Tax Law Update

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The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025. Significant provisions include: (i) extending and making permanent most of the 2017 Tax Cuts and Jobs Act (TCJA), (ii) repealing the renewable energy tax credits in the Inflation Reduction Act, effective September 30, 2025, or December 31, 2025, (iii) creating new Trump Accounts for children's savings, (iv) allowing Affordable Care Act subsidies to expire, expanding Health Savings Accounts and work requirements for Medicare, (v) a new requirement for a work eligible Social Security Number (as opposed to an ITIN) to claim most tax credits, and (vi) a new tax credit to fund K-12 school choice.

Permanent tax law provisions now include:

1. **Top individual income tax rat**e of 37%.

2. **Top corporate tax rate** of 21%.

3. **Qualified Business Income Deduction (QBID)** of up to 20% (after reductions for adjustments to income) of business income from sole proprietorships, LLCs, S corporations, partnerships, rental properties and K-1s distributing ordinary or rental income.

4. **Alternative Minimum Tax (AMT)** system that should only capture years with individual taxpayers having a large amount of lower-taxed investment income relative to ordinary income, and the ability to reclaim the AMT paid in future years.

5. **Child tax credit** of $2,200 per child under 17, indexed to inflation, with a $1,400 refundable portion (i.e., can use credit to obtain a refund greater than your tax liability). Both the child and parent must now have a work-eligible SSN to claim the credit.

6. **Standard deduction** is increased to $31,500 for joint filers and $15,750 for single filers, starting in 2025, then indexed to inflation.

7. **Itemized deductions are limited.** Mortgage interest can only be deducted on the first $750,000 of mortgage indebtedness. State and local income taxes are limited as discussed below. Elimination of miscellaneous itemized deductions, such as unreimbursed employee business expenses, is made permanent. Starting in 2026, a formula limits the value of itemized deductions to 35%, affecting anyone in the 37% tax bracket.

8. **Federal estate and gift tax exclusion amount** is increased to $15 million per individual, effective January 1, 2026. The top marginal rate for federal estate, gift, and generation-skipping transfers exceeding the exclusion amount remains 40%.

9. **New Federal Tax Credit Scholarship Program for K-12 school choice** commences January 1, 2027. Taxpayers can receive a dollar-for-dollar tax credit up to $1,700 ($3,400 for married couples) for contributions to Scholarship Granting Organizations for K-12 education. This is a school choice program that allows new SGOs, which must be 501(c)(3) non-profits, to receive donations that are specified for K-12 education expenses for students in families whose income does not exceed 300% of the "Area Median Income." This applies to private schools and homeschooling. Qualified expenses include tuition and fees for private and religious schools, tutoring services and academic after-school programs, educational therapies for students with unique abilities, curriculum materials, textbooks and technology (computers and software, transportation costs to attend a non-assigned school, and homeschooling expenses. States need to opt in to this program. States must certify a list of approved SGOs and notify the U.S. Treasury of their participation.

10. **529 plan funds** can now be used for private school tuition up to specified limits.

11. New **Trump Accounts** to save for children under 18, explained more below.

12. **The "Mega Backdoor Roth" (After-tax 401(k) Contributions):** Employers may now design retirement plans to allow for after-tax contributions to fill the gap between the elective deferral limit ($24,500 in 2026) and the defined contribution limit ($72,000 in 2026, $80,000 with catch-up contributions). Employers must have an "In-Plan Roth Conversions" feature. This can be an ideal tool for a small business owner who wants additional benefits for high-income employees.

13. **Expanded Health Savings Accounts:** Starting January 1, 2026, individuals enrolled in Bronze or Catastrophic plans on the ACA exchange are automatically considered HSA-eligible. Previously, many of these plans did not meet the IRS "high deductible health plan" criteria. Additionally, a direct primary care arrangement, where you pay a flat monthly fee for primary care, no longer disqualifies you from an HSA. There is also permanent telehealth relief, allowing high-deductible health plans to cover telehealth and remote care services before the patient meets their deductible, without disqualifying them from HSA contributions, retroactive to January 1, 2025.

