

## **IRM PROCEDURAL UPDATE**

**DATE: 01/12/2026**

**NUMBER: ts-21-0126-0070**

**SUBJECT: OBBBA Changes Including Additional Deductions and Casualty and Theft Losses, Update to TAS Procedures, Updated Internal Controls**

**AFFECTED IRM(s)/SUBSECTION(s): 21.6.4**

**CHANGE(s):**

**IRM 21.6.4.1 Updated Primary Stakeholders under Program Scope and Objectives.**

**(1) Purpose:** This IRM provides information on computing tax, inclusions in tax, and determining deductions allowed before the tax is computed. The following subjects are covered in this chapter:

- Itemized Deductions
- Standard Deductions
- Tax Computation
- Capital Gains
- Sale of Home
- Schedule H, Household Employment Taxes
- Farmers and Fishermen
- Tax on Children
- Parents Election to Report Child's Income
- Alternative Minimum Tax
- Self-Employment Income and Tax
- Misclassified Workers
- Accounting Period Changes
- First-Time Homebuyer Credit Recapture
- Additional Medicare Tax
- Net Investment Income Tax
- Shared Responsibility Provision

For other types of taxes not covered in this IRM, see the Instructions for Form 1040 (and Form 1040-SR).

(2) **Audience:** The primary users of this IRM are all IRS employees in Business Operating Divisions (BODs) who are in contact with taxpayers by telephone, correspondence, or in person.

(3) **Policy Owner:** The Director of Accounts Management.

(4) **Program Owner:** Accounts Management, Policy and Procedures IMF (PPI).

(5) **Primary Stakeholders:** The primary stakeholders are organizations Accounts Management collaborates with which includes

- Submission Processing (SP)
- Customer Assistance-Relationship and Education (CARE)
- Small Business/ Self Employed (SB/SE)
- Compliance
- Return Integrity and Verification Operations (RIVO)

(6) **Program Goals:** Program goals for this type of work are included in the FY2025 Program Letter and Operating Guidelines as well as IRM 1.4.16, Accounts Management Guide for Managers.

#### **IRM 21.6.4.1.2 Updated Authority.**

(1) The authorities for this IRM are found in IRM 1.2.1.2, Policy Statements for Organization, Finance and Management Activities, and includes:

- IRS Restructuring and Reform Act (RRA 98) Section 3705(a), enacted on July 22, 1998
- The Protecting Americans from Tax Hikes (PATH) Act, enacted December 18, 2015
- The Disaster Tax Relief and Airport and Airway Extension Act of 2017, enacted on September 29, 2017
- Tax Cuts and Jobs Act (TCJA) (Public Law 115-97), enacted on December 22, 2017
- The Bipartisan Budget Act of 2018 enacted on February 9, 2018
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted on March 27, 2020
- The Consolidated Appropriations Act, 2021, enacted on December 27, 2020

- The American Rescue Plan Act of 2021 enacted on March 11, 2021
- The Inflation Reduction Act of 2022 and CHIPS Act, enacted on August 16, 2022
- One Big Beautiful Bill Act (OBBA), enacted on July 4, 2025
- IRC 965, Treatment of deferred foreign income upon transition to participation exemption system of taxation
- IRC 6402, Authority to Make Credits or Refunds
- IRC 6601, Interest on underpayment, nonpayment, or extensions of time for payment, of tax
- IRC 7508A, Authority to postpone certain deadlines by reason of federally declared disaster, significant fire, or terroristic or military actions
- IRC 7805, Rules and Regulations
- IRC 7801, Authority of Department of the Treasury
- Policy Statement 5-2, Collecting Principles
- Policy Statement 10-2, Privacy First: Protecting Privacy and Safeguarding Confidential Tax Information
- Policy Statement 21-1, Service Commitment to Taxpayers Service Program
- Policy Statement 21-2, The public impact of clarity, consistency, and impartiality in dealing with tax problems must be given high priority
- Policy Statement 21-3, Timeliness and Quality of Taxpayer Correspondence
- Policy Statement 21-4, One-stop service defined
- Policy Statement 21-5, Assistance furnished to taxpayers in the correction of accounts
- Policy Statement 21-6, Monitoring Employee Contacts with Taxpayers

(2) The IRM cites specific pieces of legislation when the information is relevant to the taxpayer correspondence or is useful for the employee's greater understanding of the matter at hand.

(3) Authority granted by the United States Code, Title 26, Internal Revenue Code, Subtitle A, Income Taxes.

#### **IRM 21.6.4.1.3 Added The Taxpayer Services Chief to Roles and Responsibilities.**

- (1) The Taxpayer Services Chief oversees all policy related to this IRM, which is published on an annual basis.
- (2) The Accounts Management Director oversees the guidance provided to employees.
- (3) A tax analyst in Accounts Management, Policy and Procedures, provides the content of this IRM.
- (4) Managers and leads ensure employees follow the guidance provided in this IRM.
- (5) Employees resolve taxpayers' tax issues following procedures in this IRM.
- (6) The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights.

#### **IRM 21.6.4.1.4 Updated Program Effectiveness and Annual Review.**

- (1) **Program Reports:** The program reports provided in this IRM are for identification purposes for the Accounts Management Contact Representatives (CRs) and Tax Examiners (TEs). For reports concerning quality, inventory, aged listing, refer to IRM 1.4.16, Accounts Management Guide for Managers, for Accounts Management managers. You can also view aged listings by accessing Control Data Analysis on the Control-D/Web Access server, which has a login program control.
- (2) **Program Effectiveness:** The program effectiveness of this IRM are measured and controlled through:
  - National Quality Review System (NQRS)
  - Centralized Evaluative Review (CER)
  - Managerial reviews
  - Quarterly reviews conducted by Accounts Management Policy and Procedures IMF (PPI), Individual Adjustments
- (3) **Annual Review:** Review the processes included in this manual annually to ensure accuracy and promote consistent tax administration. This may be included under responsibilities for a manager.

#### **IRM 21.6.4.1.5 Updated Program Controls.**

(1) Federal Managers Financial Integrity Act (FMFIA) of 1982 requires federal agency executives periodically review and annually report on the agency's internal control systems.

