



2026 individual tax planning guide

For business owners, executives and high-net-worth taxpayers

The 2026 tax landscape

The U.S. tax environment for business owners and other individuals in 2026 will be one of newly provided certainty for tax planning, with few scheduled sunsets on the horizon. July's tax-centric law known as the One Big Beautiful Bill Act (OBBBA) delivered on a wide variety of Republican promises, ranging from extending and expanding on provisions of the 2017 Tax Cuts and Jobs Act (TCJA) to new employee-focused tax breaks.

At the heart of the OBBBA — and the true driver of the legislation promised by President Donald Trump and crafted by congressional Republicans — was maintaining the tax rate cuts for individuals that were implemented in the TCJA and set to expire at the end of this year. The new law makes permanent the current tax rates and brackets, a higher standard deduction and an enhanced child tax credit, as well as the qualified business income deduction (QBI) for pass-through business owners.

It also introduced several new temporary tax breaks for individuals, based on campaign promises Trump promoted in the run-up to his second term. These tax deductions for certain tip income, overtime pay and seniors all took effect in 2025 but will continue to be shaped by guidance and regulations in the coming year.

Many businesses will see reduced taxes from the OBBBA in 2026, and the law avoided broad tax hikes on individuals and companies. Several of the most impactful business provisions enacted under the law have already taken effect or had retroactive elements to them. These include the revival of full expensing of domestic research and experimentation expenses under Section 174A; 100% bonus depreciation, including for some real property; and a more favorable computation of the business interest expense limitation under Section 163(j). For a more extensive look at broad business tax changes in 2026, [see our business planning guide](#).

This guide is meant to help passthrough business owners, executives and other high-net-worth individuals identify their most impactful tax changes for 2026, which could include:

- The permanent extension of the qualified business income deduction
- Compliance with new employee deductions for tips and overtime pay
- Modified incentives for employer-provided benefits
- Changes to the AMT's exemption phaseout
- The permanent expansion of the estate and gift tax exemption
- Restrictions on Roth catch-up contributions
- An expanded qualified small business stock (QSBS) capital gains exclusion
- A limitation on the tax benefit of itemized deductions
- State and local tax considerations

Key changes for business owners

Section 199A

One of the most significant outcomes of the OBBBA for pass-through business owners was making the Section 199A qualified business income (QBI) deduction permanent. The deduction will remain at 20%, though there's some increased benefit at the income floor for claiming the deduction. The limitation phase-in will increase in 2026 to \$75,000 for individuals and \$150,000 for joint filers.

Business owner compliance

The OBBBA included two new individual tax benefits aimed at fulfilling promises President Trump made during his presidential campaign: no taxes on tips or overtime. While the law's provisions do not completely eliminate taxes on these income sources, they will require new compliance measures by some employers.

- **Tip income deduction:** Up to \$25,000, phased out at \$150,000 modified adjusted gross income (MAGI) for single filers, \$300,000 MAGI for joint filers.
- **Overtime compensation deduction:** Up to \$12,500 for single filers, \$25,000 for joint filers, phased out at \$150,000 MAGI for single filers and \$300,000 MAGI for joint filers.

The new law requires employers to separately report the amount of qualified tips (in addition to specified occupation details) and qualified overtime compensation to workers on a Form W-2 or 1099-NEC, as applicable. This is a significant shift from prior reporting practices, where tips were generally aggregated with wages on Forms W-2 or 1099 without occupation details. However, the IRS provided employers temporary penalty relief for the reporting requirements for payments made in calendar year 2025, so the new requirements will take effect for 2026 payments.

Qualified overtime compensation is defined as overtime compensation required under Section 7 of the Fair Labor Standards Act (FLSA) that is in excess of the individual's regular rate of pay (i.e., only the overtime premium).

Grant Thornton insight:

The new deductions for tips and overtime mean that accurate employer timekeeping and payroll reporting will be more important than ever before. In addition, some of these benefits may come into play on a year-by-year basis for high-net worth business owners that have dips in taxable income driven by one of the business-friendly tax provisions in the legislation.

The IRS has issued an early-release [draft of its planned withholding tables for 2026](#), reflecting changes to the tax code made by the OBBBA. These changes include updates to the 2026 federal income tax withholding tables to reflect the permanent extension of the TCJA tax rates and the new employee deductions.

