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Visit the event page to download a copy of the webinar slides and any additional resources.

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2026 Tax Updates: What Service Providers Need to Know

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Event Materials

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Continuing Education

This webinar has been approved to offer continuing education credit. Please stay tuned for more information!

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What tax-related questions are you hearing from service members?

Share your answer in the chat-pod

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Learning Objectives

By the end of this webinar, attendees will be able to:

1. Understand when a service member’s pay or benefits are taxable or non-taxable
2. Describe the tax benefits available to eligible service members and their families
3. Explain key 2026 tax law updates that apply to most taxpayers, including military service members and their families
4. Recognize how MilTax and Military OneSource tax professionals can support service members year-round.

Today’s Presenter

Susan Mitchell

Executive Director, Armed Forces Tax Council
Tax Counsel, Office of the General Counsel (Fiscal)
Department of Defense

Tax Benefits for Service Members and Their Families

Taxable Pay and Allowances

- Basic Pay
- Special Pay
- Incentive Pay
- Bonus Pay
- Other Pay
- Retirement Pay

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Non-Taxable Pay and Allowances

- Non-Taxable Allowances
  - Basic Allowance for Housing (BAH)
  - Basic Allowance for Subsistence (BAS)
- Service-Connected Disability Compensation, paid by the VA
- Military death gratuity

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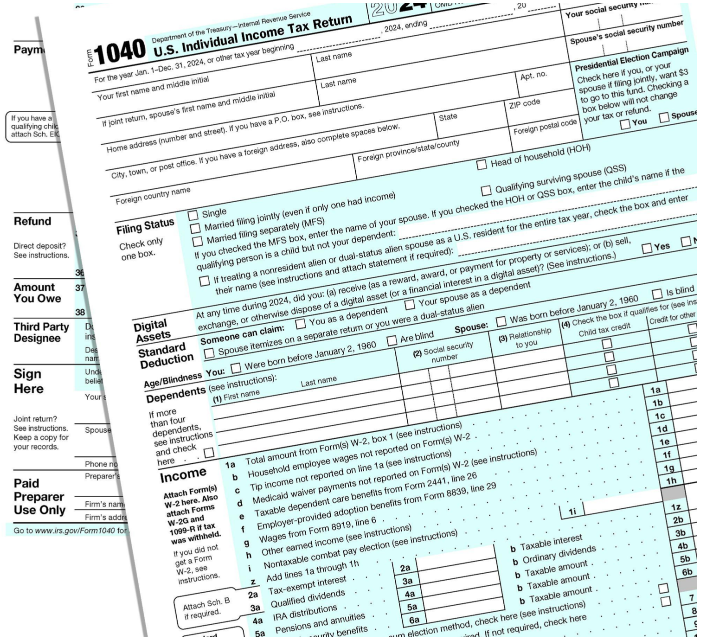
Adjustments to Income

- Reserve Component
  - Unreimbursed travel expenses
- IRA Contributions
  - Combat zone contribution extension
- Qualified reservist distribution
  - Waiving early withdrawal penalties
  - 10 percent early withdrawal tax does not apply



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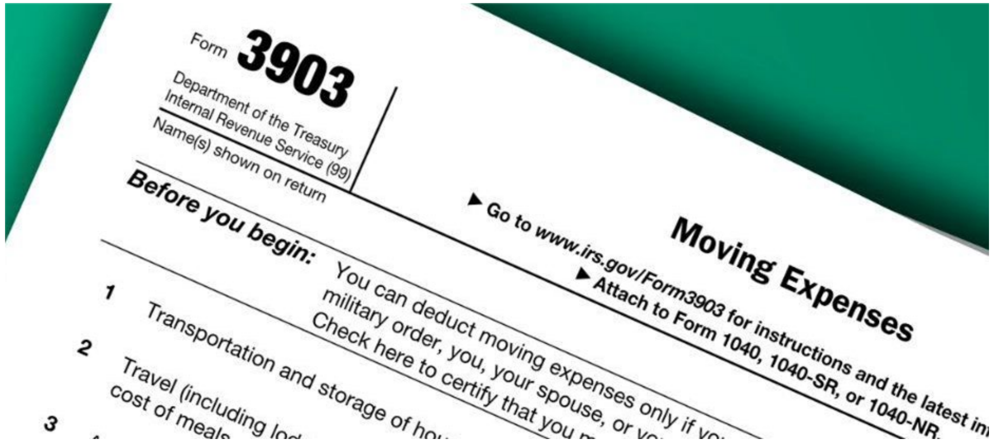
Moving Expenses

