate

Gains from rental real estate may be fully deferred by investing the proceeds into a new rental using a Section 1031 Rollover or a 1031 Fund.

4. Section 83(b) Election With Pre-IPO Options Grants

If a Section 83(b) election is filed within 30 days of the option grant date, the option compensation element would be taxed at ordinary income tax rates. This can allow a higher percentage of the future stock appreciation to be taxed at favorable long-term capital gains tax rates.

Concentrated Stock Positions

Having one company's stock represent a large portion of a portfolio can put investors in a riskier position over the long term. Here are some tactics to consider with a concentrated stock position:

1. Use an Active Tax-Loss Harvesting Account to Generate Tax Losses While Maintaining Market Exposure

Tax-loss harvesting accounts, should be part of every taxpayer's tax management plan. Such accounts can facilitate realizing gains and diversifying risk with modest or no capital gains taxes.

2. Use the Long-Term Capital Gains Preferential Rate

The capital gains tax bracket rate is 15% up to \$613,700 total income for MFJ in 2026. It is 20% on gains above those thresholds.

3. Manage Positions and Stock Exercises Strategically

With incentive stock options (ISOs), actively manage Alternative Minimum Tax (AMT) generation on stock exercises and plan to re-coup AMT credits as soon as possible.

4. Out-Right Gifts to Charity of Appreciated Stock

Receive an upfront tax deduction equal to the Market Value of the stock. This is subject to a 30% AGI limitation, with a 5-year carry-forward of any unused deduction.

5. Contribute Appreciated Stock to a Donor Advised Fund

Receive an upfront tax deduction equal to the Market Value of the stock. This is subject to a 30% AGI limitation, with a 5-year carry-forward of any unused deduction.

6. Transfer Appreciated Stock to a Charitable Remainder Trust

Realize gains within the Trust on a tax-free basis. The gross value of transferred assets can be sold and reinvested in a diversified portfolio without up-front capital gains. The diversified portfolio creates an annuity stream for up to 20 years, or for the life of the donor. The remainder interest goes to charity at the end of the Trust term and attracts a partial up-front income tax deduction. AGI limits apply to the tax deduction; any unused deduction can be carried forward for five years.

Medical Expenses

With rising costs of healthcare and higher premiums and deductibles, it's important to understand ways to reduce the financial impact through these deductions and tax-beneficial accounts.

1. Deduct All Possible Medical Costs and Use a Health Savings Account (HSA)

Most medical costs often fail to be deducted because of the 7.5% AGI hurdle that applies under Schedule A - Itemized Deductions. Consider a Health Savings Account (HSA), contributions to which are tax-deductible, above the line, as an adjustment to income. For 2026, the maximum Health Savings Account (HSA) contribution limits are \$4,400 for individuals and \$8,750 for families. For taxpayers over 55, the limit is \$10,750 (both spouses 55+). HSAs can only be used in conjunction with a High-Deductible Health Plan.

2. Medical Expenses of a Dependent

Such expenses may be deducted on a Schedule A, including Long-Term Care (TLC) expenses of a Dependent if they are not capable of self-care. A Dependent is someone that you can claim on your tax return because you pay for more than half of their living expenses.

3. Deduct Long-Term Care (TLC) Insurance

The LTC premium deduction is up to \$6,200 in 2026 for those age 71 or older. Amounts received under the contract (other than dividends) are excluded in most cases from taxable income when used to fund care (note: employer-paid contracts are taxable). Payments received do not count towards income for Medicare premium purposes.

4. Use "Achieving a Better Life Experience" (ABLE or Disability) Accounts

With a \$20,000 annual contribution limit, these accounts grow tax-free. Up to \$100,000 value in the account won't be considered for Supplemental Security Income or Medicaid. Distributions are tax-free if used for a qualifying purpose, which is interpreted widely. The age for disability onset eligibility for an ABLE account increases from 26 to 46 starting January 1, 2026.

Education

Education costs typically represent a major expenditure. With the cost of education continually increasing, understanding ways to utilize available tax-benefited accounts and tax credits is important.

Use 529 Accounts

With no income restrictions, these accounts allow tax-deferred growth with no tax on distributions when used for qualifying purposes, including tuition, fees, books, supplies, and equipment, as well as room and board. They can also be used to pay for private school tuition for K1 through 12th grade, up to \$20,000 starting in 2026 per year for the beneficiary, and most student loan debt up to \$10,000 lifetime. New York and Connecticut provide state tax deductions of up to \$10,000 (MJF) per year on 529 contributions. There is no deduction in California.



Use American Opportunity Credit (AOC) and Lifetime Earning Credit (LLC) Tax Credits

Qualified education expenses include tuition, books, and enrollment fees. Credit of up to \$2,500 per student for AOC and \$2,000 per return for LLC is available. The income limit is \$160,000 MFJ and \$80,000 single. The AOC and LLC cannot be claimed by the same student in the same tax year.

Deduct Student Loan Interest

Student loan interest is deductible up to a maximum of \$2,500 per annum for 2026. Income limits apply – for 2026, no deduction may be taken where AGI exceeds \$205,000 (MFJ) and \$100,000 (single).

