One Big Beautiful Bill Act: Tax deductions for working Americans and Seniors

No Tax on Tips: A Game-Changing Tax Reform

The One Big Beautiful Bill Act introduces a groundbreaking tax deduction for qualified tips, providing significant relief for service industry workers.

Key Features of the Tips Deduction:
- Available for tax years 2025-2028
- Maximum deduction of $25,000 annually
- No itemization required
- Applies to income tax only, not employment taxes
- Phase-out begins at $150,000 ($300,000 for married filing jointly)

Qualifying Requirements:
- Tips must be paid voluntarily
- Cannot be subject to negotiation
- Amount determined by customer
- Business cannot be a specified service trade
- Must file jointly if married
- Valid Social Security Number required

Important Reporting Requirements:
- Monthly reporting required for tips $20 or more
- Must report to employer by the 10th of following month
- All tips remain taxable for Social Security and Medicare purposes
- Electronic reporting systems acceptable with paper backup

This reform represents a significant tax benefit for service industry workers while maintaining necessary reporting and compliance standards.

No Tax on Overtime: A Major Tax Break for Working Americans

The One Big Beautiful Bill Act introduces an innovative tax deduction for qualified overtime compensation, providing significant relief for workers who put in extra hours.

Deduction Limits and Requirements:
- Maximum deduction of $12,500 ($25,000 for married filing jointly)
- Available for tax years 2025-2028

- No itemization required
- Phase-out begins at $150,000 ($300,000 for married filing jointly)
- Must file jointly if married

Qualification Criteria:
- Overtime must be paid under Fair Labor Standards Act requirements
- Must exceed regular rate of employment
- Cannot include qualified tip income
- Valid Social Security Number required
- Joint filing required for married couples

Reporting Requirements:
- Employers must separately report qualified overtime on W-2
- Special reporting requirements for non-employee workers
- Separate 1099 reporting for qualified overtime compensation
- 2025 transition rules allow reasonable estimation methods

This deduction represents a significant tax benefit for workers while maintaining necessary compliance standards and preventing potential abuse through IRS oversight.

No Tax on Car Loan Interest: A New Tax Break for Vehicle Owners

The One Big Beautiful Bill Act introduces an innovative deduction for qualified passenger vehicle loan interest, marking a significant change from previous tax law.

Key Features of the Deduction:
- Maximum deduction of $10,000 annually
- Available for tax years 2025-2028
- No itemization required
- Phase-out begins at $100,000 ($200,000 for married filing jointly)
- Must file jointly if married

Vehicle Qualification Requirements:
- Must be new (used vehicles don't qualify)
- Manufactured for public road use
- Cars, minivans, SUVs, pickup trucks, or motorcycles
- Gross vehicle weight under 14,000 pounds
- Final assembly must occur in the United States

- Must have at least 2 wheels

Loan Requirements:
- Debt must be incurred after 2024
- Must be secured by first lien on vehicle
- Vehicle must be for personal use
- Interest must be paid or accrued during tax year

This deduction represents a return to partial deductibility of consumer interest, which had been fully eliminated since 1991.

Deduction for Seniors

New deduction: Effective for 2025 through 2028, individuals who are age 65 and older may claim an additional deduction of $6,000. This new deduction is in addition to the current additional standard deduction for seniors under existing law.

-The $6,000 senior deduction is per eligible individual (i.e., $12,000 total for a married couple where both spouses qualify).

-Deduction phases out for taxpayers with modified adjusted gross income over $75,000 ($150,000 for joint filers).

Qualifying taxpayers: To qualify for the additional deduction, a taxpayer must attain age 65 on or before the last day of the taxable year.

Taxpayer eligibility: Deduction is available for both itemizing and non-itemizing taxpayers.

Taxpayers must:

-include the Social Security Number of the qualifying individual(s) on the return, and

-file jointly if married, to claim the deduction.

This information is provided to you by Arrowhead Tax Service. We make every effort to provide honest and accurate tax information. Please use your discretion before making any

decisions based on the information provided, every tax situation is different. If you have any questions, please visit our office or call us at 937-543-5770