

Insights

IRS Releases Schedule 1?A Providing Reporting Framework for New “No Tax” Deductions Affecting Employers and Auto Lenders

March 4, 2026

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On March 2, 2026, the Internal Revenue Service released Schedule 1?A (Form 1040) and accompanying updates to the Form 1040 Instructions implementing several new individual tax deductions enacted under the reconciliation legislation commonly referred to as the One, Big, Beautiful Bill Act. Although the deductions—for tips, overtime compensation, and passenger vehicle loan interest, as well as an enhanced deduction for seniors¹—are claimed solely by individual taxpayers, the structure of Schedule 1?A has practical implications for employers and auto lenders, particularly with respect to payroll reporting, data detail, and anticipated employee or borrower inquiries. The new reporting framework applies beginning with the 2025 tax year.

Background and Legislative Context

Schedule 1?A implements provisions enacted as part of the One, Big, Beautiful Bill Act (OBBBA),² which introduced a series of above-the-line deductions intended to provide targeted tax relief to certain workers, retirees, and households. While the statute established the availability and general parameters of the deductions, it left open important administrative questions regarding calculation mechanics, income-based phaseouts, and how the deductions would be integrated into the individual income tax return.

In IR?2026?28, the IRS addressed those issues by publishing Schedule 1?A and expanding the Form 1040 Instructions. As reflected in the form itself, the deductions are calculated almost entirely by reference to amounts reported on Forms W?2, Forms 1099, and vehicle loan records, rather than through subjective taxpayer determinations. Although employers and lenders do not determine eligibility or provide tax advice, the IRS’s implementation necessarily relies on third-party reporting and documentation generated by those entities.

Key Provisions Reflected in Schedule 1?A

Qualified Tips

Part II of Schedule 1?A calculates the deduction for qualified tips by reference to Form W?2, Box 7, Form 4137, and certain Forms 1099. Only tips properly reported as income are eligible. Employers should anticipate employee questions tied to W?2 reporting and ensure consistent tip-reporting practices.

Qualified Overtime Compensation

Part III derives deductible overtime from wages already reported in Form W?2, Box 1, based on overtime required under the Fair Labor Standards Act. No new W?2 reporting boxes are required, but payroll records should clearly distinguish overtime from regular wages.

Qualified Passenger Vehicle Loan Interest

Part IV requires VIN-level reporting of qualified passenger vehicle loan interest and excludes amounts already deducted for business use. Auto lenders may see increased borrower requests for VIN-specific interest information and should evaluate documentation accessibility.

Practical Considerations for Employers and Auto Lenders

- Confirm that tipped wages and overtime compensation are properly classified and reported on Forms W-2.
- Evaluate whether payroll and lending systems can produce box-level wage data and VIN-specific loan interest information.
- Ensure wage statements and loan interest records are accessible to employees and borrowers.
- Prepare consistent, non-advisory responses to anticipated questions.
- Coordinate payroll, HR, lending, and compliance teams to manage inquiries without providing individualized tax advice.

The release of Schedule 1-A provides clarity on how individual taxpayers will claim the new deductions while highlighting indirect operational impacts for employers and auto lenders. Businesses should review reporting practices and data accessibility ahead of the 2025 filing season.

Krieg DeVault's attorneys will continue to monitor IRS guidance. Employers and lenders with questions are encouraged to contact Kendall A. Schnurpel or their regular Krieg DeVault attorney.

¹Schedule 1-A also includes an enhanced deduction for seniors subject to age, income, joint-filing, and Social Security number requirements. As this provision is unlikely to affect employer or lender operations, it will not be addressed in this alert but is referenced for completeness.

²Statutory reference: H.R. 1, 119th Cong. (2025), Pub. L. No. 119-21 (July 4, 2025), An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14 (commonly referred to as the "One, Big, Beautiful Bill Act").

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