In addition, the [draft 2026 Form W-4](#) instructs employees who expect to claim the qualified tips and overtime deductions to enter the estimated sums and adjust their withholding to account for the new deductions. Employers must use an updated Form W-4, if one is submitted by the employee, and the federal income tax withholding procedures in Publication 15-T to allow the employee to account for their expected deduction and receive more money in each paycheck instead of waiting until filing their income tax return to receive the full benefit of the deductions.

The OBBBA provides that qualified tips may not be received in the course of a trade or business that is a specified service trade or business (SSTB) (as defined in Section 199A(d)(2) — e.g., health, law, accounting, performing arts, consulting, athletics or financial services). However, the IRS has [acknowledged](#) that additional guidance is needed for employees and employers to make this determination and provides transition relief until Jan. 1 of the first calendar year following the issuance of final regulations that include this additional guidance.

Until the end of the transition period, the IRS will treat an employee as having received tips in the course of a trade or business that is not an SSTB if the employee is in an occupation that traditionally receives tips, regardless of whether the employer's trade or business is a SSTB.

Grant Thornton insight:

Under this new transition relief, it is not clear whether an employer or an employee can elect for 2025 to apply the statutory language (and applicable guidance provided in proposed regulations issued in September 2025) to determine whether a tip is qualified based on the employer's trade or business — that is, elect not to apply the new transition rule based on an employee's occupation. Application of the statutory language and proposed guidance may produce a different determination based on the particular facts and circumstances.

Taxpayers may rely on the proposed regulations (including guidance on the SSTB determination) for taxable years beginning after Dec. 31, 2024, and until the date the final regulations are published, provided that taxpayers follow the proposed regulations in their entirety and in a consistent manner.

This new transition relief provided in Notice 2025-69 does not address how, or if, it impacts the reliance provisions in September's proposed regulations.

Employer-provided benefits

The **paid family and medical leave (PFML) credit**, a general business credit previously scheduled to expire at the end of 2025, was permanently extended and expanded in the OBBBA. The changes made should allow more businesses to claim the benefit in 2026.

As an alternative to claiming 12.5% to 25% of the amount of eligible wages paid to qualifying employees on PFML (a 12.5% base for those paid at least 50% of their wages for at least two weeks, increased by 0.25 percentage points to a maximum of 25% for each percentage point of pay greater than 50%), businesses will have the option beginning in 2026 to claim an applicable percentage of premiums paid or incurred for insurance policies that provide PFML, even if no employees use the benefit during the year.

The availability of the credit also has been expanded to employers in all states, allowing those in states with mandatory PFML programs to claim the federal tax credit for employer-funded paid leave that exceeds state-mandated benefits. In these states, the credit will apply to the employer-funded portion of leave wages that go beyond what the state mandates or reimburses, once the 50% wage replacement requirement is met.

Grant Thornton insight:

This expansion to states with mandatory PFML programs will provide a federal tax benefit previously unavailable to employers in these states, for those that offer PFML wages at a higher rate or for a longer period than mandated by the state. This change will apply for tax years beginning after Dec. 31, 2025, for employers in:

- California
- Colorado
- Connecticut
- Delaware
- District of Columbia
- Maine
- Massachusetts
- Minnesota
- New Jersey
- New York
- Oregon
- Rhode Island
- Washington

In one additional change, employers will be able to claim the credit for PFML wages for those workers who have been employed for a minimum of six months, down from the previous requirement of one year.

For expenses incurred after Dec. 31, 2025, Section 274(o) disallows any tax deduction for the cost of certain **employer-provided meals** (such as meals furnished for the employer's convenience) and on-premises eating facilities (such as a company cafeteria). The OBBBA introduced limited exceptions to this rule; for example, meals provided by a restaurant to its employees, such as staff meals in the food service industry, and certain meals for crews on commercial fishing vessels or at fish processing facilities can still qualify for a deduction despite the general disallowance.