(2) The Government Accountability Office (GAO) sets forth the standards for an effective Internal Control in the Federal Government.

(3) **Program Controls:** Quality data and guidelines for measurement are referenced in IRM 21.10.1, Embedded Quality (EQ) for Accounts Management, Campus Compliance, Tax Exempt / Government Entities, Return Integrity and Compliance Services (RICS) and Electronic Products and Services Support. The Embedded Quality Review Program (EQRS) is the system used by Accounts Management for reviewing employees' work quality. The Quality Review process provides a method to monitor, measure, and improve the quality of work. Quality Review data is used to provide quality statistics for the Service's Business Results part of the Balanced Measures, and / or to identify trends, problem areas, training needs, and opportunities for improvement.

(4) Centralized Quality Review System (CQRS) is operated by the Joint Operations Center (JOC) to provide independent quality review services for a number of product lines.

(5) Accounts Management Policy and Procedures IMF (PPI), Individual Adjustments conduct operational quality reviews. Local quality reviews are used for employee development and on-the-job instruction. The Accounts Management function may also request that local quality reviews be performed on processes not subject to the national quality review. Managerial reviews, prepared on EQRS, measure employee performance.

(6) Quality Review data is used by management to provide a basis for measuring and improving program effectiveness by identifying:

- Defect(s) resulting from site or systemic action(s) or inaction(s),
- Driver(s) of customer accuracy,
- Reason(s) for defect occurrence,
- Defect trends,
- Recommendation(s) for corrective action, and
- Training needs.

**IRM 21.6.4.1.6 Updated title to Terms and Acronyms and added additional acronyms.**

(1) For a comprehensive listing of any IRS acronyms, refer to the Acronym Database. Below are acronyms currently not listed in the database.

Acronym	Definition
ACAX	Affordable Care Act Amended Return
ACA7	Affordable Care Act Shared Responsibility Payment
AdMT	Additional Medicare Tax
AMT	Alternative Minimum Tax
CII	Correspondence Imaging Inventory
EIN	Employer Identification Number
FICA	Federal Insurance Contributions Act
FUTA	Federal Unemployment Tax Act
IAT	Integrated Automation Technologies
MAGI	Modified Adjusted Gross Income
OBBA	One Big Beautiful Bill Act
QPVLI	Qualified Passenger Vehicle Loan Interest
RPD	Return Processable Date
TPNC	Taxpayer Notice Code

**IRM 21.6.4.3 Updated TAS paragraph to refer to IRM 21.1.3.18, Taxpayer Advocate Service (TAS) Guidelines.**

(1) Refer to IRM 21.5.1, General Adjustments, IRM 21.5.2, Adjustment Guidelines, and each topic in this section for research requirements.

(2) To help with improving quality and timeliness of the work process, Accounts Management employees who have access, are required to use the Integrated Automation Technologies (IAT) tools, such as xMend and REQ54, when adjusting the tax on accounts. See EXHIBIT 21.2.2-2, Accounts Management Mandated IAT Tools.

(3) The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees

are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights. For more information about the TBOR, see <https://www.irs.gov/taxpayer-bill-of-rights>.

(4) The Taxpayer Advocate Service is an independent organization within the Internal Revenue Service (IRS), led by the National Taxpayer Advocate, that helps taxpayers and protects taxpayer rights. TAS offers free help to taxpayers when a tax problem is causing a financial difficulty, when they've tried and been unable to resolve their issue with the IRS, or when they believe an IRS system, process, or procedure just isn't working as it should. TAS strives to ensure that every taxpayer is treated fairly and knows and understands their rights under the Taxpayer Bill of Rights. TAS has at least one taxpayer advocate office located in every state, the District of Columbia, and Puerto Rico.

(5) See IRM 21.1.3.18 , Taxpayer Advocate Service (TAS) Guidelines, for handling requirements when a taxpayer is experiencing a hardship, an unusual delay in resolving their account issue, or specifically requests TAS assistance AND you cannot resolve the taxpayer's issue within 24 hours (i.e., "same day").

**Caution:** Beginning January 5, 2026 and continuing through May 31, 2026, TAS referrals cannot be submitted through the AMS e-911 process.

**IRM 21.6.4.4.1.5 Added that certain car loan interest may be deductible if it meets the No Tax on Car Loan Interest deduction qualifications.**

(1) The types of deductible interest are:

- Home mortgage interest on up to two qualified residences. For tax years 2018 - 2025 the deduction is limited to interest on up to \$750,000 of indebtedness incurred after December 15, 2017 (\$375,000 if married filing separately) used to buy, build, or substantially improve a qualified residence and secured by that residence.

**Note:** The tax year 2018 - 2025 limitation does not apply if the taxpayer entered into a written binding contract before December 15, 2017, to close on a home before January 1, 2018, and purchased the home before April 1, 2018.

**Note:** Special rules apply to keep these higher limits if the homeowner refinances the debt if such refinancing does not exceed the amount of the refinanced indebtedness and does not exceed the limitation on period of refinancing.

- Points paid to obtain a home mortgage may be fully or partially deductible as home mortgage interest in certain situations. The taxpayer may report points on Form 1098, Mortgage Interest Statement, but all points claimed on Schedule A must meet

the criteria for deductibility. For more information, see Tax Topic 504 - Home Mortgage Points.

- Home refinancing interest and home equity loan interest is limited.
- Qualified mortgage insurance premiums paid under a mortgage insurance contract issued after December 31, 2006, in connection with home acquisition debt that was secured by the qualified residence. Premiums must have been paid or accrued on or before December 31, 2021. No deduction is allowed if AGI exceeds \$109,000 (\$54,500 if married filing separately). The deduction is limited if AGI exceeds \$100,000 (\$50,000 if married filing separately).
- Investment interest—limited to the amount of net investment income. The taxpayer may be required to file Form 4952, Investment Interest Expense Deduction.
- Annual or periodic rental payments on a redeemable ground rent is treated as interest on an indebtedness secured by a mortgage.
- Interest on indebtedness properly allocable to a trade or business.

**Note:** For tax years beginning after December 31, 2017, business interest expense deduction limitations may apply. See the Instructions for Form 8990 for more information.

