

Special Commentary — January 13, 2026

Tax Refund Season: Big and Beautiful

The Outlook for 2026 Tax Season

Summary

- The tax policy changes enacted in the One Big Beautiful Bill Act (OBBBA) will generate a sizable boost to households' tax refunds in the 2026 filing season. Specifically, we look for the average refund size to rise to \$3,750, up 18% from last year. An increase as large as 30% strikes us as plausible, though it is not our base case. We project total refunds to rise by roughly \$80 billion this year.
- Refunds will be much larger than usual because many of the new deductions in the OBBBA, such as no tax on tip or overtime income, were made retroactive to the beginning of 2025, but the Internal Revenue Service (IRS) did not change its withholding tables at that time. This leaves most households in a position where they will need to use the annual tax filing process to "square up" with the federal government.
- The 2026 fiscal tailwind to households from OBBBA's tax cuts does not stop at larger refunds. For some households, OBBBA's policy changes will result in lower annual tax payments rather than larger refunds. In other words, the new tax cuts will reduce what they owe rather than boost what the government owes them.
- Furthermore, the IRS has adjusted the withholding tables for 2026, so impacted households will start to see higher take-home pay in their regular paychecks in addition to the catch-up effect from last year. We estimate the total reduction in household income taxes in 2026 from OBBBA's new provisions will be roughly \$220 billion, or 0.7% of GDP.
- Not all of this after-tax income boost will translate into higher consumer spending. Households can also put the money toward savings or paying down debt. The distributional tables from the Joint Committee on Taxation suggest the structure of OBBBA's new tax cuts are generally tilted toward middle and upper-middle income households. We ultimately expect the reduction in household income taxes to boost consumer spending by roughly \$90 billion this year. This translates to a boost of around 0.3% to 2026 GDP, something we've previously factored into our baseline economic forecast.
- The fiscal tailwind described above is one factor that gives us confidence in our above-consensus view on economic growth in 2026. It also should give the FOMC some confidence that, if the labor market can remain resilient a bit longer, the cumulative impact of fiscal stimulus, monetary policy easing and less restrictive trade policy should drive some labor market stabilization come the spring/summer.

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In With the New: OBBBA's Impact on Household Taxes

Tax season is nearly upon us, and with it will come the economic effects from several new tax code provisions from the One Big Beautiful Bill Act (OBBBA). The OBBBA made a slew of changes to federal tax and spend policy, many of which were to simply *extend* the expiring sections of the 2017 Tax Cuts and Jobs Act (TCJA). Since this extension was largely a continuation of existing policy, it should not be a major delta in the outlook for economic growth this year. However, the OBBBA also included several *new* tax cuts targeted at households. These new provisions, which are summarized in the [table](#) below, were applied retroactively to the beginning of 2025 following the passage of OBBBA last summer.

However, the impact of these new tax cuts has yet to reach most consumers. The Internal Revenue Service (IRS) did not change the income tax withholding tables after OBBBA passed, and as a result, most households did not realize the benefit right away. In most cases, households will reap the benefits when they file their 2025 taxes in the coming months. More recently, the IRS updated its withholding tables for 2026, so impacted households will start to see higher take-home pay in their regular paychecks in addition to the catch-up effect from last year. Thus, there are two channels through which households will see higher after-tax income in 2026 from the OBBBA: the first is larger refunds/lower annual tax payments when filing their 2025 taxes, and the second is larger paychecks driven by the updated withholding tables for 2026.

Figure 1

| New Individual Income Tax Cuts in OBBBA | |
|---|---|
| Maximum Child Tax Credit | \$200 increase |
| Standard Deduction | \$750 (s) / \$1,500 (j) increase |
| SALT Deduction Cap | \$40,000 with phasedown for incomes above \$500,000 |
| Senior Additional Deduction | \$6,000 with phaseout for incomes above \$75,000 (s) / \$150,000 (j) |
| Auto Loan Interest Deduction | \$10,000 with phaseout for incomes above \$100,000 (s) / \$200,000 (j) |
| Tip Income Deduction | Up to \$25,000 with phaseout for incomes above \$150,000 (s) / \$300,000 (j) |
| Overtime Income Deduction | Up to \$12,500 (s) / \$25,000 (j) with phaseout for incomes above \$150,000 (s) / \$300,000 (j) |

Note: (s) refers to single filers; (j) refers to joint filers

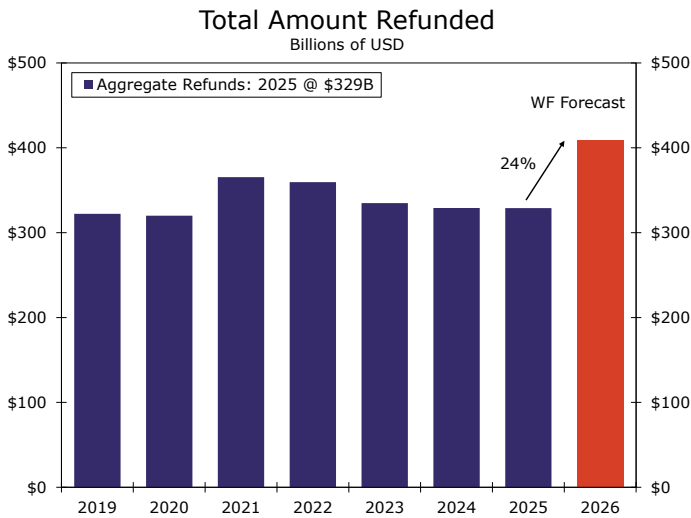
Source: Joint Committee on Taxation, IRS and Wells Fargo Economics

