

2026 TAX FILING 7 NEW CHANGES YOU NEED TO KNOW

NEW FOR 2026

- No Tax on Tips
- Senior Bonus Deduction
- Overtime Deduction
- Child Tax Credit
- Action Items

Your Complete
Guide to the Biggest
Tax Changes in
Years

YOUTUBE: @GOVCLARITY



Quick Reference: All 7 Changes at a Glance

Change	What's New	Max Benefit	Who Qualifies
No Tax on Tips	Deduct qualified tips	\$25,000	Tipped workers under \$150K MAGI
No Tax on Overtime	Deduct overtime premium	\$12,500 (\$25K joint)	Hourly FLSA employees under \$150K
Car Loan Interest	Deduct auto loan interest	\$10,000	New US-assembled vehicle buyers under \$100K
Senior Bonus Deduction	New deduction for 65+	\$6,000 (\$12K joint)	Seniors under \$75K (\$150K joint)
Child Tax Credit Increase	Higher credit per child	\$2,200 per child	Parents of children under 17
Standard Deduction Increase	Higher automatic deduction	\$15,750 single	All filers
Paper Checks Phased Out	Direct deposit now required	Faster refund	All filers

- ☐ All new deductions from the One Big Beautiful Bill (Public Law 119-21) are available whether you take the standard deduction or itemize. They do not replace each other – you can claim every deduction you qualify for.

Who This Guide Is For

This guide is for anyone filing a federal tax return during the 2026 filing season (for the 2025 tax year). You'll benefit most if you fall into one or more of these categories:



Tipped workers

Servers, bartenders, hairstylists, rideshare drivers, valets, personal trainers, and anyone in an occupation that customarily receives tips.



Hourly employees who earn overtime

If your employer pays you time-and-a-half (or more) under the Fair Labor Standards Act, you have a new deduction available.



Car buyers

If you purchased a new vehicle assembled in the United States with a car loan during 2025, you may be able to deduct loan interest.



Seniors 65 and older

If you turned 65 before January 1, 2026, you qualify for a brand-new deduction on top of the existing additional standard deduction.



Parents and families

The Child Tax Credit increased, meaning more money back per qualifying child.



Everyone filing a return

The standard deduction went up, and the IRS is phasing out paper refund checks.

What Is Schedule 1-A?

Four of the seven new deductions in this guide are claimed on a brand-new IRS form called **Schedule 1-A**. This form did not exist before the 2026 filing season.

What Schedule 1-A Does

Schedule 1-A is where you report the new "below-the-line" deductions created by the One Big Beautiful Bill. Below-the-line means these deductions reduce your taxable income but do **not** reduce your Adjusted Gross Income (AGI).

Why That Matters

Your AGI affects eligibility for many tax benefits – things like the Premium Tax Credit, education credits, and Social Security taxability thresholds. Since Schedule 1-A deductions don't lower your AGI, they won't help you qualify for AGI-sensitive benefits. They will, however, directly reduce the federal income tax you owe.

Which Deductions Use Schedule 1-A

- No Tax on Tips deduction
- No Tax on Overtime deduction
- Car Loan Interest deduction
- Senior Bonus Deduction

How to File It

If you use tax software, Schedule 1-A should be included automatically in any software updated for the 2025 tax year. If you file by hand, download Schedule 1-A from [IRS.gov/forms](https://www.irs.gov/forms). It attaches to your Form 1040.

 **Critical:** If your tax software has not been updated, it will not include Schedule 1-A – and you'll miss every new deduction without knowing it.

Change 1: No Tax on Tips — Full Details

Who Qualifies

You must work in an occupation that **customarily and regularly** receives tips. This includes servers, bartenders, hairstylists and salon workers, rideshare drivers, valets, bellhops, personal trainers, and other service workers who routinely receive gratuities. The key test is whether tipping is customary in your occupation — not whether you personally receive tips every shift.

Deduction Details

Detail	Amount
Maximum deduction	\$25,000 per year
Phase-out begins (single)	\$150,000 MAGI
Phase-out begins (joint)	\$300,000 MAGI
Reduction rate	10% for each \$2,500 over threshold
Filed on	Schedule 1-A
Applies to	Tax years 2025 through 2028

What Counts as Qualified Tips

Cash tips, credit card tips, and tip-sharing/pooling distributions all count. Service charges automatically added by your employer and distributed to you also count. Tips must be reported as income on your tax return — the deduction offsets the federal income tax on those tips, but the income still needs to appear on your return.

What Does NOT Count

Self-employment income that isn't tips (even if you're in a tipped occupation), bonuses, commissions, and non-tip wages are not eligible for this deduction.

