PacificCPE

COURSE
32251A

2026 Federal Income Tax Changes Summary: Part I

Stay current with the federal tax changes that affect your clients most directly. This course covers updated thresholds and inflation adjustments across various tax limits, modifications to key tax credits, and the latest PPACA-related tax developments. Whether you work with individuals, families, or small businesses, understanding these changes is essential for accurate planning and compliance in 2026. A practical starting point for any tax professional updating their federal income tax knowledge for the new year.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify the individual income tax rate changes affecting taxpayers.
- Recognize how to calculate the standard mileage deductions for–
  - Use of a personal vehicle for business purposes,
  - Use of a personal vehicle to obtain medical care, and
  - Charitable use of a personal vehicle.
- Identify the 2026 standard deduction amounts available to taxpayers.
- Recognize the tax changes resulting from the passage of the One Big Beautiful Bill Act (OBBBA) impacting 2026 income, including the–
  - Deduction for state and local taxes (SALT Deduction),
  - Child tax deduction,
  - Tip deduction,
  - Tax on overtime,
  - Car loan interest deduction
  - Clean energy incentives,
  - Bonus depreciation,
  - Research and development expenses,
  - Sustainable aviation fuel credit, and
  - Limitation of business interest;
- Recognize the changes made to the alternative minimum tax exemption amount for 2026.

- Recall the tax-free United States savings bond income limits for taxpayers who paid qualified higher education expenses in 2026.
- Recognize how to calculate the tax-deductible premiums for and tax-free benefits received under qualified long-term care insurance contracts.
- Recall the amount of assets that may be passed tax-free at death.
- Identify the qualified business income (QBI) threshold amount.
- Recall how to calculate the retirement savings contribution credit available to eligible taxpayers.
- Recognize the rules and income limits applicable to eligibility for the earned income credit.
- Identify the adoption credit rules.
- Identify the changes effective in 2026 related to the:
- Health flexible spending arrangement contribution limits,
- Small business health care tax credit, and
- Large employer shared responsibility provision.

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Chapter 1: CHANGES IN VARIOUS LIMITS

Chapter Objective

After completing this chapter, you should be able to:

- Identify the individual income tax rate changes affecting taxpayers.
- Recognize how to calculate the standard mileage deductions for–
    - Use of a personal vehicle for business purposes,
    - Use of a personal vehicle to obtain medical care, and
    - Charitable use of a personal vehicle.
- Identify the 2026 standard deduction amounts available to taxpayers.
- Recognize the tax changes resulting from the passage of the One Big Beautiful Bill Act (OBBBA) impacting 2026 income, including the–
    - Deduction for state and local taxes (SALT Deduction),
    - Child tax deduction,
    - Tip deduction,
    - Tax on overtime,
    - Car loan interest deduction
    - Clean energy incentives,
    - Bonus depreciation,
    - Research and development expenses,
    - Sustainable aviation fuel credit, and
    - Limitation of business interest;
- Recognize the changes made to the alternative minimum tax exemption amount for 2026.
- Recall the tax-free United States savings bond income limits for taxpayers who paid qualified higher education expenses in 2026.
- Recognize how to calculate the tax-deductible premiums for and tax-free benefits received under qualified long-term care insurance contracts.
- Recall the amount of assets that may be passed tax-free at death.
- Identify the qualified business income (QBI) threshold amount.

INTRODUCTION

Federal tax law requires that various limits be adhered to in the preparation of tax returns, and such limits may change from year to year based on an inflation adjustment or on other factors. Included in those changes for 2026 are individual tax rates, standard mileage rates, standard deductions, and various other limits. This chapter will examine these changes for 2026 and will offer some context within which they apply.

INDIVIDUAL TAX RATES

The individual tax brackets for 2026 are as follows:

2026	Bracket for Income in Excess of...				
Tax Bracket	**MFJ**	**HOH**	**Unmarried**	**MFS**	**Estate & Trust**
10%	$0	$0	$0	$0	
12%	$24,800	$17,700	$12,400	$12,400	
22%	$100,800	$67,450	$50,400	$50,400	
24%	$211,400	$105,700	$105,700	$105,700	$3,300
32%	$403,550	$201,750	$201,775	$201,775	
35%	$512,450	$256,200	$256,225	$256,225	$11,700
37%	$768,700	$640,600	$640,600	$384,350	$16,000

STANDARD MILEAGE RATES

The standard mileage rates enable a taxpayer using a vehicle for specified purposes to deduct vehicle expenses on a per-mile basis rather than deducting actual car expenses that are incurred during the year. The rates vary, depending on the purpose of the transportation. Accordingly, the standard mileage rates differ from one another depending on whether the vehicle is used for:

- Business purposes;
- Charitable purposes; or
- Obtaining medical care or moving. Rather than using the optional standard mileage rates, however, a taxpayer may choose to take a deduction based on the actual costs of using the vehicle.

Business Use of a Taxpayer's Personal Vehicle

As a result of the passage of the Tax Cuts and Jobs Act (TCJA), taxpayers may no longer deduct unreimbursed employee expenses—including unreimbursed expenses related to business use of a personal vehicle—as "miscellaneous itemized deductions" to the extent the total of such expenses exceeds 2% of his or herAGI. However, the 2026 alternative standard mileage rate applicable to eligible business use of a vehicle is 72.5 cents per mile, up from 70 cents in 2025. In order for such expenses to be deductible, they must have been:

- Paid or incurred during the tax year;
- For the purpose of carrying on the taxpayer's trade or business; and
- Ordinary and necessary.