Refer to Publication 936, Home Mortgage Interest Deduction, Publication 17, Your Federal Income Tax for Individuals, and the Instructions for Form 1040 Schedule A for more information.

(2) The following types of interest and fees are **NOT** deductible:

- Interest paid on home equity loans not used for buying, building, or substantially improving the qualified residence secured by the loan.
- Loan fees.
- Credit investigation fees.
- Interest paid or incurred to acquire or carry tax-exempt securities.
- Interest to purchase or carry certain straddle positions.
- Finance charges on personal credit cards and interest on personal car loans (except those that qualify for the No Tax on Car Loan Interest deduction). See IRM 21.6.4.4.3.3, No Tax on Car Loan Interest.
- Interest paid to IRS.

Reference: IRC 163

**IRM 21.6.4.4.1.7 Updated to extend disaster related casualty loss rules and updated qualified disasters for tax year 2025.**

(1) A casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual, such as a fire, shipwreck or storm, that is not compensated for by insurance or otherwise. Taxpayers **must** file Form 4684, Casualties and Thefts, to support the deduction.

(2) A theft is the unlawful taking and removing of property or money with the intent to deprive the owner of it. The loss is allowable to the extent not compensated for by insurance or otherwise; the taxpayer must file Form 4684, to support the loss.

(3) Taxpayers filing or amending tax returns with additional casualty and theft losses must complete Form 4684 following normal procedures. If not attached, reject as an incomplete claim, see IRM 21.5.1.5.6, Incomplete CII Claims.

(4) Taxpayers generally must deduct a casualty or theft loss in the year it occurred. However, if the loss occurred in a federally declared disaster area and is attributable to a federally declared disaster, taxpayers can elect to deduct the loss for the year immediately preceding the year in which the disaster occurred (example: a 2025 loss can be allowed on a 2024 return).

(5) See Publication 547, Casualties, Disasters, and Thefts; Publication 584, Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property), and Publication 976, Disaster Relief, for more information.

(6) Losses of personal-use property from casualty or theft are known as "personal casualty losses." Recognized gains from any involuntary conversion of personal-use property from casualty or theft are known as "personal casualty gains." Personal casualty losses are generally subject to the following limitations:

- \$100 rule - The taxpayer must reduce each personal casualty loss by this amount after the loss amount is figured.
- 10% rule - After the \$100 rule is applied to each personal casualty loss, the taxpayer must reduce the total net personal casualty loss (personal casualty losses in excess of personal casualty gains) by 10% of the taxpayer's AGI.

(7) For tax years 2018 and later, net personal casualty (including theft) losses are allowed only when caused by a Presidentially declared disaster. Verify the taxpayer had a loss in the disaster area via the IRS Disaster Assistance Program.

**Note:** Casualty and theft losses incurred in a trade or business, or in a transaction entered into for profit may still otherwise be allowed, regardless of whether they are attributable to a federally declared disaster.

(8) For tax years 2016 and later, limitations on personal casualty losses (including theft losses) attributable to a qualified disaster area were changed:

- \$100 rule changed to \$500 rule
- 10% rule does not apply

Qualified individuals are those individuals who suffered a personal casualty or theft loss on or after the first day of the disaster incident period caused by:

- A major disaster declared by the President under section 401 of the Stafford Act in 2016
- Hurricane Harvey or Tropical Storm Harvey
- Hurricane Irma
- Hurricane Maria
- California wildfires disaster in 2017 and January 2018
- A Presidentially declared major disaster that occurred in 2018 and before December 21, 2019, and continued no later than January 19, 2020 (except those attributable to the California wildfires in January 2018 that received prior relief)
- A Presidentially declared major disaster that occurred during the period between January 1, 2020, and September 2, 2025. Also, this disaster must have an incident period that began on or after December 28, 2019, and on or before July 4, 2025, and must have ended no later than August 3, 2025.

**Note:** The definition of a qualified disaster loss does not extend to any major disaster that has been declared only by reason of COVID-19.

**Note:** Verify the taxpayer had a loss in a qualified disaster area via the IRS Disaster Assistance Program.

These taxpayers are also entitled to an increased standard deduction. See IRM 21.6.4.4.2, Standard Deduction. If the total itemized deduction is less than the increased standard deduction, send Letter 474C or Letter 4364C with the following paragraph if changing the taxpayer's refund amount: *We changed your itemized deductions. Disaster relief legislation allows you to increase your standard deduction by the amount of your casualty loss. The standard deduction plus the net disaster loss of \$XXXX was more than your itemized deductions. For more information about the legislation, visit our website at IRS.gov*

**Example:** Total itemized deductions shown on Schedule A is \$20,000. Standard deduction is \$14,600, plus \$15,000 loss reported on Form 4684. The taxpayer is entitled to a standard deduction of \$29,600.

(9) Disaster casualty loss claims for those disasters listed in (8) are centralized in Austin and Philadelphia (International). Reassign the case per the Accounts Management Site Specialization Temporary Holding Numbers.

(10) For more information on federal casualty losses, disaster losses and qualified disaster losses, see Instructions for Form 4684, Casualties and Thefts.

(11) Control disaster loss claims shown in (8) using category code KATX, Priority Code 1, program code 710-82365. For all other disaster areas, control the case using category code DSTR.

(12) Input RC 076, if the adjustment is input to adjust Schedule A, RC 092 if the adjustment is input to adjust the standard deduction.

**IRM 21.6.4.4.2 Added links to IRM 21.6.4.4.1.7 for information on casualty and theft loss.**

(1) The amount of standard deduction depends on the taxpayer's filing status, age, if they're blind and whether or not they can be claimed as a dependent on another return.

**Note:** If the taxpayer, or their spouse if filing jointly, can be claimed as a dependent on someone else's return, see the Instructions for Form 1040 (and Form 1040-SR) for more information.

(2) A taxpayer and/or spouse who is age 65 or older (for tax year 2025, born before January 2, 1961) and/or blind is entitled to a higher standard deduction. The taxpayer checks a box on the Form 1040 to select the reason for the additional standard deduction(s). Refer to the table below to determine the correct standard deduction amount.

