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Managing New Tax Changes to Optimize Your Financial Plan

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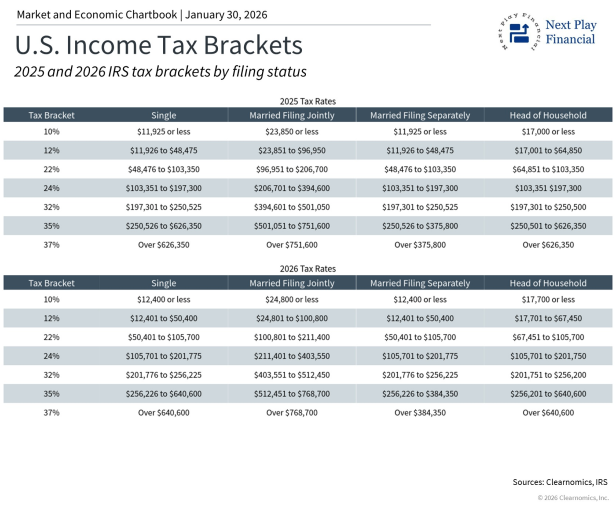
As former Senator Max Baucus once observed, "tax complexity itself is a kind of tax." While this is the case every year, this is especially true in 2026 as many significant tax policy changes create new tax and financial planning opportunities. From new restrictions on retirement catch-up contributions to expanded deduction limits, understanding these tax law changes is essential for making informed decisions in the coming year.

For many investors, particularly those over the age of 50 with higher incomes, these changes require careful planning at the start of the year. Rather than viewing tax policy shifts as individual changes, informed investors can view them as opportunities to refine their strategies and strengthen their long-term plans.

Catch-up contributions face new Roth requirements



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U.S. Income Tax Brackets

2025 and 2026 IRS tax brackets by filing status

2025 Tax Rates

Tax Bracket	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	$11,925 or less	$23,850 or less	$11,925 or less	$17,000 or less
12%	$11,926 to $48,475	$23,851 to $96,950	$11,926 to $48,475	$17,001 to $64,850
22%	$48,476 to $103,350	$96,951 to $206,700	$48,476 to $103,350	$64,851 to $103,350
24%	$103,351 to $197,300	$206,701 to $394,600	$103,351 to $197,300	$103,351 $197,300
32%	$197,301 to $250,525	$394,601 to $501,050	$197,301 to $250,525	$197,301 to $250,500
35%	$250,526 to $626,350	$501,051 to $751,600	$250,526 to $375,800	$250,501 to $626,350
37%	Over $626,350	Over $751,600	Over $375,800	Over $626,350

2026 Tax Rates

Tax Bracket	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	$12,400 or less	$24,800 or less	$12,400 or less	$17,700 or less
12%	$12,401 to $50,400	$24,801 to $100,800	$12,401 to $50,400	$17,701 to $67,450
22%	$50,401 to $105,700	$100,801 to $211,400	$50,401 to $105,700	$67,451 to $105,700
24%	$105,701 to $201,775	$211,401 to $403,550	$105,701 to $201,775	$105,701 to $201,750
32%	$201,776 to $256,225	$403,551 to $512,450	$201,776 to $256,225	$201,751 to $256,200
35%	$256,226 to $640,600	$512,451 to $768,700	$256,226 to $384,350	$256,201 to $640,600
37%	Over $640,600	Over $768,700	Over $384,350	Over $640,600

Sources: Clearnomics, IRS

One of the most significant changes affecting retirement savers for tax year 2026 involves catch-up contributions. For years, employees aged 50 and older have been able to contribute beyond standard limits in order to boost their retirement savings. This is valuable for individuals in many situations, such as those who started saving late, need more to retire, or faced financial setbacks earlier in their careers.

Traditionally, investors have had flexibility in choosing between pre-tax and after-tax (Roth) options. Starting in 2026, however, high earners face a new restriction. Employees with Federal Insurance Contributions Act (FICA) wages of $150,000 or more must now make all catch-up contributions as Roth contributions. This means that these funds are invested after taxes, but will still grow and can be withdrawn tax-free in retirement. The standard catch-up amount has increased by $500 to $8,000 for those 50 years and older, while the "super catch-up" for those aged 60-63 remains at $11,250.

