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THE STRAUSS REPORT

Summer 2026

Summer is almost here.... and so is tax and financial uncertainty....

The regular tax season ended with a bang on April 15. This season was the first with significant changes from the One Big Beautiful Tax Bill (OBBBA) signed into law in July 2025 and the new, mostly online IRS staffing cuts over 25,000 employees before the 2025 tax filing season). Due to the deep staffing cuts, the agency saw a 12% increase in overtime hours, (with hundreds of employees working more than 12 hours up to 20 hours a day) and often requiring some employees to work mandatory weekend hours to address the huge backlogs. Like almost every business, the IRS is replacing employees from human resources with AI and (spending more than \$2.3 Billion on IT contracts for the Zero Paper Initiative). These service changes are expected to assist taxpayer (and tax professional) services during filing season and year-round.

These new provisions affected many of our clients. Over 53 million filers claimed at least one of the new tax cuts reviewed below. The average refund increased 11% compared to 2025. Over 30 million seniors claimed all of part of the new enhanced \$6000 additional senior deduction and over 105 million filers claimed the doubled standard deduction. Many with higher incomes and high real estate taxes benefited from the change in the SALT taxes (State and local income taxes and real estate taxes to \$40,000 from a maximum of \$10,000). However, many of us had big capital gains from stock sales, long term capital gains from mutual funds and the huge bump in Social Security benefits for teachers and other public workers from the Social Security Fairness bill signed by Biden before leaving office. This extra income offset some of the new tax cuts – and could continue to do so in 2026.

In this summer tax newsletter, we will review tax law changes to consider now - as you plan for 2026 taxes, including: your RMD – Required Minimum Distributions and contributions from your IRA, possibly selling your home or other property, gifting to adult children or charities and simplifying your life. The summer is a good time to review your investments for both income and tax planning with the higher interest rates and the stock market (high now but could change during the political uncertainty), and medical deductions as many of us (or our parents) are requiring more long-term care. We will also discuss things we have been doing for clients - for taxes now, working with the IRS and others for you and assisting you or your beneficiaries after a death in the family.

SO, WHAT HAPPENED – during this filing season?

- 1. Some of us had more income in 2025 than in prior tax years and we also owed more taxes, some of us a lot more. Why?**
 - **First**, the Required Minimum Distributions are back, starting for those turning 73 in 2026 and continuing for the rest of us. The stock market was higher at the end of 2024 than in prior years so our RMD in 2025 was a lot more than last year (and we are also a year older). Many of us contributed to charities from our IRA withdrawals (QCD - Qualified Charitable Distributions) but our income was still higher than last year. **This is also true for 2026 with the required distributions surprisingly more than in 2025.**
 - **Second**, many of us have investments in stock mutual funds - and the fund managers decided to sell both during the year and at the end of 2025. This created more capital gains than in prior years (while it reduced the uncertainty of the stock market). In addition, the fund managers chose to sell for gains last year but also since many people wanted to move their investments to safer 4% interest bearing choices, the fund managers had to sell for everyone to generate cash for those “leaving” the fund.
 - **Third**, interest rates are still higher than in the past. CDs and money market accounts as well as

I Bonds have rates ranging from 3.25 to 4% and are “safe” investments as compared to the ups and downs of the stock market. As stated above, many of us have been pulling out of investments and keeping the funds in cash accounts- this is good for income but then also created more taxable ordinary income on your tax return for 2025. While most of us like to have a” cash stash;” having huge chunks in interest bearing checking and savings accounts or CDs and it was not uncommon to see **huge** jumps in ordinary income from interest and ordinary dividends this tax season. (FYI- Treasury bills/notes and savings bonds - all US government interest – are not taxable in IL!)

