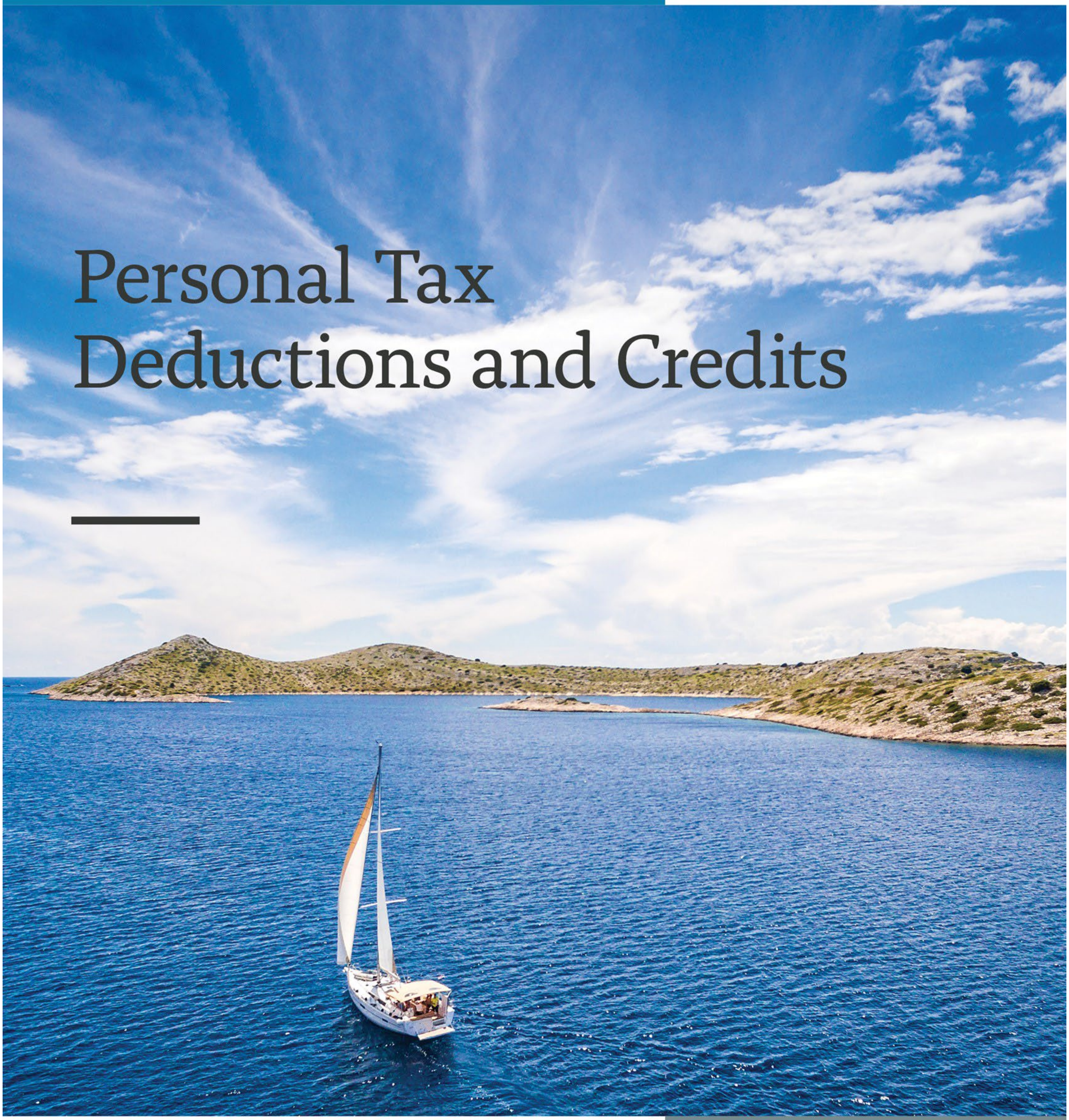
THE NAUTILUS GROUP®

Personal Tax Deductions and Credits



Personal Tax Deductions and Credits

Income tax deductions and credits — In general

An income tax deduction reduces the amount of income on which a taxpayer is required to pay tax. Deductions are subtracted from taxable income, thereby reducing the amount of income subject to tax and lowering a taxpayer's overall tax liability. For example, if a taxpayer is in the 24% marginal tax bracket, each dollar of deductions reduces tax liability by 24 cents.

