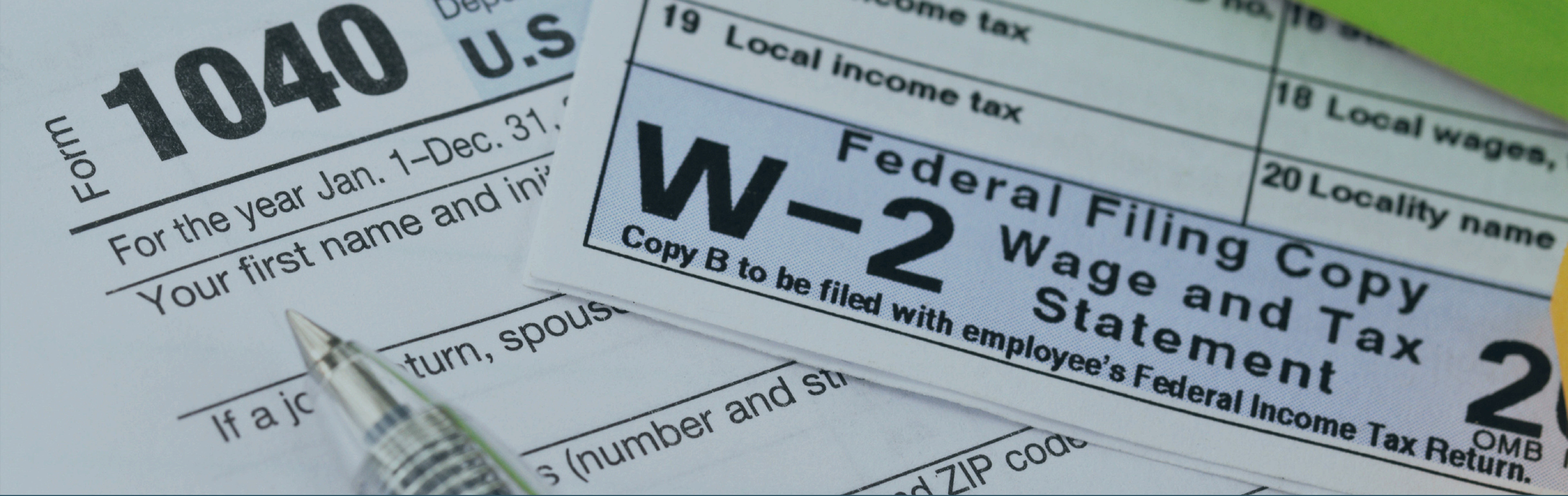


[Webinar] The OBBBA (OB3): How Employers Should Prepare Payroll for Overtime and Tips Reporting in 2026

Thursday, March 12th | 11:00 AM ET

AHOLA
HR SOLUTIONS | PAYROLL

Today’s Presenter

Oscar Mejia

Learning and Development Department Manager

Ahola Payroll & HR Solutions

Family-Owned Payroll & HR Services provider headquartered in Brecksville, Ohio with over 58 years of payroll, tax, and HR experience

We process over 60,000 payrolls annually, transmitting more than $4 billion in ACH funds for thousands of clients across the United States

We offer a full range of Payroll and HR services and software as a Certified Partner of the isolved Network—an award-winning HCM software platform that serves 6 million employees nationwide

AHOLA
HR SOLUTIONS | PAYROLL

Questions?

Please drop your questions in the chat box.

Agenda

- 2025: Overtime and Tips Reporting on Form W-2
- Overview of the OBBBA Overtime and Tips Provisions
- 2026: Overtime Premium Reporting
- 2026: Tips Reporting

AHOLA
HR SOLUTIONS | PAYROLL

2025

2025: Reporting of Estimated Overtime Premium and Estimated Tips on Forms W-2

Reporting was not required for 2025 W-2s. Ahola provided estimated amounts on 2025 Forms W-2 as follows:

Estimated Overtime Premium
- Box 14 (Other): "Est OT Prem"

Estimated Tips
- Box 7: Social Security Tips

> **These amounts are estimates only. They may not reflect the qualified amounts allowable for the tax deductions. Employees must calculate and confirm their amounts before claiming the tax deductions. Employees must read and follow the rules for Form 1040 Schedule 1-A. Employees should consult with a tax preparer prior to claiming the tax deductions.**

AHOLA
HR SOLUTIONS | PAYROLL

Why are there discrepancies on some Estimated Overtime Premium and Tips Amounts on the 2025 Forms W-2?