New tax provisions in OBBBA that expire include:

1. **No tax on tips and overtime (effective 2025-2028)**, a new provision allows above-the-line deductions for up to $25,000 in tips and $12,500 ($25,000 for joint filers) in overtime pay, subject to income phase-outs.

2. **Senior deduction (effective 2025-2028)**, a new provision allows a $6,000 deduction for seniors (65+), phased out for higher incomes.

3. **State and Local Income Tax (SALT) cap** is temporarily raised to $40,000 for 2025, then increases 1% per year through 2029, then reverts to $10,000. The increased SALT cap is available to taxpayers with modified adjusted gross income of $500,000 or less ($250,000 for married filing separately). For MAGI between $500,000 and $600,000, the deduction is reduced by 30% of the excess income over $500,000. For MAGI of $600,000 or more, the SALT deduction is limited to $10,000.

4. **Auto loan interest** is now deductible for "Made in America" auto loans originated January 1, 2025, or later. The maximum interest allowed is $10,000. Only new vehicles with final assembly in the USA qualify (check this via your VIN). This is an above-the-line deduction, meaning you do not have to itemize to claim it. Income phase-outs are based on MAGI: $100,000 for single filers and $200,000 for married filing jointly.

Trump Accounts: A Tax Deferred Savings Vehicle for Minors

Trump Accounts offer a new way for parents to invest for children under 18 that simulates a Traditional IRA but does not require earned income to qualify. Key features include:

- Annual contribution limit: $5,000, indexed for inflation, with no tax deduction for contributions.
- Employers may contribute up to $2,500 per year per employee's child and claim a tax deduction. The employer contribution counts toward the $5,000 contribution limit.
- Must be invested in a low-cost index fund, such as the S&P 500 ETF.
- No withdrawals allowed until the child turns 18, at which time the Trump Account converts into a Traditional IRA.
- The first contributions can occur on July 4, 2026.

Government Contribution Pilot Program: A pilot program will provide a one-time federal government credit of $1,000 for US citizen children born between 2025 and 2028. The $1,000 does not count towards the $5,000 contribution limit. To be eligible, the child must have a valid Social Security Number. There are approximately 3.8 million births in the USA each year, costing the U.S. Treasury a projected $3.8 billion. Several billionaires have pledged to match the government contribution.

The US Treasury now has two webpages on Trump Accounts:

Treasury, IRS issue guidance on Trump Accounts established under the Working Families Tax Cuts; notice announces upcoming regulations | Internal Revenue Service

Trump Accounts - Jumpstarting the American Dream

Parents now have more options to save for their children. College Savings Plans, such as a 529 plan, are an excellent approach to saving for your children's educational expenses, which can now include private K-12 education. College Savings Plans do not tax withdrawals for qualified education expenses. Trump Accounts prohibit withdrawals, then convert to a Traditional IRA at age 18, where withdrawals are taxable. It would make sense to convert the Traditional IRA to a Roth upon reaching age 18. 529 plans and prepaid tuition plans are better designed for funding education, as withdrawals for qualified educational expenses are not subject to tax.

OBBBA Business Tax Cuts

In addition to making the 21% corporate tax rate permanent, the OBBBA includes multiple provisions for immediate expensing of business property that usually are depreciated or amortized over long periods.

Bonus Depreciation of 100% (full expensing when placed in service) is now permanent for qualified property acquired after January 20, 2025, and expands it to certain production property placed in service before 2034. There are three major categories of qualified property. General qualified property includes tangible personal property with a recovery period of 20 years or less. Most computers, equipment, machinery, and appliances meet this requirement.

"Qualified Improvement Property" consists of improvements to the interior of nonresidential real property. These improvements must have been made after the building was first placed in service. Qualified improvement property excludes enlargements to the building, a building's elevators and escalators, changes to the internal structural framework of the building, roofs, HVAC, fire protection systems, alarm systems and security systems.

