

Xspouse 2025-2 – overview of changes

This document provides a description of the changes that have been implemented in Xspouse version 2025-2.

The changes consist almost entirely of implementing relevant legislative changes from the One Big Beautiful Bill Act (OBBBA); ‘relevant legislative changes’ means such changes as affect tax computations within Xspouse.

New deductions

The OBBBA introduces the following new below-the-line deductions that have been incorporated into Xspouse 2025-2:

- Deduction for tips income
- Deduction for overtime income
- Deduction for car loan interest
- Enhanced deduction for seniors
- Educator expenses

Additionally, the OBBBA introduces a new above-the-line deduction for charitable contributions for non-itemizers (*ie, it is available only if taking the Standard Deduction instead of itemizing deductions*)

All of these new deductions are subject to rules and limitations, as described in the following.

Tips income deduction

The deduction for income received from qualified tips is subject to the following limitations:

In general, the term “qualified tips” means cash tips received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024.

- This is a temporary deduction available only from 2025 to 2028 (both inclusive).
- MFS not eligible to claim the deduction.
- Maximum deduction is \$25,000, and is the same for all filing statuses.
- The deduction decreases by \$100 for every \$1,000 (but not portion thereof) that MAGI exceeds the threshold.
- The applicable threshold is \$300,000 for MFJ, and \$150,000 for all other filing statuses.

Overtime income deduction

The deduction for income received from qualified overtime is subject to the following limitations:

In general, the term “qualified overtime” means overtime compensation paid to an individual required under section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate (as used in such section) at which such individual is employed.

- This is a temporary deduction available only from 2025 to 2028 (both inclusive).
- MFS not eligible to claim the deduction.
- Maximum deduction is \$25,000 for MFJ, and \$12,500 for all other filing statuses.
- The deduction decreases by \$100 for every \$1,000 (but not portion thereof) that MAGI exceeds the threshold.
- The applicable threshold is \$300,000 for MFJ, and \$150,000 for all other filing statuses.

Car loan interest deduction

The deduction for qualified passenger vehicle loan interest is subject to the following limitations:

In general, the term “qualified passenger vehicle loan interest” means any interest which is paid or accrued during the taxable year on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle for personal use.

- This is a temporary deduction available only from 2025 to 2028 (both inclusive).
- Maximum deduction is \$10,000 for MFJ, and is the same for all filing statuses.
- The deduction decreases by \$200 for every \$1,000 (or portion thereof) that MAGI exceeds the threshold.
- The applicable threshold is \$200,000 for MFJ, and \$100,000 for all other filing statuses.

Enhanced deduction for seniors

From 2025 until 2028 (inclusive of both years), the OBBBA introduces a temporary increase in the deduction of \$6,000 for each individual who turns 65 before the close of the taxable year. The \$6,000 deduction is reduced (but not below zero) by 6% of so much of the AGI as exceeds \$75,000 (\$150,000 in the case of a joint return).

MFS not eligible to claim the deduction.

Educator expenses

From 2026, any portion of educator expenses above \$300 can be claimed as an itemized deduction. That means that the additional deduction for educator expenses is available only to those who itemize and is not available to those who take the standard deduction. The first \$300 of educator expenses remains as an above-the-line deduction, available to all filers regardless of whether they itemize or take the standard deduction.

Charitable contributions deduction

The deduction for charitable contributions is subject to the following limitations:

- This is a permanent deduction and is available from 2026 onwards.
- This above-the-line deduction can be claimed only if taking the Standard Deduction (*note: for those who itemize their deductions, charitable contributions can be claimed as an itemized deduction that is subject to different rules, as covered later in this document*)
- The deduction is limited to a maximum of \$2,000 for MFJ, and \$1,000 for all other filing statuses.
- Unlike the itemized deductions version of the charitable deduction (which is covered later in this document), this deduction is not subject to the 0.5% floor on the deductibility of charitable contributions, which means that taxpayers can take the new deduction regardless of income or other deductions.

