2025 TAX SEASON CHANGES & BEYOND

What are some examples of 2025 TCJA and OBBB tax law changes that cause e-file system delays?

The e-file system delays for the 2026 tax filing season are a result of the IRS needing to reprogram its systems to accommodate complex new and retroactive tax laws from the "One, Big, Beautiful Bill" (OBBB). This process is made more difficult by a significant reduction in the IRS workforce, especially within its information technology (IT) department.

The IRS will not accept E-Files until January 26, 2026

New Deductions and Their Reporting:
The OBBB created several new deductions for tax years 2025 through 2028 that require taxpayers, employers, and lenders to use new forms and reporting processes. This is a primary source of the delay.

- **Tip income deduction**: A new deduction of up to $25,000 for qualified tips requires a new reporting mechanism on Forms W-2, 1099 or other statements furnished to employees.

- **Overtime pay deduction**: A new deduction of up to $12,500 for qualified overtime pay ($25,000 for joint filers) also requires new reporting from employers.

- **Senior deduction**: An additional $6,000 deduction for seniors (age 65 and older) must be incorporated into the tax return forms. ($12,000 joint with MAGI < 150K)

- **Vehicle loan interest deduction**: A temporary deduction of up to $10,000 for interest paid on certain new vehicle loans requires lenders to issue new information returns to taxpayers.

Permanent and Modified TCJA Provisions:
While the OBBB made many Tax Cuts and Jobs Act (TCJA) provisions permanent, some were also modified, creating additional burdens for the IRS.

- **Higher standard deduction**: The Bill provides an increase for tax year 2025. These changes must be accurately encoded in the IRS systems. It has been increased to $15,750 for single filers and $31,500 for married couples filing jointly.

- **Increased SALT cap**: The annual cap for the state and local tax (SALT) deduction was increased from $10,000 to $40,000 for tax years 2025 through 2029, with income-based phaseouts. This is another new rule that the IRS must implement.

- **Child Tax Credit increase**: The Child Tax Credit was increased to $2,200 per qualifying child ($1,700 refundable).

Other Complicating Factors:
Several other new policies and ongoing IRS challenges compound the problem.

- **Termination of Direct File**: The IRS's free Direct File program was terminated for the 2026 filing season, forcing millions of taxpayers to use other filing methods.
- **Refund check phaseout**: An executive order begins the phaseout of paper refund checks on Sept. 30, 2025, requiring the IRS to transition more taxpayers to electronic payments.
- **Workforce reduction**: A Treasury Inspector General for Tax Administration (TIGTA) report confirmed that the IRS's IT and Taxpayer Services workforce was significantly reduced as of May 2025, severely limiting the agency's capacity to handle these new changes.
- **Retroactive changes**: Some changes were made retroactive, requiring quick updates to forms and processing systems to correctly handle 2025 tax returns.

*The delayed opening of the 2026 tax filing season is due to the IRS needing time to implement new tax laws included in the "One, Big, Beautiful Bill" (OBBB) signed in July 2025. These changes required the agency to create and update forms and processing systems.

Key Tax Law Changes Affecting the 2026 Season Include:

- **Expansion of the Tax Cuts and Jobs Act (TCJA)**: The OBBB permanently extended several TCJA provisions that were set to expire, including the current individual income tax structure.
- **Charitable deductions**: Beginning with the 2026 tax year, new rules will apply to charitable contributions. Non-itemizers will be able to deduct cash donations up to $1,000 (single) or $2,000 (joint), while itemizers in the top tax bracket will face limits on their charitable deduction benefits.
- **Senior deduction**: A new, temporary deduction will be available for individuals 65 and older from 2025 through 2028. This $6,000 deduction is available to both itemizers and non-itemizers, though it is phased out for higher-income seniors.
- **Inflation adjustments**: Annual inflation adjustments for 2026 were based on new legislation, affecting tax brackets, the standard deduction, and several credits and deductions.
- **Elimination of Direct File**: The IRS's free Direct File program will not be available for the 2026 tax season.
- **IRS Workforce Reduction**: An IRS watchdog warned that significant workforce reductions, combined with the new law, could lead to challenges and delays during the filing season.

Other Considerations for 2025 Tax Filing:
This is the last year for Energy credits.

To get your overtime taxes back (as a federal income tax deduction), you must claim the deduction when filing your annual Federal income tax return. This is not a change that happens automatically in your paycheck in 2025.

