WHITINGER & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

NOW IS THE TIME FOR 2026 YEAR-END TAX PLANNING



Dear Clients and Friends,

With the end of the year approaching, now is an excellent time to review your 2026 income tax situation and take steps to ensure that you are taking full advantage of the many tax planning strategies available.

Before we get to specific suggestions, keep in mind that effective tax planning requires considering both this year and next year at a minimum. Without a multi-year outlook, you cannot be sure planning strategies intended to save taxes for 2026 will not backfire and cost additional money in the future.

Here are a few tax-saving ideas for you to consider. As always, you can call on us to help sort through the options and implement strategies that make sense for you.

YEAR-END INVESTMENT MOVES

Depending on your taxable income, the 2026 federal income tax rates on long-term capital gains and qualified dividends are 0%, 15%, and 20%. High-income individuals can also be subject to the 3.8% NIIT, which can push the marginal long-term capital gains/qualified dividend tax rate as high as 23.8%. Still, that is substantially lower than the top regular tax rate of 37% (40.8% if the NIIT applies). To minimize your taxes, consider the following:

HOLDING ON FOR FAVORABLE RATES. Whenever possible, try to hold appreciated securities for a minimum of one year and one day to qualify for the more favorable long-term capital gains rates.

SELECT THE RIGHT SHARES TO BE SOLD. Use specific identification or standing orders, instead of the default first-in, first-out method, to identify the stock or mutual fund shares to be sold. Selecting the highest basis shares, even if held for one year or less, may minimize your capital gains taxes.

SELL DEPRECIATED SECURITIES TO HARVEST CAPITAL LOSSES. If the same or similar investments are not acquired within 30 days of the sale, the loss can be used to offset capital gains. If capital losses exceed capital gains, up to $3,000 of capital losses can be used to offset other income.

TAKE ADVANTAGE OF 0% FEDERAL RATE ON LONG-TERM CAPITAL GAINS. If your taxable income is not greater than $98,900 married filing jointly, $49,450 single, or $66,200 head of household, sell appreciated securities held for more than one year. Until taxable income exceeds the thresholds above, long-term capital gains are taxed at 0% federally.

SECURE A DEDUCTION FOR NEARLY WORTHLESS SECURITIES. If you own any essentially worthless securities with little chance of recovery, sell them before year-end so that you can deduct the loss in the current year. Do not sell the investments to a related party, which would result in a disallowance of the loss.

CONSIDER CONVERTING TRADITIONAL IRAS INTO ROTH IRAS. Conversions can be beneficial for many reasons, including when an individual would not pay federal income tax on the conversion or expects to be in the same or higher tax bracket in retirement.

CHECK YOUR BENEFICIARY DESIGNATIONS. Retirement plans, pensions, IRAs, life insurance policies, annuities, payable-on-death accounts, and certain other accounts transfer to the beneficiaries designated on the respective account forms. These designations have priority over designations in wills, trusts, etc. Be sure your beneficiary designations are current, especially if you have experienced a significant life event such as marriage, divorce, birth of a child, etc.

MAXIMIZING NONBUSINESS DEDUCTIONS AND CREDITS

NO TAX ON TIPS. OBBBA added a deduction of up to $25,000 on reported qualified tips received by taxpayers, regardless of whether they itemize. The deduction begins phasing out for taxpayers with modified AGI over $300,000 if married filing jointly and $150,000 for all others. (Not available for married filing separately.) New for 2026, the qualified tips must be received in an occupation that regularly and customarily received tips before 2025 and be reported on a W-2 or 1099.

NO TAX ON OVERTIME. OBBBA added a deduction for qualified overtime compensation of up to $25,000 for married filing jointly and $12,500 for all others, regardless of whether or not itemizing. The deduction begins phasing out for taxpayers with modified AGI over $300,000 if married filing jointly and $150,000 for all others. (Not available for married filing separately.) New for 2026, the qualified overtime must be reported on a W-2 or 1099.

INCREASED DEDUCTION FOR SENIORS. OBBBA added a $6,000 deduction for each qualified individual age 65 or older. This deduction is phased out by 6% of the taxpayers' modified AGI over $150,000 for married filing jointly and $75,000 for all other taxpayers. (Not available for married filing separately.)

DEDUCTION FOR QUALIFIED PASSENGER VEHICLE LOAN INTEREST. OBBBA added a deduction of up to $10,000 for interest on qualified personal car loans, regardless of whether you itemize. The vehicle must be new and have been assembled in the U.S. The deduction begins phasing out when modified AGI exceeds $200,000 for married filing jointly and $100,000 for all other taxpayers. (Not available for married filing separately.)