Why does this matter? For high earners who previously relied on pre-tax catch-up contributions to lower their current tax bills, this change could mean higher taxable income today. For example, a 55-year-old earning $150,000 in annual income who previously would have made a $7,500 pre-tax catch-up contribution would have reduced their taxable income by $7,500. Now, that same contribution must be made after-tax, increasing their current year tax liability.

So, while Roth contributions offer benefits such as tax-free growth and withdrawals in retirement, they provide no immediate tax relief. For those in their peak earning years who are counting on catch-up contributions to manage their current tax burden, it's important to evaluate how this change affects their tax planning strategies.

The SALT deduction cap has been raised significantly

Another major change is expanding opportunities for many taxpayers. The state and local tax (SALT) deduction has been a central issue in tax policy for years, affecting millions of Americans who pay significant state and local income, property, and sales taxes. The SALT deduction allows taxpayers to reduce their federal taxable income by the amount they pay in state and local taxes, effectively preventing taxation at multiple government levels on the same income.

The SALT deduction, which had been capped at $10,000 since the Tax Cuts and Jobs Act of 2017, has now been raised to $40,000 for tax year 2025 and $40,400 for tax year 2026, and increases annually by 1% through 2029 by the One Big Beautiful Bill Act (OBBBA). This change affects many Americans, but is particularly significant for residents of high-tax states like California, New York, and New Jersey, where state and local taxes can easily exceed the previous $10,000 cap.

Importantly, the higher limit makes itemizing deductions more accessible for many households who have been taking the standard deduction since 2017. To understand why this matters, it helps to know how the tax calculation works. Taxpayers can choose between taking the standard deduction or itemizing their deductions. The standard deduction for 2026 is $16,100 for single filers and $32,200 for married couples filing jointly. Itemized deductions include things like mortgage interest, charitable contributions, medical expenses above a certain threshold, and state and local taxes.

When the SALT cap was set at $10,000 in 2017, it dramatically reduced the benefit of itemizing for many households. Combined with the doubling of the standard deduction at that time, the percentage of taxpayers who itemized fell from about 30% before 2017 to just 10% in 2022 according to the Tax Policy Center.[1] Now, with the SALT cap raised to $40,400 in tax year 2026, many more households may find that itemizing saves them money.

As a simplified example, consider a married couple in California with $35,000 in state and local income tax, $8,000 in charitable giving, and $12,000 in mortgage interest. Under the old $10,000 SALT cap, their total itemized deductions would be $30,000 ($10,000 SALT cap + their other deductions). Since this falls short of the $32,200 standard deduction, this couple would not choose to itemize. Under the new 2026 rules, they can deduct the full $35,000 in state and local taxes, bringing their itemized deductions to $55,000 which reduces their taxable income by an additional $22,800.

How these changes affect Social Security and financial planning

The real complexity of tax planning isn't just understanding each change in isolation, but also how they affect your entire financial picture. This becomes even more complex for retirees navigating Social Security.

For instance, the income thresholds that determine how much of your Social Security benefits are taxable haven't changed in decades. This means that any changes that increase your Adjusted Gross Income (AGI), such as the new Roth catch-up contribution rules, may cause more of your Social Security benefits to become taxable.

It’s important to note that there is also a new "senior bonus" deduction available for the 2025 to 2028 tax years for those aged 65 and older. This is an additional $6,000 deduction for single filers or $12,000 for married couples, even if you itemize. However, this phases out for modified AGIs between $75,000 and $175,000 for single filers and between $150,000 and $250,000 for married joint filers. This adds more complexity since decisions that increase your AGI could also reduce or eliminate this deduction.

The expanded SALT deduction also creates strategic opportunities, particularly for those who previously took the standard deduction. If you're now close to the itemizing threshold, you might consider strategies such as bunching charitable contributions into a single year, prepaying property taxes where allowed, or timing other deductible expenses to maximize the benefit. Of course, any specific strategy will depend on your particular circumstances. However, it's important to remember that the increased SALT cap is temporary and scheduled to revert to $10,000 in 2030, creating a window of opportunity to take advantage of higher deductions while they're available.

The bottom line? The tax landscape for 2026 is complex with multiple moving parts that affect households differently. Viewing these holistically, and planning accordingly, can increase the likelihood of financial success.

References

1. https://taxpolicycenter.org/briefing-book/what-are-itemized-deductions-and-who-claims-them

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