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Time to Create Your 2026 Tax Plan

Income sources are key

Tax planning combines how much you think you will make, with the source (or how you make it), generating a tax effective result. This could make two clients with the exact same taxable income have entirely different looking tax bills. That's the hard news. The good news – now is the perfect time to review your situation. Here's a simple, but effective approach:

Step 1: Take inventory of your income sources

Most income falls into a few core categories – wages from an employer, self-employment, freelance work, investment earnings, and any side income you pick up along the way. Other types of income you may have include:

- Retirement income (pensions, Social Security, IRA or 401(k) withdrawals)
- Rental income from real estate
- Business distributions (for S-corp or partnership owners)
- Interest from savings accounts or bonds

If you aren't sure, take a moment and look at last year's tax return. It's a great place to start. Then consider any changes you expect.

Step 2: Get familiar with the different types of taxes

Not all income is taxed the same way. And these differences can add up quickly.

- **Wages** are subject to a progressive **income tax from 0% to 37%**. So know the rate your next dollar of tax will pay. Also don't forget wages are subject to payroll taxes like Social Security and Medicare (7.65%).

- **Self-employment and freelance income** is subject to the same tax rates as wages except most don't automatically withhold taxes and may also be subject to self-employment tax (15.3%). So planning here needs to consider quarterly estimated tax payments.
- **Investment earnings** can be subject to a **variety of tax rates** such as interest and short-term capital gains (up to 37%), qualified dividends (0% to 20%), or long-term capital gains (0% to 20% depending on the holding period and income type).
- **Retirement income** may be fully taxable (up to 37%), partially taxable (varies), or tax-free (0% for certain Roth distributions).
- **Rental income** is generally taxed at ordinary income rates (up to 37%), though deductions can decrease your total taxable income.
- **Business distributions** vary by entity and may be taxed at ordinary income rates (up to 37%) or pass through with no additional tax at the distribution level (varies).

Step 3: Tips to manage your tax burden

- **Align your tax payments with how you actually earn.** If a growing portion of your income is coming from somewhere outside a traditional job, withholding alone may not cover your tax liability. W-2 income is handled automatically, however freelance, investment, or rental income often requires quarterly estimated payments to avoid penalties.
- **Use withholding and estimates together.** Adjust paycheck withholding to pair it with estimated payments when income is uneven or comes from multiple sources.
- **Pay attention when your income changes.** These income shifts can catch people off guard with a higher tax bill if they don't adjust their plan early in the year.
- **Be intentional about when income and expenses hit.** Sometimes you have control over when you earn income or pay expenses. Used correctly, adjusting your timing can help smooth out your tax bill, especially if you're self-employed or have investment income.
- **Check your plan throughout the year.** Your income mix can change quickly, and small updates can make a big difference. A quick review during the year can help you stay on track and avoid surprises later.

By understanding your income sources, how each is taxed, and how to align your payments and timing strategies, you can take a more proactive approach to managing this year's tax bill.

Higher Student Loan Payments on the Near Horizon

The Department of Education recently announced that student loan borrowers who were awaiting loan forgiveness decisions will soon need to select a new repayment plan due to final determinations by the Supreme Court.

Current Situation

The SAVE Plan was a federal student loan repayment program introduced in 2023 by the former White House administration to lower borrowers' monthly payments and expand pathways to loan forgiveness before being struck down by a federal court.

[According to the Department of Education](#), federal loan servicers will start issuing notices to borrowers on July 1 with instructions on how to transfer their loan balance from the SAVE Plan to one of the newly-approved repayment options. Borrowers will have a 90-day deadline to enroll in a new repayment option. (Servicers will notify borrowers of their specific 90-day deadline.)

Tips to manage the change

- ❖ **Get familiar with your options.** Borrowers currently enrolled in the SAVE Plan have approximately 6 months until their first payment under a revised repayment plan is due. Consider taking the next several weeks to learn about the different repayment options and which one fits best with your current financial situation.
- ❖ **Compare income-driven options carefully.** Not all plans calculate payments the same way, and small differences in how income is defined can lead to big changes in your monthly bill. Look closely at how each plan treats discretionary income, family size, and forgiveness timelines before deciding.
- ❖ **Update your income and household information.** Make sure your loan servicer has your most recent financial details. If your income has dropped or your family size has changed, you may qualify for a lower payment under a new plan.
- ❖ **Don't wait until the deadline.** You'll have a limited window to choose a new repayment plan once notices go out. Submitting your application early can help you avoid processing delays, missed payments, or being automatically placed into a plan that may not be the best fit.
- ❖ **Consider making interest-saving moves now.** While your loans may still be in forbearance, any voluntary payments you make can go directly toward your principal. Even small amounts paid now can dramatically reduce the total interest you'll pay once regular repayments resume.
- ❖ **Explore forgiveness and employer benefits.** Some borrowers may qualify for programs like Public Service Loan Forgiveness, or can receive help through employer student loan repayment benefits. It's worth checking eligibility now so you can align your repayment plan with any long-term forgiveness or assistance opportunities.

