

THE ROUND TABLE

How AI Is Helping Modernize the IRS

After years of slow audits, taxpayer frustration, and seemingly endless mounds of paperwork, the IRS is now turning to artificial intelligence (AI) to overhaul its technology infrastructure, strengthen compliance, and improve taxpayer services. With funding from the Inflation Reduction Act (IRA), these modernization efforts represent a fundamental change in how the agency operates.

The first area in which the IRS is leveraging AI to help improve its operations is audit selection and fraud detection. Specifically, AI is aiding the IRS in optimizing its audit and compliance functions. For individual tax returns, AI models select a representative sample of returns to audit and identify returns likely to contain errors and taxpayers who may owe additional taxes. For partnerships, the agency uses two AI models to help prioritize partnership returns for audit. The significant increase in the number of large partnerships since 2002 has made it more difficult for the agency to identify taxable income and potential tax evaders. Because large partnership tax returns are complex, the IRS conducts very few of these audits; however, AI can select the highest-risk large partnership returns for audits.¹

AI is also helping to provide better taxpayer service. Since 2022, the agency has deployed AI-powered chatbots and voicebots to provide self-service assistance for payment collection questions, such as payment options and notices. These tools can help reduce call wait times and free up IRS agents to focus on more complex issues requiring human intervention.² The IRS plans to expand its use of a commercial AI agent to help with tasks such as case summarization and searches that could increase efficiency amid an IRS workforce reduction.³ To assist in processing the millions of paper tax returns received annually, the IRS is piloting AI-powered tools to implement advanced automated scanning and AI-assisted data extraction to help reduce manual data entry and minimize data errors.

In 2024, the U.S. Department of the Treasury reported that AI helped prevent and recover more than \$4 billion in fraudulent or improper payments.⁴ While this shows some progress has been made with AI initiatives, the modernization effort, which includes AI government oversight bodies, such as the Government Accountability Office (GAO), has warned about the need for transparency, safe data, and ongoing monitoring to ensure fairness in audit selection.⁵ Despite these concerns, AI modernization efforts will continue to move forward, and the IRS has stated that it has made considerable progress on its long-term IT modernization plan to better serve taxpayers.⁶

1, 5) GAO.gov, June 2024

2) IRS.gov, 2025

3) Axios.com, 2025

4) U.S. Treasury Department, 2024

6) Federalnewsnetwork.com, September 2025

Are Stocks Expensive? Look at P/E Ratios



If you follow the stock market, you have probably come across statements like *stocks are expensive* or *overvalued*, or *this stock is cheap* or *undervalued*. Whatever the terms, what is the point of reference for these opinions?

There are many ways to measure the value of a stock or the market as a whole, but the most common is the price/earnings (P/E) ratio. The P/E ratio is calculated by dividing a stock's current price per share by the company's earnings per share over a 12-month period. This ratio quantifies what investors may be willing to pay for one dollar of earnings.

For example, a P/E of 20 means an investor would pay \$20 for every \$1 the company earns over the 12-month period. By this standard, a stock with a P/E of 25 could be considered more "expensive" than a stock with a P/E of 20, regardless of the share price. A higher multiple also indicates that investors may expect higher growth from the company compared to the overall market.

Past and future

The most commonly referenced type of P/E ratio is *trailing P/E* (abbreviated TTM for trailing twelve months), which is based on the official reported earnings per share for the previous 12 months. Earnings are typically reported on a quarterly basis, so the earnings part of the trailing P/E equation will generally remain the same for each three-month period, but the stock price may change every trading day, making the trailing P/E a moving target even though it measures past performance.

Forward P/E (or projected P/E) uses projected earnings over the next 12 months, based on information released by the company. The forward P/E will also change with stock prices and updated earnings projections. Although this is important information for investors, the actual earnings could turn out to be very different from the projection.

Use valuations wisely

Knowing a company's P/E ratio may be important, but only if you use it to make appropriate comparisons. P/E ratios can vary widely among industries, so it is generally more meaningful to compare ratios of companies in the same industry or one company against the industry average.

You might also compare a company's current and past performance, but keep in mind that P/E ratios typically rise and fall with stock prices; if prices rise and earnings stay about the same, P/E ratios increase, and vice versa. So an increase or decrease in a company's P/E ratio that moves with the broader market may not tell you much about the company's performance.

On the other hand, a substantial change in a company's P/E ratio that is not in step with the market could be caused by an unexpected increase or decrease in reported or projected earnings, or by a shift in investor confidence in the company. The same is true of a change in the P/E ratio of an industry that diverges from broader market trends.