Ahola provided **ESTIMATED** amounts on 2025 Forms W-2 based on the client's Earnings tables and the manner in which the client reports their payroll.

The estimated amounts listed on the 2025 Forms W-2 are accurate for many employees; however, they may not be accurate for some employees.

Reasons:

- The rules for qualified amounts are complex
- Payroll system programming is still evolving
- Clients may need changes to settings in the payroll system
- Clients may need separate earnings codes for qualified vs. non-qualified tips
- Clients may need to change the way overtime hours are reported in payroll

AHOLA
HR SOLUTIONS | PAYROLL

2025 Resources for Ahola Clients

2025 Reports in isolved (Payroll Report Archive):
- Overtime and Tips Export – Employer
- Overtime and Tips Report – Employee

2025 Documents in isolved (Client Landing Page):
- OBBBA Q&A (Client Guide)
- OBBBA Employee Guide

AHOLA
HR SOLUTIONS | PAYROLL

The OBBBA's Overtime and Tips Provisions

AHOLA
HR SOLUTIONS | PAYROLL

What is the OBBBA (OB3)?

Massive bill signed by President Trump on July 4, 2025.

Established overtime and tips tax deductions for tax years 2025 through 2028.

Overtime Premium Tax Deduction – What Is It?

- The bill created a federal tax deduction for **Qualified Overtime Compensation** for tax years 2025 to 2028
- Taxpayers may claim this deduction when filing their personal federal tax return on Form 1040 Schedule 1-A
- All payroll taxes still apply to overtime pay
- Qualified overtime pay must be reported on Form W-2 in **Box 12 Code TT** (2026-2028)

AHOLA
HR SOLUTIONS | PAYROLL

Overtime Premium Tax Deduction – What Are The Rules?

AHOLA
HR SOLUTIONS | PAYROLL

Deduction Can Only Be Claimed on “Qualified Overtime Compensation”

Qualified overtime compensation is overtime paid to an individual required under section 7 of the Fair Labor Standards Act (FLSA) (29 USC § 207) that exceeds the regular rate at which the individual is employed.

- Deduction is limited to $12,500 ($25,000 for joint filers), with reductions for high gross income.
- A valid Social Security number must be included on the Form 1040 tax return
- Married taxpayers must file a joint return.

Overtime Pay as Required by the Fair Labor Standards Act (FLSA)

For covered, nonexempt employees, the FLSA requires overtime pay at a rate of not less than one and one-half times an employee's regular rate of pay for all hours worked over 40 hours in a workweek.

-U.S. Department of Labor

Tips Tax Deduction – What Is It?

The bill created a new federal tax deduction for **Qualified Tips,** applicable for tax years 2025 through 2028.

Taxpayers may claim this deduction when filing their personal federal tax return on **Form 1040 Schedule 1-A.**

All payroll taxes still apply to tips.

- **Qualified Tips** must be reported on Form W-2 in Box 12, Code TP (for 2026-2028).
- **TTOC codes** must be reported on Form W-2 in Box 14b (for 2026-2028).

Tips Tax Deduction – What Are The Rules?

Deduction Applies to “Qualified Tips”

- Tips must be **cash tips** received by an individual in an occupation that customarily and regularly received tips on or before December 31, 2024.

- Tips must be **voluntary**, either cash or charged, received directly from customers or through tip sharing.

- Taxpayer must report **TTOC Code**

(The full TTOC list can be found on the IRS.gov website.)