- ❖ **Act like a banker.** Remember, more money is made by the lenders when they get you to delay and lower your payment as much as possible. In fact, most interest earned on these loans happens in the first half of repayment. **KNOW THIS** and act accordingly. A good strategy might be to lower your monthly payment and then use the payment savings to front load principal payments.
- ❖ **Find the loan crossover point.** This is the point where more of your monthly payment goes toward principal rather than interest. If you haven't reached yours, get there with a sense of urgency. A tremendous amount of interest expense can be saved for every dollar you pay down on the loan prior to this point.

Finally, remember to run a monthly amortization schedule based on your planned repayment to understand how much interest you'll pay over the life of the loan AND on each payment. This will allow you to move from a defensive posture to one of managing your loan to your advantage.

Tax Breaks for Families with Kids

Once Congress and the Executive Branch decided the tax code was for more than collecting money to fund the government it opened the door to understanding how the rules impact parts of your situation. One of the most popular areas to understand are taxes and your children. Here are some things to consider.

- **Start a 529 education savings plan.** 529 education savings plans are a great way to kick off the baby's savings for future educational costs. These plans offer investments that grow tax-free as long as the funds are used to pay for eligible education expenses (including elementary and secondary tuition). States administer these plans, but that doesn't mean you are stuck with the plan available in your home state. Feel free to shop around for a plan that works for you. Starting to save early, maximizes the amount of tax-free compound interest you can earn in the 18+ years you have before kids go to college. ***Bonus tip for family and friends: Anyone can contribute up to \$19,000 to the plan in 2026 for each child! In addition, there is a special provision for 529 plans that allows five years worth of gifts to be contributed at once — a great estate-planning strategy for grandparents.***
- **Update Form W-4.** Every year, you need to review your tax withholdings and this is especially important if you have dependents. Remember, the birth of a child brings new tax breaks, including a \$2,000 Child Tax Credit, along with the Child and Dependent Care Credit for childcare expenses. These credits can be taken advantage of now by lowering tax withholdings and increasing take-home pay to help cover the cost of diapers and other needs that come with babies and children. On the other side of the coin, these benefits fall away as your kids grow older. The Dependent Care Credit is for children under the age of 13 and the Child Tax Credit is available for kids under the age of 17. So plan accordingly.

- **Prepare for medical expenses.** Having a baby is expensive. So is watching your kids grow up! Fortunately, there are ways to be tax smart in covering the predictable medical and dental expenses. The first thing to do is try to pay for as many out-of-pocket expenses with pre-tax money. Many employers offer tax-advantaged accounts such as a Health Savings Account (HSA) or a Flexible Spending Account (FSA). So check this out and fund these accounts as much as possible. And while it's more difficult to claim medical expenses as an itemized deduction, it's impossible to do so if you don't keep receipts.

Having a kid can be expensive. Schedule a tax review today to make sure you're getting all the child tax breaks you deserve!

Small Savings Goals for Summer That Teach Kids Big Lessons

Summer offers kids a rare window to see goals take shape quickly. With just a few months, even small savings plans can turn into something meaningful. Here are a few simple ways to get started.

Choose something that matters

A savings goal works best when it truly matters. Pick a clear, specific goal they're excited about that will retain the memory of the saving journey. This can be something like a bike or fun outing like part of a small trip. The emotional connection will help keep motivation high. After deciding, walk through the cost and timeline to connect effort to the successful outcome.

Generate earnings momentum

The weeks leading up to summer are the perfect time to build momentum. Start saving before school ends so they enter summer with purpose and progress already underway. This might look like extra chores, helping neighbors, or lining up a first summer job.

Starting early builds confidence and reinforces the idea that money comes from effort, not just timing. It also helps avoid the drift that can happen once summer begins. When kids see themselves already making progress, they're more likely to stay engaged and follow through on their goal.

Make generosity part of the plan

Saving doesn't have to be only about getting something – it can also include giving. Encourage kids to set aside a small portion of what they earn for a cause, a community need, or even someone in their life.

This helps see money as a way to make an impact, not just a way to spend. It also opens the door to conversations about values and empathy, showing that even small amounts can make a meaningful difference.

Save to create, not just consume

Not every goal has to end in buying something new. Kids can also save to make something happen like upgrading supplies for a hobby, improving their gear, saving for school events, or getting the next piece to a small collection.

This shift builds a different kind of motivation. Instead of focusing on consumption, they see money as a tool for creativity and growth.

Lessons that last beyond summer

This little saving exercise has additional benefits:

- ✓ **Patience.** Kids learn that waiting and steady effort often lead to more meaningful rewards than quick decisions.
- ✓ **Responsibility.** Managing their own money helps them understand choices, trade-offs, and follow-through.
- ✓ **Confidence.** Seeing their progress turn into a real outcome builds belief in their ability to reach goals.
- ✓ **Killing the overspending habit before it starts.** With over half of Americans carrying high credit card debt, why not teach old fashion savings habits?
- ✓ **Independence.** Making decisions about earning, saving, and giving helps them feel more in control of their world.

Small summer savings goals may seem simple, but they give kids a powerful sense of what they can achieve with focus and intention.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.

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