An income tax credit directly reduces the amount of tax owed and may even result in a refund. For example, if a taxpayer owes $10,000 of tax after deductions and applies $5,000 of tax credits, the taxpayer's final tax liability is reduced to $5,000.

What income tax deductions are available for individuals?

There are two primary categories of deductions available to individual taxpayers: above-the-line deductions and below-the-line deductions. Above-the-line deductions, also known as adjustments to income, are subtracted from gross income before calculating adjusted gross income (AGI). These deductions are particularly valuable because many other deductions and credits are subject to AGI-based limitations. Below-the-line deductions reduce taxable income through itemized deductions claimed on Schedule A.

Above-the-line deductions

Student loan interest deduction

Taxpayers may deduct up to $2,500 of interest paid on qualified student loans during the tax year. Qualified student loans are those incurred solely to pay qualified education expenses for an eligible student. Taxpayers are eligible for the full deduction if AGI does not exceed $85,000 (single) or $170,000 (married filing jointly). The deduction is phased out for AGI between $85,000 and $100,000 (single) and $170,000 and $200,000 (married filing jointly) and is not available above those levels.

Health Savings Account (HSA) contributions

Contributions to HSAs are deductible and allow taxpayers to save pre-tax dollars for qualified medical expenses. For 2026, contribution limits are $4,300 for individuals and $8,550 for family coverage. Individuals age 55 or older may make an additional $1,000 catch-up contribution.

Deduction for contributions to IRAs

For 2026, contributions of up to $7,500 to a traditional IRA may be deductible. Individuals age 50 or older may make an additional $1,100 catch-up contribution. Deductibility depends on the taxpayer's income level and whether the taxpayer or spouse participates in an employer-sponsored retirement plan.

Standard deduction and itemized deductions

Taxpayers may elect either the standard deduction or itemize deductions. The One Big Beautiful Bill Act (OBBBA) permanently extended the increased standard deduction.

For 2026, the standard deduction amounts are:

- **Married filing jointly:** $31,000
- **Single or married filing separately:** $15,500
- **Head of household:** $23,250

Taxpayers generally elect the standard deduction unless total itemized deductions exceed the standard deduction available for their filing status.

Below-the-line (itemized) deductions

Mortgage interest deduction

Taxpayers may deduct interest paid on up to $750,000 of acquisition indebtedness for mortgages incurred after December 15, 2017. Mortgages incurred before that date retain the $1,000,000 limitation. Interest on home equity indebtedness is deductible only if the loan proceeds are used to buy, build, or substantially improve the residence securing the loan.

State and local tax (SALT) deduction

Taxpayers may deduct certain state and local income (or sales) taxes and real and personal property taxes, subject to a statutory cap. Under OBBBA, the SALT limitation was significantly and temporarily expanded.

For individual taxpayers, the SALT deduction cap is:

- $40,000 for 2025,
- $40,400 for 2026, and
- Increased by 1% annually for 2027–2029.

Beginning in 2030, the SALT cap is scheduled to revert to $10,000, absent further legislative action.

The expanded SALT deduction is subject to a modified adjusted gross income (MAGI) phaseout for higher-income taxpayers. The phaseout begins at $500,000 of MAGI in 2025, $505,000 in 2026, and increases by approximately 1% annually thereafter. However, the allowable SALT deduction is not reduced below $10,000.