- **Maximum annual deduction**: $25,000

AHOLA
HR SOLUTIONS | PAYROLL

Tips Tax Deduction – What Are The Rules? (continued)

- Taxpayer must include a **valid Social Security number** on their tax return.
- If married, the taxpayer must **file jointly** to claim the deduction.
- **Self-employed individuals** in a Specified Service Trade or Business (SSTB) under Section 199A are not eligible.
- Employees whose employer is in an SSTB are **not eligible.**

AHOLA
HR SOLUTIONS | PAYROLL

2026

Overtime Tax Deduction:
New Memo Code for 2026 FLSA OT PREM

“FLSA OT PREM” Memo Code:

- Shows the **Qualified Overtime Compensation** for the employee each payroll.
- Will display on **Payroll Register** reports for client use.
- Will **not** display on the employees’ pay stubs or in **ESS**.
- The total **FLSA OT PREM** amount at the end of the year will appear on **Form W-2 in Box 12 Code TT.**

For 2026, this code is *required* to be reported on the Form W-2 and must be *accurate*.

AHOLA
HR SOLUTIONS | PAYROLL

FLSA OT PREM Calculation Example #1

Nonexempt Employee – Pay Rate: \$20.00/hour

Employee received overtime for hours worked over 40 in the workweek.

Weekly Pay Cycle: 40 regular hours and 2.10 overtime hours

Straight-Time Pay:
40 × \$20.00 = \$800.00
2.10 × \$20.00 = \$42.00
Total straight-time pay = \$842.00

Regular Rate of Pay:
\$842.00 ÷ 42.10 = \$20.00

Overtime Premium:
\$20.00 × 0.50 × 2.10 = \$21.00

Total Overtime:
\$42.00 + \$21.00 = \$63.00

Total Pay:
\$842.00 + \$21.00 = \$863.00

AHOLA
HR SOLUTIONS | PAYROLL

FLSA OT PREM Calculation Example #1

What is the FLSA OT PREM?

The FLSA OT PREM is equal to the premium portion of FLSA-required Overtime pay.

Weekly Pay Cycle: 40 regular hours and 2.10 overtime hours

Employee worked 42.10 hours, so all 2.10 hours OT are required by FLSA.

In this example: Overtime Premium = FLSA OT PREM

Overtime Premium:
$20.00 × 0.50 × 2.10 = $21.00

FLSA OT PREM:
$20.00 × 0.50 × 2.10 = $21.00

AHOLA
HR SOLUTIONS | PAYROLL

FLSA OT PREM Calculation Example #1

Display on Payroll Register report:

REGULAR CHECK		Gross Wage: 863.00	
Earnings	Rate	Hrs/Units	Dollars
Holiday		0.00	0.00
Regular	20.0000	40.00	800.00
Overtime	30.0000	2.10	63.00
FLSA OT PREM*		0.00	21.00
	Totals:	42.10	863.00

AHOLA HR SOLUTIONS | PAYROLL

FLSA OT PREM Calculation Example #2

Nonexempt Employee – Pay Rate: $21.11/hour
Holiday Rate: $19.31/hour

Employee received overtime before 40 hours were worked in the workweek. Only a portion of the overtime hours is eligible for the FLSA OT Premium.

Weekly Pay Cycle:
32 regular hours, 8 holiday hours, and 13 overtime hours
Total hours worked: 45

Straight-Time Pay (Worked Hours):
32 × $21.11 = $675.52
13 × $21.11 = $274.43
Total straight-time pay (worked) = $949.95

Regular Rate of Pay:
$949.95 ÷ 45 = $21.11

Overtime Premium:
$21.11 × 0.50 × 13 = $137.22

Total Overtime:
$274.43 + $137.22 = $411.65

Holiday Pay:
8 × $19.31 = $154.48

Total Pay:
$949.95 + $137.22 + $154.48 = $1,241.65

AHOLA
HR SOLUTIONS | PAYROLL

FLSA OT PREM Calculation Example #2

What is the FLSA OT PREM?

The **FLSA OT PREM** is equal to the **premium portion of FLSA-required overtime pay.**

Weekly Pay Cycle:
32 regular hours, 8 holiday hours, and 13 overtime hours
Total hours worked: 45

Employee worked 45 hours, so only 5 hours OT are required by FLSA.