- **A welcome surprise for many clients and many taxpayers** (including retired public workers and teachers) came from the **Social Security Fairness Act** signed into law in January 2025. This Act eliminated the Windfall Elimination Provision, and the Government Pension Offset which previously had reduced Social Security benefits for public employees receiving pensions. The impact of this Act was twofold: a retroactive one-time large benefit payment to those affected by the previous policies, covering payments back to January 2024 and a monthly increase in SSA benefits beginning in April or May of 2025. Since 85% of Social Security benefits can be taxable income (at ordinary income rates), some of us were prepared and paid more Estimated taxes and others just had to pay a lot more at tax time. For 2026, there is NO back payment but there is a much larger monthly SSA payment – so you need to tell us your 2026 SSA monthly payment so we can see if you need to pay Estimated more more Estimated taxes and not get a penalty.
 - **There are NO energy credits now- they expired at the end of 2025.**
2. **SSA had a quite small increase for 2026 (2.8%)** while what we pay for Medicare keeps rising – \$202.90/month (compared to \$185/month in 2025 and \$174.70 in 2024. In addition, the tax tables, and the standard deduction for 2026 have both been adjusted for inflation – to \$32, 200 for Married Jointly and \$16,100 for Singles plus an additional amount for those over 65. The Senior tax break of \$6000/person is still with us for 2026 but it “phases out” for Single filers making over \$75,000 and joint filers making over \$150,000 Also, an increase we do not notice but keeps creeping upward is the limit of wages on which we pay SSA tax- it is up to \$184,500 from \$176,100 for 2025 from only \$142,800 in 2021. (FYI- it was only \$106,800 back in 2011!)
 3. **Many clients are now in the “modern” age** - paying their Estimated taxes online for both the IRS and IL. It is not hard, but it can be tricky and we have been assisting clients with their online payments. We provide detailed instruction worksheets, and you do not need an online account for this. You get email confirmation - as well as see it debited from your bank account on your chosen date. **Please keep your complete ES worksheet with proof of payments for your 2026 taxes and print out your confirmation. – and then get them to us next year at tax time. We have had many issues this year with incorrect amounts of ES paid or late payments and notices/refunds - we provide the worksheet to be accurate in what we include on your tax return and avoid problems too. We can check your IL payments online but not the IRS ones, if you have an online account with the IRS, you can confirm them.**
 4. **An increasing problem for you and for us now is making sure we have ALL** your tax documents. Many banks and investment firms have them ONLY online, so you never get paper copies unless you request them or “opt out” of online tax documents. We often think there are missing tax documents and must call and get them from your brokers or help you find them online. This takes more time on our part and then we must start your tax return and then “go back to” it when we have all the missing documents. This rework increases the cost and time of completing your tax return (since we must review what we have done to be sure there are no errors!) and we are now adding a section to your bill called “other work” documenting both the work done and the time it takes to research online, call clients or brokers, check email and then download/print documents.
 5. **The IRS and IL are good at finding late ES payments or incorrect amounts paid for each quarter (or even ES payments you made that you did not tell us – thereby triggering a refund letter). There are penalties for late paying or not paying 90% of the tax owed; they do not want us to figure the penalties since our software comes up with a different amount than theirs – so you can get a notice with a bill for these penalties. We have been getting many calls and emails about IRS and IL notices. However, these are not errors in our tax preparation but due to wrong or incomplete information from you. We do remind you that penalty notices may be**

coming. We can only include on your tax return what you tell us – which is why again it is so important to keep careful records of payments and provide complete documentation to us at tax time.

Your higher total income (including Social Security and Municipal Bond Interest) will impact on the amount you are paying for Medicare and your Medicare Drug Plan in 2027. The IRS and Medicare/Social Security exchange income information and you will receive letters informing you about higher costs (which get subtracted from your SSA benefits deposited into your bank account) are mailed in late Fall. The increases start at a total income of \$109,000 for Singles and \$218,000 for Married/Joint. We have the chart for 2026; if you would like a copy, call, or email us so you will not be surprised later this year. The good news is this is a year-by-year computation, so if your income goes down you may not pay the higher Medicare premium in future years.