- Service members who PCS may deduct unreimbursed moving expenses
- New 2026 Exception: Intelligence community now treated similarly to military members
- Examples of deductible expenses
- Overnight travel expenses for National Guard and Reserves



Combat Zone Exclusion

- Income for that month is generally tax-free
  - Amount of exclusion
  - Bonuses and pay for accrued leave
  - Included in calculation of Earned Income Tax Credit (EITC)
- Combat Zones are designated by Executive Order
- Service outside combat zone may also qualify
  - Areas in Direct Support
  - Qualified Hazardous Duty Areas (QHDAs)

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Capital Gains Exclusion for Sale of Primary Residence

- Service member can suspend 5-year period for up to 10 years when assigned to a duty station that is:
  - at least 50 miles from their residence
  - for a period of 90 days or more
- Period of suspension can be used only for one property at a time

Photo by Chattanooga Tshirt/ Getty Images

Abatement of Tax in Case of Death

- Forgives all tax liability attributable to **all income**
- IRC § 7508 and IRC §692(a)
- Subject to Statutory Period of Limitations

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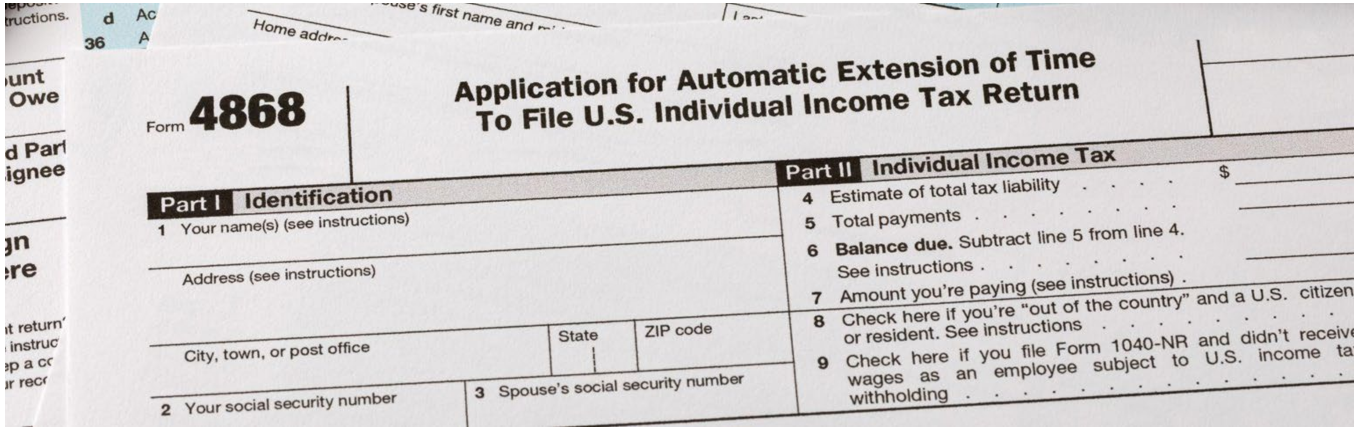
Filing Tax Returns and Paying Taxes

- Extensions within the United States
- Extensions outside of the United States
- No extensions for payment of tax
- Signing tax returns

Photo by Yukchong Kwan / Dreamstime



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Extensions Due to Service

- Service-related extensions under IRC § 7508
- Rules for Spouses
- Extension for Period of Impairment Due to Military Service
- Length of Extension – 180 days after the later of:
    - Last day in a combat zone or hospitalization
    - Extended by the number of days left in tax filing period