Change 1: No Tax on Tips

— Common Questions

Do I still report my tips as income?

Yes. Your tips must still be reported as income on your tax return. The deduction doesn't make tips invisible — it offsets the federal income tax you would otherwise owe on that tip income.

Are tips still subject to Social Security and Medicare taxes?

Yes. This is the most misunderstood part of this change. The "No Tax on Tips" deduction only applies to **federal income tax**. Your tips remain fully subject to Social Security tax (6.2%) and Medicare tax (1.45%). If you earn \$20,000 in tips, you'll still pay approximately \$1,530 in payroll taxes on that amount.

What if I earn tips AND overtime?

You can claim both deductions. They are separate line items on Schedule 1-A. However, each has its own maximum — the tip deduction cap is \$25,000 and the overtime deduction cap is \$12,500 (single). They don't combine into a single larger deduction.

What if my income is above the phase-out?

The deduction shrinks gradually. For every \$2,500 your MAGI exceeds the threshold (\$150K single, \$300K joint), the deduction reduces by 10%. At \$175,000 MAGI (single), the deduction is fully phased out.



Change 2: No Tax on Overtime — Full Details

Who Qualifies

You must be a **non-exempt hourly employee** who earns overtime pay under the Fair Labor Standards Act (FLSA). This means your employer is legally required to pay you at least time-and-a-half for hours worked beyond 40 in a workweek.

Salaried employees, independent contractors, and exempt workers are **not** eligible — even if they work more than 40 hours per week. The overtime must be legally mandated overtime under FLSA, not voluntary extra hours paid at your regular rate.

Deduction Details

Detail	Single	Joint
Maximum deduction	\$12,500	\$25,000
Phase-out begins	\$150,000 MAGI	\$300,000 MAGI
Reduction rate	10% for each \$2,500 over threshold	
Filed on	Schedule 1-A	
Applies to	Tax years 2025 through 2028	

What Part of Overtime Is Deductible?

Only the **premium portion** — the extra pay above your regular rate. If your regular hourly rate is \$20 and you earn time-and-a-half (\$30) for overtime, the deductible portion is \$10 per overtime hour (the "half" in time-and-a-half). Your regular \$20 rate for those hours is not deductible.

- Payroll Tax Warning:** Just like tips, your overtime pay remains fully subject to Social Security and Medicare payroll taxes. The deduction only reduces your federal income tax liability.

Change 3: Car Loan Interest Deduction — Full Details

Who Qualifies

You must have purchased a **new vehicle** (not used) that was **assembled in the United States** and financed with a car loan. The vehicle must have a Gross Vehicle Weight Rating (GVWR) under 14,000 pounds. Most passenger cars, SUVs, and light trucks meet this requirement. Heavy-duty commercial vehicles and most large box trucks do not.

Deduction Details

Detail	Single	Joint
Maximum deduction	\$10,000 per year	\$10,000 per year
Phase-out begins	\$100,000 MAGI	\$200,000 MAGI
Phase-out ends	\$150,000 MAGI	\$250,000 MAGI
Reduction rate	\$200 for each \$1,000 over threshold	
Filed on	Schedule 1-A	
Applies to	Tax years 2025 through 2028	



Change 3: Car Loan Interest Deduction — Key Eligibility Requirements



New vehicles only

Used or certified pre-owned vehicles do not qualify, regardless of where they were assembled.



US assembly required

The vehicle must have undergone final assembly at a plant located in the United States. You can check assembly location on the vehicle's window sticker or at [NHTSA.gov](https://www.nhtsa.gov).



GVWR under 14,000 lbs

Check your vehicle's door jamb sticker for the GVWR rating. This is the maximum loaded weight, not the curb weight.



Loan required

If you paid cash for the vehicle, there's no loan interest to deduct. Lease payments do not qualify.



Change 3: Car Loan Interest — How to Calculate Your Deduction

Finding Your Interest Paid

Your lender will send you **Form 1098** (or a year-end statement) showing the total interest paid during the tax year. This is the number you report on Schedule 1-A, up to the \$10,000 maximum.

Phase-Out Example

If you're a single filer with a MAGI of \$120,000, you're \$20,000 over the \$100,000 threshold. The reduction is \$200 for each \$1,000 over — so $20 \times \$200 = \$4,000$ reduction. If you paid \$8,000 in car loan interest, your deduction would be \$8,000 minus \$4,000 = **\$4,000**.



Can I Combine This With Other Vehicle Credits?