CHARITABLE DEDUCTION FOR NON-ITEMIZERS. New for 2026, taxpayers who do not itemize can deduct cash contributions of up to $2,000 if married filing jointly and up to $1,000 for all others. This is in addition to the standard deduction.

DISASTER LOSSES. Personal casualty losses are generally not deductible. However, individual taxpayers with unreimbursed losses from specific designated natural disasters, such as the August 2026 flooding in Indiana, are eligible to deduct those losses. Taxpayers may also qualify for enhanced deduction options, including deducting the loss in addition to the standard deduction and choosing to deduct the loss on the 2026 return or an amended 2025 return.

INCREASED STATE AND LOCAL TAX (SALT) DEDUCTION. Prior to OBBBA, the limit on itemized deductions for state and local taxes was $10,000 ($5,000 if married filing separately). OBBBA increased the limit to $40,400 ($20,200 if married filing separately). The increased deduction limit is reduced by 30% of the excess of modified AGI over $505,000 ($252,500 if married filing separately).

GIFT APPRECIATED STOCK. If you have appreciated stock you have held for more than one year and plan to make significant charitable contributions, keep your cash and donate the stock instead. You will avoid paying tax on the appreciation and can generally deduct the donated property's full value. If you want to maintain a position in the donated securities, you can immediately buy back a like number of shares. On the other hand, if the stock is now worth less than when you acquired it, sell the stock, deduct the loss, and then give the cash to charity. Also, if you sell the stock at a loss, you cannot immediately repurchase it, as this will trigger the wash sale rules. This means your loss will not be deductible but will be added to the basis in the new shares.

EXPANDED DEDUCTION FOR EDUCATOR EXPENSES. New for 2026, eligible K-12 and early-childhood educators are allowed an unlimited itemized deduction for educator expenses. The definition of educator is also expanded to include coaches and interscholastic sports administrators. This is in addition to the $350 per educator above-the-line deduction.

NEW LIMITATIONS ON ITEMIZED DEDUCTIONS. Itemized deductions for charitable donations will be reduced by 0.5% of AGI. Additionally, taxpayers in the 37% tax bracket will have their total itemized deductions, after all other limitations, reduced by 2/37ths of the lesser of those deductions or taxable income above the start of the 37% tax bracket, effectively limiting the marginal tax benefit of itemized deductions to no more than 35%.

MAXIMIZE THE BENEFIT OF THE STANDARD DEDUCTION. For 2026, the standard deduction is $32,200 for married filing jointly, $16,100 for single, and $24,150 for head of household. If your total itemized deductions are typically close to these amounts, you may be able to maximize the benefit of your deductions by bunching deductions every other year. This allows you to time your itemized deductions to be high in one year and low in the next. You claim

actual expenses in the year they are bunched and take the standard deduction in the intervening years. For instance, you might consider moving charitable donations or state tax payments you usually would make in 2027 to 2026. However, be careful with the timing of state and local tax payments, as the maximum deductible amount is limited.

CONTRIBUTE TO A 529 PLAN. Contributions to an Indiana 529 Plan can provide a 20% state tax credit (maximum credit of $1,500) for Indiana taxpayers. Contributions to an Indiana 529 Plan must be designated for K-12 tuition or higher education expenses. Specific to K-12 tuition paid with 529 Plan funds, distributions are limited to $20,000 per beneficiary in 2026, and the tuition must be for attendance at an in-state school. Many other states offer deductions or credits for contributions to that state's 529 Plan. Indiana 529 Plan contributions for 2026 must be made on or before April 15, 2027.

YEAR-END MOVES FOR SENIORS AGED 70½ PLUS

MAKE CHARITABLE DONATIONS DIRECTLY FROM YOUR IRA. You can make cash donations totaling up to $111,000 per individual IRA owner per year to IRS-approved charities directly from your IRA ($222,000 per year maximum on a joint return if both spouses make Qualified Charitable Distributions [QCDs] of $111,000). QCDs are not treated as taxable distributions, and you receive no itemized deduction for the contribution. QCDs have many potential tax benefits, such as reducing your Adjusted Gross Income (which may decrease the phase-out of other tax benefits and reduce the amount of your Social Security benefits that are taxable), receiving a state tax benefit where you otherwise would not, and effectively allowing you to deduct charitable contributions and claim the standard deduction on the same return. If you decide to make a QCD, you must transfer the funds directly from your IRA to the charity.

