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OBBBA: Ten tax law changes taking effect in 2026

January 21, 2026



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While many of the most prominent tax law changes from the One Big Beautiful Bill Act (OBBBA)—such as new deductions for tips and overtime—were effective for the 2025 tax year, there are many provisions that will bring change in 2026. These new provisions represent a mix that will be beneficial for some taxpayers, and some that may negatively impact taxes.

A key for the following tax changes:



Positive for taxpayers



Negative for taxpayers



1. **Charitable deduction for non-itemizers**

Beginning in 2026, taxpayers claiming the standard deduction will be able to deduct up to \$1,000 (\$2,000 for couples filing a joint tax return) of charitable contributions on their return. To qualify, contributions must be made in cash to a qualified charity (donor-advised funds or foundations excluded).



2. **Limitation on deducting charitable contributions**

Taxpayers itemizing deductions on their return will not benefit tax-wise from making a charitable contribution until the amount of the donation exceeds 0.5% of their adjusted gross income (AGI).



3. Overall limit on itemized deductions

For taxpayers in the highest marginal income tax bracket (37%) before deductions are claimed, the tax benefit of itemized deductions will be applied as if the taxpayer was in the 35% tax bracket. This means that for every dollar of itemized deduction, the maximum tax benefit will be 35 cents (instead of 37 cents for those in top tax bracket prior to the new rule).



4. Slight increase in the deduction for state and local taxes (SALT)

The recent law introduced a number of new or expanded tax deductions. For example, temporary deductions for tips, overtime pay, seniors, auto loan interest and SALT. For the 2025 tax year the cap on deducting SALT increased from \$10,000 to \$40,000 (subject to an income phase-out). While other temporary deductions were not indexed for inflation, the SALT deduction cap increases to \$40,400 for 2026. Additionally, there is a slight increase in the income phase-out range. For 2026, this threshold begins at modified adjusted gross income (MAGI) of \$505,000. Once MAGI exceeds \$606,333 the deduction cap is \$10,000.



5. Increase in the amount of qualified K-12 expenses for 529 plans

Since 2018, up to \$10,000 of certain K-12 expenses have been considered a qualified expense for 529 plans. Beginning in 2026, the annual limit increases to \$20,000. Originally, qualified K-12 expenses were limited to tuition only. The new law expands the definition to include other expenses such as fees, books, tutoring and other educational expenses. Note that some states do not consider K-12 expenses as qualified for state income tax purposes.



6. Lower income thresholds for phase-out of alternative minimum tax (AMT) exemptions

At higher income levels, the amount of income a taxpayer can exempt from AMT is reduced. This is known as the income phase-out for the AMT exemption. Beginning in 2026, this income-phase-out reverts to levels that were in place for the 2018 tax year: \$500,000 for single filers and \$1,000,000 for couples. For comparison, in 2025 these thresholds were \$626,350 and \$1,252,700 respectively. In addition, the income phase-out rate increases from 25% to 50%. Combined, these two changes mean that the number of taxpayers owing AMT will increase.



7. Broader income phase-out for the qualified business income (QBI) deduction

The QBI deduction allows pass-through business owners to deduct up to 20% of their net business income from taxation. At higher income levels, certain service-related business owners may be limited, or prevented altogether from claiming the deduction. For non-service business owners with higher income, they may be subject to an alternative calculation which may result in a lower deduction. Beginning in 2026, these income phase-outs are eased slightly which will benefit business owners claiming the deduction. For single filers, the income range for the phase-out is \$75,000 (beginning at a taxable income threshold of \$201,750 and ending at \$276,750) and for married couples the income range is \$150,000 (beginning at a taxable income threshold of \$403,500 and ending at \$553,500). For comparison, these ranges were \$50,000 and \$100,000 respectively in 2025.



8. Enhanced tax benefits for dependent care

Through employer-sponsored programs, taxpayers can elect pre-tax salary deferrals into a dependent care flexible spending account (FSA) to pay for qualified dependent care expenses. Beginning in 2026, the annual limit increases from \$5,000 to \$7,500. Additionally, the child and dependent care tax credit is expanded. Beginning in 2026, the maximum credit rate increases from 35% to 50% of qualifying expenses.



9. Health savings accounts (HSAs) available for marketplace plans

To establish and fund an HSA, the individual or family must be enrolled in a High Deductible Health Plan (HDHP). Beginning in 2026, this rule is modified to automatically include bronze plans and catastrophic plans available on Affordable Care Act (ACA) marketplaces. This will expand access to HSAs for more individuals and families.



10. Limitation on applying gambling losses

Historically, the amount of gambling losses a taxpayer could realize was limited to their amount of winnings. Beginning in 2026, the amount of gambling losses a taxpayer can apply against winning is limited to 90% of winnings. This means that someone who breaks even will still be subject to taxes on their gambling activity. For example, an individual winning \$10,000 and losing \$10,000 would still have to report \$1,000 as income on their tax return. Prior to the new law there would be no income tax consequences in this example.

Source: Source: H.R.1 – 119th Congress (2025–2026): One Big Beautiful Bill Act. July 4, 2025. Interpretation of tax provisions are subject to change with additional guidance from the IRS.

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