PacificCPE

COURSE
32252A

2026 Federal Income Tax Changes Summary: Part 2

Retirement planning and major new legislation take center stage in this course. You'll explore updated rules for Archer MSAs, HSAs, and IRAs, then dig into the continuing impact of SECURE Act 2.0 on retirement savings strategies. The course also covers the One Big Beautiful Bill Act and its tax implications. Ideal for professionals advising clients on retirement, savings vehicles, or broader tax planning, this course brings you up to speed on some of the most significant recent developments in federal tax law.

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

- Recognize the eligibility rules applicable to Archer MSAs and HSAs.
- Recognize how to calculate the maximum contributions that may be made to an Archer MSA.
- Recall the tax treatment rules to contributions to and distributions from Archer MSAs and HSAs.
- Recognize how to calculate the traditional IRA tax deduction available to a taxpayer who is an active participant in an employer-sponsored retirement plan.
- Recognize the MAGI limits that apply to a taxpayer's eligibility to make a Roth IRA contribution.
- Identify the provisions designed to expand retirement plan coverage and increase retirement savings.
- Recall the provisions designed to enable plan participants to preserve their retirement income.
- Recognize the provisions that simplify retirement plan rules.
- Identify those provisions designed to enhance federal revenue.
- Recognize the new standard deduction amounts.
- Recall the new maximum state and local tax (SALT) deduction.
- Recall the new senior deduction.
- Recognize the provisions of the OBBBA that –
- Increase the Child Tax Credit;
- Provide for tax deductions for – 0 Tip income; 0 Overtime pay; and 0 New car loan interest;

- Eliminate certain clean energy incentives.

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Chapter 1: CHANGES IN ARCHER MSAs, HSAs, AND IRAs

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the eligibility rules applicable to Archer MSAs and HSAs.
- Recognize how to calculate the maximum contributions that may be made to an Archer MSA.
- Recall the tax treatment rules to contributions to and distributions from Archer MSAs and HSAs.
- Recognize how to calculate the traditional IRA tax deduction available to a taxpayer who is an active participant in an employer-sponsored retirement plan.
- Recognize the MAGI limits that apply to a taxpayer's eligibility to make a Roth IRA contribution.

INTRODUCTION

Archer medical savings accounts and health savings accounts permit taxpayers to make deductible contributions annually to a trust from which they can take tax-free withdrawals, as needed, to pay qualified medical expenses. Individual retirement arrangements enable taxpayers to make annual contributions to a personal retirement plan that offers tax-deferred growth and either tax-deductible contributions or tax-free qualified distributions. The limits applicable to these tax-favored plans change from year to year.

This chapter will briefly discuss each of plans and the 2026 changes that affect them.

MEDICAL SAVINGS ACCOUNTS (MSAs)

Archer MSAs are trusts created solely to pay the qualified medical expenses of the individuals for whom established. Archer MSAs call for an individual to:

- Buy a high-deductible health insurance policy (HDHP), and
- Make tax-deductible contributions to the trust.

Trust earnings are tax-deferred and may be withdrawn tax-free to pay qualified healthcare expenses.

High Deductible Health Plan Requirement

To be eligible for an Archer MSA, an otherwise eligible individual must be covered under a high-deductible health plan. A "high-deductible health plan" is defined differently for individuals and

families, and the deductible under the definition of such a plan tends to increase annually. For a policy that covers only the individual, a high deductible health plan in 2026 is one whose annual deductible is at least $2,900 but not more than $4,400. It must also provide that annual out-of-pocket expenses other than for premiums do not exceed $5,850.

A high-deductible health plan providing family coverage in 2026 must have an annual deductible of at least $5,850 but not more than $8,750 and must require maximum annual out-of-pocket expenses other than for premiums of not more than $10,700. (These limits tend to be adjusted upward each year.) Since the term “family coverage” applies to any health plan coverage except self-only coverage, the term would apply to a health insurance plan covering only a husband and wife as well as one covering a husband, wife, and multiple children.

MSA High Deductible Health Plan Limits – 2026

Deductible and out-of-pocket limits in an Archer MSA high deductible health plan for a specific year depend on whether the plan provides self-only coverage or family coverage. The limits applicable to an Archer MSA in 2026 are the following:

	Minimum HDHP Deductible	Maximum HDHP Deductible	Maximum Annual Out-of-Pocket
Self-only coverage	$2,900	$4,400	$5,850
Family coverage	$5,850	$8,750	$10,700

Archer MSA Contributions

The maximum deductible contribution that may be made to an Archer MSA depends on whether the high deductible health plan provides self-only coverage or family coverage and the amount of the applicable deductible. An eligible individual may deduct the contributions he or she makes to an Archer MSA during the taxable year in an amount not to exceed:

- 65% of the annual deductible for individuals with self-only coverage; or
- 75% of the annual deductible for individuals with family coverage.

The time of the year the qualifying high deductible coverage began is important since the maximum amount that may be contributed to the trust for any year is based on a full calendar year; thus, if the [INDENT2] st MSA high-deductible health plan coverage began later than January 1 , the maximum trust contribution permitted for that calendar year would be reduced. (Note that this is different for health savings accounts, discussed next.)

Penalty for Excess Contributions

A taxpayer's contributions to anArcher MSAin excess of the limits are subject to a 6% excise tax penalty, not to exceed 6% of the value of the Archer MSA at the close of the tax year. If a taxpayer makes an excess contribution to his or herArcher MSA, it may be withdrawn, along with any net income attributable to it, on or before the last day for filing the individual's income tax return (including extensions) for the year.