TAKE YOUR REQUIRED MINIMUM DISTRIBUTIONS. Individuals with retirement accounts must generally take withdrawals based on their account size and age every year after they reach age 73. Failure to take the required withdrawal can result in a penalty of 25% of the amount not withdrawn. QCDs discussed above count as payouts for purposes of the required distribution rules. This means you can donate all or part of your 2026 required distribution (up to the $111,000 per individual IRA owner limit on QCDs) and convert taxable required distributions into tax-free QCDs.

If you turned 73 in 2026, you could delay your 2026 required distribution until April 1, 2027. However, waiting until 2027 will result in two distributions in 2027 (the amount required for 2026 plus the amount required for 2027). While deferring income is usually a sound tax strategy, here it bunches income into 2027, which might push you into a higher tax bracket or negatively affect your tax deductions.

CONSIDER HOW YOUR INCOME IMPACTS YOUR MEDICARE PREMIUMS. Medicare premiums increase when modified AGI exceeds certain thresholds. The thresholds for increased 2028 Medicare premiums, based on 2026 Modified AGI, are projected to begin at $226,000 for married filing jointly and $113,000 for all others. Increased income from 2026 capital gains, Roth conversions, severance, etc. can result in significantly higher Medicare premiums in 2028. The increased Medicare premiums can be appealed if you experience certain life-changing events, such as retirement or loss of income (including the sale of a business), marriage, divorce, death of a spouse, etc. by filing Form SSA-44 with the Social Security Administration.

YEAR-END MOVES FOR YOUR BUSINESS

CONSIDER MAKING A PASS-THROUGH ENTITY TAX (PTET) ELECTION FOR YOUR BUSINESS. Indiana and most other states allow partnerships and S-corporations to make an election that allows state income taxes to be paid directly by the entity and deducted from the entity's federal taxable income, effectively avoiding the limitations that would otherwise apply on the owners' individual returns. For Indiana, you make the election annually on a timely filed return, including extensions. If you anticipate your business making an Indiana Pass-Through Entity Tax (PTET) election for the 2026 calendar year, you should consider making estimated tax payments to avoid underpayment penalties. Indiana estimated PTET payments must be paid quarterly. Other states have varying requirements for making the election and paying the tax.

MAXIMIZE THE DEDUCTION FOR PASS-THROUGH BUSINESS INCOME. For tax years beginning in 2026, the deduction could be up to 20% of a pass-through entity owner's qualified business income, subject to restrictions that may apply when taxable income from all sources exceeds $403,500 if married filing jointly and $201,750 for all others. For pass-through entity owners subject to the restrictions, it is imperative to manage taxable income to maximize the deduction. The deduction can also be claimed for up to 20% of income from qualified REIT dividends and publicly traded partnerships. For purposes of this deduction, pass-through entities are defined as sole proprietorships, partnerships, S corporations, and LLCs that are treated as one of the former for tax purposes. The deduction is only available to individuals, trusts, and estates. Because of the various limitations and restrictions on the deduction, other tax planning moves can positively or negatively affect your allowable deduction.

TAKE ADVANTAGE OF TAX BREAKS FOR PURCHASING EQUIPMENT, SOFTWARE, AND CERTAIN REAL PROPERTY ACQUIRED AND PLACED IN SERVICE DURING 2026.

- Your business can claim first-year bonus depreciation equal to 100% of the cost of most new and used equipment, software, and qualifying real property placed in service during 2026. Heavy SUVs, pickups, and vans with a Gross Vehicle Weight Rating above 6,000 pounds also qualify for 100% bonus depreciation. For cars, light trucks, and light vans subject to the luxury auto depreciation limits, the annual limits, including bonus depreciation, were increased to $20,300 in year one, $19,800 in year two, $11,900 in year three, and $7,160 for year four and beyond.

- For assets used for both business and personal purposes, an effective planning strategy is to maximize the business use during the year of acquisition. For example, a $60,000 heavy SUV placed in service in December 2026 and used 95% for business could generate a $57,000 deduction for 2026, even without a Section 179 deduction and even if the business use is less than 95% in future years. However, the business use must remain above 50% in all future years to avoid having to recapture the accelerated depreciation as income.