"Qualified Production Property" is a new tax provision that allows 100% expensing of qualified production activities, such as the construction of new factories and data centers.

QIP and QPP would typically be depreciated over 39 years, but can now be deducted in full upon completion.

Section 179 is a different form of accelerated depreciation, more geared toward small businesses. The OBBBA increased the Section 179 limit to $2.5 million. Most state income tax codes have a lower Section 179 limit and do not recognize bonus depreciation.

Qualified Small Business Stock (Section 1202): The Definition of a small business is increased to $75 million in gross assets. A new three-tier system exists. There is no retroactive

applicability. The new rules apply to stock acquired after July 4, 2025. Section 1202 only applies to domestic C corporations, and there is a list of industries that do not qualify, starting with professional and engineering services.

Research & Development: OBBBA permanently extends full expensing for R&D and equipment.

These provisions are all designed to increase business investment in the United States, including incentives for foreign corporations to build manufacturing facilities in the United States.

OBBBA New Taxes Levied

Excise Tax on Non-Profit Compensation: Imposes a 21% excise tax on nonprofit organizations for employee compensation over $1 million.

Remittance Transfer Tax: Introduces a 1% excise tax on certain cross-border remittance transfers. If you are making trade-related payments to foreign vendors, you should be unaffected.

Energy Credits Repealed
The Inflation Reduction Act created generous energy credits for residential homes and electric vehicles that were initially in effect 2023-2032, but now terminate between September 2025 and June 2026. Here are the credits in place and the new expiration dates.

Residential Clean Energy Credit (now expires after December 31, 2025): Renewable energy systems such as solar panels, solar-powered water heaters, wind turbines, geothermal heat pumps, and battery storage systems were eligible for a Residential Clean Energy Credit of 30% of actual cost (net of subsidies) if made before January 1, 2026. We recommend you check your type of improvements against this IRS fact sheet: https://www.irs.gov/pub/taxpros/fs-2022-40.pdf

The system must be installed in a primary or secondary residence and owned, not leased. Separate solar credits exist for business properties. For more details on tax credits for solar systems, see the Department of Energy's Homeowner's Guide to Federal Tax Credits for Solar Photovoltaics:

https://www.energy.gov/eere/solar/homeowners-guide-federal-tax-credit-solar-photovoltaics

Energy Efficient Home Improvements Credit (now expires after December 31, 2025): This tax credit applies to energy-efficient improvements for your primary home. The credit is 30% of the cost for certain types of windows, doors, insulation, air conditioning systems, furnaces, biomass boilers and biomass stoves. However, the annual limit is $500 in aggregate for exterior doors and $600 in aggregate for exterior windows and skylights. We recommend you check your type of improvements against this IRS fact sheet: https://www.irs.gov/pub/taxpros/fs-2022-40.pdf.

Clean Vehicle Tax Credits (now expires after September 30, 2025): The Inflation Reduction Act of 2022 significantly expanded tax credits for purchasing electric vehicles (and some plug-in hybrids) and placed new thresholds on cost and requirements for North American assembly and components. The maximum tax credit is $7,500 for buying a new EV. However, to be eligible for the full credit, EVs put in use after April 17, 2023, must meet a critical minerals and better component rule. The credit is capped at $3,750 if only one factor is met.

We advise you to consult with your dealer (or Tesla, which sells directly to consumers) and type the VIN into the Department of Energy's two separate web search tools:
Alternative Fuels Data Center
https://afdc.energy.gov/laws/electric-vehicles-for-tax-credit

Federal Tax Credits for Plug-in Electric and Fuel Cell Electric Vehicles Purchased in 2023 or After
https://fueleconomy.gov/feg/tax2023.shtml

Here is the IRS FAQ page on New Clean Vehicle Purchased in 2023 or After
https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after

Vehicle costs are limited to an MSRP of $55,000 for sedans and $80,000 for vans, SUVs and pickup trucks. To claim the credit, your adjusted gross income cannot exceed $300,000 for joint filers,$225,000 for HOH, and $150,000 for single filers.