The Overtime Tax Deduction (2025 – 2028)

Under the temporary provisions of the One Big Beautiful Bill Act, you may be eligible to deduct a portion of your qualified overtime pay from your federal taxable income for tax years 2025 through 2028.

Key Points on How to Claim the Deduction:

- **File your Tax Return:** The tax benefit is realized when you file your Form 1040. It is an "above-the-line" deduction, which means you can claim it even if you use the standard deduction rather than itemizing.

- **Documentation is Key**: You will need your Form W-2 from your employer, which should separately report your qualified overtime compensation. You should also keep your own records of overtime earnings.

- **Deductible Amount**: The deduction only applies to the premium portion of your "time-and-a-half" overtime pay (the "half" part, not your regular rate)

- **Deduction Limits**: The maximum annual deduction is $12,500 for single filers and $25,000 for those married filing jointly.
- **Income Limits**: The deduction is phased out for taxpayers with a modified adjusted gross income (MAGI) over $150,000 (single filers) or $300,000 (married filing jointly).

- **Eligibility**: You must be a non-exempt W-2 employee whose overtime is subject to the Fair Labor Standards Act (FLSA).

- **No Effect on Other Taxes**: This deduction only affects federal income tax. Overtime pay is still subject to Social Security and Medicare (FICA) taxes, as well as any applicable state and local taxes.

For the most accurate and up-to-date information, refer directly to the IRS website or consult with your Salabsky Financial Services tax professional. The IRS provides guidance and fact sheets on new tax provisions.

Vehicle Interest Deduction

The interest on a car loan can be tax-deductible in two-scenarios:for business and self-employment, and temporarily for personal use under the new One Big Beautiful Bill Act (OBBBA) for 2025-2028.

New temporary deduction for personal-use vehicles: For new personal-use vehicles bought between January 1, 2025 and December 31, 2028 you may be able to deduct up to $10,000 annually in auto loan interest.

Key requirements for the temporary deduction:

- **Timeframe**: The loan must be taken out between January 1, 2025 and December 31, 2028.
- **New vehicles only**: The deduction applies only to loans for new vehicles, not used vehicles or leases.
- **Made in the U.S**: The vehicle must have undergone final assembly in the United States
- **Income limitations**: The deduction phases out for individuals with a modified adjusted gross income MAGI) over $100,000 and for married couples filing jointly with a MAGI over $200,000
- **No itemizing required**: You can claim this deduction even if you take the standard deduction.
- **Required reporting**: You must include the vehicle's VIN on your tax return.

Deduction for Business Use: Self employed individuals and business owners can deduct the business-related portion of their car loan interest. This applies to both new and used vehicles.

Key requirements for the business-use deduction:

- **Percentage of use**: You can deduct the interest expense proportionate to the percentage of time you use the vehicle for business. For example, if you use the car 60% for business, you can deduct 60% of the loan interest.
- **Record-keeping**: You must keep detailed records, such as a mileage log, to prove your business usage.
- **Tax filing methods**: To claim the deduction, you can use the actual expense method, which may yield a larger deduction if you drive a lot for work. The loan interest is claimed on Schedule C of your tax return.
- **Exclusions**: This deduction is not available for regular employees who use a personal vehicle for work.

Disclaimer: Tax laws can be complex. You should consult with a tax professional to determine your specific eligibility and the best filing method for your situation. For official guidance, refer to the IRS website

Dependent/Child Filing 2025

A dependent child must file a tax return for the 2025 tax year if their income exceeds the following thresholds:

Type of Income	**Filing Threshold**
Earned income (wages, salary, tips, Self-employment)	**Over $15,750**
Unearned Income (interest, dividends)	**Over $1,350**
Gross Income (earned + unearned)	**Exceeds the greater of $1,350 or the child's earned income plus $450**
Self-Employment Income	**$400 or more**, regardless of total earnings

Key Considerations:

- **Voluntary filing (for a Refund)**: Even if your child doesn't meet the income thresholds, they should still file a return if tax was withheld (e.g., federal income tax on a W-2) from their pay. By filing, they can get that money back as a refund.

- **Types of Income**: Earned income comes from a job, while unearned income includes interest from a savings account, dividends, or capital gains.

- **Parents' options for unearned income**: If your child has only unearned income (less than $13,500 for 2025), you can choose to include it on your own tax return by filing Form 8814. However, this may place you in a higher tax bracket.

- **"Kiddie Tax"**: If a child has more than $2,700 in unearned income, the income exceeding that amount is generally taxed at the parents' marginal tax rate.