Yes. The car loan interest deduction is separate from the Clean Vehicle Credit (Section 30D). If your new US-assembled vehicle also qualifies as a clean energy vehicle, you can potentially claim both benefits. They are reported on different forms and have different eligibility requirements.



What If I Refinanced?

Interest on a refinanced loan still qualifies, as long as the original vehicle purchase met all eligibility requirements (new, US-assembled, under 14,000 lbs GVWR). Only interest paid during the tax year counts.

Change 4: Senior Bonus Deduction — Full Details

Who Qualifies

You must have turned **65 years old on or before December 31, 2025**. If you turn 65 in 2026, you'll qualify when filing your 2026 return next year — but not for this filing season.

Deduction Details

Detail	Single (65+)	Joint (one 65+)	Joint (both 65+)
Maximum deduction	\$6,000	\$6,000	\$12,000
Phase-out begins	\$75,000	\$150,000	\$150,000
Reduction rate	6 cents per dollar over threshold		
Filed on	Schedule 1-A		



Change 4: Senior Bonus Deduction — Stacking Your Benefits

This Is ON TOP of Your Existing Senior Deduction

This is where many people get confused. Seniors already receive an additional standard deduction just for being 65 or older:

Filing Status	Existing Additional Standard Deduction
Single / Head of Household (65+)	\$2,000
Married Filing Jointly (one 65+)	\$1,600
Married Filing Jointly (both 65+)	\$3,200

The new \$6,000 Senior Bonus Deduction is a completely separate benefit on top of those amounts. A single filer age 65+ could receive the \$15,750 standard deduction, plus the \$2,000 existing additional deduction, plus up to \$6,000 from the new bonus deduction – for a total of up to \$23,750 in deductions before itemizing anything.

\$15,750

Standard Deduction

\$2,000

Existing Senior Add-On

\$6,000

New Senior Bonus

\$23,750

Total Possible



Change 5: Child Tax Credit Increase — Full Details

What Changed

The maximum Child Tax Credit increased from \$2,000 to **\$2,200** per qualifying child for the 2025 tax year. The refundable portion (Additional Child Tax Credit) increased to **\$1,700**, meaning families with little or no tax liability can receive up to \$1,700 per child as a direct refund.

Who Qualifies

Your child must meet all of these requirements:

- **Under age 17** at the end of the tax year (December 31, 2025)
- **US citizen, national, or resident alien** with a valid Social Security number
- **Claimed as your dependent** on your tax return
- **Lived with you** for more than half the year
- **Did not provide** more than half of their own financial support

Income Phase-Outs

Filing Status	Phase-Out Begins	Reduction Rate
Single / Head of Household	\$200,000	\$50 per \$1,000 over
Married Filing Jointly	\$400,000	\$50 per \$1,000 over

Refundable vs. Non-Refundable

The \$2,200 credit has two parts. The first \$1,700 is **refundable** — you receive it even if you owe zero in taxes. The remaining \$500 is **non-refundable** — it can reduce your tax bill to zero but won't generate an additional refund.

Multiple Children

The credit applies per qualifying child. A family with three qualifying children under 17 could receive up to \$6,600 in total credits ($\$2,200 \times 3$), with up to \$5,100 of that being refundable ($\$1,700 \times 3$).

Change 6: Standard Deduction Increase

2026 Filing Season Amounts (Tax Year 2025)

Filing Status	Standard Deduction
Single	\$15,750
Married Filing Jointly	\$31,500
Married Filing Separately	\$15,750
Head of Household	\$23,625

These amounts are higher than last year, which means more of your income is automatically shielded from federal income tax.

Should You Itemize or Take the Standard Deduction?

Take the standard deduction unless your itemized deductions exceed the standard amount. Common itemized deductions include mortgage interest, state and local taxes (now capped at \$40,000 under the One Big Beautiful Bill), charitable contributions, and medical expenses exceeding 7.5% of AGI.

Important: New Deductions Work With Either Choice

The Schedule 1-A deductions (tips, overtime, car loan interest, senior bonus) are available regardless of whether you take the standard deduction or itemize. They are a separate category entirely. You don't have to choose between them and your standard deduction – you get both.

Additional Standard Deductions

These amounts are added on top of the base standard deduction:

Age 65+ (single/HOH)

Adds \$2,000

Age 65+ (married, per spouse)

Adds \$1,600

Blind (single/HOH)

Adds \$2,000

Blind (married, per spouse)

Adds \$1,600

Change 7: Paper Refund Checks Are Going Away

What's Happening

The IRS is phasing out paper refund checks starting this filing season. This is part of a broader digital modernization mandate under Executive Order 14247, signed March 25, 2025.