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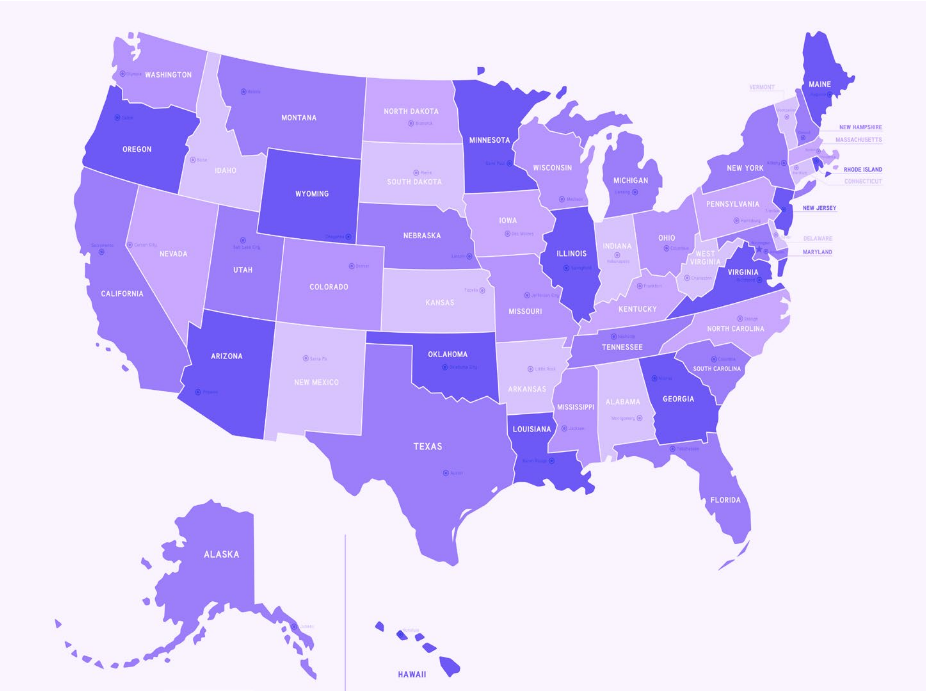
State Residency for Tax Purposes

- Servicemember's Civil Relief Act (SCRA), 50 USC § 4001(a)(1)

"A servicemember shall neither lose nor acquire a residence or domicile for purposes of taxation with respect to the person, personal property, or income of the servicemember by reason of being absent or present in any tax jurisdiction of the United States solely in compliance with military orders."



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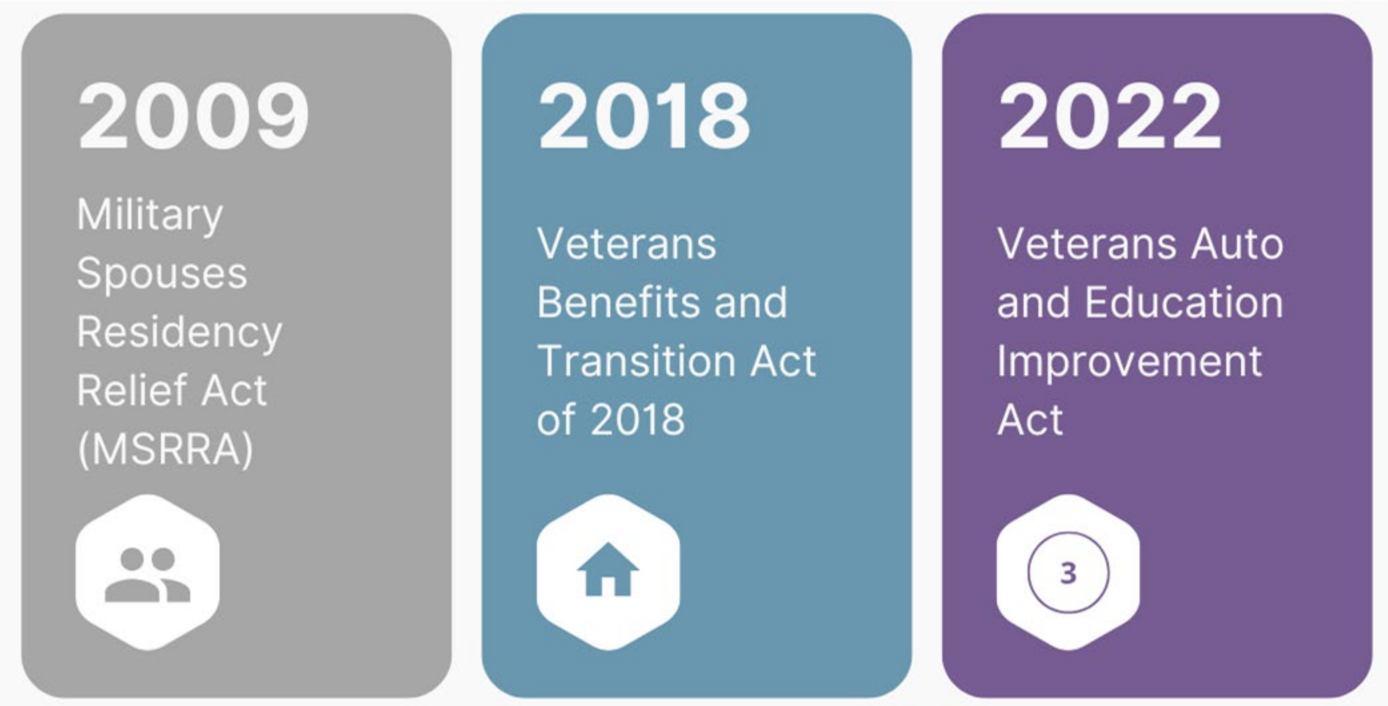
Military Spouse State Residency
for Tax Purposes

