



# **MacFarlane and Associates, P.C.**

## **Certified Public Accountants**

### **KEY TAX CHANGES FROM THE ONE BIG BEAUTIFUL BILL ACT**

#### **Auto Interest Deduction**

##### **Overview:**

For tax years 2025 through 2028, individuals may deduct up to \$10,000 per year for interest paid or accrued on loans used to purchase a new, qualified passenger vehicle for personal use. This deduction applies whether you itemize or claim the standard deduction.

##### **Qualifications:**

- The loan must be Incurred after December 31, 2024,
- The loan must be secured by a loan on the vehicle
- The vehicle must be new, with final assembly in the United States
- Have a gross vehicle weight rating under 14,000 pounds. (can be a car, minivan, SUV, pickup truck, or motorcycle)

##### **Additional Notes:**

- The deduction begins to phase out when modified adjusted gross income exceeds \$100,000 (\$200,000 for joint filers), reducing by \$200 for each \$1,000 over the threshold.
- Used vehicles, fleet purchases, commercial vehicles, leases, salvage title vehicles, or vehicles for scrap/parts do not qualify.
- If the vehicle is used partly for business, the interest must be allocated between personal and business use. The business portion may be deductible as a business expense under general business interest deduction limitations.

##### **Information required:**

- VIN - The taxpayer must include the vehicle identification number (VIN) on their tax return for any year the deduction is claimed.
- Date loan incurred (must be after December 31, 2024).
- Notification from lender for interest received.



# MacFarlane and Associates, P.C.

## Certified Public Accountants

### KEY TAX CHANGES FROM THE ONE BIG BEAUTIFUL BILL ACT

#### **Overtime Deduction**

##### **Overview:**

The "No Tax on Overtime" provision allows individuals to claim an income tax deduction for qualified overtime pay received in tax years 2025 through 2028

##### **Requirements:**

- Qualified overtime pay is defined as overtime compensation required under section 7 of the Fair Labor Standards Act (FLSA), generally pay at least one-and-a-half times the regular rate for hours worked over 40 in a week.
- The deduction is available for overtime reported on Form W-2 (employees) Box 12 code TT or Form 1099-NEC (nonemployees).
- The maximum deduction is \$12,500 per year (\$25,000 for joint filers), with phase-out beginning at modified adjusted gross income (MAGI) of \$150,000 (\$300,000 for joint filers). The deduction phases out completely at \$275,000 MAGI (\$550,000 for joint filers)
- The deduction is not allowed unless the taxpayer's Social Security number appears on the tax return. Married taxpayers must file jointly to claim the deduction.

##### **Claiming the Deduction:**

- The deduction can be claimed whether the taxpayer itemizes or takes the standard deduction.
- For 2025, if the employer does not separately report qualified overtime on the W-2, employees may use reasonable methods and supporting documentation (such as pay stubs) to determine the deductible amount. In this case, we will verify if the overtime was paid at time and a half or double time.
- Taxpayers must maintain records to substantiate eligibility and the amount claimed.



# MacFarlane and Associates, P.C.

## Certified Public Accountants

### KEY TAX CHANGES FROM THE ONE BIG BEAUTIFUL BILL ACT

#### **No Tax on Tips Deduction**

##### **Overview:**

The "No Tax on Tips" provision allows individuals to claim an income tax deduction for qualified tips received in tax years 2025 through 2028.

##### **Requirements:**

- Qualified tips are cash tips received in an occupation that customarily and regularly received tips on or before December 31, 2024.
- The maximum deduction is \$25,000 per tax year, with phase-out beginning at modified adjusted gross income (MAGI) of \$150,000 (\$300,000 for joint filers). The deduction phases out completely at \$400,000 MAGI (\$550,000 for joint filers).
- Tips must be reported on Form W-2 (employees), Form 4137 (for tips not reported to the employer), or Form 1099-NEC/1099-K (nonemployees).
- Married taxpayers must file jointly to claim the deduction, and the taxpayer's Social Security number must appear on the return.
- For nonemployees, tips are deductible only to the extent that gross receipts exceed allocable deductions.