What This Means For You

If you file your return **without** providing bank account information for direct deposit, the IRS will:

1 Freeze your refund

It will not be mailed automatically

2 Send you a CP53E notice

Asking you to provide banking details

3 Give you 30 days

To respond with direct deposit information

4 Eventually mail a paper check

If you don't respond – but expect a delay of **six weeks or longer**

How to Avoid Delays

Provide your bank routing number and account number when you file. If you e-file, your software will prompt you for this information. If you file by mail, include it on the appropriate line of Form 1040.

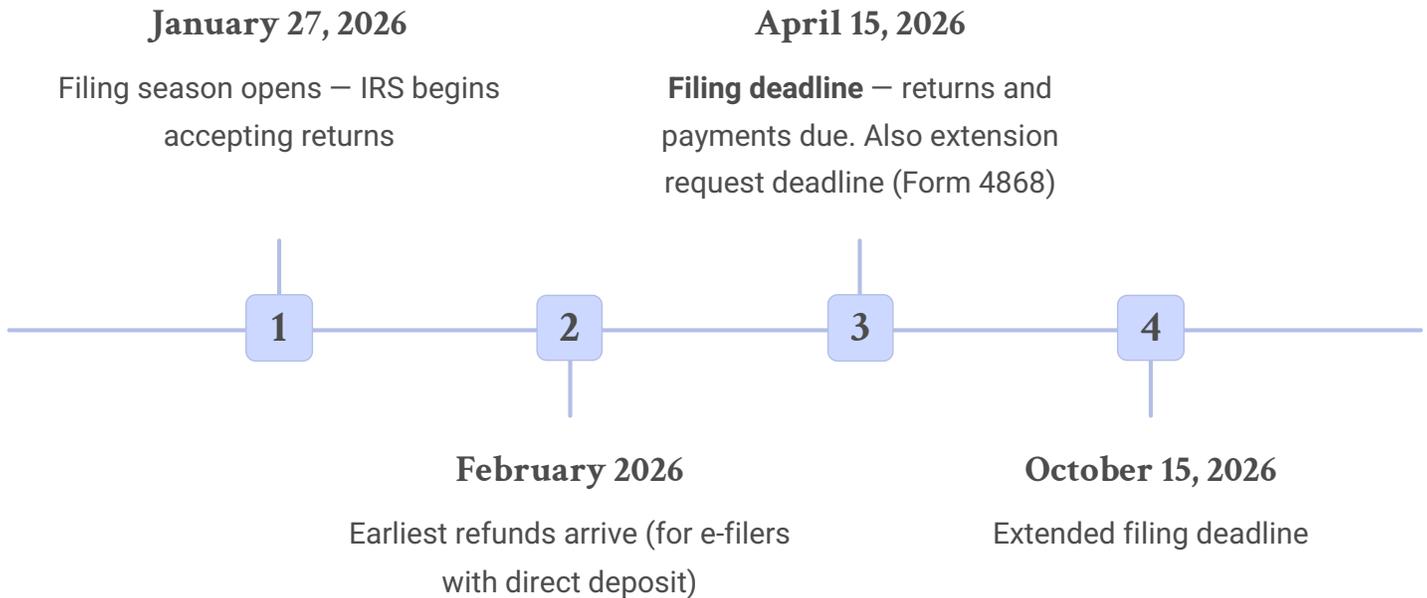
What If You Don't Have a Bank Account?

You have options. Many banks and credit unions offer free checking accounts. You can also receive your refund on a prepaid debit card – the IRS accepts these through some tax preparation services. The IRS Volunteer Income Tax Assistance (VITA) program can help you set up direct deposit if needed.

What If You Prefer Paper Checks?

You can still receive a paper check, but you'll need to wait for the CP53E notice, decline to provide banking information, and then wait an additional estimated six weeks for mailing. The IRS strongly encourages everyone to switch to direct deposit.

Filing Timeline & Key Dates



About Extensions

An extension gives you until October 15, 2026 to file your return. However, it does **not** extend your payment deadline. Any taxes you owe are still due April 15. If you owe and don't pay by April 15, you'll incur failure-to-pay penalties and interest even if you filed for an extension.

Free Filing Options

If your Adjusted Gross Income is **\$89,000 or less**, you qualify for the IRS Free File program. Free File partners with trusted tax software companies to provide free federal tax preparation and e-filing. Visit [IRS.gov/freefile](https://www.irs.gov/freefile) to see your options.

Free File Fillable Forms

Free File Fillable Forms are also available for filers at any income level, though they provide less guidance and are best suited for experienced filers.