Special Rules for Employer-Installed MSAs

Archer MSAs may be sponsored by small employers and self-employed individuals. Contributions made by an employer to employees' Archer MSAs are deductible by the employer on the "Employee benefit programs" line of the business income tax return for the year in which the employer made the contributions.

If an Archer MSA is installed by an employer, some additional rules come into play. The additional rules applicable to employer-installed MSAs that affect contributions to it include the following:

- In any year in which an employer makes a contribution to anArcher MSA, no contributions to the Archer MSA may be made by the individual account holder;
- The deduction for contributions made to an Archer MSA in any year cannot exceed the employee's compensation attributable to the employer maintaining the MSA. Likewise, a self-employed individual's Archer MSA contribution cannot exceed the individual's earned income from the self-employment with respect to which the plan is established; and
- Contributions for all employees of the employer must be comparable, but they are not required to be identical.

Archer MSA Distributions

Although distributions taken from Archer MSAs are designed principally to pay qualified medical expenses, they may be taken by the individual to meet any kind of need. The tax treatment of the distribution, however, is different—and less favorable—when distributions are taken to meet other than qualified medical expenses.

For Archer MSA purposes, qualified medical expenses are those expenses that would generally qualify for the medical and dental expenses deduction and include amounts paid by the individual for unreimbursed medical care for the taxpayer, a spouse, and dependents.

Archer MSA Rollovers

Not unlike other qualified funds, the funds in an Archer MSA can be rolled over to a different MSA or to an HSA. (See Health Savings Accounts below.) The applicable rollover rules are much like those that apply to IRA rollovers and rollovers from qualified plans insofar as they require the rollover to be completed within 60 days of a distribution and limited to once every 12 months. Account Transfer Incident to Divorce The account holder's divorce or death may cause the Archer MSA account to be

transferred. If the account holder divorces, theArcher MSAinterest may be transferred from one spouse (or former spouse) to another without income taxation. To avoid taxation on the transfer, it must be made under a divorce or separation agreement. (See IRC §71(b)(2)(A).) Upon such a transfer, the Archer MSA is treated as the MSA of the spouse (or former spouse) to whom it was transferred.

Account Transfer at Death

The disposition of an Archer MSA upon the death of the account holder depends on who the beneficiary is. The Archer MSA designated beneficiary may be:

- A spouse;
- A designated beneficiary other than a spouse; or
- The individual account holder's estate.

If the designated beneficiary of the Archer MSA is the account holder's surviving spouse, he or she becomes the new account holder. In such a case, no income needs to be recognized as a result of the original account holder's death. Alternatively, an Archer MSA designated beneficiary may be someone other than a spouse—a friend or the individual's estate, for example. In such a case, the account stops being an Archer MSA when the account holder dies, and the value of the Archer MSA must be recognized by the beneficiary to the extent its value exceeds the amount of the decedent's qualified medical expenses paid by the beneficiary within one year following the account holder's death.

Archer MSA Taxation

A taxpayer who is an MSA account holder must file Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, and attach it to Form 1040 or Form 1040-NR if:

- The taxpayer or employer made contributions to the taxpayer's Archer MSA during the year;
- The taxpayer files a joint return and his or her spouse or spouse's employer made contributions to the spouse's Archer MSA during the year; or
- The taxpayer (or spouse, if filing jointly) acquired an interest in anArcher MSAbecause of the death of the account holder.

In addition, the taxpayer must report any contributions and/or taxable MSA distributions on Form 1040 or 1040-NR, as appropriate.

Contribution Tax Treatment

When Archer MSA contributions are made by an individual account holder, they are deductible above the line. When an individual's employer makes Archer MSAcontributions to an account for the individual, the contributions are considered employer-provided coverage for medical expenses

up to the allowable amount of Archer MSA contributions. They are generally deductible to the employer as a business expense but are not included in the employee's gross income for tax purposes.

Contributions made to an Archer MSA earn tax-deferred interest, and tax-deferral continues as long as the funds remain in the MSA. However, tax-deferral may be lost if the account holder pledges the Archer MSA as security for a loan.

Deductible contributions may be made through the due-date of the federal income tax return (without extensions). Such contributions should be reported on Form 1040 or Form 1040-NR, as appropriate.

Distribution Tax Treatment

Distributions from anArcher MSAmay be tax-free or taxable as ordinary income. The difference between the tax treatments lies in the use to which the distribution is put.

Archer MSA distributions are fully tax-free when the funds distributed are used to pay qualified medical expenses. For MSA purposes, qualified medical expenses are those expenses that would generally qualify for the medical and dental expense deduction and include amounts paid by the individual for unreimbursed medical care for the taxpayer, spouse, and dependents.

Archer MSA distributions are taxable and must be included in the account holder's gross income for tax purposes to the extent used for any purpose other than the payment of qualified medical expenses.

Archer MSA Distribution Tax Penalty

A taxable Archer MSA distribution may also subject the account holder to a substantial tax penalty. Archer MSA distributions are includible in income and subject to income tax penalties when they are used for other than qualified medical expenses and fail to meet specific exceptions. An Archer MSA distribution includible in an account holder's income is subject to a 20% penalty tax levied on the amount of the distribution includible in income, unless one of the following exceptions applies:

- The distribution is received while the account holder is disabled;
- The distribution is received following the account holder's death; or
- The distribution is received by the account holder after reaching the eligibility age for Medicare, i.e., age 65.

Even if one of these exceptions to the tax penalty applies, however, a distribution not used to pay qualified medical expenses is still includible in the distributee's income for tax purposes.