Filing Status	Number of Boxes Checked	Standard Deduction 2025	Standard Deduction 2024	Standard Deduction 2023	Standard Deduction 2022	Standard Deduction 2021
Single	0	\$15,750	\$14,600	\$13,850	\$12,950	\$12,550
	1	\$17,750	\$16,550	\$15,700	\$14,700	\$14,250
	2	\$19,750	\$18,500	\$17,550	\$16,450	\$15,950
Married Filing Jointly or Qualifying Widow(er)	0	\$31,500	\$29,200	\$27,700	\$25,900	\$25,100
	1	\$33,100	\$30,750	\$29,200	\$27,300	\$26,450
	2	\$34,700	\$32,300	\$30,700	\$28,700	\$27,800
	3	\$36,300	\$33,850	\$32,200	\$30,100	\$29,150
	4	\$37,900	\$35,400	\$33,700	\$31,500	\$30,500

Married Filing Separately	0	\$15,750	\$14,600	\$13,850	\$12,950	\$12,550
	1	\$17,350	\$16,150	\$15,350	\$14,350	\$13,900
	2	\$18,950	\$17,700	\$16,850	\$15,750	\$15,250
Head of Household	0	\$23,625	\$21,900	\$20,800	\$19,400	\$18,800
	1	\$25,625	\$23,850	\$22,650	\$21,150	\$20,500
	2	\$27,625	\$25,800	\$24,500	\$22,900	\$22,200

(3) Disaster relief legislation allows for an additional standard deduction for those taxpayers impacted by certain disasters. The standard deduction is increased by the net personal casualty loss. See IRM 21.6.4.4.1.7, Casualty and Theft Losses, for information on figuring net personal casualty losses.

To claim the increased standard deduction, taxpayers:

- List the amount from Form 4684, Casualties and Theft, line 15, on the dotted line next to Form 1040, Schedule A, line 16 as "Net Qualified Disaster Loss," and attach Form 4684.
- List their standard deduction amount on the dotted line next to line 16 as "Standard Deduction Claimed With Qualified Disaster Loss."
- Combine the two amounts on line 16 and enter on Form 1040 or 1040-SR, line 12.
- Notate the disaster area at the top of their Form 1040, Form 1040-SR or Form 1040-X.

(4) See IRM 21.6.4.4.1.7, Casualty and Theft Losses, for qualified disaster areas.

Verify the taxpayer had a loss in a qualified disaster area via the IRS Disaster Assistance Program.

**IRM 21.6.4.4.3 Created new subsection for Schedule 1-A, Additional Deductions. All subsequent subsections have been renumbered.**

(1) Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as The One Big Beautiful Bill Act (OBBBA), introduced additional deductions available to qualifying individual taxpayers. They can be claimed whether the taxpayer claims the standard deduction or itemizes deductions on Schedule A, Itemized Deductions.

These additional deductions include:

- No Tax on Tips
- No Tax on Overtime

- No Tax on Car Loan Interest
- Enhanced Senior deduction

To claim any of these additional deductions, the taxpayer must attach Schedule 1-A, Additional Deductions, to their original, amended or duplicate return.

(2) These deductions are available for tax years 2025 - 2028.

(3) Taxpayers use Part I of Schedule 1-A to calculate their modified adjusted gross income (MAGI) prior to determining the deductions they are eligible for.

(4) Taxpayers use Part II of Schedule 1-A to determine if they are eligible to take a deduction for qualified tips paid to them in 2025, included on Form W-2, Form 1099-NEC, Form 1099-MISC, Form 1099-K, or reported directly on Form 4137. See IRM 21.6.4.4.3.1, No Tax on Tips, for additional information.

(5) Taxpayers use Part III of Schedule 1-A to determine if they are eligible to take a deduction for qualified overtime compensation paid to them that is reported on Form W-2, 1099-NEC, or 1099-MISC. See IRM 21.6.4.4.3.2, No Tax on Overtime, for additional information.

(6) Taxpayers use Part IV of Schedule 1-A to determine if they are eligible to take a deduction if they paid or accrued qualified passenger vehicle loan interest (QPVLI) in 2025. See IRM 21.6.4.4.3.3, No Tax on Car Loan Interest, for additional information.

(7) Taxpayers use Part V of Schedule 1-A to determine if they are eligible to take the enhanced deduction for seniors if they are age 65 or older. See IRM 21.6.4.4.3.4, Enhanced Deduction for Seniors, for additional information.

(8) Taxpayers use Part VI of Schedule 1-A to compute their total additional deductions. The total amount on Line 38 is transferred to Form 1040, Line 13b.

(9) Taxpayers who do not complete or attach Schedule 1-A, Additional Deductions, to their return are assigned the following Taxpayer Notice Code (TPNC) / math error during original processing:

TPNC	Description
543	<p>We changed the amount of taxable income on your tax return because either:</p> <ul style="list-style-type: none"> <li>• You didn't complete Schedule 1-A Additional Deductions</li> <li>• You didn't attach Schedule 1-A to your tax return</li> </ul>

Follow procedures in IRM 21.5.4.4, Math Error Procedures Processing, to address the math error condition.

(10) If Schedule 1-A, is missing or incomplete, on an amended or duplicate return, follow procedures in IRM 21.5.1.5.6, Incomplete CII Claims.

(11) See One, Big, Beautiful Bill provisions, for more information on these and other provisions.

#### **IRM 21.6.4.4.3.1 Created new subsection for No Tax on Tips.**

(1) Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as The One Big Beautiful Bill Act (OBBBA), Section 70201, allows taxpayers who qualify to take the **No Tax on Tips** deduction if they meet the following criteria:

- Married taxpayers must file a joint return. Married taxpayers filing a separate return **cannot** take a deduction for qualified tips unless they are not considered as married under section 7703 of the Internal Revenue Code.
- Taxpayers must have a valid for work SSN issued on or before the due date of the return (including extensions). On a joint return, the taxpayer with qualified tips must have a valid for employment SSN. If both spouses received qualified tips, then both must have a valid for employment SSN.

(2) Taxpayers must report their deduction for No Tax on Tips deduction on Schedule 1-A, Additional Deductions, Part II. The total qualified tips deduction is reported on line 13, and is included in total additional deductions on line 38. The total amount on line 38 is transferred to Form 1040, line 13b.