Energy credits expiring after June 30, 2026, apply to energy-efficient commercial buildings and alternate fuel vehicle refueling property.

Capital Gains Tax

Short-term capital gains are taxed as ordinary income. Assets held for over one year are considered long-term capital gains and have lower tax rates, which vary based on your income. The Net Investment Income Tax (NIIT) is an additional tax that applies when your income is at certain thresholds.

Not all assets qualify for these rates. For example, collectibles such as fine art, antiques, rare coins, and precious metals are typically taxed at 28%. Qualified Small Business Stock (IRC Section 1202) exempts a portion of the gain (often half or all), with the remainder typically taxed at 28% to prevent a double tax break. Depreciation recapture on rental property is taxed at 25%.

Below are tables for 2025 and 2026 capital gains rates by income level, followed by the NIIT thresholds. Qualified dividends follow the same rules as long-term gains. The rates follow the "stacking rule," meaning the rate is based on your total taxable income. So if you have a total taxable income of $250,000 and a $30,000 long-term capital gain, you are subject to the 20% rate and the 3.8% net investment income tax.

Long-Term Capital Gains Tax Rates 2025

	Single	Married Filing Jointly	Married Filing Separately	Head of Household
Long Term Rate	Taxable Income	Taxable Income	Taxable Income	Taxable Income
0%	$0-$48,350	$0-$96,700	$0-$48,350	$0-$64,750
15%	$48,351-$533,400	$96,701-$600,050	$48,351-$300.000	$64,751-$566-700
20%	$533,401 or more	$600,051 or more	$300,001 or more	$566,701 or more

Long-Term Capital Gains Tax Rates 2026

	Single	Married Filing Jointly	Married Filing Separately	Head of Household
Long Term Rate	Taxable Income	Taxable Income	Taxable Income	Taxable Income
0%	$0-$49,450	$0-$98,900	$0-$49,451	$0-$64,750
15%	$49,451-$545,500	$98,901-$613,700	$49,451-$306,850	$64,751-$566-700
20%	$545,501or more	$613,701 or more	$306,851 or more	$566,701 or more

Digital Assets, Virtual Currency, Cryptocurrency, and NFT Sales: Selling Bitcoin or other virtual currencies is treated as a property sale subject to capital gains tax. Spending or exchanging virtual currencies is regarded as a sale, complicating reporting if you do it frequently.

Selling an NFT could be considered a work of art and taxed at 28%. The rules are evolving. The IRS issued a request for public comment in March 2023. See this notice for details: IRS issues guidance, seeks comments on nonfungible tokens | Internal Revenue Service

Tax Strategy: To minimize taxes, consider making charitable contributions in the form of appreciated stock or digital assets. This avoids the capital gains tax and qualifies for an itemized deduction. Also, consider timing the sales of gains and losses to offset each other.

Net Investment Income Tax

In addition to capital gains tax and income taxes on dividends and interest, there is a Net Investment Income Tax (NIIT) at a rate of 3.8% that applies to certain investment income of individuals, estates and trusts that have modified adjusted gross income above the following statutory threshold amounts:

Net Investment Income Tax Applies at These Income Levels

Filing Status	Modified AGI Threshold Amount
Single	$200,000
Married Filing Jointly	$250,000
Married Filing Separately	$125,000
Head of Household (with qualifying person)	$200,000
Qualifying Widow(er) with dependent child	$250,000

These threshold amounts are NOT indexed for inflation.

In general, investment income subject to NIIT includes capital gains, dividends, interest, rental and royalty income, non-qualified annuities, income from businesses involved in trading financial instruments or commodities, and businesses that are passive activities to the taxpayers. NIIT excludes active income such as wages, operating income from an active trader business, K-1 with ordinary income, tax-exempt interest and Alaska Permanent Fund Dividends.