Using data from the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT), we estimate that the retroactive individual income tax changes in OBBBA for 2025 amount to roughly \$120 billion. The boost to after-tax income from the updated withholding tables in 2026 is a bit harder to disentangle, but it should be a little bit smaller than the retroactive 2025 figure, perhaps \$100 billion or so. This suggests that the total reduction in household income taxes in 2026 from OBBBA's new provisions will be roughly \$220 billion, or 0.7% of GDP, with a bit more than half of the boost to after-tax income coming from retroactive changes for 2025 and the rest coming from the changes to withholding tables for 2026 paychecks.

Not all the \$120 billion of 2025 tax relief will come in the form of higher tax refunds. For some households, the new tax cuts will reduce what they owe rather than boost what the government owes them. Last filing season, roughly two-thirds of households received a refund. If, for illustrative purposes, we assume that approximately two-thirds of the \$120 billion goes out as tax refunds in the coming months, this would suggest an aggregate increase in tax refunds of roughly \$80 billion ([Figure 2](#)). If realized, this would push the average tax refund up to about \$3,750, an increase of roughly 18% from last year's average refund ([Figure 3](#)). Households would realize the remaining \$40 billion via lower non-withheld income tax payments.

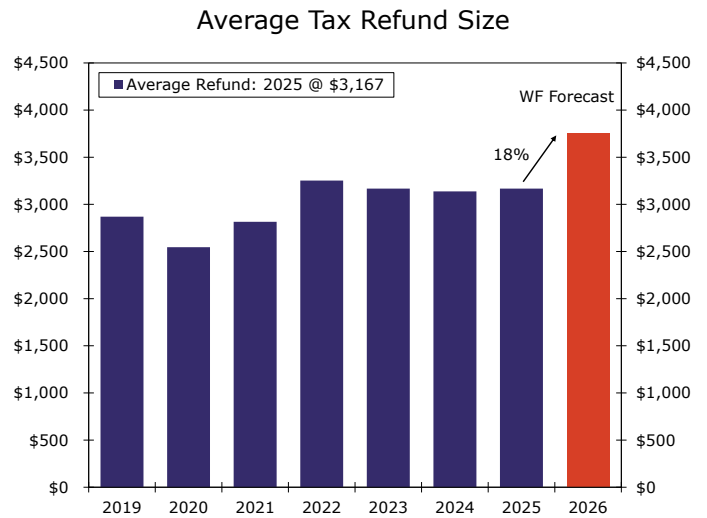
We note that these numbers are projections, and there is some uncertainty about the exact size of the retroactive tax cut and the split between higher refunds/lower tax payments. Changing the assumptions a bit yields average refunds that are as much as 30% larger than last year. That said, we think the risks around our base case projection are reasonably balanced and give readers a feel for the relative size of the coming fiscal tailwind.

Figure 2



Source: IRS and Wells Fargo Economics

Figure 3



Source: IRS and Wells Fargo Economics

Economic Impact: A Boost to Growth of a Few Tenths

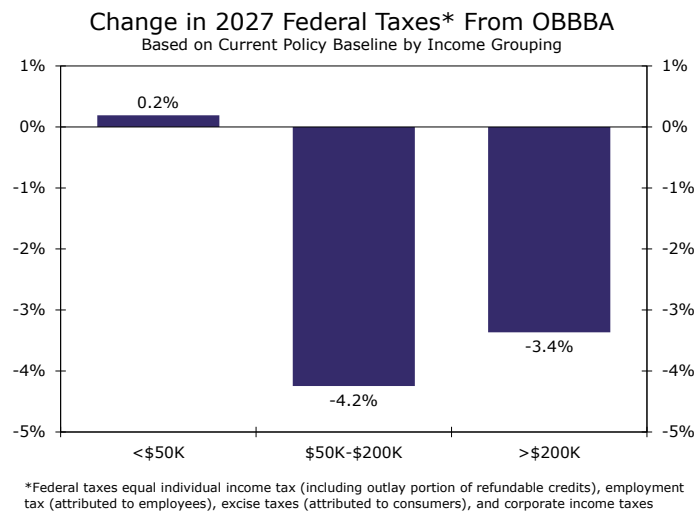
Bigger tax refunds, lower annual tax payments and larger after-tax paychecks should translate into a boost to economic growth this year. Quantifying the magnitude of the impact requires a bit more digging into what types of households are receiving the money and their marginal propensity to consume. For some, the bulk of the tax relief may go toward saving or paying down debt. Generally speaking, the lower a household's income and liquid wealth, the more they tend to spend windfalls like tax refunds or stimulus checks.