- Amendments to SCRA pertaining to Military Spouse Residency
- Spouses have broader protection than Service members



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2026 Tax Updates

Tax Inflation Adjustments

- Tax Rates
  - 10%, 12%, 22%, 24%, 32%, 35%, and 37%
- Standard Deduction Increases

Filing Status	Tax Year 2025	Tax Year 2026
Single	$15,750	$16,100
Married Filing Jointly	$31,500	$32,200
Head of Household	$23,625	$24,150

Capital Gains Tax Rates and Brackets

Filing Status	0% tax rate	15% tax rate	20% tax rate
Single	$0-$48,350	$48,351-$533,400	$533,400+
Married Filing Jointly	$0-$96,700	$96,701-$600,050	$600,050+

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401(k) and Roth Changes

- Max 401(k) contribution is $23,500 (2025) and $24,500 (2026)
  - Catch-up contribution is $7,500 (2025) and $8,000 (2026)
- Roth IRA contribution limit is $7,000 (2025) and $7,500 (2026)
  - Higher income thresholds for Roth IRA contributions

Filing Status	Phase Out Range (2026)
Single/Head of Household	$153,000-$168,000
Married Filing Jointly	$242,000-$252,000
Married Filing Separately	$0-$10,000

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Flexible Spending Accounts (FSAs)
2026 Plan Year

- Dependent Care FSA contribution limit = $7,500/year
- Health Care FSA contribution limit = $3,400/year
  - Carryover $680 to 2027
- Grace Period for DCFSA
- Eligible Members

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Trump Accounts

- New tax-advantaged savings accounts for children
- Contribution may grow tax-free
- Eligibility and contribution limits apply
- For more information: https://www.trumpaccounts.gov/