- OBBBA added Qualified Production Property (QPP) as a new class of qualifying real property eligible for 100% bonus depreciation. In general, QPP is nonresidential property normally treated as 39-year depreciable property that is:
    - used by the taxpayer as an integral part of qualified production activity,
    - placed in service in the U.S. or a U.S. possession,
    - has original use beginning with the taxpayer,
    - has construction that begins after January 19, 2025, and before January 1, 2029, and
    - is placed in service after July 4, 2025, and before January 1, 2031.

- Under Section 179, an eligible business can claim significant first-year depreciation for the cost of new and used equipment, software additions, and qualifying real property. Qualifying real property is any improvement to the interior portion of a nonresidential building placed in service after the date the building is first placed in service, except for expenditures attributable to the enlargement of the building, any elevator or escalator, or the building's internal structural framework. Qualifying real property also includes roofs, HVAC equipment, fire protection and alarm systems, and security systems for nonresidential real property if placed in service after the nonresidential building was placed in service. For tax years beginning in 2026, the maximum Section 179 deduction is $2,560,000. This amount is reduced to the extent qualified purchases exceed $4,090,000. If your business has a tax loss for the year before considering any Section 179 deduction, you cannot claim a Section 179 deduction for the current year.

CONSIDER A COST SEGREGATION STUDY FOR INVESTMENTS IN REAL ESTATE. If you made significant real estate investments, a cost segregation study may benefit you by allowing immediate or accelerated depreciation deductions that would otherwise be spread out over 27.5 or 39 years. For large investments, accelerating the tax benefits from the depreciation deductions is often worth the cost of the specialists hired to conduct the study. Be sure to consider additional factors that may limit or restrict the benefits of a cost segregation study, such as the passive activity loss rules and basis limitations.

REVISIT BUSINESS NEXUS FOR MULTI-STATE BUSINESSES. The U.S. Supreme Court's decision in Wayfair overturned the physical presence standard that had been in place for decades. This decision has opened the door for states to require out-of-state businesses to collect and remit sales tax on sales into those states, even if the business has no physical presence in the state. Many states have adopted economic nexus standards that require out-of-state companies to collect sales tax if there are more than a certain number of transactions or sales into the state. Those thresholds are generally 200 transactions and/or $100,000-$500,000 in sales, but they can vary by state. The Wayfair decision could also have an impact on income tax nexus.

REVIEW AND UPDATE ACCOUNTING POLICY FOR EXPENSING SMALL-DOLLAR EQUIPMENT AND FIXED ASSET PURCHASES. The IRS generally allows taxpayers to expense equipment and fixed assets up to $2,500 per item using the de minimis safe harbor. The de minimis safe harbor requires that an accounting policy be established at the beginning of the tax year that requires items costing less than a specific dollar amount or lasting less than 12 months to be expensed for both book and tax purposes. The accounting policy does not have to be written. For taxpayers with Applicable Financial Statements (generally, certified audited or provided to any federal or state agency other than the IRS), the de minimis threshold increases to $5,000 per item. Additionally, taxpayers with applicable financial statements must have a written accounting policy.

CHECK YOUR PARTNERSHIP AND S CORPORATION STOCK BASIS. If you own an interest in a partnership or S corporation, your ability to deduct any losses it passes through is limited to your basis. Although you can carry forward any unused loss indefinitely, the time value of money reduces the benefit of these suspended deductions. If you expect the partnership or S-corporation to generate a loss this year and you lack sufficient basis to claim a full deduction, consider making a capital contribution or loaning additional funds to the business before year-end.

EMPLOY YOUR CHILD. Employing your child provides tax benefits by shifting income from you to your child, who is typically in a lower tax bracket or may avoid tax entirely due to the standard deduction, which could be as high as $16,100 for 2026. You may also save on payroll taxes, since wages paid by sole proprietors to children under age 18 are exempt from both Social Security and unemployment taxes. Employing your children has the added benefit of providing them with earned income, which enables them to contribute to a traditional or Roth IRA. Remember a couple of things when employing your child. First, wages must be reasonable given the child's age, skills, and job responsibilities. Second, if the child is in college or is entering soon, having too much earned income can harm the student's need-based financial aid eligibility.

QUALIFIED OVERTIME AND TIPS REPORTING. New for 2026, employers must report qualified overtime and tips on the employee's W-2 using special codes so the employee can claim the respective deductions on their return. If you are not already tracking qualified tips and overtime, we highly recommend getting a head start on the 2026 W-2 reporting now.