There is no SALT limitation for pass-through entities, preserving the effectiveness of state pass-through entity tax (PTET) regimes.

Charitable contributions

Beginning in 2026, charitable contribution deductions are subject to new OBBBA rules.

- Non-itemizers may deduct cash charitable contributions only, up to $1,000 for single filers or $2,000 for married taxpayers filing jointly.
- Itemizing taxpayers may deduct qualified charitable contributions subject to the usual AGI percentage limitations (generally 30% to 60% of AGI, depending on the type of property and recipient organization). However, under OBBBA, cash charitable contributions are deductible only to the extent they exceed 0.5% of the taxpayer's contribution base.

Casualty losses

The casualty loss deduction generally remains limited to losses attributable to federally declared disasters. Under OBBBA, the deduction is expanded to include certain state-declared disasters.

Other itemized deduction changes under OBBBA

- Miscellaneous itemized deductions (including unreimbursed employee expenses) are permanently terminated.
- The moving expense deduction is permanently terminated, except for certain Armed Forces moves.
- Wagering losses are limited to 90% of such losses, and only to the extent of wagering winnings.

Overall limitation on itemized deductions

OBBBA permanently removes the prior-law Pease limitation and replaces it with a new overall limitation on the tax benefit of itemized deductions. Under this rule, otherwise allowable itemized deductions are reduced by 2/37 of the lesser of (1) the amount of itemized deductions or (2) the amount of taxable income that exceeds the beginning of the 37% income tax bracket.

What income tax credits are available for individuals?

Child tax credit

For 2026, eligible taxpayers may claim a child tax credit of up to $2,000 per qualifying child under age 17. Up to $1,500 of the credit may be refundable. The credit begins to phase out when modified AGI exceeds $400,000 (married filing jointly) or $200,000 (all other filers).

Education tax credits

- **American Opportunity Tax Credit (AOTC).** The AOTC provides a credit of up to $2,500 per eligible student per year for up to four years. Forty percent of the credit (up to $1,000) is refundable. The credit phases out for taxpayers with modified AGI between $80,000 and $90,000 (single) and $160,000 and $180,000 (married filing jointly).
- **Lifetime Learning Credit (LLC).** The LLC provides a nonrefundable credit of up to $2,000 per return and may be claimed for an unlimited number of years. Phaseout thresholds match those of the AOTC and are not indexed for inflation.

Earned income tax credit (EITC)

The EITC benefits low- to moderate-income workers and families. For 2026, the maximum credit for taxpayers with three or more qualifying children is $8,046, subject to annual inflation adjustments and eligibility requirements.

Credit for retirement contributions (Saver's Credit)

The Saver's Credit allows eligible taxpayers to claim a nonrefundable credit for contributions to IRAs and certain employer-sponsored retirement plans. For 2026, the credit is available to taxpayers with AGI up to:

- $80,500 for married filing jointly,
- $60,375 for head of household, and
- $40,250 for all other filers.

The maximum contribution eligible for the credit is $2,000, and the maximum credit is $1,000.

Additional individual provisions introduced or modified by OBBBA

OBBBA introduced several temporary deductions available regardless of whether a taxpayer itemizes or claims the standard deduction:

- **Qualified tips deduction:** Up to $25,000 of qualified tips received in certain occupations may be deducted through 2028, with the deduction phasing out when modified AGI exceeds $150,000 ($300,000 for married filing jointly).
- **Qualified overtime deduction:** Up to $12,500 ($25,000 for married filing jointly) of qualified overtime compensation may be deducted through 2028, subject to the same phaseout thresholds.
- **Enhanced senior deduction:** An additional $6,000 bonus deduction is available for certain taxpayers age 65 or older for tax years 2025–2028, subject to income phaseouts.
- **Car loan interest deduction:** Up to $10,000 of interest on qualifying new auto loans may be deductible for tax years 2025–2028, subject to statutory requirements.