

1040 Hot Topics and Issues

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Review and Update on Form 1040 - 2026 Tax Year
October 21, 2026 | 8:00 - 8:55 a.m.

Agenda

- The four OBBBA wage & senior deductions now on Form 1040
- The temporarily expanded SALT cap - and its new phase-down
- Standard deduction, Child Tax Credit, and family credits for 2026
- New car-loan interest deduction and Trump accounts
- Expiring provisions - what lapsed and what sunsets next
- Confusion & error hot spots; new forms and reporting

Four New Deductions - The Big Picture

- Temporary: tax years 2025-2028 (tips, overtime, senior, car-loan interest)
- All claimed on new Schedule I-A (Form 1040), carried to line 13b
- Available whether the client itemizes or takes the standard deduction
- All phase out at higher income - thresholds differ by provision
 - Tips = IRC 224; Overtime = IRC 225; Senior = IRC 151(d)(5); Car-loan = IRC 163

No Tax on Tips (IRC 224)

- **Deduction up to \$25,000 of qualified tips**
- Phase-out: reduced \$100 per \$1,000 of MAGI over \$150,000 (\$300,000 MFJ)
- Years 2025-2028; above-the-line (itemizers and non-itemizers)
- Must be reported: W-2 Box 12 code TP, 1099, or Form 4137
 - **2026: separate reporting is MANDATORY (2025 relief expired)**
 - Occupation code 000 in Box 14b = tips do NOT qualify
- MFJ required if married; valid SSN; excluded from 199A QBI

No Tax on Overtime (IRC 225)

- **Deduction up to \$12,500 (\$25,000 MFJ)**
- **ONLY the premium counts - the 'half' in time-and-a-half (FLSA sec. 7)**
- Phase-out: \$100 per \$1,000 of MAGI over \$150,000 (\$300,000 MFJ)
- Years 2025-2028; above-the-line
- W-2 Box 12 code TT - mandatory for 2026; no code = no deduction
 - No substitute W-2 (Form 4852); employer must issue W-2c to fix

Senior Deduction - Age 65+ (IRC 151(d)(5)(C))

- **\$6,000 per qualifying individual (\$12,000 if both spouses 65+)**
- Phase-out: reduced 6% of MAGI over \$75,000 (\$150,000 MFJ)
 - Fully gone at \$175,000 single / \$250,000 MFJ
- **This is ON TOP OF the age-65 additional standard deduction**
- Years 2025-2028; itemizers and non-itemizers; MFJ required if married
- Valid SSN before the return due date required

SALT Cap - Raised, With a New Phase-Down

- **2025 cap \$40,000; 2026 cap \$40,400 (~1% annual bumps through 2029)**
- **Reverts to \$10,000 after 2029**
- Phase-down: MAGI over \$505,000 (2026) cuts cap by 30% of excess
 - Floor of \$10,000 - high earners keep at least the old cap
- MFS: cap and threshold are halved
- **Trade-or-business property taxes are NOT subject to the cap**

Standard Deduction & Family Credits (2026)

- **Standard deduction: \$32,200 MFJ / \$16,100 single & MFS / \$24,150 HOH**
 - Additional (65 or blind): \$1,650 married / \$2,050 single, per status
- **Child Tax Credit: \$2,200 per child (permanent, indexed)**
 - Refundable up to \$1,700; valid SSN required for child AND taxpayer
- Child & dependent care credit: up to 50% rate (enhanced from 2026)
- Adoption credit: refundable portion up to \$5,120 per child

Car-Loan Interest & Trump Accounts

UP TO \$10,000

Interest on a loan for a new, personal-use vehicle. 2025-2028. Phase-out over \$100k / \$200k MAGI.

WHO QUALIFIES

New vehicle, U.S. final assembly, first-lien, original owner. Report the VIN; lender files Form 1098-V LJ.

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TRUMP ACCOUNTS

New minor accounts. Employer contributions on W-2 Box 12 code TA. Child born 2025-2028.

Expiring Provisions

- **GONE for 2026 returns:**
 - Energy-efficient home improvement (25C) & residential clean energy (25D) - 12/31/25
 - Clean vehicle & used clean vehicle credits (30D, 25E) - 9/30/25
 - ACA premium credit enhancements (36B) - 12/31/25
 - Principal-residence debt discharge exclusion (108(a)(1)(E)) - 12/31/25
- **Sunset later:**
 - Saver's credit (25B) - 12/31/26 (replaced by 6433 match in 2027)
 - **Tips, overtime, senior, car-loan deductions - all sunset 12/31/28**

Confusion & Error Hot Spots

- **Overtime: deduct only the FLSA premium, not the whole overtime check**
- Tips/OT: no W-2 code TP/TT = no deduction for 2026 (get a W-2c)
- Tip occupation code 000 in Box 14b = tips do not qualify
- MFS trap: tips, overtime, senior deductions require a joint return
- SSN traps: CTC, tips, senior deduction all need valid SSNs by due date
- SALT phase-down starts at \$505k MAGI (2026) - don't assume full \$40,400
- Schedule I-A is new - four deductions funnel through it to line 13b

New Forms & Reporting for 2026

- Schedule I-A (Form 1040): computes tips, OT, senior, car-loan -> line 13b
- **W-2 Box 12: TP = cash tips; TT = qualified overtime; TA = Trump account**
- W-2 Box 14b: Treasury Tipped Occupation Code(s)
- Form 1098-VLI: lender reports vehicle-loan interest (\$600+)
- 1099-MISC/NEC: new boxes for tips, occupation codes, OT; \$2,000 threshold
 - 2027 draft W-4 adds tips/OT lines - clients may adjust withholding

Discussion Example -Stacking Deductions on Schedule I-A

- Facts: MFJ, both under 65; MAGI \$180,000; \$8,000 tips, \$30,000 OT premium, \$6,000 car-loan interest
 - Tips (Part II): \$8,000 - under \$25,000 cap; MAGI under \$300k, no phaseout = \$8,000
 - Overtime (Part III): \$30,000 premium, capped at \$25,000 MFJ; no phaseout = \$25,000
 - Car-loan (Part IV): \$6,000 - under \$10,000; MAGI under \$200k, no phaseout = \$6,000
- Schedule I-A line 38 total = \$39,000 Schedule I-A line 38 total = \$39,000 -> Form 1040 line 13b
 - All above-the-line - claimed even though this couple takes the standard deduction

Reading the 2026 W-2 –Where the Numbers Come From

- Box 12 code TP = cash tips reported to the employer (use with Box 14b to figure the tip deduction)
- Box 12 code TT = qualified overtime (the FLSA premium) - full amount even above the cap
- Box 12 code TA = Trump account employer contribution
- Box 14b = Treasury Tipped Occupation Code; code 000 means the tips are NOT qualified
 - No TP/TT code = no deduction for 2026; get a W-2c (no substitute Form 4852)

Key Takeaways

- **Four new above-the-line deductions - all on Schedule I-A, all sunset 2028**
- Overtime = premium only; tips & OT need W-2 codes - relief is over
- SALT cap up to \$40,400 for 2026 but phases down over \$505k - window to 2029
- Home-energy and EV credits are gone; ACA enhancements lapsed
- **Confirm SSNs, filing status, and W-2 coding BEFORE claiming the new breaks**

Questions?

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