Higher-than-average P/E ratios

At the end of 2025, investors were paying \$28 for each dollar of corporate earnings from companies in the S&P 500 Index, according to the trailing P/E ratio. This is higher than the five-year average trailing P/E of 25.0 and the 10-year average of 23.0. The forward P/E ratio was 22.0, above the five-year average of 20.0 and the 10-year average of 18.7.¹⁻²

Because both types of P/E ratios are based on the current share price, the fact that the forward P/E was lower than the trailing P/E suggests that corporate earnings of the index as a whole were projected to grow; i.e., less of an investor's share dollars as of the valuation date would be required to buy \$1 of future S&P 500 corporate earnings. However, keep in mind that the projected P/E is based on company forecasts, while the trailing P/E is based on actual results.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Projections are based on current conditions, subject to change, and may not come to pass.

1) S&P Dow Jones Indices, 2026

2) FactSet, January 9, 2026

Key Retirement and Tax Numbers for 2026

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are some of the key adjustments for 2026.

Estate, gift, and generation-skipping transfer tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2026 is \$19,000, unchanged from 2025.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2026 is \$15,000,000, up from \$13,990,000 in 2025.

Standard deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2026, the standard deduction is:

- \$16,100 (up from \$15,750 in 2025) for single filers or married individuals filing separate returns
- \$32,200 (up from \$31,500 in 2025) for married joint filers
- \$24,150 (up from \$23,625 in 2025) for heads of households

The additional standard deduction amount for the blind and those age 65 or older in 2026 is:

- \$2,050 (up from \$2,000 in 2025) for single filers and heads of households
- \$1,650 (up from \$1,600 in 2025) for all other filing statuses

Special rules apply for an individual who can be claimed as a dependent by another taxpayer.

The One Big Beautiful Bill Act, signed into law in July 2025, introduced a new senior deduction of \$6,000 for taxpayers filing individually who are age 65 or older for tax year 2026. A deduction of up to \$12,000 may be claimed by married couples filing jointly if they are both age 65 or older. This deduction is stacked on top of the standard deduction and additional deduction for the blind and those age 65 or older or on top of itemized deductions.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$7,500 in 2026 (up from

\$7,000 in 2025), with individuals age 50 or older able to contribute an additional \$1,100 in 2026 (up from \$1,000 in 2025). The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see table). For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see table). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges:

Contributions to a Roth IRA

	2025	2026
Single/Head of household	\$150,000–\$165,000	\$153,000–\$168,000
Married filing jointly	\$236,000–\$246,000	\$242,000–\$252,000
Married filing separately	\$0–\$10,000	\$0–\$10,000

MAGI Ranges:

Deductible Contributions to a Traditional IRA

	2025	2026
Single/Head of household	\$79,000–\$89,000	\$81,000–\$91,000
Married filing jointly	\$126,000–\$146,000	\$129,000–\$149,000

Note: The 2026 phaseout range is \$242,000–\$252,000 (up from \$236,000–\$246,000 in 2025) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is \$0–\$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer-sponsored retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$24,500 in compensation in 2026 (up from \$23,500 in 2025); employees age 50 or older can defer up to an additional \$8,000 in 2026 (up from \$7,500 in 2025). For employees ages 60 to 63, the additional deferral limit is \$11,250 for 2026 (unchanged from 2025).
- Employees participating in a SIMPLE retirement plan can defer up to \$17,000 in 2026 (up from \$16,500 in 2025), and employees age 50 or older can defer up to an additional \$4,000 in 2026 (up from \$3,500 in 2025), with an increase to \$5,250 in 2026 (unchanged from 2025) for ages 60 to 63.

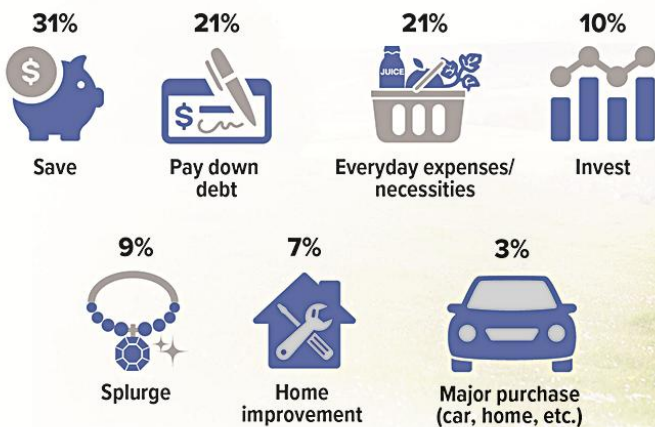
Kiddie tax: child's unearned income

- Under the kiddie tax, a child's unearned income above \$2,700 in 2026 (unchanged from 2025) is taxed using the parents' tax rates.

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What Do Americans Do with Their Tax Refunds?

More than 100 million taxpayers — representing about 63% of individual returns — received refunds in 2025, with an average refund amount of \$3,167. Here's how they planned to spend their refunds.



Sources: Internal Revenue Service, January 2, 2026
Experian, April 16, 2025