In addition to using the standard mileage rate, a taxpayer may also deduct any business-related parking fees and tolls paid while engaging in deductible business travel. However, parking fees paid by a taxpayer to park his or her vehicle at the usual place of business are considered commuting expenses and are not deductible.

Personal Vehicle Use for Charitable Purposes

A taxpayer may deduct as a charitable contribution any unreimbursed out-of-pocket expenses, such as the cost of gas and oil, *directly* related to the use of a personal vehicle in providing services to a charitable organization. Alternatively, a taxpayer may use the standard mileage rate applicable to the use of a personal vehicle for charitable purposes. The standard mileage rate applicable to a taxpayer's use of a personal vehicle for charitable purposes is based on statute and remains unchanged at 14¢ per mile. The taxpayer may also deduct parking fees and tolls regardless of whether the actual expenses or standard mileage rate is used.

Use of a Taxpayer's Personal Vehicle to Obtain Medical Care

A taxpayer who uses a personal vehicle for medical reasons is permitted to include the out-of-pocket vehicle expenses incurred—the expenses for gas and oil, for example—or deduct medical travel expenses at the standard medical mileage rate. For 2026, the standard medical mileage rate is 20.5 cents per mile, down from 2025. The taxpayer may also deduct any parking fees or tolls, regardless of whether the actual expense or the standard mileage rate is used.

Moving Expenses in Military and Intelligence Community Relocations Although the Tax Cuts and Jobs Act (TCJA) suspended the moving expense deduction and made any moving expense reimbursement taxable income for non-military relocations, the inclusion of reimbursed moving expenses in the recipient's gross income does not apply to military relocations meeting certain criteria. In the case of a military relocation, the taxpayer's move must be pursuant to a military order and involve a permanent change of station. If those criteria are met, no paid or incurred moving and storage expenses:

- Furnished in kind, or
- For which reimbursement or allowance is provided to the service member, spouse, or dependents

...are includible in gross income or reported. In addition, if the moving expenses paid or incurred in connection with a military relocation are furnished or reimbursed (or an allowance is provided) to the service member's spouse and dependents to move:

- To a location other than the one to which the service member moves, or
- From a location other than the one from which the service member moves,

...such expenses are likewise neither includible in gross income nor reported. The One Big Beautiful Bill Act (OBBBA) permanently eliminates the tax benefits related to moving expenses and reimbursements, while expanding the exceptions. An exception to the elimination of the moving expense deduction also applies in the case of members of the U.S. Intelligence Community who move due to military or intelligence-related orders for a permanent change of station. Accordingly, the inclusion of reimbursed moving expenses in the recipient's gross income does not apply to active military relocations, and is further extended under the OBBBA to members of the U.S. Intelligence Community meeting certain criteria. As in the case of a military relocation, an intelligence relocation must be pursuant to an intelligence-related order and involve a permanent change of station. If those criteria are met, no reimbursed expenses incurred for moving and storage are includible in the recipient's gross income.

Standard Mileage Rates

Activity	2025 Mileage Rate	2026 Mileage Rate
Eligible business use	70 cents	72.5 cents
Medical or moving purposes	21 cents	20.5 cents
Charitable purposes*	14 cents	14 cents

***Set by statute; not subject to inflation adjustment**

STANDARD DEDUCTION MADE PERMANENT

The One Big Beautiful Bill Act (OBBBA) §70102 makes permanent the standard deduction that was increased under the Tax Cuts and Jobs Act of 2017 and scheduled to end for tax years after 2025. In addition to making the standard deduction permanent, the new law increases the standard deduction for 2026 to:

- $32,200 for married couples whose filing status is “married filing jointly” and qualifying surviving spouse;
- $16,100 for singles and married couples whose filing status is “married filing separately”; and
- $24,150 for taxpayers whose filing status is “head of household.”

A taxpayer who can be claimed as a dependent is generally limited to a smaller standard deduction, regardless of whether the individual is actually claimed as a dependent. For 2026 returns, the standard deduction for a dependent is the greater of:

- $1,350; or
- The dependent’s earned income from work for the year plus $450 (but not more than the standard deduction amount, generally $16,100).

Standard Deduction for Blind and Senior Taxpayers

Elderly and/or blind taxpayers receive an additional standard deduction amount added to the basic standard deduction. The additional standard deduction for a blind taxpayer—a taxpayer whose vision is less than 20/200—and for a taxpayer who is age 65 or older at the end of the year is:

- $1,650 for married individuals; and
- $2,050 for singles and heads of household.

The additional standard deduction for taxpayers who are both age 65 or older at year-end and blind is double the additional amount for a taxpayer who is blind (but not age 65 or older) or age 65 (but not blind). For example, a 65 year-old single blind taxpayer would add $4,100 to his or her usual standard deduction: $2,050 for being age 65 plus $2,050 for being blind ($2,050 x 2 = $4,100). Thus, his or her standard deduction would normally be $20,200 ($16,100 + $4,100 = $20,200).

Standard Deduction Eligibility

The general rule with respect to deductions is that a taxpayer may choose to take a standard deduction or itemize his or her deductions. Although that general rule applies in the case of most taxpayers, certain taxpayers are ineligible to take the standard deduction and must itemize.

Taxpayers who are ineligible to take the standard deduction are the following:

- Taxpayers whose filing status is “married filing separately” and whose spouse itemizes deductions;
- Taxpayers who are filing a tax return for a short tax year due to a change in their annual accounting period; and
- Taxpayers who were nonresident aliens or dual-status aliens during the year.