Grant Thornton insight:

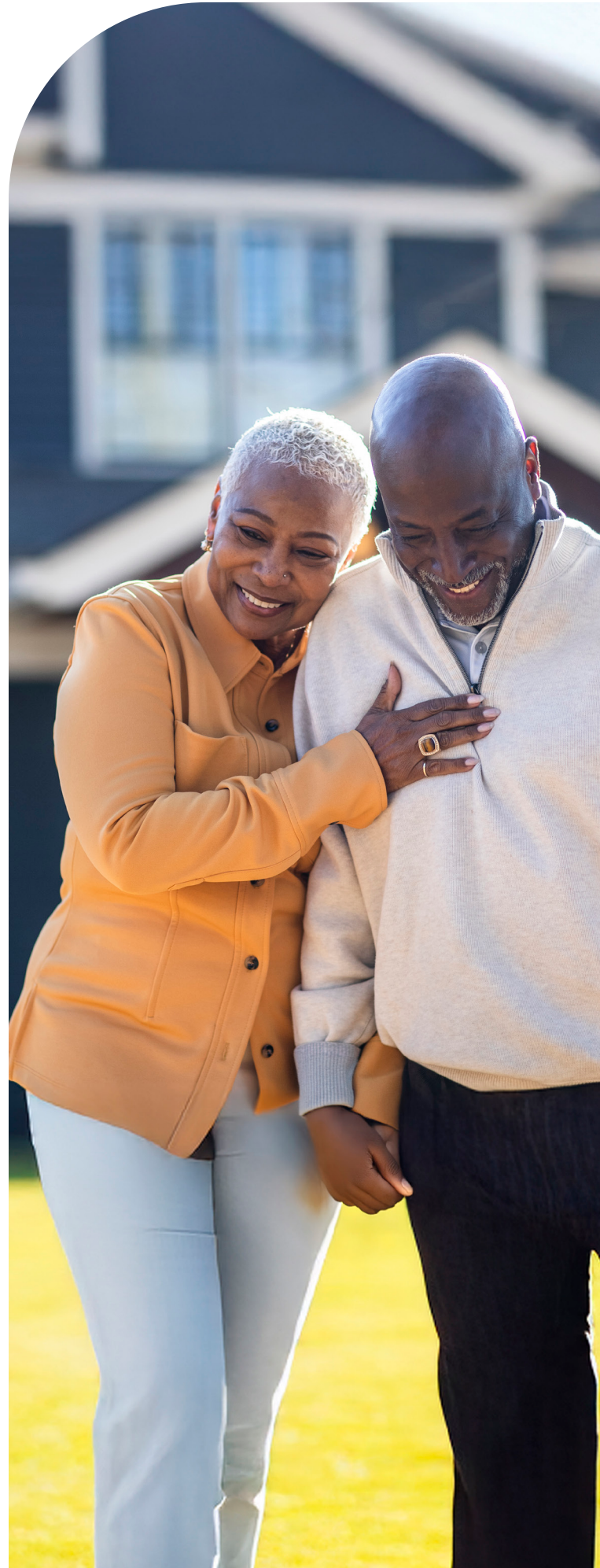
Making plans to bifurcate the various expenses related to the operation of an eating facility and/or the expense of meals provided for the convenience of the employer — which are excludible from the employees' income under Section 119 — will be key beginning in 2026.

Many questions exist around the application of Section 274(o), and employers continue to wait for IRS guidance in this area. Outstanding questions include what constitutes an eating facility. For example, does the provision of free beverages and snacks in an employee break room make a break room an eating facility for Section 274(o) purposes, and what expenses are subject to the Section 274(o) deduction disallowance?

For taxable years beginning after Dec. 31, 2025, the OBBBA increases the percentage of qualified childcare expenditures eligible for the **employer-provided childcare credit** from 25% to 40% (50% for eligible small businesses) and the annual maximum credit amount from \$150,000 to \$500,000 (\$600,000 for eligible small businesses). Beginning in 2026, there also is an opportunity for more businesses to take advantage of this benefit, as small businesses can pool their resources to jointly operate childcare facilities or use intermediaries to qualify for the credit.

Grant Thornton insight:

While not all businesses will have the resources or desire to operate their own in-house childcare facility, many may benefit from the new ability to pool resources with other local businesses or partner with licensed providers. The credit also is eligible for spending on partnering with third-party providers for back-up childcare, reserving spots at select childcare centers, and childcare referral programs. In any situation, the employer must ensure the facilities are properly licensed, and the company's offering cannot discriminate in favor of highly compensated employees.



Key changes for executives, high-net worth taxpayers

Alternative minimum tax

The TCJA's higher alternative minimum tax (AMT) exemptions were made permanent in the new law, at 2018 levels indexed for inflation (the 2025 exemptions are \$88,100 for individuals, \$137,000 for joint filers and \$68,500 for married filing separately). However, the exemption phaseout thresholds will be re-set in 2026 to 2018's levels of \$500,000 for individuals and \$1 million for joint filers (from 2025's \$626,350 and \$1,252,700, respectively) and then indexed for inflation in future years.