Permanent Life Insurance

You can borrow against your life insurance without any tax consequences during your lifetime. This won't result in an increase in Medicare premiums, as borrowing is not taxable. Returns within the policy grow tax-free. Life insurance proceeds are paid free of income tax and are estate tax-free if received by a person other than the decedent's estate.

Estate and Gift Tax Planning

The estate and gift tax exemption amounts are \$15M per person in 2026.

Strategies that can help to minimize the estate and gift tax include:

- ☐ **Annual Gift Tax Exclusion**
Fully utilize the historically high Lifetime Unified Gift/Estate Tax exemption. Use the Annual Gift Tax Exclusion amount, which is \$19,000 per individual recipient (\$38,000 for a married couple), of a gift in 2026. You can avoid that limit by paying directly for medical expenses, educational tuition, or you can make a lump-sum contribution of up to five years' worth of the annual exclusion to a person contributing to 529 college savings plans (the 2025 limits for a single person to contribute is \$95,000 and a married couple to contribute \$190,000 in one year).
- ☐ **Charitable Gifts of Cash**
For 2026, gifts of cash to public charities would be deductible up to 60% of AGI. The AGI limitation for cash gifts to a donor-advised fund remains 60%. All gifts to charity remove the asset permanently from the donor's estate without estate or gift tax consequences.
- ☐ **Charitable Gifts of Appreciated Property**
Charitable gifts of appreciated property are deductible at Market Value for stocks and real estate, subject to the 30% AGI limitation.
- ☐ **Inter-generational Loans**
Inter-generational loans can be made free of gift tax. Interest can be funded using the annual gift tax exclusion of \$19,000 in 2026.

Trust and Partnerships

- ☐ **Qualified Personal Residence Trust**
This compresses the Gift Tax transfer valuation due to the carve-out of the right to reside in the property. The donor must survive the trust term to be effective. This is gift tax-efficient.
- ☐ **Grantor Retained Annuity Trust (GRAT)**
This is an option for those who want asset growth to pass on to the next generation free of gift/estate tax. The donor transfers assets that are likely to appreciate to a GRAT but retains an annuity from the assets. The appreciation of the assets, while in the Trust, goes to the donor's heirs after the Trust term, free of gift/estate tax. This is gift tax-efficient.
- ☐ **Charitable Remainder Trust (Split Interest)**
Charitable Remainder Trusts (CRTs) are effective vehicles for recognizing gains on appreciated assets tax efficiently. CRTs defer capital gains tax over the Trust term, create an annuity for the donor from Trust assets, and allow an up-front tax deduction for the remainder interest going to charity.
- ☐ **Family Limited Partnership (FLP)**
For those who wish to transfer business assets to the next generation, FLPs allow a discounted transfer value for gift tax purposes, while still retaining substantial operating control for the donor.
- ☐ **Irrevocable Life Insurance Trust**
Life insurance proceeds add to the insured's estate (and estate tax) if owned directly by the decedent. Life insurance contracts should instead be held by a Life Insurance Trust with the insured's family as beneficiary.

Business Planning

Businesses, large and small, have unique considerations when it comes to retirement planning and tax planning.

Retirement Contributions

Solo 401(k) Plan

Solo 401(k) plans allow business owners to contribute up to \$72,000 if under age 50 and \$80,000 if age 50 or older. For individuals aged 60 to 63, the new enhanced catch-up provision adds \$11,250, increasing the total limit to \$83,250 for 2026. This benefit applies to self-employed individuals, including those earning income through 1099 contracts, S-Corps, LLCs, and Schedule C businesses. Employees who are not business owners are not eligible.

SEP (Simplified Employee Pension Plan) IRA

Up to \$72,000 may be contributed to an SEP IRA. Only the employer contributes up to the lesser of 25% of each eligible employee's compensation and \$70,000. Must include all eligible employees.

Defined Benefit / Cash Balance Plan

100% of taxable income may be contributed up to \$290,000 per year to this plan in 2026. This must cover all eligible employees working > 1 year. The owner usually captures approximately 80% of the contribution benefits. Profit-share requirements can be modest. Defined Benefit Plans are complex trust-based vehicles, with annual costs (~\$10K), and require actuarial valuations.

Depreciation – Plant and Equipment Expenditures

In 2026, you can benefit from the permanent extension of 100% Bonus Depreciation (Section 168) for property acquired after January 19th. Consider purchasing new assets before year-end to maximize this deduction.

Qualified Business Income (QBI) Deduction

Pension contributions and charitable donations are not only tax-deductible in themselves, but can also bring in a secondary benefit by lowering taxable income for business owners who are above the Qualified Business Income (QBI) deduction thresholds. When business income is lowered through pension and charitable contributions, the QBI 20% deduction may get turned on – effectively, one tax deduction can lead to a secondary deduction. This additional benefit is particularly relevant where the business is a Specified Service, such as in healthcare and legal practices.



As the new year begins, it's the perfect time to review your tax strategy and take advantage of new opportunities.

This checklist can give you a starting point for what to consider. We at BakerAvenue can help you navigate through the complexities of tax planning and are committed to helping you through life's transitions. [Contact us](#) to start the conversation.

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