

Money Talks
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In the last article, I had mentioned the One Big Beautiful Bill Act (OBBBA) had made broad changes in taxation. In addition to those mentioned in the previous article, there were also changes made affecting specific portions of the population. Some of these were attempts to fulfill campaign promises to end taxes on tip, overtime and Social Security income.

One such change affects senior citizens, those age 65 and older. For tax years 2025 – 2028, OBBBA creates a new deduction of \$6,000 for qualifying individuals who reach age 65 during the year. This deduction phases out when modified adjusted gross income (MAGI) exceeds \$75,000 and \$150,000 for married filing jointly.

Effective for tax years 2025 – 2028 tip-based workers can deduct a portion of cash tips for federal income tax purposes. Taxpayers who receive qualified cash tips in occupations that typically received tips prior to January 1, 2025, may exclude up to \$25,000 in reported income from federal taxable income. A married couple filing a joint return may deduct up to \$25,000 each. This deduction phases out for MAGI of \$150,000 for single filers and \$300,000 for married filing jointly.

Again, effective for tax years 2025 – 2028, a deduction of up to \$12,500 (\$25,000 for married filing jointly) is allowed for qualified overtime compensation. This deduction is phased out for individuals with MAGI in excess of \$150,000 (\$300,000 for married filing jointly). The deduction is reduced by \$100 for each \$1,000 of MAGI in excess of these thresholds.

OBBBA reinstates a provision last available in 2021. For individuals who do not itemize, a deduction for qualifying charitable contributions is made permanent. The maximum deduction allowed is \$1,000 (\$2,000 for married filing jointly). Contributions must be made in cash as well as meeting other requirements. This deduction becomes available starting in tax year 2026.

For tax years 2025- 2028 there is a new deduction for interest paid on car loans. Starting this year, taxpayers who purchase qualifying new vehicles assembled in the U.S. for personal use may deduct up to \$10,000 in loan interest annually. There is a phase-out of this deduction for taxpayers with MAGI in excess of \$100,000 for single filers and \$200,000 for married filing jointly taxpayers.

At this writing, the forms to be used or formulas to calculate various deductions are not available. In addition, the various qualifiers for charitable organizations, U.S. assembled vehicles, etc. and applicable IRS regulations have not been reviewed or issued. The devil is in the details, especially with income tax matters.

The new law also changes how gambling losses are treated. Before the legislation, individuals could offset 100% of gambling losses against winnings. This deduction could never exceed the amount of gambling winnings. Under OBBBA a new cap limits deductions to 90% of losses offsetting winnings.

OBBBA makes broad and sweeping changes in tax legislation. The above are just some of the changes made affecting individuals and estates. The legislation also makes significant changes in other areas. You should consult with your tax professional on how these and other changes may affect your individual and business tax situation.