MARTIN·SMITH

& COMPANY CPAs

January 2026

Dear Client,

Happy New Year! And with the new year comes some significant tax changes brought to you, primarily, by Public Law 119-21 also known as the One Big Beautiful Bill Act ("OBBBA"). The OBBBA was signed into law on July 4, 2025, and addresses many of the tax provisions that were slated to expire at the end of 2025 by either extending them or making the provisions permanent. There are also many new provisions going into effect as early as 2025.

The following are some of the more significant aspects of the OBBBA that most taxpayers will benefit from.

Special deduction for seniors— For tax years 2025 through 2028, individuals who are 65 years and older may be able to claim an additional $6,000 deduction per person. This deduction is in addition to the standard or itemized deductions claimed. Our tax system will automatically pick up this deduction for you. The purpose of this deduction is to help offset taxable Social Security benefits.

No tax on Tips – Effective for tax years 2025 through 2028, employees and self employed individuals may claim a deduction for qualified tips received in one of approximately 70 occupations enumerated by the IRS. These occupations were identified as those that customarily and regularly receive tips. As with some aspects of tax law, and especially new tax laws, it takes the IRS time to work out the details of how the law will be implemented. For 2025, the tip's deduction will be based primarily on the tips reported on the W-2 form. For 2026 this will change and possibly result in a lower deduction. Each of the 70 or so occupations will have a code that will be entered on the tax form as well as the tips received. The maximum deduction for 2025 is $25,000. Tips may also be reported on Form 1099 or other statements furnished to the individual. There are special rules about how self-employed individuals claim this deduction.

No tax on overtime – This new provision is also applicable for years 2025 through 2028. The effect of this deduction is to give most employees with overtime a deduction for the qualified overtime that exceeds the regular pay rate. Typically, an employee receives one and a half times the normal pay rate for overtime pay. The deduction will be equal to the "half" portion of the "time and a half". To simplify, the deduction is one-third of the overtime pay identified by the employer. For example, if an employee has $1,500 of overtime pay, then the deduction will be $500. The maximum annual deduction is $12,500 per taxpayer and is claimed in addition to the standard deduction or itemized deductions claimed. For 2026, the IRS will expect employers to report the exact amount of overtime pay that qualifies for this deduction. For 2025, please provide your last paycheck stub that reports overtime pay or some other document from your employer to take advantage of this deduction.

Deduction for interest paid on car loans – Effective for tax years 2025 through 2028, a deduction is offered for interest paid on loans used to purchase qualified vehicles. This applies to new, U.S.-assembled vehicles purchased after 2024 for personal use. To claim this deduction please provide the bill of sale, the loan document, and a statement from the lender showing the amount of interest paid in 2025. This deduction is claimed in addition to the standard deduction or itemized deductions claimed. The maximum annual deduction allowed is $10,000.

Expansion of HSAs— If you have a health savings account, please contact your plan administrator for additional benefits that may be claimed..

Child tax credits— The credit increases to a maximum of $2,200 per qualifying child. Other provisions set to expire are now permanent.

Our website is updated periodically, so please go to it for current information and more detailed explanations. Refer to the **Tax Alerts** on the right side of the home page and additional subject matters on the **Newsletters** page.

Although the e-filing season opens on January 26, South Carolina (and possibly other states) will need to determine how/if the many IRS changes will also be allowed for state tax purposes. As of January 12, 2026, the SC Legislature has not yet acted on conformity with the OBBBA. After these issues are addressed, our software provider will need to modify their system and then have each form approved by the SC Department of Revenue before we can begin e-filing SC tax returns. Each state has their own process and timing for addressing the OBBBA's effect. This process will take time and delay e-filing returns. We appreciate your patience.

We look forward to serving you once again this year.

Sincerely yours,

MARTIN SMITH & COMPANY CPAs, PA

Member: American Institute of Certified Public Accountants • South Carolina Association of Certified Public Accountants
1212 Haywood Road, Bldg. 100 • Greenville, South Carolina 29615 • (864) 232-1040