REVIEW YOUR HEALTH CARE COSTS AND COVERAGE

TAKE ADVANTAGE OF FLEXIBLE SPENDING ACCOUNTS (FSAS). If your company has a healthcare and/or dependent care FSA, you must specify how much of your salary to convert into tax-free contributions to the plan. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying dependent care costs. Keep in mind, however, that FSAs are "use-it-or-lose-it" accounts. You do not want to set aside more than you will likely have in qualifying expenses for the year. If you currently have a healthcare FSA, make sure you use it by incurring eligible expenditures before your plan's deadline.

CONSIDER A HEALTH SAVINGS ACCOUNT (HSA). If you are enrolled in a qualified high-deductible health plan and do not have any other coverage, you may be eligible to make pre-tax or tax-deductible contributions to an HSA of up to $8,750 for family coverage or $4,400 for individual coverage, plus an extra $1,000 if you will be 55 or older by the end of 2026. Distributions from the HSA are tax-free if you use the funds to pay unreimbursed qualified medical expenses. Furthermore, there is no time limit on when you can use your contributions to cover costs. Unlike a healthcare FSA, amounts remaining in the HSA at the end of the year can be carried over indefinitely.

MANAGE YOUR ADJUSTED GROSS INCOME (AGI)

Many tax deductions and credits are only available to taxpayers with AGI below certain levels. Some common AGI-based tax breaks include the child tax credit (phase-out begins at $400,000 for married filing joint and $200,000 for single and head of household), the $25,000 rental real estate passive loss allowance (phase-out range of $100,000–$150,000 for most taxpayers), and the exclusion of social security benefits ($32,000 threshold for married filing joint; $25,000 for most other filers).

Accordingly, strategies that lower your income or increase certain deductions might reduce your taxable income and help increase some of your other tax deductions and credits. Managing your AGI can also help you avoid (or minimize the impact of) the 3.8% Net Investment Income Tax that potentially applies if your AGI exceeds $250,000 for joint returns, $200,000 for unmarried taxpayers, and $125,000 for married filing separately.

Managing your AGI can be somewhat difficult since it is not affected by many deductions you can control, such as deductions for charitable contributions and real estate and state income taxes. However, you can reduce your AGI by increasing above-the-line deductions, such as retirement plan contributions. For property sales, consider an installment sale that shifts part of the gain to later years when the installment payments are received or use a like-kind exchange that defers the gain until the exchanged property is sold. If you're 70½ or older, consider making charitable contributions from your IRA, as discussed previously. If you own a cash-basis business, delay billings so you don't receive payments until 2027, or accelerate payment of certain expenses, such as office supplies and repairs and maintenance, to 2026. Of course, before deferring income, you must assess the risk of doing so.

CHECK YOUR WITHHOLDINGS

Reviewing your withholdings, especially after significant changes to income, deductions, or credits, is always a good idea.

ESTATE AND GIFT PLANNING

For 2026, the unified federal gift and estate tax exemption is $15,000,000, and the federal estate tax rate is 40%. No estate tax will be due if a decedent's taxable estate and lifetime taxable gifts are below the exemption amount. If a married taxpayer dies, it may be beneficial to file an estate tax return to preserve any unused exemption for the surviving spouse, even if no estate tax is currently due.

TAKE ADVANTAGE OF THE ANNUAL GIFT TAX EXCLUSION. For 2026, the annual gift tax exclusion is $19,000. Therefore, a taxpayer can give $19,000 per year to any number of recipients without owing any federal gift tax. Direct payments to providers for medical expenses and tuition do not count towards the annual exclusion.

TRUMP ACCOUNTS

Trump Accounts are a new type of tax-deferred investment account for minors. Each child's account can receive up to $5,000 per year in after-tax dollars until the child reaches age 18. For children born between 2025-2028, the federal government will make a one-time deposit of $1,000 to each account, which does not count towards the $5,000 annual limit. Employers, tax-exempt organizations, and governments may also make contributions to the accounts. On October 1, 2026, the U.S. Department of the Treasury announced automatic enrollment for every eligible child under the age of 18 with a valid Social Security Number. For additional information or to claim your child's account, visit TrumpAccounts.gov.

CONCLUSION

The ideas discussed in this letter should help you get started with year-end planning, but they are no substitute for personalized professional assistance. Please do not hesitate to call us with questions or for additional strategies on reducing your tax liability. We would be glad to set up a planning meeting or assist you in any way we can.

Very truly yours,



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