In addition, the exemption will phase out twice as quickly as it did previously, increasing from 25% to 50% of the amount by which a taxpayer's income exceeds the phaseout threshold.

Estate and gift tax

Beginning in 2026, the federal estate and gift tax exemption will rise to \$15 million per individual (\$30 million for joint filers), indexed for inflation and — critically — without a sunset provision. This permanence provides a rare window of planning certainty.

Grant Thornton insight:

Individuals nearing their lifetime exemption should revisit their estate plans to determine whether current strategies are beneficial or should be modified to take advantage of the new laws. Increased certainty of the higher threshold enables more strategic, and especially long-term, planning.

With the QBAI shield eliminated, groups also should reassess how tangible asset placement affects their overall tax profile. In particular, removing QBAI changes the economics of keeping assets offshore versus locating them in the U.S. Consideration should be given to whether certain assets are better placed onshore — both to align with operational needs and to position the group to access FDDEI and other domestic incentives. It also shifts the dynamics for future investment decisions, since the historical benefit of holding assets offshore for QBAI benefits is no longer available.

Grant Thornton insight:

The IRS [final regulations](#) addressing the new Roth IRA catch-up contribution rule (and other changes made by SECURE 2.0) generally apply to contributions made in tax years beginning in 2027, but they do not extend or modify the administrative transition period. Prior to the applicability date of the final regulations, a reasonable, good-faith interpretation standard applies with respect to the statutory provisions reflected in the final regulations.

Child tax credit

Under the OBBBA, the child tax credit was permanently increased to \$2,200 per child, with a phaseout beginning at an increased income threshold of \$200,000 for single filers and \$400,000 for joint filers; and a \$500 non-refundable credit is granted for each dependent other than a qualifying child of 17 or under. Under the child tax credit, up to \$1,700 is refundable beginning in 2025.

Roth catch-up contributions

Beginning in 2026, qualified retirement plans that allow participants to make catch-up contributions are required to make those contributions on a Roth basis for employees with wages exceeding \$145,000.

Catch-up contributions are additional elective deferrals that participants age 50 or older can make to certain tax-favored retirement plans (e.g., 401(k), 403(b) and governmental 457(b) plans) in excess of the otherwise applicable limits. The limit on catch-up contributions is indexed for inflation and will reach \$8,000 in 2026.

This new catch-up contribution rule was enacted as part of SECURE 2.0 in December 2022, and, as originally enacted, was scheduled to be effective for tax years beginning in 2024. However, in August 2023 the IRS issued a [notice](#) to administratively delay the effective date for two years, until 2026, to facilitate an orderly transition for compliance with the new rule.

Grant Thornton insight:

Given the increased limit on the QSBS exclusion and modified holding requirements, it is more critical than ever for taxpayers to analyze the qualification of their investments for Section 1202 treatment.

Qualified small business stock

The OBBBA expanded the qualified small business stock (QSBS) capital gains exclusion under Section 1202, which has historically provided significant benefits to owners of small businesses. For qualified stock issued after July 4, 2025, taxpayers may exclude up to 50% of the gain from the sale of QSBS held for longer than three years, 75% of the gain from holdings longer than four years, and 100% of the gain from holdings longer than five years.

These requirements are a change from previous holding period requirements, which were based on the date of stock issuance. Additionally, the new law increases the base limitation from \$10 million to \$15 million, and this amount will be indexed for inflation in tax years after 2026.

Credits and deductions

For taxpayers in the top income bracket, the "Pease" limitation has been permanently repealed but replaced with new overall **limitation on the tax benefit of itemized deductions**. Starting in 2026, the value of each dollar of otherwise allowable itemized deductions is capped at 35 cents for individuals paying a 37% marginal income tax rate.

The **mortgage interest deduction** cap was set permanently at interest payments on up to \$750,000 of mortgage debt (excluding home equity lines of credit (HELOCs)) for debt incurred after Dec. 15, 2017. The grandfathering of more interest eligible under the pre-TCJA higher cap (\$1 million) still applies for debt incurred prior to that date.

The **charitable deduction** will lose value for some taxpayers under the OBBBA starting in 2026. For those who itemize the deduction, instead of taking the now-permanently increased standard deduction, there is a floor of 0.5% of AGI before charitable contributions can be deducted. The cash contribution limit of 60% of AGI also was made permanent, up from 50% pre-TCJA. The amount below the floor may be carried forward for up to five years, but only if there are also deductions disallowed because they exceed the AGI limit.