Retirement Funding Limits 2025

Traditional IRA Roth IRA	$7,000 contribution limit plus $1,000 catch-up contribution if you are over 50. Traditional IRA contributions can be limited if a retirement plan at work covers you or your spouse. Roth IRA contributions are subject to income limits: single and head of household under $150,000 with reduced amounts up to $165,000; married filing jointly under $236,000 with reduced amounts up to $246,00,000, and $0-$10,000 for married filing separately when living with a spouse.
401(k), 403(b), 457(b)	$23,500 elective deferral limit plus a catch-up contribution of $7,500 if you are over 50.
Maximum Defined Contribution Limit	The overall defined contribution limit from all qualified plans is $70,000 in 2025. This is most relevant to self-employed SEP/IRA participants who fund their plans based on a percentage of profit, up to this limit.
SIMPLE IRA	$16,000 elective deferral plus a $3,500 catch-up contribution if you are over age 50, with an option for the employer to match another $3,000.
Super-Sized Catch Contributions for ages 60-63 for 401(k) and 403(b)	For plan years beginning after 12/31/2023, for participants attaining age 60, 61, 62, or 63, the catch-up contribution is $10,000 for 401(k) and 403(b) plans, and $5,250 for SIMPLE plans.

Retirement Funding Limits 2026

Traditional IRA Roth IRA	$7,500 contribution limit plus $1,100 catch-up contribution if you are over 50. Traditional IRA contributions can be limited if a retirement plan at work covers you or your spouse. Roth IRA contributions are subject to income limits: single and head of household under $153,000 with reduced amounts up to $168,000; married filing jointly under $242,000 with reduced amounts up to $252,00,000, and $0-$10,000 for married filing separately when living with a spouse.
401(k), 403(b), 457(b)	$24,500 elective deferral limit plus a catch-up contribution of $8,000 if you are over 50.
Maximum Defined Contribution Limit	The overall defined contribution limit from all qualified plans is $72,000 in 2026. This is most relevant to self-employed SEP/IRA participants who fund their plans based on a percentage of profit, up to this limit.
SIMPLE IRA	$16,000 elective deferral plus a $3,500 catch-up contribution if you are over age 50, with an option for the employer to match another $3,000.
Super-Sized Catch Contributions for ages 60-63	Participants who attain age 60, 61, 62, or 63 can make a catch-up contribution of up to $11,250 for 401(k) and 403(b) plans, and $5,250 for SIMPLE plans. However, if compensation exceeds $145,000, the catch-up is treated as a Roth Contribution (IRS Notice 2023-62 delayed implementation until 2026). Consult your plan administrator.
High Income Catch-Up Contributions into a Roth IRA	Starting in 2026, if your wages in 2025 were $145,000 or more, catch-up contributions and super-sized catch-up contributions must be made into a Roth IRA, meaning they are after-tax contributions, not pre-tax, reducing your wages. The income three

SECURE ACT 2.0 (passed in 2022 and overrides prior SECURE Act provisions): The tax credit for small businesses to start a retirement plan is increased to 100% of the plan administration costs for the first three years, up to $5,000. Small businesses receive larger credits for matching contributions. Required Minimum Distribution (RMD) from qualified plans increases to 73 if born 1951-1959 and 75 if born 1960 or later in 2023 and at age 75. The super-sized catch-up contributions listed above for ages 60-63 have taken effect.

Standard Deduction in 2025 and 2026

Filing Status	2025 (updated)	2026
Married Filing Jointly, Surviving Spouse	$31,500	$32,200
Single	$15,750	$16,100
Head of Household	$23,625	$24,150
Married Filing Separately	$15,750	$16.100
Additional Amount for Age or Blind (MFJ, MFS)	$3,200	$3,300
Additional Amount for Age or Blind (Single, not Surviving Spouse)	$2,000	$2,050

Standard Mileage Rates for 2025 and 2026

- Business miles 70 cents for 2024, 72.5 cents for 2026.
- Medical miles 21 cents for 2025 and 20.5 cents for 2026.
- Moving miles for active-duty military 21 cents for 2025 and 20.5 cents for 2026.
- Charitable volunteer miles are 14 cents for 2025 and 2026.