In addition, we now have substantially more extensions than in prior years. Some of us are older and did not “find” all the tax documents needed; others did not want to look at taxes this year and got information to us late so there were just not enough hours to do all the work before April 15. Others always get extensions – which are due by October 15th. **The issue is that the extensions which we file are NOT an extension to pay so there could be penalties and interest if you owe tax money.**

SO, WHAT CAN YOU BE DOING THIS SUMMER?

1. **We have computed the required minimum distributions for many clients. Please remember they must be taken out before December 31, 2026.** You can take your RMD out at one time (any time during the year) or monthly or quarterly as you wish. The RMD can come out of each IRA or only one IRA. It does not matter so long as the total required amount is withdrawn. The new SECURE ACT 2.0 signed into law on December 29, 2022, reduced the missed RMD penalty from 50% to 25% starting this year. And, if the penalty is corrected in a timely manner, the penalty is reduced further to 10% - however I have NEVER had a client get a penalty or even a letter – ever! You can also make charitable contributions (QCD) directly from your IRA to the charity- this saves tax money since most of us are not itemizing now. You may want to consider **WHEN** to take your RMD this year – many of us wait until year-end, but there could be stock market volatility due to the political uncertainty and tariff issues...
2. **Some of us are thinking about downsizing** and decluttering - and selling our homes. The good news is that for most of us the profit (difference between sales prices minus expenses of sale and basis - cost plus improvements) is not taxable if under \$250,000 if single and \$500,000 if married. In addition, if your spouse has died, ½ of the house gets a “stepped up” basis from his/her date of death.
3. **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) or charitable deductions or an exceptionally large real estate taxes (on one or more homes_ and perhaps a big mortgage,
4. **Review your withholding.** Your income may be higher or lower in 2026 than in years past. Especially if there are two working spouses, the income is much higher, and the withholding just cannot keep up. Bonuses are also only withheld at 22% so this could also cause a shortfall. We recommend that we review your withholding for 2026 either now or in the fall so there are no surprises at tax time.
5. **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 also 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.
6. **Review your 401K/ IRA and Other Investments**
Many of us have several IRAs and investment accounts and have never or hardly ever reviewed how they are performing or what they are invested in. Consider:
 - **Making lists** of all accounts, passwords, and contact information.
 - **Make an appointment** with your broker or financial advisor to review performance.
 - **Considering whether this is a good time to change and/or consolidate investments.**

- **Reviewing your investments** and tax strategies with us or another objective professional.

7. **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 the best time** to review who your executor or trustee is and what you have - before it is too late. We work with attorneys in the area all the time and review trust documents with you about possible tax issues. In addition, we are now consulting on tax planning issues related to gifts of appreciated stock or tax/estate planning related to the Estate tax exclusion in IL (\$4 million), as well as preparing many more trust and estate 1041 tax returns after a client dies (working with their trustee or executor). We have written a new "As we get older" document we can either email or snail mail to you covering many of the questions we get so you know what we can discuss with you (as a separate consultation from your tax preparation appointment) and when you need to talk to your attorney.

A few last things:

- There is a new **Universal charity deduction** beginning in 2026 of \$1000 for Singles and \$2000 for Married Joint even if you do not itemize. **There is also a new "floor" which will limit charitable gifts that exceed .005% of your adjusted gross income – this will impact higher income taxpayers.**
- **Beneficiaries of inherited IRAs (except the spouse) cannot "stretch" the IRA withdrawals over their lifetimes.** The entire account balance must be distributed within 10 years after the date of death.

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STRAUSS TAX SERVICE NEWS! We continue to work with you, prepare your taxes, do tax planning, respond to IRS notices and work with your broker, your adult children, and your attorney on the phone, on Zoom or in person. Now that tax season is over, we are working with summer hours, full time during the weekdays on Monday and Tuesday and on a limited schedule later in the week.

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