##### **Claiming the Deduction:**

- The deduction can be claimed whether the taxpayer itemizes or takes the standard deduction.
- Taxpayers must maintain records to substantiate eligibility and the amount claimed.

##### **Special Notes:**

- The deduction applies only to income tax; tips are still subject to Social Security and Medicare (FICA) taxes and must be properly reported.
- Only cash tips are eligible, and the occupation must be on the IRS's list of jobs that customarily received tips before 2025.



# MacFarlane and Associates, P.C.

## Certified Public Accountants

### KEY TAX CHANGES FROM THE ONE BIG BEAUTIFUL BILL ACT

#### Expanded State and Local Tax (SALT Deduction Provision)

##### Overview:

For tax years 2025 through 2029, the expanded SALT provision temporarily increases the itemized deduction limit for state and local taxes. The deduction cap rises to \$40,000 (\$20,000 if married filing separately) for 2025. However, this higher limit is reduced by 30% of the excess of the taxpayer's modified adjusted gross income (MAGI) over a threshold amount, but not below \$10,000 (\$5,000 if married filing separately). The MAGI threshold is \$500,000 (\$250,000 if married filing separately) for 2025.

##### Deductible Taxes:

- State and local income taxes
- State and local general sales taxes (if elected instead of income taxes)
- State and local real property taxes
- State and local personal property taxes

##### Limitations:

- The deduction does not apply to state and local real or personal property taxes directly attributable to a trade or business or income-producing activity.
- Foreign real property taxes are not deductible under this provision.



# MacFarlane and Associates, P.C.

## Certified Public Accountants

### KEY TAX CHANGES FROM THE ONE BIG BEAUTIFUL BILL ACT

#### **Expanded Senior Deduction Provision**

##### **Overview:**

Beginning with tax years after December 31, 2024, and before January 1, 2029, a temporary expanded senior deduction is available for qualified individuals. A qualified individual is a taxpayer who has attained age 65 before the close of the tax year. For joint returns, both spouses must be age 65 or older to qualify for the full deduction.

##### **Deduction Amount:**

- \$6,000 per qualified individual
- Married couples filing jointly with both spouses age 65 or older may claim \$12,000
- Not available to married taxpayers filing separately

##### **Phase-Out:**

- Begins when modified adjusted gross income (AGI) exceeds \$75,000 (\$150,000 for joint returns)
- Deduction reduced by 6% of the excess modified AGI over the threshold, but not below zero
- Modified AGI includes AGI plus any amounts excluded from gross income due to the foreign earned income exclusion, or exclusions for bona fide residents of American Samoa or Puerto Rico



# MacFarlane and Associates, P.C.

## Certified Public Accountants

### KEY TAX CHANGES FROM THE ONE BIG BEAUTIFUL BILL ACT

#### Changes to Child Tax Credit

##### Overview:

The One Big Beautiful Bill Act (OBBBA) introduces significant changes to the Child Tax Credit (CTC) effective for tax years beginning after December 31, 2024.

##### Key Changes:

- The maximum Child Tax Credit increases to \$2,200 per qualifying child under age 17 for 2025.
- The \$500 "Other Dependent Credit" (ODC) and the phase-out thresholds of \$400,000 for married filing jointly and \$200,000 for other filers are made permanent.
- The refundable portion of the CTC, known as the Additional Child Tax Credit (ACTC), is set at a maximum of \$1,700 for 2025.
- The earned income threshold for the ACTC remains at \$2,500.
- To claim the credit, the taxpayer's return must include the Social Security Number (SSN) of the qualifying child and the taxpayer (or at least one spouse for joint returns). The SSNs must be work eligible and issued before the return's due date.

##### Eligibility:

- A qualifying child must be under age 17 at the end of the tax year, a U.S. citizen, resident, or national, and properly claimed as a dependent.
- The ODC applies to dependents who are not qualifying children under age 17.