Xspouse 2025-2 user interface

New deductions

As shown in the following screenshot, new data input fields have been added to the detail window for “Adjustments to income”. Use these fields to enter the full amounts of qualified tips received, qualified overtime income, car loan interest (for qualifying vehicles), and educator expenses and Xspouse will compute the amounts of allowable deductions (based on MAGI, year, filing status, thresholds, etc, as outlined earlier).

Note: the full amounts of qualified tips and qualified overtime must be included in the relevant input fields for income (eg, the input field for “Wages+salary”). The inputs in these new fields in the detail window for “Adjustments to income” simply state how much of the total income entered elsewhere in Xspouse was comprised of tips and/or overtime.

Adjustments to income

Annual figures	Father	Mother
<i>Note: any amounts entered into the tips and overtime fields below must also be included in the amounts entered into the appropriate income fields.</i>		
SEP, SIMPLE plans:	0	0
Total qualified tips received:	28760	0
Total qualified overtime income:	32410	0
Total qualified car loan interest:	8600	0
Total educator expenses:	1250	0
Other ATIs	0	0

OK Cancel

The computed amounts of the deductions for tips, overtime, car loan interest, and seniors can be viewed in Xspouse in the tax form display of Form 1040, Schedule 1A (*note that the deductions will be displayed only when the year in Xspouse is toggled to 2025 or 2026, as the deductions come into effect from 2025 until 2028*):

Schedule 1A - Additional Deductions (subject to limits)		
13	Deduction for qualified tips received	25000
21	Deduction for qualified overtime income	12500
30	Deduction for qualified car loan interest	8600
37	Enhanced deduction for seniors	5700
38	Total additional deductions (Add lines 13, 21, 30, and 37)	51800

The itemized portion of educator expenses will be included in the amount that is displayed in Form 1040, Schedule A, “Other itemized deductions” (*note that the educator expenses deduction will be included only when the year in Xspouse is toggled to 2026, as the deduction comes into effect from 2026 onwards*):

15 Casualty losses	0
16 Other itemized deductions	950
17 Deductions. Add lines 4, 7, 10, and 14 through 16	7512

Charitable contributions

As mentioned, charitable contributions can be claimed as an above-the-line deduction if taking the Standard Deduction, or as an itemized deduction if itemizing deductions. In both cases, the total amount of charitable contributions should be entered into the “Charitable contributions” input field on the main screen:

Property tax expense	0
Ded interest expense	0
Charitable contributions	4500
Misc tax deductions	0
Qual bus income ded	0

Xspouse will compute Schedule A (Itemized deductions) and will then determine whether it is better to itemize deductions, or to take the Standard Deduction.

If Xspouse determines that it is better to take the Standard Deduction together with the above-the-line deduction for charitable contributions, then the allowable amount of the deduction will be displayed in the tax form display of Form 1040, Schedule 1 (*note that the deduction will be displayed only when the year is toggled to 2026 as the deduction comes into effect from 2026 onwards*)

Schedule 1 - Part II - Adjustments to Income

15	Deductible part of self-employment tax (Schedule SE)	0
16	Self-employed SEP, SIMPLE, and qualified plans	0
17	Self-employed health insurance	0
19a	Alimony paid (if deductible)	0
	OBBBA deduction for charitable contributions (non-itemizers)	1000
25	Other ATI's	0
26	Adjustments to income. Add lines 11 to 23, OBBBAs, and 25	1000

On the other hand, if Xspouse determines that itemizing deductions is a better outcome than taking the Standard Deduction, then Xspouse will set the “OBBBA deduction for charitable contributions (non-itemizers)” line to zero, since the above-the-line deduction cannot be taken if itemizing deductions.

In either case, the display of Schedule A will show the amount that would be allowed as an itemized deduction if itemizing deductions.