Phase Out Thresholds

Tax law contains numerous credits and deductions subject to phase-out ranges based on your adjusted gross income. Here are some of the most widely used.

AGI Phaseout Thresholds for 2025

Tax Provision	Single	Married Filing Jointly	Married Filing Separately	Head of Household
Deducting passive losses from rental real estate	$100,000 - $150,000	$100,000 - $150,000	$50,000 - $75000	$100,000 - $150,000
Child Tax Credit	$200,000 - formula	$400,000 - formula	$200,000 - formula	$200,000 - formula
American Opportunity Credit	$80,000 - $90,000	$160,000 - $180,000	$80,000 - $90,000	$80,000 - $90,000
Lifetime Learning Credit	$80,000 - $90,000	$160,000 - $180,000	$80,000 - $90,000	$80,000 - $90,000
Student Loan Interest	$85,000 - $100,000	$170,000- $200,000	$85,000 - $100,000	$85,000 - $100,000
Made in America Auto Loan Interest	$100,000	$200,000		

Passive losses from real estate not deducted in the current year are accumulated on Form 8582, Passive Activity Loss Limitations, and can be claimed (usually in part) when the property has taxable rental income, is sold, or your AGI decreases below the threshold.

Section 199A QBID: 20% Deduction for Pass-Through Income: A Deep Dive

The Section 199A Qualified Business Income Deduction (QBID) is a complex formula that provides tax relief to business owners and investors who receive ordinary income from business activities reported on Schedule C, Schedule E, or K-1 pass-throughs, including passive investors in REITs and MLPs. While QBID was presented as a method to provide tax relief to small business owners organized as sole proprietors, LLCs, partnerships and S corporations in conjunction with lowering the C corporation tax rate to 21%, it is a complicated set of

calculations that limits the deduction. OBBBA made minor changes to the phase-in, phase-out, and minimum QBID to make qualification easier.

Section 199A taxes different professions and industries at different tax rates. Professionals in accounting, law, medicine, brokerage, investment advising, athletics, performing arts and consulting (producing advice instead of tangible deliverables) are deemed "specialized service trade or business" (SSTB) that are subject to income phase-outs presented below. Architects, engineers and real estate professionals are expressly excluded from the SSTB income limitations by statute.

Non-service businesses, such as rental property, hotels/resorts, and K-1 ordinary income from publicly traded partnerships, are subject to wage and capital tests, which provide advantages to capital-intensive businesses, including commercial real estate.

QBID is limited by income tests for SSTB service businesses, a wage-and-capital test for non-service businesses, and overall limitations based on taxable income.

1. Taxable income limits apply to specialized service trade of businesses (SSTB) claiming Section 199A QBI deduction.
   - Single/HOH/MFS filer starts phasing out at $197,500 ($201,750 in 2026) and is completely phased out at $247,300 ($276,750 for 2026).
   - Married filing jointly (MFJ) filers start phasing out at $394,600 ($403,500 in 2026) and are completely phased out at $494,600 ($553,500 in 2026).
   - If taxable income is within the phaseout range, then a partial deduction is available based on the wage and capital test applicable to non-service businesses.

2. Income from non-service pass-through businesses is limited by your share of wages paid and the unadjusted cost basis of property once your taxable income exceeds SSTB limits:
   - Taxpayers claim 50% of employer wages paid or 25% of wages plus 2.5% of the value of the qualified property purchased, and compare it to 20% of the taxpayer's qualified business income. You can claim the lower of the two amounts.