(3) For tax year 2025, Form W-2, Form 1099-NEC, Form 1099-MISC and Form 1099-K, were not required to be updated to separately identify tips that qualify for this deduction. Taxpayers must refer to Instructions for Schedule 1-A, Additional Deductions, to determine the correct amount of qualified tips allowed for the deduction.

(4) The maximum deduction amount **per return** is \$25,000 of qualified tips. The maximum deduction amount is reduced by \$100 per \$1,000 the modified adjusted gross income (MAGI) exceeds the amount shown for the filing statuses listed.

- Married filing jointly - \$300,000
- Single, Head of household or Qualified surviving spouse - \$150,000

**Example:** A Single taxpayer has \$40,000 of qualified tips and a MAGI of \$170,000. The taxpayer is eligible for a \$23,000 deduction (\$25,000 is the maximum deduction for qualified tips, reduced by \$2,000 since their MAGI of \$170,000 exceeds \$150,000 by \$20,000).

**Example:** Both taxpayers on a married filing jointly tax return have qualified tips. Taxpayer A has \$30,000 of qualified tips and taxpayer B has \$10,000 of qualified

tips. They have an MAGI of \$290,000. The taxpayers are eligible for a \$25,000 deduction (\$25,000 is the maximum deduction per return and is not reduced by the MAGI).

(5) The taxpayer must earn the tips while working in an occupation that customarily and regularly received tips on or before December 31, 2024.

Examples of occupations that customarily and regularly receive tips (not all-inclusive):

- Beverage and food service
- Entertainment and events
- Hospitality and guest services
- Home services
- Personal services
- Personal appearance and wellness
- Recreation and instruction
- Transportation and delivery

Refer to the Instructions for Schedule 1-A, Additional Deductions, for more information on qualifying occupations.

(6) Qualified tips are tips that you received from customers or tip sharing while working a qualified occupation described in paragraph 5.

Qualified tips are:

- Cash tips
- Paid voluntarily
- Not negotiated
- Determined by the customer or payor

**Exception:** Qualified tips **do not** include service charges, automatic gratuities, or any other mandatory amounts automatically added to a customer's bill by the vendor or the establishment, unless the customer is expressly provided an option to disregard or modify it without consequence.

Refer to the Instructions for Schedule 1-A, Additional Deductions, No Tax on Tips and Overtime, and Notice 2025-69, for more information on qualifying tips.

(7) Taxpayers who do not qualify or incorrectly calculate their No Tax on Tips deduction, are assigned a Taxpayer Notice Code (TPNC) / math error during original processing:

TPNC	Description
611	We changed the amount claimed for the No Tax on Tips deduction for one of the following reasons: <ul style="list-style-type: none"> <li>• Your filing status is married filing separately.</li> <li>• You used an Individual Taxpayer Identification Number (ITIN).</li> <li>• Your Social Security number (SSN) is missing or the last name provided doesn't match our records.</li> <li>• Your SSN wasn't issued before the tax return due date.</li> </ul>
612	We changed the amount claimed for the No Tax on Tips deduction for one of the following reasons: <ul style="list-style-type: none"> <li>• You and/or your spouse used an Individual Taxpayer Identification Number (ITIN).</li> <li>• You and/or your spouse provided a Social Security number (SSN) or last names that doesn't match our records or the records provided by the Social Security Administration.</li> <li>• Your and/or your spouse's SSN wasn't issued before the tax return due date.</li> </ul>
613	We changed the amount claimed for the No Tax on Tips Deduction because it was calculated incorrectly.

Follow procedures in IRM 21.5.4.4, Math Error Procedures Processing, to address the math error condition.

(8) If Schedule 1-A, is missing or incomplete, on an amended or duplicate return, follow procedures in IRM 21.5.1.5.6, Incomplete CII Claims.

If the claim is complete, refer to the chart below for processing:

Row Number	If	Then
1	The taxpayer claims the No Tax on Tips deduction and their filing status is Married Filing Separately.	Follow the procedures in IRM 21.5.3.4.6, No Consideration and Disallowance of Claims and Amended Returns, to disallow the deduction.
2	The taxpayer claiming the No Tax on Tips deduction does not have an SSN,	Follow the procedures in IRM 21.5.3.4.6, No Consideration and Disallowance of

	or their SSN was not issued before the return due date.	Claims and Amended Returns, to disallow the deduction.
3	The name and SSN of the taxpayer claiming the No Tax on Tips deduction do not match our records.	Follow procedures in IRM 21.5.4.4.1, Setting the Initial Math Error Action.
4	The taxpayer either incorrectly calculated the No Tax on Tips deduction or transferred it incorrectly to Form 1040.	Recompute the correct deduction amount and follow the procedures in IRM 21.5.4.4.1, Setting the Initial Math Error Action.

(9) To adjust the account:

1. Math verify Schedule 1-A, Additional Deductions.
2. Input TC 29X to increase or decrease tax.
3. Use Reason Code (RC) 076, the correct blocking series (BS) and source code (SC).

**IRM 21.6.4.4.3.2 Created new subsection for No Tax on Overtime.**

(1) Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as The One Big Beautiful Bill Act (OBBBA), Section 70202, allows taxpayers who qualify to take the **No Tax on Overtime** deduction if they meet the following criteria:

- Married taxpayers must file a joint return. Married taxpayers filing a separate return **cannot** take a deduction for qualified overtime compensation unless they are not considered as married under section 7703 of the Internal Revenue Code.
- Taxpayers must have a valid for work SSN issued on or before the due date of the return (including extensions). On a joint return, the taxpayer with qualified overtime must have a valid for work SSN. If both spouses received qualified overtime, then both must have a valid for work SSN.

(2) Taxpayers must report their deduction for No Tax on Overtime on Schedule 1-A, Additional Deductions, Part III. The total qualified overtime compensation deduction is reported on line 21, and included in total additional deductions on line 38. The total amount on line 38 is transferred to Form 1040, line 13b.

(3) The maximum deduction amount is \$12,500 (\$25,000 for married filing jointly) of qualified overtime compensation. The maximum deduction amount is reduced by \$100 per \$1,000 the modified adjusted gross income (MAGI) exceeds the amount shown for the filing statuses listed.