9	Investment interest	0
10	Add lines 8e and 9	0
14	Total gifts to charity	4100
15	Casualty losses	0
16	Other itemized deductions	0

Also note that the amount displayed at line 2 of Schedule A (AGI from Form 1040) may be different to the AGI showing in the display of Form 1040. The reason is that the AGI shown in the display of Form 1040 may have been reduced by the inclusion of an above-the-line deduction for charitable contributions, whereas line 2 of Schedule A must add back in the amount of any such deduction since the deduction cannot be taken as both an above-the-line deduction and as an itemized deduction.

Charitable contributions – limitation if itemizing

For those who elect to itemize deductions, the OBBBA introduces a limitation on the amount of deduction that can be claimed for charitable contributions. From 2026 onwards, itemizers can claim a deduction for only the portion of the aggregate of charitable contributions that exceeds 0.5% of AGI; ie, for 2026, Xspouse computes the itemized deduction for charitable contributions by subtracting 0.5% of AGI from the value that is entered into the “Charitable contributions” input field on the main screen (*note that there is also a pre-existing limitation that the deduction for charitable contributions cannot exceed 60% of AGI*).

Standard Deduction increased

The OBBBA increases the standard deduction from 2025 onward (in subsequent years, Xspouse applies a CPI adjustment to the latest IRS figures). The new 2025 values for income tax and withholding tax in Xspouse are as follows:

Filing Status	Standard Deduction
Married filing jointly	\$31,500
Head of household	\$23,625
Single	\$15,750
Married filing separately	\$15,750

Itemized deductions - limitation

The OBBBA introduces a limitation on itemized deductions. From 2026 onwards, the amount of itemized deductions shall be reduced by 2/37ths of the lesser of:

1. such amount of itemized deductions, or
2. so much of the taxable income (before the itemized deductions have been applied) as exceeds the 37% rate tax bracket.

For taxpayers who have no amount of taxable income above the 37% tax bracket threshold, there is no reduction in itemized deductions because 2/37ths of zero is zero, so zero is the lesser amount.

In Xspouse, the published IRS tax brackets for 2025 are increased by a CPI of 2.7% for 2026. Therefore, the effective 2026 thresholds in Xspouse for the 37% tax bracket are as shown in the following table (*note, the tax brackets can be viewed from the “Taxes>Tax Tables” menu in Xspouse*).

Filing Status	37% tax bracket if income exceeds:
Married filing jointly	\$771,893
Head of household	\$643,261
Single	\$643,261
Married filing separately	\$385,947

In Xspouse, as shown below, two lines have been added to the end of the display of Schedule A to show any OBBBA reduction to itemized deductions:

16 Other itemized deductions	0
17 Deductions. Add lines 4, 7, 10, and 14 through 16	6966
OBBBA - from 2026, 2/37ths reduction if in 37% tax bracket	0
OBBBA - Itemized Deductions	6966

State and local taxes

From 2025 until 2028 (inclusive of both years), the OBBBA introduces new caps and a phaseout for state and local taxes at line 5e of Form 1040, Schedule A (Itemized Deductions). For the year 2025, the cap is \$20,000 if MFS, and \$40,000 for all others; in 2026, the cap is \$20,200 if MFS, and \$40,400 for all others.

Increased child tax credit

The OBBBA permanently increases the Child Tax Credit to \$2,200 beginning in 2025 (and increased by CPI in subsequent years) that is applied at line 5 of Schedule 8812.

QBI

Starting in 2026, the OBBBA increases the phase-in amounts to \$150,000 for MFJ, and \$75,000 for all others. Additionally, starting in 2026, there is a minimum allowable deduction of \$400 for any taxpayer whose qualified business income with respect to all active qualified trades or businesses of the taxpayer for such taxable year is at least \$1,000.

AMT

In Xspouse 2025-2, the AMT phaseout thresholds are implemented as follows:

Filing status	2025	2026
MFJ	\$1,252,700	\$1,000,000
Single filers	\$626,350	\$500,000

Starting in 2026, the multiplier that is used in line 5 of the AMT Exemption Worksheet for line 5 of Form 6251 changes from 25% to 50%.