



TAX LAW CHANGES YOU NEED TO KNOW ABOUT

Recent legislation affects returns for 2025 and later

BY MAYA DOLLARHIDE AND CLAIRE LEIBOWITZ

The One Big Beautiful Bill Act, signed by President Donald Trump on July 4, makes multiple changes to the tax code. Some are temporary, some are permanent. Some could reduce your tax bill for 2025, while others go into effect

for the 2026 tax year. These are some of the provisions most likely to affect older adults.

Bigger deductions

Prior to the OBBB's passage, the 2025 standard deduction for people who don't itemize deductions on their returns—about 90 percent of taxpayers—was set at \$15,000 for individual taxpayers and \$30,000 for married

couples filing jointly. The new law increased those deductible amounts.

► For 2025, the standard deduction is now \$15,750 for individual filers and \$31,500 for joint filers. (The previously announced additional standard deduction for people 65 and older remains \$2,000 for singles and \$1,600 per qualifying spouse for couples filing jointly.)

► From 2025 through 2028, you may get an extra break if you're 65 or older: You can claim a bonus deduction on your taxes of up to \$6,000 per eligible individual even if you don't itemize. The new deduction “delivers tax relief at a time when many older Americans are living on fixed incomes while facing rising costs,” Nancy LeaMond, AARP's chief advocacy and engagement officer, wrote in a June 29 letter to Senate leaders.

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Individuals with a modified adjusted gross income (MAGI) of up to \$75,000 and joint filers with income of up to \$150,000 can deduct the full \$6,000. The deduction phases out at higher incomes and goes away if your MAGI exceeds \$175,000 (\$250,000 for a couple). For purposes of this and other tax changes, your MAGI is your adjusted gross income, found on line 11 of Form 1040, plus certain added-back deductions, such as IRA contributions.

Deduction on car loan interest

The new law allows borrowers of all ages to deduct up to \$10,000 annually in car loan interest payments through the 2028 tax year.

There are some caveats, however. The loan must have originated on Jan. 1 of this year or later, and the vehicle must be a new car, minivan, van, SUV, pickup truck or motorcycle that underwent final assembly at a U.S. factory. If your MAGI is greater than \$100,000 (individual) or \$200,000 (couple filing jointly), the deduction tapers off by \$200 for every \$1,000 of additional income.

Many SUVs and trucks meet the assembly requirement, says Ronald Montoya, manager of consumer advice at the car shopping guide Edmunds.com. This includes models like the Honda Pilot, Toyota Highlander and Ford F-150. If you have a car's vehicle identification number (VIN), you can visit the government website [nhtsa.gov/vin-decoder](https://www.nhtsa.gov/vin-decoder) to check. "The safest bet is to look up the VIN number," says Montoya, but the assembly information is also on a car's window sticker at the dealership.

Expanded breaks for state and local taxes

Starting with tax year 2018, people who itemized could deduct no more than \$10,000 in state and local tax (SALT) payments on their federal return. The new law temporarily increases the limit to \$40,000 for taxpayers with a MAGI below \$500,000.

The provision could provide significant savings for homeowners who live in states and communities with high property taxes and property values. Older Americans are more likely to be in this group: While 65 percent of all U.S. adults own their homes, the rates rise to about 76 percent of people ages 55 to 64 and nearly 79 percent of those 65 and older, according to recent Census Bureau data.

The SALT deduction cap and income threshold will increase by 1 percent a year until 2030, when, under the new law, it reverts to \$10,000.

MORE HELP WITH CAREGIVING AND HOUSING

Other parts of the OBBA Act don't directly affect individuals' tax bills but could have financial ramifications for family caregivers and homeowners. These include:

► An enhanced business tax credit for family leave. The new law extends and expands provisions of the 2017 measure that offers tax breaks to employers that provide paid family and medical leave.

The credit, which was set to expire at the end of 2025, is now permanent. And starting in 2026, employers can offer it to workers after six months of

employment; previously, the minimum tenure for qualifying was a year.

The expanded credit provides "important support to employers whose workers are juggling jobs and caregiving responsibilities," AARP's Nancy LeaMond wrote to Senate leaders.

► More housing tax credits. According to a 2025 AARP survey, nearly 4 in 5 adults age 50 and older support tax credits to increase investment in housing for low- and moderate-income Americans. The new law expands the Low-Income Housing Tax Credit, a federal incentive for developers

to build and renovate affordable housing.

Among other steps, the law extends an increase in federal allocations to the states for disbursing the credits and makes it easier for builders and investors to qualify. "With a growing number of older adults struggling to find safe and affordable housing, these investments are timely and essential," LeaMond wrote.

AARP, however, didn't support all of the new law. "AARP remains opposed to other provisions in this bill that will make life harder for older adults who are trying to get by," LeaMond wrote in her letter, "including cuts to Medicaid, Marketplace health coverage and food assistance."

Certain earnings free from income tax

► Effective this year through 2028, employees and self-employed people can deduct up to \$25,000 of tip income received in occupations the IRS deems to be "customarily and regularly" receiving tips. Among the people expected to qualify: restaurant workers, dog walkers, tutors, companions for older people, and taxi and rideshare drivers.

► Workers with qualified overtime pay in 2025 through 2028 will be able to deduct the portion of that pay that exceeds their regular pay rate—for example, the "half" portion of their "time-and-a-half" hourly wage. The deduction maxes out at \$12,500 (\$25,000 if married and filing jointly).

Even if you have deductible tip or overtime income, the money is still subject to FICA taxes for Medicare and Social Security. The tip and overtime deductions start phasing out for individuals whose MAGI is \$150,000 (\$300,000 if married and filing jointly; married taxpayers who file separately do not qualify). Karin Anderson, vice president of tax compliance solutions at Wolters Kluwer, recommends keeping a record of the time and amount of tips received. "Documentation is key," she says.

Changes for charitable contributions

► Starting with tax year 2026, people who don't itemize can deduct up to \$1,000 (\$2,000 if married filing jointly) for qualified charitable cash contributions—a more expansive

version of the \$300 COVID-era deduction that non-itemizers could take for tax years 2020 and 2021. The provision does not extend to the donation of physical goods, like clothing and housewares.

► For taxpayers who do itemize deductions, the bill allows a deduction for charitable contributions only if they exceed 0.5 percent of their adjusted gross income. For example, if your AGI is \$100,000, the first \$500 of charitable contributions is not deductible.

Credits and contributions for care

► If, in order for you to work or look for work, you have to pay a caregiver to look after a child under 13, a spouse or a disabled dependent who lives with you, you may be eligible for what the IRS calls the child and dependent care credit. This credit applies to up to \$3,000 in expenses for one qualifying individual and \$6,000 for two or more of them. Starting in 2026, that credit rises to a maximum of 50 percent of qualified expenses if your AGI is \$15,000 or less, up from 35 percent. The rate of the credit diminishes at higher incomes.

► If your employer offers a flexible spending account, letting you designate pretax income for dependent care, you'll be able to contribute up to \$7,500 in 2026 for qualifying childcare and eldercare expenses, up from \$5,000. ■

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