3. The overall limitation that applies to all scenarios is that QBID cannot exceed 20% of taxable income, which is income after adjustments to income and standard or itemized deductions. Suppose the taxpayer is Schedule C with a $100,000 net profit, fully funds SEP/IRA at $20,000, has self-employed health insurance premiums of $6,000, can automatically claim half self-employment tax ($7,500) and claims a standard deduction of $12,950. That results in a taxable income of $54,300. While 20% of QBI is $20,000, 20% of taxable income is $10,860, so you can only claim the lower amount of $10,860 as the QBID deduction. These numbers would flow a bit differently for an S corporation.

4. QBID losses carry forward, so if you are self-employed or have a qualified rental property that lost $10,000 in 2025 but made $15,000 in 2026, your qualified business income for 2026 decreases to $5,000 due to loss carry forward.

The 20% Section 199A QBID can be a meaningful tax benefit when appropriately structured. If you earn $100,000 of income from a pass-through business, rental real estate or estate/trust, you receive a $20,000 tax deduction before applying the abovementioned limitations. When multiplied against a 22% marginal tax rate, that's $4,400 in federal tax savings.

IRS Reg. 107892-18 and Publication 535, Business Expenses, added a QBID section and clarified which types of businesses are SSTBs. When phase-outs apply, we can speculate on how the IRS will develop audit programs for QBID, especially SSTB classifications.

Tax Planning Tips to Maximize QBID Benefits and Avoid Limitations

The S corporation is now a more powerful tax savings tool. As before, the pass-through income from an S corporation is not subject to FICA tax (15.3% for self-employed until you reach the income limit on the Social Security portion). QBID of approximately 20% of net qualified business income provides significant tax savings, especially when in a higher federal tax bracket and living in a state with high-income taxes. An estimate of savings is QBID multiplied by your combined tax rate.

Should everyone seek to become an S corporation? Not so fast. There are many rules governing different entities that have unforeseen effects. Most professionals do well under an S corporation. S corporation audit risk is higher than that of a C corporation because of the ambiguous rule that officer-owners must pay themselves "reasonable compensation" (i.e., wages). However, an S corporation has a lower audit risk than a single-member LLC or sole proprietor reporting on Schedule C.

A C corporation can be a better option for those who plan to grow and scale their business so it can be sold for a significant capital gain five years or more from now. In that case, a C corporation may be a better option because of Section 1202, which provides zero or lower capital gains tax on a portion of gains from sales of small business stock issued by domestic C corporations that meet size and industry-type requirements.

Small businesses with net profits under $100,000 are likely to receive a higher QBID when reporting as a single-member LLC on Schedule C rather than as an S corporation, but they face higher audit risk. Planning and calculations are necessary to optimize.

Some clients prioritize maximum retirement plan funding over maximizing QBID. It is essential to look at the big picture over multiple years to determine the optimal business structure that minimizes taxes and maximizes long-term wealth. We are here to help you.

Individual Tax Rates for 2025 and 2026

Tax brackets are inflation-adjusted every year. Below are two tables with 2025 and 2026 brackets and tax rates for each filing status.

Individual Tax Rates for 2025

Single Filers Individual Tax Rates 2025

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $11,925	10% of taxable income
12%	$11,926 to $48,475	$1,193 plus 12% of the amount over $11,925
22%	$48,476 to $103,350	$5,579 plus 22% of the amount over $48,475
24%	$103,351 to $197,300	$17,651 plus 24% of the amount over $103,350
32%	$197,301 to $250,525	$40,199 plus 32% of the amount over $197,300
35%	$250,526 to $626,350	$57,231 plus 35% of the amount over $250,525
37%	$626,351 or more	$188,769 plus 37% of the amount over $626,350

Married Filing Jointly Individual Tax Rates 2025

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $23,850	10% of taxable income
12%	$23,851 to $96,950	$2,385 plus 12% of the amount over $23,850
22%	$96,951 to $206,700	$11,157 plus 22% of the amount over $96,950
24%	$206,701 to $394,600	$35,302 plus 24% of the amount over $206,700
32%	$394,601 to $501,050	$80,398 plus 32% of the amount over $394,600
35%	$501,051 to $751,600	$114,462 plus 35% of the amount over $501,050
37%	$751,601 or more	$202,155 plus 37% of the amount over $751,600