- Married filing jointly - \$300,000
- Single, Head of household, or Qualifying surviving spouse - \$150,000

**Example:** A Single taxpayer has \$27,000 of qualified overtime compensation and a MAGI of \$165,000. The taxpayer is eligible for an \$11,000 deduction (\$12,500 is the maximum deduction for a single taxpayer for qualified overtime compensation, reduced by \$1,500 since their MAGI of \$165,000 exceeds \$150,000 by \$15,000).

**Example:** Both taxpayers on a married filing jointly tax return have qualified overtime. Taxpayer A has \$25,000 of qualified overtime and taxpayer B has \$10,000 of qualified overtime. They have a MAGI of \$200,000. The taxpayers are eligible for a \$25,000 deduction (\$25,000 is the maximum deduction on a married filing jointly return and is not reduced by the MAGI).

(4) Qualified overtime compensation means overtime compensation that is paid to the taxpayer as required under Section 7 of the Fair Labor Standards Act of 1938 (FLSA) that is more than the amount of their regular rate of pay. This generally means the “half” portion of “time-and-a-half” compensation that is required by the FLSA. Taxpayers cannot claim additional premium pay for overtime (e.g., double time). Only the “half” portion of their regular wages is used for calculating qualified overtime compensation.

(5) For tax year 2025, Form W-2, Form 1099-NEC, and Form 1099-MISC were not required to be updated to separately identify overtime compensation for this deduction. If taxpayers rely on earnings statements from their employer which shows the combined number of overtime hours and the total amount of all wages (FLSA overtime plus regular wages), the taxpayer must use one-third of the total amount when figuring the qualified overtime compensation.

**Example:** The taxpayers pay stub shows a total overtime amount of \$15,000 (which includes the FLSA overtime premium (one-half) combined with their regular wages for the hours worked over 40 in a work week), the taxpayer may include \$5,000 (one-third) as qualified overtime compensation.

Taxpayers must refer to Instructions for Schedule 1-A, Additional Deductions, to determine the correct amount of qualified overtime compensation allowed for the deduction. Refer to No Tax on Tips and Overtime, and Notice 2025-69, for more information on qualifying overtime.

(6) Taxpayers who do not qualify or incorrectly calculate their deduction for No Tax on Overtime, are assigned a Taxpayer Notice Code (TPNC) / math error during original processing:

TPNC	Description
634	<p>We changed the amount claimed for the No Tax on Overtime deduction for one of the following reasons:</p> <ul style="list-style-type: none"> <li>• Your filing status is married filing separately.</li> <li>• Your Social Security number (SSN), and/or your spouse's SSN if married filing jointly, is missing or doesn't match our records.</li> <li>• You, and/or your spouse if married filing jointly, used an Individual Taxpayer Identification Number (ITIN).</li> <li>• Your SSN, and/or your spouse's SSN if married filing jointly, wasn't issued before the tax return due date.</li> </ul>
635	We changed the amount claimed for the No Tax on Overtime Deduction because it was calculated incorrectly.

Follow procedures in IRM 21.5.4.4, Math Error Procedures Processing, to address the math error condition.

(7) If Schedule 1-A, is missing or incomplete, on an amended or duplicate return, follow procedures in IRM 21.5.1.5.6, Incomplete CII Claims.

If the claim is complete, refer to the chart below for processing:

Row Number	If	Then
1	The taxpayer claims the No Tax on Overtime deduction and their filing status is Married Filing Separately.	Follow the procedures in IRM 21.5.3.4.6, No Consideration and Disallowance of Claims and Amended Returns, to disallow the deduction.
2	The taxpayer claiming the No Tax on Overtime deduction does not have an SSN, or their SSN was not issued before the return due date.	Follow the procedures in IRM 21.5.3.4.6, No Consideration and Disallowance of Claims and Amended Returns, to disallow the deduction.
3	The name and SSN of the taxpayer claiming the No Tax on Overtime deduction do not match our records.	Follow procedures in IRM 21.5.4.4.1, Setting the Initial Math Error Action.
4	The taxpayer either incorrectly calculated the No Tax on Overtime	Recompute the correct deduction amount and follow the procedures in IRM

deduction or transferred it incorrectly to Form 1040.	21.5.4.4.1, Setting the Initial Math Error Action.
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(8) To adjust the account:

1. Math verify Schedule 1-A, Additional Deductions.
2. Input TC 29X to increase or decrease tax.
3. Use Reason Code (RC) 076, the correct blocking series (BS) and source code (SC).

**IRM 21.6.4.4.3.3 Created new subsection for No Tax on Car Loan Interest.**

(1) Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as The One Big Beautiful Bill Act (OBBBA), Section 70203, allows eligible taxpayers who paid or accrued qualified passenger vehicle loan interest (QPVLI) in 2025 to take the **No Tax on Car Loan Interest** deduction for the amount of interest paid.

(2) Taxpayers must report their deduction for No Tax on Car Loan Interest on Schedule 1-A, Additional Deductions, Part IV. The total QPVLI deduction is reported on line 30, and included in total additional deductions on line 38. The total amount on line 38 is transferred to Form 1040, line 13b.

**Caution:** Taxpayers who take a deduction for QPVLI paid or accrued in 2025 elsewhere on their return, cannot take a deduction for that interest on Schedule 1-A.

(3) The maximum deduction amount for QPVLI is \$10,000. The maximum deduction amount is reduced, but not below zero, by \$200 per \$1,000, or portion thereof, the modified adjusted gross income (MAGI) exceeds the amount shown for the filing statuses listed.

- Married filing jointly - \$200,000
- All other filing statuses - \$100,000

**Example:** A Single taxpayer has \$12,000 of QPVLI and a MAGI of \$110,000. The taxpayer is eligible for an \$8,000 deduction (\$10,000 is the maximum amount of QPVLI, reduced by \$2,000 since the MAGI exceeds \$100,000 by \$10,000).

(4) The loan for which the taxpayer paid interest on must meet the following requirements:

- Originated by the taxpayer **after** December 31, 2024.
- Used to purchase an applicable passenger vehicle (APV) (lease payments do not qualify).
- Used to purchase an APV for personal use.

- Is secured by a first lien on the purchased APV.