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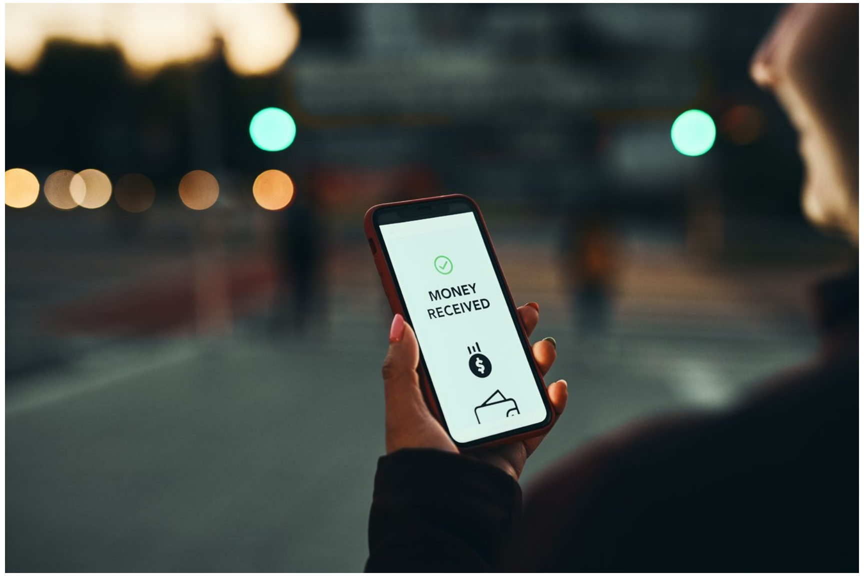
Income from Payment Apps / Online Sales

- 1099-K Issued only if $20,000 in annual payments **AND** 200 transactions
- Goods and Services only
- Importantly, there is no change in tax liability for amounts received



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Deduction on Tips

- A Deduction, Not an Exemption
- Eligibility
  - Occupation must have “customarily and regularly received tips on or before 31 Dec 2024.”
- Deduction Limit: $25,000 annually
- Income Phase-Outs
  - Singles: Modified AGI of $150,000
  - Married filing jointly: Modified AGI of $300,000
- Timeframe: 2025 through 2028 tax years

Deduction for Overtime Pay

- Only the extra pay above the regular rate is deductible
  - Example: Employee earns $20/hour normally and $30/hour for 10 hours of overtime. Only the $10/hour premium ($100 total) is deductible – not the $20 hourly rate.
- Limits
  - $12,500 for individuals / $25,000 for married filing jointly
- Phase-Outs:
  - Modified AGI of $150,000 for single filers
  - Modified AGI of $300,000 for joint filers
  - No deduction above $275,000 for singles and $550,000 for married filing jointly

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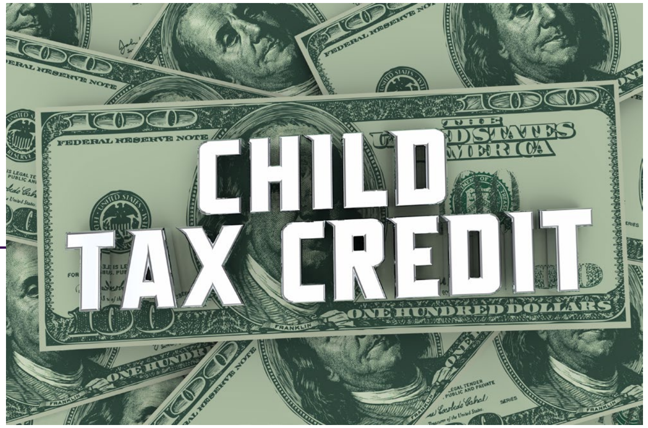
Tax Credits



- Child Tax Credit
  - $2,200 per child in 2026, adjusted for inflation (up to age 17)
  - Refundable portion is up to $1,700 per child
  - Phase out at $200,000/$400,000
  - New requirement: at least one parent must also have a valid SSN to claim the credit
- Child and Dependent Care Tax Credit
  - Max credit rate increases to 50% of eligible expenses, up from 20-35%
  - Max amount of expenses used to calculate credit $3,000 / $6,000
  - Income ranges for phasing down the credit percentage are higher

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Tax Credits (continued)

- Adoption Credit Enhancement
  - Max credit is $17,280 per child, adjusted annually for inflation
  - Begins to phase out at $259,190 (completely phased out at $299,190)
  - Special rule for Special Needs Adoption
  - Carryforward rule
- Expiration of Renewable Energy Credits
  - Used, new and commercial electric vehicle (EV) credits expired – 30 Sep 2025
  - Energy efficient home improvements credit expired – 31 Dec 2025
  - Residential clean energy credit expired – 31 Dec 2025