Grant Thornton insight:

With the enactment of a floor on deductible charitable contributions and a ceiling that can effectively reduce income tax deductions, timing becomes more critical. Taxpayers should consider stacking charitable deductions in a single year to exceed the applicable AGI limitation so that the 0.5% floor amount can be carried forward with the excess amount.

Additionally, taxpayers in the highest tax bracket may want to accelerate contributions prior to year-end to avoid the new limitation on their itemized deductions under IRC 68.

For taxpayers in other tax brackets, a charitable remainder trust may provide a stream of income to the donor for life along with an immediate income tax deduction, before the remaining trust assets are passed on to charity.

For non-itemizers, the OBBBA set a permanent **above-the-line charitable contribution deduction** maximum at \$1,000 for single filers and \$2,000 for joint filers.



State and local taxes (SALT)

In a fiercely negotiated deal for members from high-tax districts, congressional Republicans agreed to increase the SALT deduction cap in the OBBBA from the TCJA's \$10,000 to \$40,000 in 2025 (\$20,000 for married filing separately), with a 1% increase in the cap on an annual basis through 2029. In 2030, the cap is scheduled to revert to \$10,000, with no inflation adjustment or income phasedown.

A phasedown of the deduction will begin at a modified adjusted gross income (MAGI) of \$500,000 for single and joint filers, with a full phaseout to a \$10,000 floor in effect at MAGI of \$600,000 (\$250,000 to \$300,000 for married filing separately).

By itself, the OBBBA's increase in the SALT cap from \$10,000 to \$40,000 in 2025, plus a 1% annual increase through 2029, is significant for many individuals who do not surpass the new modified adjusted gross income (MAGI) limits. However, for owners of pass-through business, the appeal of electing into one or more state pass-through entity (PTE) tax regimes in order to work around the cap also remains, transforming capped individual tax deductions into uncapped business deductions taken by the PTE against an elective state entity-level tax imposed on the PTE.

When the PTE tax regimes were adopted by states in reaction to the TCJA's \$10,000 SALT cap for individuals, many authorized a Dec. 31, 2025, sunset date, in line with the date on which the federal cap was set to expire. With the increase under the OBBBA, states are now re-evaluating whether to keep these regimes in place, since the increased cap means fewer individuals are likely to be adversely impacted.

Minnesota is one state that has announced that it will terminate its PTE tax regime as scheduled on Dec. 31, 2025, and several other states may follow.

Grant Thornton insight:

Barring a dramatic and unlikely change in federal policy post-OBBBA, the PTE tax regimes will continue to be appealing for many individual PTE owners who could still exceed the elevated SALT cap or are over the MAGI limit. This may be especially true in tax years in which an outsized gain is recognized.

However, there is no guarantee that the states will continue to provide PTE owners a state PTE tax regime in all circumstances or in the same manner in which they have accommodated PTE owners over the past several years. Some states provided for these regimes to last only through 2025, after which the SALT cap from TCJA was set to expire, and they will have to address extensions of the sunset date.

One factor that portends well for the continued existence of state PTE tax regimes is the fact that they are generally neutral or slightly favorable from a state revenue perspective. As such, PTEs and their owners need to continue analyzing how these regimes work and interact with each other, with tax modeling a must to see if participation in the regimes is worth it.

Once an owner decides to enter into one or more PTE tax regimes, complying with the procedure by which the election is made is important, as is determining the right estimates and extension payments, filing the actual returns, and dealing with potential notices that states often send out when there are processing issues (which in our experience frequently occurs).



Financial reporting implications

Tax law changes necessitate updates to an entity's income tax provision, particularly regarding deferred tax assets and liabilities. Accounting guidance provides certain example fact patterns to assist entities in determining whether a tax is an entity-level tax under ASC 740, Accounting for Income Taxes, or a transaction among owners of an entity, accounted for as an equity transaction.

While each jurisdiction is unique and makes a separate evaluation, passthroughs that determine they should recognize

income taxes at the entity level will have deferred tax assets and liabilities for the difference between the accounting and tax basis in the underlying items. Additionally, these entities will have an income tax expense or benefit for the period.

Entities that determine the passthrough does not meet the accounting criteria under ASC 740 recognize the PTE as a transaction on behalf of the partners of the partnership via partnership capital.

For a more detailed discussion of tax and financial reporting implications of the OBBBA, see our previous [story](#).

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