(5) The APV must meet the following requirements:

- The original use of the vehicle starts with the taxpayer (a used vehicle does not qualify).
- The vehicle is a motor vehicle manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails).
- The vehicle has at least 2 wheels.
- The vehicle is a car, minivan, van, SUV, pickup truck, or motorcycle, and has a gross vehicle weight rating of less than 14,000 pounds.
- The vehicle has undergone final assembly in the United States.

(6) In order to take the deduction for QPVLI, taxpayers must include the VIN of the purchased APV on their Schedule 1-A.

(7) Taxpayers who do not calculate the amount claimed as No Tax on Car Loan Interest deduction correctly are assigned the following Taxpayer Notice Code (TPNC) / math error during original processing:

TPNC	Description
636	We changed the amount claimed as No Tax on Car Loan Interest Deduction because it was calculated incorrectly.

Follow procedures in IRM 21.5.4.4, Math Error Procedures Processing, to address the math error condition.

(8) If Schedule 1-A, is missing or incomplete, on an amended or duplicate return, follow procedures in IRM 21.5.1.5.6, Incomplete CII Claims.

If the taxpayer either incorrectly calculated the No Tax on Car Loan Interest deduction or transferred it incorrectly to Form 1040, recompute the correct deduction amount and follow the procedures in IRM 21.5.4.4.1, Setting the Initial Math Error Action.

(9) To adjust the account:

1. Math verify Schedule 1-A, Additional Deductions.
2. Input TC 29X to increase or decrease tax.
3. Use Reason Code (RC) 076, the correct blocking series (BS) and source code (SC).

**IRM 21.6.4.4.3.4 Created new subsection for Enhanced Deduction for Seniors. All subsequent subsections have been renumbered.**

(1) Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as The One Big Beautiful Bill Act (OBBBA), Section 70103, allows taxpayers who are age 65 or over to receive an **Enhanced Deduction for Seniors**, if they meet the following criteria:

- Married taxpayers must file a joint return. Married taxpayers filing a separate return **cannot** take the Enhanced Deduction for Seniors unless they are not considered as married under section 7703 of the Internal Revenue Code.
- Taxpayers and/or their spouse if filing a joint return, must be born before January 2, 1961.
- Taxpayers must have a valid SSN valid for employment issued on or before the due date of the 2025 return (including extensions). On a joint return, the taxpayer claiming the enhanced senior deduction must have a valid SSN.

(2) Taxpayers must report their deduction for the Enhanced Deduction for Seniors on Schedule 1-A, Additional Deductions, Part V. The total qualified enhanced deduction for seniors is reported on line 37, and included in total additional deductions on line 38. The total amount on line 38 is transferred to Form 1040, line 13b.

(3) The maximum Enhanced Deduction for Seniors amount is \$6,000 per person. If the taxpayers are married filing jointly, both spouses were born before January 2, 1961, and both have a valid SSN, the maximum amount is \$12,000. The maximum deduction amount is reduced if the modified adjusted gross income (MAGI) exceeds the amount shown for the filing statuses listed.

- Married filing jointly - \$150,000
- Single or Head of household - \$75,000

Taxpayers must calculate the reduced deduction on Schedule 1-A, Additional Deductions, Part V.

**Note:** Taxpayers are entitled to the Enhanced Deduction for Seniors even if they claim the additional standard deduction for taxpayers over age 65.

(4) Taxpayers who do not qualify or incorrectly calculate their Enhanced Deduction for Seniors, are assigned a Taxpayer Notice Code (TPNC) / math error during original processing:

TPNC	Description
637	We calculated the Enhanced Deduction for Seniors for you. You qualify for this deduction if you and/or your spouse, if married filing jointly, are age 65 or older. We've made the necessary changes to your return.
638	We didn't allow the Enhanced Deduction for Seniors on your tax return because: <ul style="list-style-type: none"> <li>• Your filing status is married filing separately.</li> <li>• You or your spouse's, Social Security number (SSN) if married filing jointly is missing or doesn't match our records.</li> <li>• You, or your spouse if married filing jointly, used an Individual Taxpayer Identification number (ITIN).</li> <li>• You or your spouse's, SSN, if married filing jointly wasn't issued before the tax return due date.</li> </ul>
639	We changed the amount claimed as the Enhanced Deduction for Seniors because it was calculated incorrectly.

Follow procedures in IRM 21.5.4.4, Math Error Procedures Processing, to address the math error.

(5) If Schedule 1-A, is missing or incomplete, on an amended or duplicate return, follow procedures in IRM 21.5.1.5.6, Incomplete CII Claims.

If the claim is complete, refer to the chart below for processing:

Row Number	If	Then
1	The taxpayer claims the Enhanced Deduction for Seniors and their filing status is Married Filing Separately.	Follow the procedures in IRM 21.5.3.4.6, No Consideration and Disallowance of Claims and Amended Returns, to disallow the deduction.
2	The taxpayer claiming the Enhanced Deduction for Seniors does not have an SSN, or their SSN was not issued before the return due date.	Follow the procedures in IRM 21.5.3.4.6, No Consideration and Disallowance of Claims and Amended Returns, to disallow or partially disallow the deduction.
3	The taxpayer claiming the Enhanced Deduction for Seniors was not born before January 2, 1961.	Follow the procedures in IRM 21.5.3.4.6, No Consideration and Disallowance of

		Claims and Amended Returns, to disallow or partially disallow the deduction.
<b>4</b>	The name and SSN of the taxpayer claiming the Enhanced Deduction for Seniors do not match our records.	Follow procedures in IRM 21.5.4.4.1, Setting the Initial Math Error Action.
<b>5</b>	The taxpayer either incorrectly calculated the Enhanced Deduction for Seniors or transferred it incorrectly to Form 1040.	Recompute the correct deduction amount and follow the procedures in IRM 21.5.4.4.1, Setting the Initial Math Error Action.

(6) To adjust the account:

1. Math verify Schedule 1-A, Additional Deductions.
2. Input TC 29X to increase or decrease tax.
3. Use Reason Code (RC) 076, the correct blocking series (BS) and source code (SC).

