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INSIGHTS

MANAGING TAX CHANGES TO OPTIMIZE YOUR FINANCIAL PLAN

New tax policy changes in the One Big Beautiful Bill Act could affect many households. What should investors be aware of as they review their tax and financial plans for 2026?

As former Senator Max Baucus once observed, "tax complexity itself is a kind of tax." While this is the case every year, it 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

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 who started saving late, need more to retire, or faced financial setbacks earlier in their careers.

2026 Key Retirement Plan Numbers

RETIREMENT PLANS	
ELECTIVE DEFERRALS (401(k), 403(b), 457 plans)	
Contribution Limit	$24,500
Catch Up (Age 50+)	$8,000
Catch Up (Ages 60-63)	$11,250
DEFINED CONTRIBUTION PLAN	
Eligible Compensation Limit	$360,000
Limit Per Participant	$72,000
DEFINED BENEFIT PLAN	
Maximum Annual Benefit	$290,000
SIMPLE IRA	
Contribution Limit	$17,000[1]
Catch Up (Age 50+)	$4,000[2]
Catch Up (Ages 60-63)	$5,250
SEP IRA	
Maximum % of Compensation	25%
Contribution Limit	$72,000

[1] $18,100 if eligible for 10% increase
[2] $3,850 if eligible for 10% increase

TRADITIONAL & ROTH IRA CONTRIBUTIONS	
Contribution Limit	$7,500
Catch Up (Age 50+)	$1,100
ROTH IRA ELIGIBILITY	
Single MAGI Phaseout	$153,000 - $168,000
MFJ MAGI Phaseout	$242,000 - $252,000
TRADITIONAL IRA DEDUCTIBILITY (IF COVERED BY WORK PLAN)	
Single MAGI Phaseout	$81,000 - $91,000
MFJ MAGI Phaseout	$129,000 - $149,000
MFJ (If Only Spouse Is Covered)	$242,000 - $252,000

HEALTH SAVINGS ACCOUNTS			
COVERAGE	CONTRIBUTION	MINIMUM ANNUAL DEDUCTIBLE	MAX OUT-OF-POCKET EXPENSE
Individual	$4,400	$1,700	$8,500
Family	$8,750	$3,400	$17,000
Age 55+ Catch Up	$1,000		

FLEXIBLE SPENDING ACCOUNTS (FSA)	
Health Care FSA	$3,400 ($680 carryover limit)
Dependent Care FSA	$7,500

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.

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. 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.

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The SALT Deduction Cap Has Been Raised Significantly

Another 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 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. 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. With the SALT cap raised in tax year 2026, many more households may find that itemizing saves them money.

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 an investor's entire financial picture. This becomes even more complex for retirees also navigating Social Security. For instance, the income thresholds that determine how much of one's Social Security benefits are taxable haven't changed in decades. This means that any changes that increase Adjusted Gross Income (AGI), such as the new Roth catch-up contribution rules, may cause more Social Security benefits to become taxable.

2026 Key Social Security & Medicare Numbers

SOCIAL SECURITY			
Wage Base	$184,500	EARNINGS LIMIT	
Medicare	No Limit	Below FRA	$24,480
COLA	2.8%	Reaching FRA	$65,160
Full Retirement Age		Age 67 (if born in 1960 or later)	

PROVISIONAL INCOME		
	MFJ	SINGLE
0% Taxable	< $32,000	< $25,000
50% Taxable	$32,000 - $44,000	$25,000 - $34,000
85% Taxable	> $44,000	> $34,000

MEDICARE PREMIUMS & IRMAA SURCHARGE			
Part B Premium		$202.90	
Part A Premium		< 30 Credits: $565	30-39 Credits: $311
YOUR 2024 MAGI WAS:		IRMAA SURCHARGE:	
MFJ	SINGLE	PART B	PART D
$218,000 or less	$109,000 or less	-	-
$218,001 - $274,000	$109,001 - $137,000	$81.20	$14.50
$274,001 - $342,000	$137,001 - $171,000	$202.90	$37.50
$342,001 - $410,000	$171,001 - $205,000	$324.60	$60.40
$410,001 - $749,999	$205,001 - $499,999	$446.30	$83.30
$750,000 or more	$500,000 or more	$487.00	$91.00

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 affected taxpayers 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 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. For those currently close to the itemizing threshold, it might be wise to 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 individual 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.

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