Common Mistakes That Will Cost You Money

1 Using Outdated Tax Software

If your tax software hasn't been updated for the 2025 tax year, it won't include Schedule 1-A. You'll file your return without claiming any of the four new deductions – and you won't even get an error message. Before you start filing, make sure your software is fully updated to the current version.

2 Thinking "No Tax on Tips" Means Tips Aren't Taxed at All

Your tips are still income. You must still report them. The deduction offsets your federal income tax on tips, but your tips and overtime remain fully subject to Social Security (6.2%) and Medicare (1.45%) payroll taxes. The deduction only covers federal income tax – not payroll taxes.

3 Filing Without Bank Information Ready

With paper checks being phased out, filing without direct deposit information will freeze your refund. Have your bank routing number and account number ready before you start. Don't assume a paper check will show up automatically – it won't.

4 Claiming the Car Loan Deduction on a Used Vehicle

The car loan interest deduction is for **new vehicles only**. Used cars, certified pre-owned, and leased vehicles do not qualify – regardless of where they were assembled. If you bought used, do not claim this deduction.

5 Missing the Senior Bonus Deduction

If you or your spouse turned 65 in 2025, this is the easiest new deduction available and many filers don't know it exists. Check if your tax software automatically applies it – if not, add it manually on Schedule 1-A.

Eligibility Checklist

Use this checklist to identify which new deductions apply to you.



No Tax on Tips

I work in an occupation that customarily receives tips. My tips are reported as income. My MAGI is under \$150,000 (single) or \$300,000 (joint). My total qualified tips are under \$25,000.



No Tax on Overtime

I am an hourly, non-exempt employee. I earn overtime pay under the FLSA (time-and-a-half or more). My MAGI is under \$150,000 (single) or \$300,000 (joint).



Car Loan Interest

I purchased a NEW vehicle (not used or leased). The vehicle was assembled in the United States. The vehicle's GVWR is under 14,000 pounds. I financed the purchase with a car loan. My MAGI is under \$100,000 (single) or \$200,000 (joint).



Senior Bonus Deduction

I was 65 or older by December 31, 2025. My MAGI is under \$75,000 (single) or \$150,000 (joint).



Child Tax Credit

I have a child under age 17 as of December 31, 2025. The child has a valid Social Security number. The child lived with me for more than half the year.

What's Coming Next: SALT Cap & Trump Accounts

The One Big Beautiful Bill included two additional major changes that take effect for the 2025 tax year. We'll be covering each of these in dedicated videos, but here's a preview.

SALT Deduction Cap Raised to \$40,000

The State and Local Tax (SALT) deduction cap has been raised from \$10,000 to **\$40,000** for the 2025 tax year. This primarily benefits filers in high-tax states like New York, California, New Jersey, and Connecticut who itemize their deductions. If you pay significant state income tax and local property taxes, this change could substantially reduce your federal tax bill.

The \$40,000 cap applies to single filers and married filing jointly. Married filing separately is capped at \$20,000.

Trump Accounts for Newborns

Children born between 2025 and 2028 are eligible for a **\$1,000 government-funded seed deposit** into a Trump Account (reported on Form 4547). This is a new savings vehicle designed to grow over time. Parents must apply to establish the account. We'll cover the full application process, investment options, and rules in an upcoming video.



Official Resources & Contact Information

IRS Resources



IRS Free File

[IRS.gov/freefile](https://www.irs.gov/freefile)



Schedule 1-A

[IRS.gov/forms](https://www.irs.gov/forms) (search "Schedule 1-A")



Filing Season Info

[IRS.gov/filing](https://www.irs.gov/filing)



Refund Status

[IRS.gov/refunds](https://www.irs.gov/refunds)



VITA Free Tax Help

[IRS.gov/vita](https://www.irs.gov/vita)

Phone Support



IRS General

1-800-829-1040

Mon-Fri, 7am-7pm local time



IRS Refund Hotline

1-800-829-1954

24/7 automated



Taxpayer Advocate

1-877-777-4778

Mon-Fri, 7am-7pm local time

Vehicle Assembly Lookup

To verify whether your vehicle was assembled in the United States, check the window sticker (Monroney label) or visit [NHTSA.gov](https://www.nhtsa.gov) and search your Vehicle Identification Number (VIN).

Tax Software (Updated for 2025 Tax Year)

Make sure your chosen software has been updated to include Schedule 1-A. Major providers include TurboTax, H&R Block, FreeTaxUSA, and TaxAct. If using IRS Free File, all partner software is automatically current.

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