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THE STRAUSS REPORT

Fall 2026

October is here – and most of us are feeling anxious...and overwhelmed....

The 2025 tax return season went “better than expected,” according to the National Taxpayer Advocate Erin Collins, the current state of both the IRS and the old/new tax laws for 2026 and beyond (which changed from Biden’s Social Security Fairness Act signed in January 2025 and Trump’s One Big Beautiful Tax Bill (OBBA) signed July 4, 2025, makes our 2026 tax planning more difficult and confusing than ever.

In addition, there was massive retirement of long-term IRS employees (the IRS workforce cut more than 27% of its staff over the past year) and changeovers in IRS commissioners (with seven different people serving in some capacity since 2025 - an unprecedented level of leadership turnover for the 164-year-old agency). Now the agency itself is in the middle of one of its most consequential stretches of change in years- reshaping everything from new digital administration, compliance efforts and taxpayer support. Many of us (including me!) are seeing the impact of these changes right now - and I will explain what they are and how they impact you.

In this issue of **The Strauss Report**, we will work to help you understand the tax changes impacting 2026 returns and suggest some important end-of-year tax strategies to consider. We will also work to answer questions on the implications of required minimum distributions from IRAs and inherited IRAs for 2025 and beyond, charitable contributions (QCDs). We will also review the fall medical insurance season ahead, including increases in Social Security for 2027 as well as for Medicare Part B and D and Medicare Advantage plans. And finally, we will discuss important questions we are getting now: on sales of your home, gifts to family members as well as the many problems we are seeing with incomplete trusts/wills and beneficiary issues.

BIG CHANGES AT THE IRS – AND FOR YOU...

1. The IRS automated digital systems got a major upgrade in 2025-6, that included automated matching systems that cross reference W-2s, 1099s, K-1s and payment processor data against filed returns in near real-time (weeks rather than the 12–18-month lag that was standard even a few years ago).
2. This new AUR (Automated Under reporter) system means many, many more notices are being generated. These are usually automated corrections (or questions) and are not audit triggers. It often means that you are missing a 1099 or other income item (or maybe not) and you must respond within 30 days. These notices are also for penalties and interest if you owed tax and did not pay at least 90% of tax due or made late Estimated payments or combined two into one.
3. There is a new Automatic Exemption from penalty (AEP) program launched in summer 2026. This program will automatically waive certain penalties for 2025 filing and 2026 ES payments for qualifying taxpayers (with a clean compliance history) without requiring them to request relief first.
4. On December 1, 2025, President Trump signed the IRS MATH and Taxpayer Help Act. Starting in December 2026, notices must have “plain-language explanations,” specific return lines cited, itemized old and new tax computations, and bold deadlines on page 1 for responding. Until December 2026, most notices still arrive as confusing letters with a dollar amount and a deadline.
5. As most of us now know, the IRS does not want checks or most of anything on paper. In 2026 nearly 98% of the 137.6 million individual federal tax returns were e-filed. Most of us also had amounts we owed, debited from our bank accounts. And many of us are now (with our assistance, if needed) paying Estimated taxes for both the IRS and IL online.
6. The IRS wants all of us (if possible) to have an IRS account (set up with their ID ME technology). This is also good for your Social Security account. In this account you can: find and upload replies to notices, check refunds, check ES paid and find other income documents. (we can help you set up your IRS account/ call us for our instructions or help!) I cannot access your personal ID ME account. If I

need to reply to a notice, I can either try to call the IRS with you on the line (often with on hold time of way more than an hour on my tax pro line) or get a signed power of attorney to talk with them without you.

7. Processing replies to notices is faster if uploaded to their website; paper replies can often take 6-9 months for it to be logged into the system and then routed to a person for review.
8. The IRS is doing more identity verification, often with Form 4883C. They ask you to call and verify your identity using data from the current and past tax returns. If you can get through and your identity is successfully verified, the IRS releases the return for processing, but that could take up to nine weeks to issue a refund. Many clients now have identity protection PINs – but they must be renewed each year and included on your tax return.
9. Finally, it is not just you. I have a special tax professional phone number. Most of the time, they say we are busy and call back later. If I manage to get through, the wait time is often an hour or more so I usually try to call in late afternoon when they are open on the west coast and “traffic” should be less.

SOME VERY IMPORTANT CHANGES TO KNOW NOW!!