The distributional tables from the Joint Committee on Taxation (JCT) suggest the structure of OBBBA's new tax cuts are generally tilted toward middle and upper-middle income households. This is well-illustrated in [Figure 4](#), where JCT analysis shows the largest percentage drop in federal taxes paid is by those in the \$50K-\$200K bucket when using a current policy baseline in 2027 (these are the earliest data available from JCT, though the same analysis for 2026 should not look much different). For context, median annual income in the United States is around \$84K.

It is important to note that a sizable chunk of the tax reduction for the >\$200K bucket is likely due to JCT's analysis including the incidence of corporate income tax changes.¹ Furthermore, the highest earners cannot take advantage of many of these new tax breaks due to income phaseouts for the deductions on tip income, overtime income, auto loan interest, etc. ([refer back to Figure 1](#)). On the other end of the spectrum, since many (though not all) of the new tax breaks are structured as deductions, those in the lowest tax brackets will realize a smaller share of the benefits. Most of the major spending cuts in OBBBA that will impact lower-income consumers, like tighter eligibility requirements and cuts to funding for Medicaid and SNAP benefits, do not materially ramp up until 2027 or later.

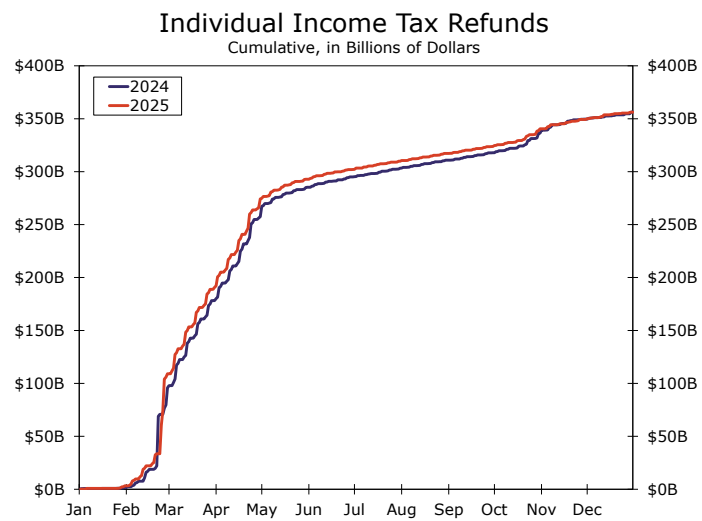
Relying on the broad research literature on the marginal propensity to consume, we ultimately expect the reduction in household income taxes to boost consumer spending by roughly \$90 billion this year.² This translates to a boost of around 0.3% to 2026 GDP, something we've previously factored into our baseline economic forecast.

Figure 4



Source: Joint Committee on Taxation and Wells Fargo Economics

Figure 5



Source: U.S. Department of the Treasury and Wells Fargo Economics

How Can We Track Tax Refunds Once Filings Start?

Tax filings season officially kicks off on January 26. At that point, individuals can begin filing their taxes, and refunds should begin flowing to consumers. Generally speaking, people who are owed money file early, while those who owe the government money file as late as possible. This can be seen in [Figure 5](#) above: last tax season, about 60% of refunds were processed by the end of March, and roughly 84% had been processed by mid-May.

There are high-frequency sources for tracking tax refunds that we will be watching. The highest frequency is the [Daily Treasury Statement](#). This is the source for the data in Figure 5, and we will be able to update it daily to see how refunds are tracking compared to previous years. For a lower frequency (weekly) but more detailed data source, we will be monitoring the IRS's [weekly tax filing season statistics](#). These provide more granular details on the pace of returns processed, average refund size and a host of other data.

Fed Implications: Still Easing, but in a Measured Way

The fiscal tailwind described above is one factor that gives us confidence in our above-consensus view on economic growth in 2026. It also should give the FOMC some confidence that, if the labor market can remain resilient a bit longer, the cumulative impact of fiscal stimulus, monetary policy easing and less restrictive trade policy should drive some labor market stabilization come the spring/summer. This in turn partially explains our view that the FOMC will be on hold in the second half of the year at a target range of 3.00%-3.25%. That said, we do not want to overstate the power of the fiscal tailwind from the OBBBA. These are not gale force fiscal winds like the ones seen in 2020 and 2021 but something closer to the original TCJA, which provided a real, but much smaller, fiscal boost to economic growth compared to the pandemic period.

Endnotes

1 - When corporate income taxes fall as they did in OBBBA, JCT assumes that the majority of the benefits flow to owners of capital, and the latter generally skew toward higher earners. For further reading, see [here](#). [\(Return\)](#)

2 - Nelson, J. and W. Matthew. [Understanding the Relationship Between Changes to Federal Fiscal Policy and Near-Term Real GDP Growth](#). Congressional Budget Office. Working Paper 2025-01. February 2025.

Carroll, C.D., J. Slacalek and K. Tokuda. [The Distribution of Wealth and the Marginal Propensity to Consume](#). European Central Bank. Working Paper 1655. March 2014. [\(Return\)](#)

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