**IRM 21.6.4.4.9.5.2 Added link to IRM 21.6.4.4.9.5.3, Credit for Qualified Sick and Family leave Wages.**

(1) The Coronavirus Aid, Relief, and Economic Security (CARES) Act allowed employers to defer the payment of the employer's share of social security taxes. It also allows self-employed individuals to defer their portion of social security taxes. The deferral is applicable to tax year 2020.

(2) Generally, the employer's share of social security is 50% of the amount on the 2020 Schedule H, line 2a. The maximum amount that can be deferred is captured on the 2020 Schedule H, line 8d, which is the amount on line 2a reduced by the amount on line 2b (employer share of qualified sick and family leave wages). For more information on qualified sick and family leave wages, see IRM 21.6.4.4.9.5.3, Credit for Qualified Sick and Family Leave Wages.

(3) The maximum amount that can be deferred for self-employed individuals is the amount reported on line 26 of the 2020 Schedule SE, Self-Employment Tax.

(4) The deferred amount is included in the total tax (TC 150). To reduce the amount of tax owed, the deferred amount is carried to Form 1040, Schedule 3, Additional Credits and Payments, line 12e, and posted with a TC 766 Credit Reference Number (CRN) 280. CRN 280 acts as a false credit.

**Note:** Any overpayment offsets to the deferred amount prior to refunding. Generally, the taxpayer only benefits if filing a balance due return. When deferred and recaptured at the

same time, IDRS shows the deferred amount (CRN 280), a refundable credit such as the Earned Income Tax Credit or the Additional Child Tax Credit, and a reversal of the deferred amount (TC 767 CRN 280).

(5) The deferred amount, which is displayed on CC IMFOLM, had to be paid by the following dates:

- 50% of the deferred amount was due on or before December 31, 2021.
- The remaining deferred amount was due on or before December 31, 2022.

Subsequent payments made, or overpayments arising on the module, trigger CRN 280 reversals (TC 767) for correct amounts and dates. If the taxpayer does not pay the amount owed, the computer reverses the correct amount as of the payment due date and penalties and interest begin to accrue.

(6) Taxpayer notice code 601 applies to deferred tax payments and reads as follows: "We changed the amount claimed on Schedule 3 as Deferral of tax payments from Schedule H or Schedule SE because the amount cannot exceed maximum amounts of deferred tax payments reported on Schedule H and/or Schedule SE".

(7) To adjust the maximum deferred amount for Schedule H filers, input the following:

- IRN 211 - Schedule H, line 8d
- CRN 280 - Form 1040, Schedule 3, line 12e
- RC 050

(8) To adjust the maximum deferred amount for self-employed individuals, input the following:

- IRN 211 - Schedule SE, line 26
- CRN 280- Form 1040, Schedule 3, line 12e
- RC 044

#### **IRM 21.6.4.4.11.2 Reworded first paragraph for clarity and accuracy.**

(1) Information contained in this section applies to all tax years, excluding 2018 and 2019, that the taxpayer did **not** make an election to include their tax on the tax return of a parent.

(2) A taxpayer (child) or a legal representative may request the parents' tax return information to complete Form 8615, Tax for Certain Children Who Have Unearned Income. The IRS supplies the information upon request. The request must be:

- Signed by the taxpayer, or a legal representative. The request must include a valid Power of Attorney or proof of legal guardianship.
- Submitted after the close of the parents' tax year.

(3) The request must contain:

- A statement of intent to comply with IRC 1(g)
- A statement of an attempt to obtain the information from the parent(s)
- An explanation of why the information is not available from the parent(s)
- Proof the child is under age 18 (e.g., birth certificate)
- Evidence of unearned income over \$2,700 for 2025 (\$2,600 for 2024, \$2,500 for 2023, or \$2,300 for 2022) (e.g., copies of current Forms 1099, or prior year return accompanied by an explanation of why Forms 1099 are not available)
- The parents' return information (name, address, TIN, and filing status, if available) with sufficient information to identify the parents' account

(4) Verify all information is present upon receipt of the request.

**IRM 21.6.4.4.11.3 Reworded first paragraph for clarity and accuracy.**

(1) Information contained in this section applies to all tax years, unless for tax years 2018 and 2019, the taxpayer did **not** make an election to include their tax on the tax return of a parent.

(2) If the taxpayer submits an incomplete request, advise the taxpayer:

- The request is not processable.
- The specific information needed to process the request.
- To resubmit the request with the required information.

(3) Reject the request if the requester did not make a sufficient attempt to obtain the parents' information. Refer to the Disclosure website if unable to determine if the requester's attempt was sufficient.

(4) Do not honor the request if the requester does not meet the requirements of IRC 1(g).

- a. Close the case.
- b. Send a Letter 105C and state the following: "We are unable to process your request since you did not establish you need the requested information for filing your return. IRC 1(g) applies if you are under age 18 and you have unearned income of more than" \$2,700 for 2025 (\$2,600 for 2024, \$2,500 for 2023, or \$2,300 for 2022).

**IRM 21.6.4.4.11.4 Reworded first paragraph for clarity and accuracy.**

(1) Information contained in this section applies to all tax years, unless for tax years 2018 and 2019, the taxpayer did **not** make an election to include their tax on the tax return of a parent.

(2) Upon receipt of a processable request, take the following actions:

- a. Tell the requester to file Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.
- b. Initiate research for the parents' return.

If the request	And	Then
Is processable	The return is posted	Request the return.
Is received prior to the return due date or there is a posted extension	The return is NOT posted	<ol style="list-style-type: none"><li>1. Input TC 930.</li><li>2. Notify the requester of the reason for the delay and the approximate date we can supply the information.</li></ol>
Is received after the return due date	The return is NOT posted and there is no posted extension	Notify the requester we cannot satisfy the request and why.

(3) Upon receipt of the parents' return, prepare a response to the taxpayer. The response **must** include the:

- Parents' name, Social Security number, and filing status.
- Parents' taxable income from Form 1040, U.S. Individual Income Tax Return.
- Parents' tax from Form 1040, U.S. Individual Income Tax Return.
- Names of other dependent children claimed on the return who may affect the preparation of the requester's Form 8615, Tax for Certain Children Who Have Unearned Income.

(4) Advise taxpayer if the tax is from the Tax Table, Tax Rate Schedules, or Schedule D.