- The **tax rates** that were put into place from the Tax Cuts and Jobs Act of 2017 are still in place for this year and are now permanent. That includes lower rates for long-term capital gains for mutual funds and qualified dividends from stocks.
- **The larger standard deduction** which started in 2017 increased again for 2026. For Married/Joint the new amount is \$32,300 and for Singles it is \$16,100. There is also a modest increase for those over 65.
- **A new senior deduction of \$6000/per person** gets added to the standard deduction which began in 2025. However, **there is a phase out** - starting at \$75,000 for Singles and \$150,000 for married joint filers.
- **The deduction for State and Local taxes (including state income taxes and real estate taxes)** increased to \$40,400. It started in tax year 2025 and will be adjusted for inflation until this law sunsets in 2030. This is limited to taxpayers with incomes under \$500,000!
- **There are changes for charitable deductions beginning in 2026.** Even if you do not itemize you can deduct \$1000 of cash contributions (\$2000 if filing jointly) on your 1040. And new limits are in place for higher income taxpayers who itemize: the amount donated is limited by .5% of AGI.
- **The new laws did not change the current provision for taxable Social Security Benefits (50% or 85%).**
- **The Social Security Fairness Act increased SSA benefits for teachers, government employees, police officers and firefighters (and spouses of deceased taxpayers).** For 2025, there was a big catch up and then new higher SSA – for 2026 there will be a full year of the higher Social Security payments.
- **The New Trump accounts (available after July 4, 2026) are a custodial style traditional IRA** for minors – owned by the child but administered by an adult. A one-time seed government contribution is planned for children born between January 1, 2025, and December 31, 2028. (please call/email us if you want more information).

SO WHAT SHOULD YOU PAY ATTENTION TO THIS FALL?

1. The **interest rates** for CDs and bank accounts are still high, hitting close to 4.5-5% for many of us based upon the September 16 quarter point rate hike by the Federal Reserve and officials signaled that another rate increase could happen before the end of the year. This can mean more taxes due to both the IRS and IL in 2026. We have worked to “guesstimate” interest income for clients with Estimated Taxes. Please review your bank statements and/or your brokerage accounts to see where you stand as compared to 2025 where many of us owed additional tax on this extra income.
2. In addition, the **stock market** has done very well in 2026, with the Dow up 7.11% to date after 9.2% in 2025 and 12.88% in 2024, and the high-tech NASDAQ up 11.80% after 18.22% in 2025 and 24% in 2024. Given the potential uncertainty and volatility given the political situation, many brokers might be considering and suggesting to you to sell stocks or mutual funds after the election or at the end of 2026. Look at your monthly statement for year-to-date gains and check with your broker about capital gains distributions at year end. You may want to discuss your portfolio with your broker now or before year-end. Again, taxes are lower on these realized gains - but they are still taxed both by the IRS and IL. (Just a thought- highly appreciated stocks can be donated to charity or your church for a tax deduction if you itemize/ it is a win/ win since you pay no tax, and the charity pays no tax either.)

3. **Required IRA Withdrawals for retirees are still with us.** The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed on December 20, 2019. A major part of this legislation increased the age required for minimum distributions from 70 ½ to 72. This is only for individuals who became 70 ½ after 12/31/2019. **Now the Secure 2.0 Act delayed this RMD age to 73 - starting in 2023! So, if you have been taking out your RMD (Required Minimum Distribution), you must continue – but those of us who turn 73 in 2026 must begin to take it in 2026. Confusing - Oh yes!!**

Perhaps you need this withdrawal (which is bigger in 2026 than in the prior year since the stock market did well and yes, we are one year older!) for your living and/or medical expenses. Perhaps you want to take part of it out and donate it to charity as a QCD - Qualified Charitable Distribution (and many of our clients are doing this!), or perhaps you want to give it to a child or grandchild - please do so! As most of us know by now, if you donate directly to charity from your IRA, it is subtracted from your taxable income. This could reduce your taxable Social Security; the Adjusted Gross Income used for the medical deduction floor and save you taxes as well. We have been working with clients to properly complete the QCD forms with their investment advisors - call us if you want our assistance.

In addition, many of us have several IRAs - you can take your total RMD from one or take an amount from each account. The penalties for "forgetting to withdraw" were huge- 50% of the required withdrawal, but now the Secure 2.0 Act has reduced them: to 25% or even 10% if the error is corrected within two years. While clients have occasionally slipped up, we have never had a penalty assessed....