In this example: Overtime Premium does NOT equal FLSA OT PREM

Overtime Premium:
$21.11 × 0.50 × 13 = $137.22

FLSA OT PREM:
$21.11 x 0.50 x 5 = $52.78

AHOLA
HR SOLUTIONS | PAYROLL

FLSA OT PREM Calculation Example #2

Display on Payroll Register report:

REGULAR CHECK		Gross Wage: 1,241.65	
Earnings	Rate	Hrs/Units	Dollars
Regular	21.1100	32.00	675.52
Holiday	19.3100	8.00	154.48
Overtime	31.6650	13.00	411.65
Match-Union*		0.00	10.00
FLSA OT PREM*		0.00	52.78
Unpaid Meal*		2.50	0.00
	Totals:	53.00	1,241.65

AHOLA
HR SOLUTIONS | PAYROLL

The isolved Formula

FLSA OT PREM is calculated in three steps in isolved:

- **Step 1**: Calculate the **Average Hourly Rate** (Regular Rate of Pay)
- **Step 2**: Calculate the **Overtime Premium Rate** (Half-Time Rate)
- **Step 3**: Calculate the **FLSA OT PREM**

The final **year-to-date (YTD)** amount under FLSA OT PREM will display on the **W-2 in Box 12, Code TT.**

AHOLA
HR SOLUTIONS | PAYROLL

How isolved Determines Overtime Hours for the FLSA OT PREM Based on Payroll Frequency

If Hours Are Entered by Week:

- **Weekly**: Over 40 hours worked in the workweek
- **Biweekly**: Over 40 hours worked in each workweek
- **Semi-Monthly**: Over 40 hours worked in each workweek
- **Monthly**: Over 40 hours worked in each workweek

If Hours Are Entered by Pay Period (Not by Week):

- **Biweekly**: Over 80 hours worked in the pay period
- **Semi-Monthly**: Over 86.67 hours worked in the pay period
- **Monthly**: Over 173.33 hours worked in the pay period

AHOLA
HR SOLUTIONS | PAYROLL

How isolved Determines Overtime Hours for the FLSA OT PREM Based on Payroll Frequency

Note for isolved Time Clients:

Clients using **isolved Time** will automatically have **FLSA OT PREM hours** calculated on hours **over 40 worked in each workweek** for all payroll frequencies (**Weekly, Biweekly, Semi-Monthly, and Monthly**).

AHOLA
HR SOLUTIONS | PAYROLL

Known Issue to Be Resolved Soon:
FLSA OT PREM Calculated on Checks with No Overtime Paid

Coming Soon:

- FLSA OT PREM amounts will no longer be calculated on checks that do not include any overtime pay.
- Previously calculated FLSA OT PREM amounts for this situation will be reversed.

AHOLA
HR SOLUTIONS | PAYROLL

Questions to Consider for Accurate FLSA OT PREM Calculations

If the answer to either of these questions is “Yes”, then changes may be needed to your payroll account.

- Do I have any **salaried exempt employees** who receive **overtime pay**?
  (Salaried exempt employees are not covered by the FLSA overtime rule. Overtime is not required to be paid to these employees under the FLSA.)

- If my payroll frequency is **not weekly**, do I currently enter my payroll hours as a **total for the pay period** (instead of by week)?

AHOLA
HR SOLUTIONS | PAYROLL

Questions to Consider for Accurate Tips Reporting

If the answer to any of these questions is “Yes”, then changes may be needed to your payroll account.

- Do my employees receive any **involuntary tips**, such as required gratuities added to the bill for large parties, or mandatory service fees and charges?
- Do I have any **1099 contractors** who receive tips?
- Do any of my employees or 1099 contractors who receive tips work in an **occupation that is not listed** as an approved TTOC occupation?

Also, begin identifying the TTOC codes for your employees and contractors.

AHOLA
HR SOLUTIONS | PAYROLL

What's Next?

- **Ahola is reviewing all client accounts.**
- **Ahola will contact clients** to obtain answers to the overtime and tips questions.
- **Ahola will notify clients** if any changes are needed to their accounts or payroll submissions.
- **Ahola will process all necessary adjustments** to ensure that the FLSA OT PREM and Qualified Tips amounts are accurate for 2026 through 2028.