Married Filing Separately Individual Tax Rates 2025

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $11,925	10% of taxable income
12%	$11,926 to $48,475	$1,193 plus 12% of the amount over $11,925
22%	$48,476 to $103,350	$5,579 plus 22% of the amount over $48,475
24%	$103,351 to $197,300	$17,651 plus 24% of the amount over $103,350
32%	$197,301 to $250,525	$40,199 plus 32% of the amount over $197,300
35%	$250,526 to $375,800	$57,231 plus 35% of the amount over $250,525
37%	$375,801 or more	$101,077 plus 37% of the amount over $375,800

Head of Household Individual Tax Rates 2025

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $17,000	10% of taxable income
12%	$17,001 to $64,850	$1,700 plus 12% of the amount over $17,000
22%	$64,851 to $103,350	$7,442 plus 22% of the amount over $64,850
24%	$103,351 to $197,300	$15.912 plus 24% of the amount over $103,350
32%	$197,301 to $250,500	$38,460 plus 32% of the amount over $197,300
35%	$250,501 to $626,350	$55,484 plus 35% of the amount over $250,500
37%	$626,351 or more	$187,032 plus 37% of the amount over $626,250

Individual Tax Rates for 2026

Single Filers Individual Tax Rates 2026

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $12,400	10% of taxable income
12%	$12,401 to $50,400	$1,240 plus 12% of the amount over $12,400
22%	$50,401 to $105,700	$5,800 plus 22% of the amount over $50,400
24%	$105,701 to $201,775	$17,966 plus 24% of the amount over $105,700
32%	$201,776 to $256,225	$41,024 plus 32% of the amount over $201,775
35%	$256,226 to $640,600	$58,448 plus 35% of the amount over $256,225
37%	$640,601 or more	$192,979 plus 37% of the amount over $640,600

Married Filing Jointly Individual Tax Rates 2026

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $24,800	10% of taxable income
12%	$24,801 to $100,800	$2,480 plus 12% of the amount over $24,800
22%	$100,801 to $211,400	$11,600 plus 22% of the amount over $100,800
24%	$211,401 to $403,550	$35,932 plus 24% of the amount over $211,400
32%	$403,551 to $512,450	$82,048 plus 32% of the amount over $403,550
35%	$512,451 to $768,700	$116,896 plus 35% of the amount over $512,450
37%	$768,701 or more	$206,584 plus 37% of the amount over $768,700

Married Filing Separately Tax Rates 2026

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $12,400	10% of taxable income
12%	$12,401 to $50,400	$1,240 plus 12% of the amount over $12,400
22%	$50,401 to $105,700	$5,800 plus 22% of the amount over $50,400
24%	$105,701 to $201,775	$17,966 plus 24% of the amount over $105,700
32%	$201,776 to $256,225	$41,024 plus 32% of the amount over $201,775
35%	$256,226 to $640,600	$58,448 plus 35% of the amount over $256,225
37%	$640,601 or more	$192,979 plus 37% of the amount over $640,600

Head of Household Individual Tax Rates 2026

Tax Rate	Taxable Income Bracket	Tax Owed
10%	$0 to $17,700	10% of taxable income
12%	$17,701 to $67,450	$1,700 plus 12% of the amount over $17,700
22%	$67,451 to $105,700	$7,740 plus 22% of the amount over $67,450
24%	$105,701 to $201,750	$16,155 plus 24% of the amount over $105,700
32%	$201,751 to $256,200	$39,207 plus 32% of the amount over $201,750
35%	$256,201 to $640,600	$56,631plus 35% of the amount over $256,200
37%	$640,601 or more	$191,171 plus 37% of the amount over $640,601