4. **IRAs inherited by a NON spouse.** While a spouse can stretch the IRA withdrawals over his/her lifetime, now the non-spouse beneficiaries must take annual distributions. The change applies to "non-eligible designated beneficiaries" who inherit an IRA, 401(k) or other type of retirement account from someone who died after they were required to start distributions. Since the entire account must be liquidated within ten years of the death of the original account holder so many of us will have big distributions in 2026.
5. **If you are still working/earning income, the age cap for contributing to an IRA is gone.**

SOCIAL SECURITY, MEDICARE AND YOU...

- **Social Security recipients will get a bigger than expected increase for 2026 – estimated to be about 3.5-3.6% or an increase of \$70 for the average recipient, mostly due to the inflation we all have been feeling.** However, Medicare premiums are expected to increase \$6.60 to about \$209.50 in 2027 from \$202.90 in 2026. This is a 3.5% increase, less than the 11% jump in 2025 and still a lot more than the premium cost of \$174.70 in 2024 and \$164.90 in 2023.
- **Upper income seniors also pay more for Medicare Part B and Part D coverage in 2026,** depending on adjusted gross income (AGI) plus any tax-exempt income - over \$206,000 for joint filers or \$103,000 for Singles. You get a **letter in November of each year** when the IRS and SSA share tax information from your 2024 tax return. If your premiums are going up – then they are deducted from your Social Security deposited in your bank account. This is a year-by-year computation - so if your income increased for just one year, your premiums should go back down the next.

MORE THINGS TO CONSIDER NOW....

1. **The floor for medical expenses is still 7.5%.** Most people do not itemize unless they have substantial medical (which often comes from medically required caregiving or nursing home expenses), big real estate taxes, charitable deductions or a very large mortgage,
2. **Please review your health insurance now** to see what it covers and what it does not. Also, if you are furloughed or laid off, please check the cost of COBRA. You might be eligible on your spouse's plan or through the Health Insurance Exchange due to special circumstances. Please be careful of less expensive high-deductible plans – they sound good but can be very costly if you require hospitalization or major medical treatment.

3. **Obamacare/ACA is changing in 2027.** The enhanced ACA subsidies are already gone, and premiums are expected to rise again – about 14-15% Some insurers are leaving the marketplace for 2027 so plan choices may change. Tax reconciliation is important with Form 1095A since legislation eliminated the cap on repayment of excess advance premium tax credits. That means someone who receives too much ACA subsidy during the year could potentially have a big payback at tax time depending on your income for the entire year.
4. **Many clients are considering selling their houses or property or second homes.** The exclusion of profit for your main home is \$250,000 (Single) and \$500,000 (Married/Joint). The profit from land /or second homes is taxed both by the IRS and at the state level, either in the state where it is or in IL if there is no state income tax. Call us for our home sale worksheet.
5. **Just another reminder about Spam emails/calls and identity theft.** Please be careful, very careful – and know neither the IRS or IL will call or, email or text you for anything. Everything will come to you in paper via snail mail.
6. **Read your Trust or Will - or have one done now!** Many of us have not looked at our will or trust in five years - or often 10 or more years. And at least one third of us do not have even a will! Your will or trust defines who will manage your affairs and money if you become incapacitated or pass away. Your will or trust defines who will get your assets and by what percentage. NOW is a good time to review who your executor or trustee is and what you have - before it is too late. This is also true for the beneficiaries on your IRAs and other retirement accounts.
7. **While computers are great, this tax season and its aftermath have been ever more difficult** - with scanned, text photos and emailed documents and even zip files. We are doing consultations, answering questions (which we all have a lot more now) and talking with financial and investment advisors, attorneys and often with the IRS. Please know that if we have work to do for you after tax season, we will bill you on our per hour basis

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JUDI STRAUSS in Print, on Media.

Breaking news! The Strauss Report Tax Newsletter has won First Place in the IL Women's Press Association competition and Second Place at the National Press Women's Conference (which I attended in late September). In January 2027, we are doing Zoom workshops at the local libraries. When the dates are finalized, they will be on our website or at your library site. All our newsletters and tax alerts are on our website- www.strausstax.com and we are still on Facebook at Strauss Tax- with all breaking news. Both Beth and I are here – as always – to answer your questions by text, email or even phone - and work to give you good financial and tax advice.

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