AHOLA
HR SOLUTIONS | PAYROLL

More Resources

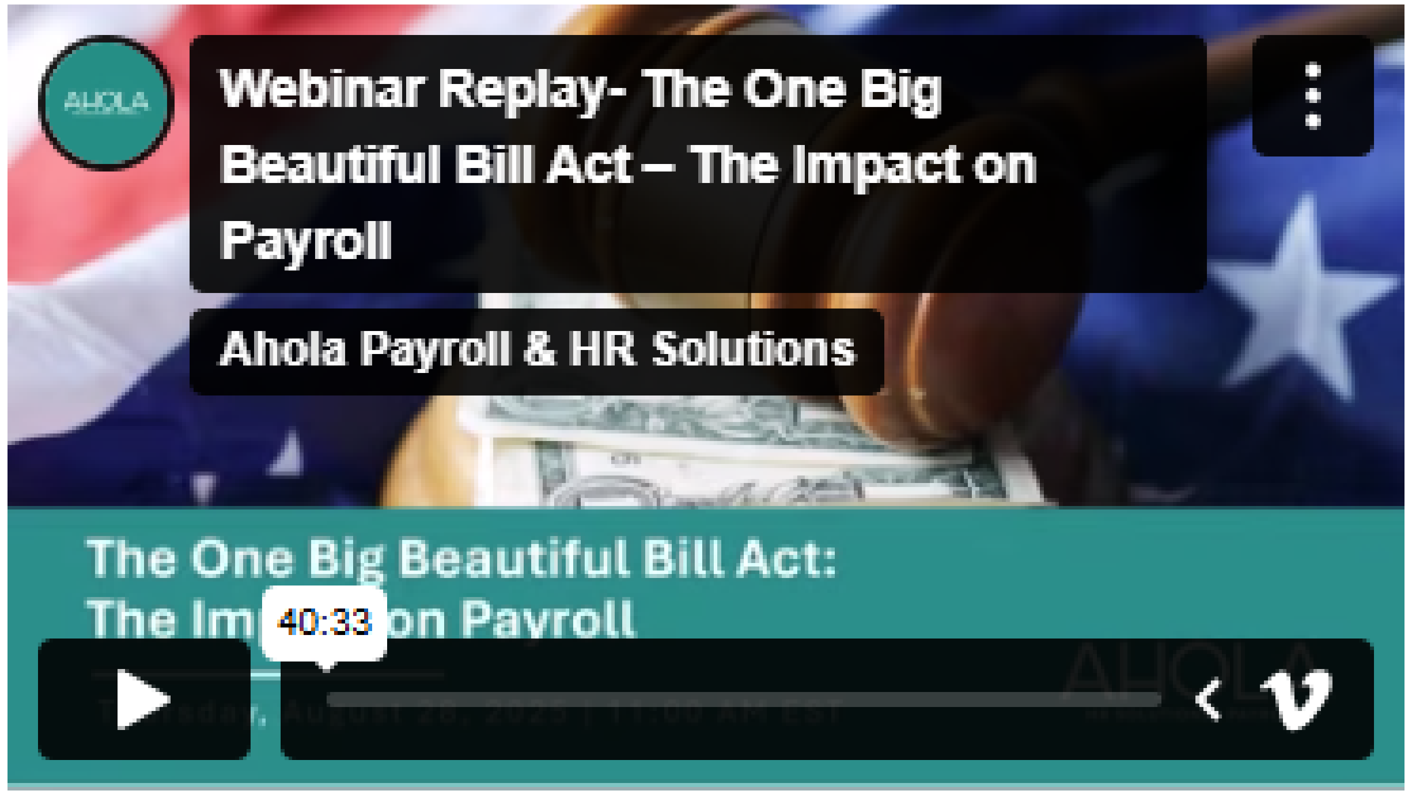
Visit www.ahola.com for access to more free compliance resources including over 300 blog articles, webinar recordings, paycheck calculators and more!

Register for our upcoming webinars! info.ahola.com/webinars

Webinar Replay – The One Big Beautiful Bill Act – The Impact on Payroll

Thursday, August 28, 2025

In case you missed it live, the recording of our webinar is now available to watch on-demand. You'll also find the full slide deck below for easy reference. This timely session breaks down how the OBBB is reshaping payroll for both employers and employees.



Download Slides

AHOLA
HR SOLUTIONS | PAYROLL

Thank You!

Oscar Mejia

Learning and Development Department Manager