GattoMcFerson
Certified Public Accountants

July 31, 2026

Dear Friends and Colleagues,

After the chaotic tax law changes of 2025, it's been a fairly quiet 2026…so far.

On July 4th of last year, the One Big Beautiful Bill Act (OBBBA), was signed into law. While many existing provisions were simply extended, there were several major adjustments that came online in 2025, and a handful of others that will emerge in 2026.

Tax Deadlines

For Los Angeles County residents or those with tax preparers located in Los Angeles County, most payment and filing deadlines last year were extended to October 15, 2025.

The filing deadlines going forward have reverted back to their normal schedule:

Form 1040: Extended Due Date: October 15, 2026

Form 1120S (S Corporation): Extended Due Date: September 15, 2026

Form 1065 (Partnership/LLC): Extended Due Date: September 15, 2026

Form 1041 (Estates and Trusts): Extended Due Date: September 30, 2026

Form 1120 (C Corp): Extended Due Date: October 15, 2026

2026 Individual Quarterly Estimated Tax Due Dates:
- Third Quarter – September 15, 2026
- Fourth Quarter – January 15, 2027

Pass-Through Entity Tax Balance – No later than December 31, 2026

Paper Checks Are Going Away

You may have seen that the IRS is moving away from paper checks and trying to modernize how taxpayers pay taxes and receive refunds.

Beginning in 2026, the IRS will make changes to how refunds are handled when direct deposit information is missing or invalid:

- Individual income tax returns filed without direct deposit information will still be processed, but at the same time, the IRS will temporarily freeze the refund until the taxpayer provides direct deposit information or requests a paper check.

- If the direct deposit is rejected by the bank – account doesn't exist, incorrect account number – then the IRS will freeze the direct deposit and will not automatically reissue as a paper check.

- Most of these rejected direct deposits will require taxpayer action, typically communicated in a notice. The notice will ask you to add or update direct deposit information using your IRS Online Account. You generally will have 30 days to respond.

- If you don't take any action, the IRS will issue a paper check after six weeks. If the IRS successfully verifies the new information, the IRS will issue the refund by direct deposit.

- Taxpayers who do not have direct deposit information or meet certain criteria, can request a paper check waiver through their online account.

<u>First-Time Automatic Penalty Relief</u>

The IRS has introduced the Automatic Exemption from Penalty (AEP) program that will replace the first-time penalty abatement program.

In the past, if a qualified taxpayer was penalized for an innocent mistake, that taxpayer had to formally apply for penalty abatement. Now, under AEP, the IRS will automatically provide penalty relief to qualified taxpayers and issue a notice confirming that the relief was granted.

Taxpayers qualify if they have a history of timely filing and paying any tax due in the three prior years. If a taxpayer qualifies, penalties will not be assessed for:

- Failure to file; or
- Failure to pay.

Estimated tax penalties are not available for abatement under either the existing first-time abatement program or under the new AEP.

Pass-Through Entity Tax Payments

For most states, the Pass-Through Entity Payment (PTE) has remained in place, despite the SALT increase.

To take advantage of the PTE Credit for 2026, California required a "down-payment" on this credit.

This amount was calculated one-of-two ways:

1. If you did not take advantage of the PTE credit for the 2025 tax year, then you were required to pay $1,000 to California before June 15, 2026, with the remaining balance of the 2026 credit payable by December 31, 2026;
2. If you did take advantage of the PTE credit for the 2025 tax year, then you were required to pay at least 50% of the 2025 credit before June 15, 2026, with the remaining balance of the 2026 credit payable by December 31, 2026.

To be eligible for the 2026 PTE credit, you had to pay the greater of these two amounts. However, there is now a new wrinkle:

If the June 15 payment was missed or less than the requited amount, the qualifying entity can still make the PTE elective tax election. If the full June 15 payment was not made, then the qualified taxpayer must reduce their PTE elective tax credit by 12.5% of their pro rata share of the unpaid amount that was due June 15.

Increase in State and Local Tax (SALT) Deduction

For years, the SALT deduction had been capped at $10,000, which, for taxpayers in states like California and New York, was devastating. The deduction has now been increased to

$40,000 ($20,000 for married filing separately) for 2026. The deduction will increase 1% a year through 2029, at which point it will revert back to the $10,000 limit in 2030.

This increase, however, will begin to phase out for taxpayers with Adjusted Gross Income (AGI) of over $500,000. The deduction will be reduced back to its original $10,000 for taxpayers with AGI over $600,000.

Getting a sense for what your AGI might be for 2026 is critical. If it's going to fall below the phase out levels mentioned above, then you have the opportunity to take advantage of this increased deduction.

Change in Charitable Deductions

For those who use the standard deduction, a new limited charitable gift deduction will be available in 2026 - up to $1,000 for single filers and $2,000 for joint filers. This is in addition to your standard deduction. This deduction is limited to cash donations only.

For those who itemize, starting in 2026, only the total of your charitable contributions that exceed 0.5% your AGI will be deductible. For example, if your AGI is $300,000 and you have $4,000 in charitable contributions, the first $1,500 ($300,000 x 0.5%) will not be deductible and your charitable deduction will be $2,500.

Should you have any questions about the above information, or any other tax planning issues, please feel free to reach out by phone or email.

Sincerely,

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