Photo BHM/ Adobe Stock

Earned Income Tax Credit (EITC) Max Credit

Tax Year	2025	2026
No children	$649	$664
1 child	$4,328	$4,427
2 children	$7,152	$7,316
3+ children	$8,046	$8,231

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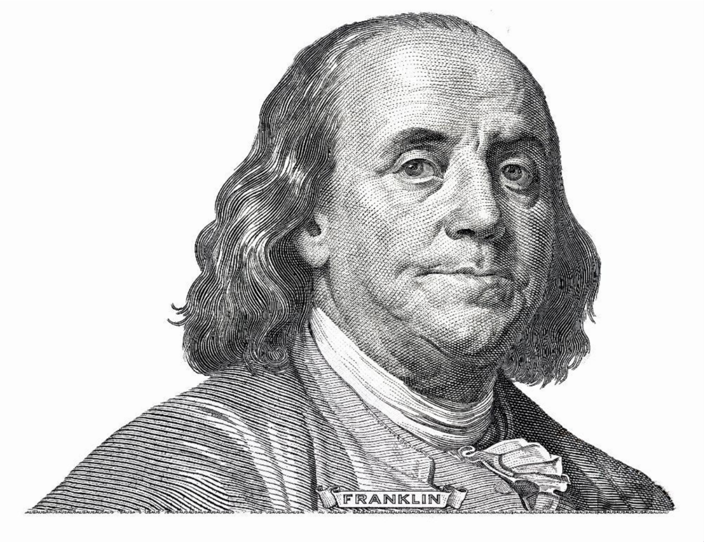
Estate Tax and Tax-Free Gifts

- Federal estate-tax exclusion amount is $13,990,000 for 2025
  - $15,000,000 in 2026
- First $19,000 in gifts excluded from tax
  - No change in 2026



…in this world nothing can be said to be certain, except death and taxes."

- Benjamin Franklin

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Other OBBBA Provisions

Mortgage interest limit of $750,000 now permanent

TCJA individual Alternative Minimum Tax (AMT) thresholds are permanent

Student loan provisions made permanent

Casualty and theft losses

Other OBBBA Provisions (continued)

529 Plan elementary and secondary education expenses

SALT deduction cap increased to $40,000

Auto interest deduction

Charitable contributions

What is NOT changing?

- Personal exemption amount
- No limitation on itemized deductions
- Lifetime Learning Credit
- Medical expense deduction threshold
- Disallowance of miscellaneous itemized deductions

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Tax Resources

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- Common Errors Taxpayers should avoid
- IRS.gov website
- IRS Publication 3, Armed Forces Tax Guide
- Military OneSource MilTax software
- Military Volunteer Income Tax Assistance (VITA) programs

Questions

Resources

Dependent Care FSA

- https://finred.usalearning.gov/Benefits/DCFSA

Health Care FSA

- https://finred.usalearning.gov/benefits/hcfsa

MilTax

- https://www.militaryonesource.mil/financial-legal/taxes/miltax-military-tax-services/

SCRA Timeline of Changes

- https://finred.usalearning.gov/assets/downloads/SCRA-Timeline-of-Changes-FINAL.pdf

Tax Filing Options for Military Spouses [video]

- https://www.dvidshub.net/video/992243/tax-filing-options-military-spouses

Trump Accounts

- https://www.trumpaccounts.gov/

Upcoming Event

Continuing education credit will be available for this session!

Supporting Military Couples Through Employment and Financial Transitions

February 12, 2026, at 11 am EST - 12:30 pm EST

This 90-minute interactive webinar equips military family service providers with practical, integrated strategies to support military couples navigating PCS moves and other transitions by addressing the interconnected impacts of spouse employment challenges, financial stress, and relationship health.

https://oneop.org/learn/160120/

Continuing Education

This webinar has been approved for 1.5 continuing education (CE) credits from the following organizations:

- American Association for Family and Consumer Sciences
- Association for Financial Counseling & Planning Education
- National Council on Family Relations
- The Center for Financial Certifications (FinCert.org)
- Certificate of attendance

Evaluation Link

Go to the event page for the evaluation and post-test link.

Continuing Education

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