Tax changes coming in 2026: Here's what you need to know before year-end

By Adrianna Adams for Domain Money

Published: Dec. 30, 2025 at 2:33 PM CST

The clock is ticking on several significant tax changes that could impact your 2025 return—and your long-term financial strategy. With new provisions from the One Big Beautiful Bill Act (OBBBA) taking effect and key deadlines approaching, now is the time to understand what's changing and how to make the most of these opportunities.

In this article, Domain Money outlines tax changes taking effect in 2026.

The Big Changes You Need to Know

The OBBBA, signed into law on July 4, 2025, introduced a mix of permanent extensions from the 2017 Tax Cuts and Jobs Act alongside new temporary provisions that could significantly impact your tax bill. Here's what matters most:

New Deductions for 2025 (Retroactive for This Year's Return)

The Senior Deduction: If you're 65 or older, you may qualify for an additional deduction of up to $6,000 ($12,000 for married couples filing jointly). This phases out based on your modified adjusted gross income (MAGI)—starting at $75,000 for individuals and $150,000 for joint filers. The deduction amount is reduced by 6 cents for every $1 your MAGI is over the starting threshold.

Enhanced Child Tax Credit: Families will see a modest boost, with the Child Tax Credit increasing from $2,000 to $2,200 per qualifying child for 2025.

Auto Loan Interest Deduction: Purchased a new American-assembled vehicle in 2025? You might be able to deduct up to $10,000 in interest paid on your loan. The vehicle must weigh less than 14,000 pounds and have its final assembly in the U.S., and it must be for personal use. This deduction phases out for individuals with MAGI over $100,000 ($200,000 for joint filers).

No Tax on Tips and Overtime: Service workers can now deduct up to $25,000 in tip income, while overtime workers can deduct up to $12,500 ($25,000 for joint filers). Both come with income-based phaseouts starting at $150,000 MAGI ($300,000 for joint filers).

Energy Credits Sunset: If you've been considering clean energy improvements or an electric vehicle purchase, act quickly. Clean vehicle credits end for vehicles acquired after

Sept. 30, 2025, while residential energy credits for solar panels, heat pumps, and other improvements expire for property placed into service after Dec. 31, 2025.

The SALT Cap Gets a Major Boost

For years, the $10,000 cap on state and local tax (SALT) deductions has been a pain point for taxpayers in high-tax states. Starting with your 2025 return, that cap jumps to $40,000 for single filers and married couples filing jointly. The limit will increase by 1% annually through 2029 before reverting to $10,000 in 2030.

However, there's a caveat: The higher cap phases out for those with MAGI over $500,000 (or $250,000 for married filing separately), reducing by 30 cents for every dollar over that threshold.

Standard Deduction Increases

The standard deduction gets an extra 5% bump on top of inflation adjustments for 2025. For married couples filing jointly, this means an additional $1,500. If you're 65 or older (or blind), you get an even bigger boost: an extra $2,000 for single filers and heads of household or $1,600 more for each qualifying spouse on a joint return.

For 2026, these amounts continue climbing to $32,200 for married couples filing jointly, $16,100 for single filers, and $24,150 for heads of households.

What This Means for Your Tax Strategy

These changes create both opportunities and complexity. For many, the increased standard deduction might make itemizing less attractive, unless the raised SALT cap tips the scales. The new deductions for seniors, tips, overtime, and auto loans could provide significant savings, but only if you meet the eligibility requirements and income thresholds.

Financial advisors and tax professionals are already anticipating an increase in Form 1040 complexity for the 2026 tax season. New reporting requirements, updated eligibility criteria, and the need to track previously untaxed income (like tips and overtime) mean more paperwork and more opportunities for mistakes.

Time to Act

With the 2025 tax year coming to a close, now is the time to evaluate your situation. Are you close to an income threshold that could phase out one of these new deductions? Consider accelerating or deferring income if it makes sense for your situation. Planning to buy a car? Understanding the auto loan interest deduction could influence your timing and choice of vehicle. A financial advisor can help you determine whether accelerating or deferring income makes sense for your situation.

The broader implications of these changes extend beyond 2025. While some provisions are temporary (expiring in 2028), others—like the permanent extension of lower tax brackets and higher standard deductions—will shape tax planning for years to come.

While this article focuses on changes to taxes for individuals, there are a number of additional changes that will impact business owners. If you are a business owner, work closely with your financial/tax advisor to determine how these changes may impact your business.

For those navigating complex financial situations such as multiple income sources, equity compensation, or real estate holdings, professional guidance becomes even more valuable. The difference between maximizing these new provisions and leaving money on the table could be substantial.

Understanding these changes now gives you time to adjust your strategy, gather the right documentation, and make informed decisions that could save you thousands.

Disclaimer: This information is for educational purposes only and should not be considered personalized financial advice. Every financial situation is unique, and strategies should be tailored to individual circumstances, goals, and risk tolerance. Please consult with a qualified CFP® professional before making significant financial decisions.