2025 Federal Tax Law Changes

New extra standard deduction for seniors

Starting in 2025, seniors (age 65+) can claim an extra $6,000 standard deduction due to a provision in the Working Families Tax Cut Act.

This enhanced deduction is temporary, applying only to tax years 2025 through 2028. It also begins to phase out once your adjusted gross income (AGI) exceeds $75,000 for single filers or head of household filers and $150,000 for married couples filing jointly.

For example, if you are an eligible single filer over age 65 (and not blind) in 2025, you could combine all three standard deductions, for a total of $23,750.

Here's the math:

$15,750 (single standard deduction) + $2,000 (65+ additional deduction) + $6,000 (temporary extra senior deduction) = $23,750

Working Families Tax Cut Act (One Big Beautiful Bill) changes for 2025 tax year

Next, let's walk through the highlights of the Working Families Tax Cut Act and how its many tax provisions might impact your taxes this year.

Child Tax Credit (CTC) increases

The new tax bill also raises the Child Tax Credit to $2,200 per qualifying child for the 2025 tax year (up from $2,000 in 2024). Additionally, more of the credit is refundable, meaning some families may see a larger tax refund even if their tax liability drops to $0.

The income thresholds for the CTC remain the same — the credit still phases out based on your filing status and modified adjusted gross income (MAGI). For a full walkthrough of eligibility, phase-outs, and how this compares to prior years, check out our complete Child Tax Credit Guide.

No tax on overtime pay

A new deduction for qualifying overtime pay is now available, effective in the 2025 tax year. You can deduct up to $12,500 if you're a single filer or up to $25,000 if you're married filing jointly. The deduction begins to phase out once your MAGI hits $150,000 for single filers or $300,000 for joint filers.

You can claim the overtime deduction even if you claim the standard deduction. It is a temporary deduction, available only from 2025 to 2028. Read our full No Tax on Overtime Guide.

No tax on tips for 2025

The Working Families Tax Cut Act also creates a new deduction for certain tip income for 2025 through 2028. You can deduct up to $25,000 in qualifying tips per tax return, and the deduction begins to phase out once your MAGI reaches $150,000 for single filers or $300,000 for joint filers.

Only certain occupations qualify; check out our No Tax on Tips Guide for all the details.

Car loan interest deduction

There is another temporary deduction for car loan interest for tax years 2025 through 2028. You can deduct up to $10,000 of interest paid on a qualifying vehicle loan each year through 2028. This tax break begins to phase out once your MAGI exceeds $100,000 (or $200,000 for married couples filing jointly).

Your vehicle must meet specific requirements (including U.S. final assembly and a valid VIN) to qualify. If you financed your car, read our Car Loan Interest Deduction Guide to see if you qualify to deduct your interest payments.

SSNs required for certain tax benefits

The bill limits which tax benefits can be claimed with an Individual Taxpayer Identification Number (ITIN). Many popular credits and new deductions — including the Child Tax Credit, Earned Income Tax Credit, education credits, as well as the new tips deduction, new overtime deduction, and the new senior deduction — now require a valid Social Security number (SSN).

ITINs remain fully valid for filing tax returns, and certain benefits are still available to ITIN filers. However, this change is likely to cause confusion this tax season, particularly for mixed-status families. For a full breakdown of which credits changed and who still qualifies, check out our full article: OBBB Limits Tax Credits for ITIN Filers Without SSNs.

SALT deduction cap increase

Another tax bill provision temporarily raises the SALT deduction cap beginning in the 2025 tax year. This increase gives some taxpayers in high-tax states more room to deduct state and local tax payments.

The SALT cap rose to $40,000 (up from $10,000) in 2025 and will increase each year slightly through tax year 2029. If your MAGI exceeds $500,000 ($250,000 for those married filing separately), your SALT cap gradually reduces, but it will never be less than $10,000.

This is a particularly useful change if you live in a state or city with higher tax rates. Read our full SALT Deduction Guide for more info.

Updates for small business owners

QBI deduction made permanent

The qualified business income (QBI) deduction is now permanent for small business owners and self-employed taxpayers. The deduction stays at 20% of your qualified business income, and the phase-out thresholds for specified service trades or businesses (SSTBs) increase to $197,300 for single filers and $394,600 for married couples filing jointly.

100% bonus depreciation returns

The new tax bill also restores 100% bonus depreciation for qualifying property placed in service beginning Jan. 20, 2025. That means eligible small business owners can deduct the full cost of equipment or improvements upfront rather than spreading it across several years.

2025 Auto Loan Interest Deduction

To report auto loan interest for 2025, lenders must provide a stateme nt to borrowers showing the total interest received, and borrowers ca n deduct eligible interest on their tax returns.

Reporting Requirements for Lenders

1. **Provide Statements**: Lenders must furnish a statement to borrowers indicating the total amount of interest received on qualified passenger vehicle loans for the 2025 calendar year. This statement must be provided by **January 31, 2026**.
2. **IRS Form 1098-VLI**: For borrowers who pay more than $600 in interest, lenders are required to use IRS Form 1098-VLI, Vehicle Loan Interest Statement, to report the interest.
3. **Transitional Relief**: The IRS has provided transitional relief under Notice 2025-57, meaning that lenders will not face penalties for failing to file if they meet the reporting obligations as described.

Deducting Auto Loan Interest for Borrowers

1. **Eligibility for Deduction**: Taxpayers may deduct interest paid on qualified auto loans for tax years 2025 through 2028, provided the vehicle is purchased for personal use and meets specific criteria, such as being a new vehicle with a gross weight rating of less than 14,000 pounds and having undergone final assembly in the U.S..
2. **Maximum Deduction**: Individuals can deduct up to **$10,000** of interest paid on qualified vehicle loans, regardless of whether they itemize deductions. However, this deduction phases out for taxpayers with modified adjusted gross income (MAGI) over $100,000 for single filers or $200,000 for joint filers.

   VIN Requirement: When claiming the deduction, borrowers must include the Vehicle Identification Number (VIN) of the vehicle on their tax return.