The One Big Beautiful Bill Act: The Impact on Payroll

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Today’s Presenter

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Agenda

Overview of OBBBA

In-Depth Discussion of:
- No Tax on Overtime
- No Tax on Tips

Other Key Payroll Provisions

Plus…questions employers should think about to prepare for OBBBA year-end reporting

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The One Big Beautiful Bill Act (OBBBA)

A Brief Overview

Timeline:

7/4/2025: OBBBA was signed into law

Today: We know *what* is included in the bill, but details about *how* many of the provisions will be implemented are still pending instruction.

Coming Months: Watch for directions and guidance from government agencies.

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OBBBA: A Brief Overview

- Signed into law by President Trump on 7/4/2025
- Contains hundreds of provisions and forms the core policies for President Trump's second-term agenda
- **Extends or enhances certain tax provisions from the Tax Cuts and Jobs Act (TCJA) and other laws that were set to expire on 12/31/2025** (including permanently extending the reduced federal individual tax rates)
- **Significantly affects federal taxes, credits, and deductions** (including adding tax deductions for Working Americans, Seniors, and Car Buyers and increasing the Child Tax Credit)
- Contains several items directly affecting employers and payroll reporting

Misconceptions Employees Have About the "No Tax" Provisions

WRONG! *"My net pay should be higher than it was in June because of the No Tax on Tips and No Tax on Overtime laws."*

WRONG! *"I should not have any taxes withheld on my overtime pay or tips."*

WRONG! *"All of my overtime pay is exempt from taxes."*

WRONG! *"All of my tips are exempt from taxes."*

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The One Big Beautiful Bill Act (OBBBA)

No Tax on Overtime

Question:
What does “No Tax on Overtime” really mean?

Answer:

- All payroll taxes still apply to overtime pay.
- The bill created a new federal tax deduction of up to $12,500 (or $25,000 for joint filers) for **qualified overtime pay** for tax years 2025 to 2028.
- Taxpayers will claim this deduction on their personal federal tax returns.

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No Tax on Overtime:

Qualified Overtime Pay Is...

Calculated on 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.

Some exceptions to the 40-hour-per-week standard apply under special circumstances to police officers and firefighters employed by public agencies, as well as to employees of hospitals and nursing homes.

- U.S. Department of Labor

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Reminder:

Overtime Pay Is…
Calculated Each Workweek

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IMPORTANT

NOT Qualified for the Overtime Deduction:

Overtime paid under a **collective bargaining agreement, state law, or company policy** that is not required by the FLSA.

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Example #1 - Nonqualified Overtime Pay

Overtime paid for hours worked over 8 hours in a day that is not required by the FLSA.

	Mon	Tues	Wed	Thurs	Fri	Sat	Sun	Total Hours
Employee Hours Worked	10	10	10	10				40
Employee Hours Called in Sick					8			8
Regular Hours	8	8	8	8				32
Overtime Hours per Company Policy	2	2	2	2				8
Sick Hours					8			8
Overtime Pay Eligible for Overtime Deduction								**Zero**

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Example #2 - Nonqualified Overtime Pay

Overtime paid for hours worked on a weekend or holiday that is not required by the FLSA.

	Mon	Tues	Wed	Thurs	Fri	Sat	Sun	Total Hours
Employee Hours Worked			8	8	8	8	8	40
Regular Hours			8	8	8			24
Overtime Hours per Union Agreement						8	8	16
Overtime Pay Eligible for Overtime Deduction								**Zero**

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No Tax on Overtime:

Qualified Overtime Pay Is…

FLSA Premium Pay Only

- The portion of overtime pay that exceeds the regular rate of pay — the “half” in “time-and-a-half” compensation.

- Only FLSA-required premium pay qualifies.

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Example #1 – Qualified Overtime Pay

An employee earns $22.00 per hour and worked 42 hours in a workweek.

1. **Many employers/employees calculate overtime like this:**
   - $22.00 x 40 = $880.00 Regular Pay
   - $22.00 x 1.5 x 2 = **$66.00 Overtime Pay**
   - $880.00 + $66.00 = $946.00 Total Pay

2. **The FLSA calculates overtime like this:**
   - $22.00 x 42 = $924.00 Straight-Time Pay
   - $924.00 ÷ 42 = $22.00 Regular Rate of Pay
   - $22.00 x 0.5 x 2 = **$22.00 Overtime Premium Pay**
   - $924.00 + $22.00 = $946.00 Total Pay

FLSA Premium pay is $22.00. The amount eligible for the **Overtime Deduction** is **$22.00**, not $66.00.

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Example #2 – Qualified Overtime Pay

An employee earns $20.00 per hour for the day shift and $25.00 per hour for the night shift. The employee worked 20 hours on the day shift and 25 hours on the night shift in a workweek.

The pay calculated under the FLSA is as follows:

- $20.00 x 20 = $400.00 Straight-Time Pay (day shift)
- $25.00 x 25 = $625.00 Straight Time Pay (night shift)
- $400.00 + $625.00 = $1,025.00 Total Straight-Time Pay
- $1,025.00 ÷ 45 = $22.78 Regular Rate of Pay
- $22.78 x 0.5 x 5 = **$56.95 Overtime Premium Pay**
- $1,025.00 + $56.95 = $1,081.95 Total Pay

FLSA Premium pay is $56.95. The amount eligible for the **Overtime Deduction** is **$56.95.**

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No Tax on Overtime:

Qualified Overtime Pay Is...

Required to be reported on Form W-2 (or other specified statement) and furnished to the individual.

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No Tax on Overtime:

Taxpayer Requirements

- The taxpayer must include their Social Security Number on their tax return.
- If married, the taxpayer must file jointly to claim the deduction.

How to Comply with No Tax on Overtime

What We Know For 2025:

- Per the IRS: No changes to **Form W-2** or **Form 941,** and no changes to the federal tax withholding tables.
- **Transitional relief:** Employers are permitted to approximate qualifying overtime pay "by any reasonable method specified by the Secretary of the Treasury".
- Awaiting further guidance about the transitional relief and how to report qualified overtime.

What We Know For 2026 – 2028:

- Qualified overtime will be required to be reported on **Form W-2**.
- Possible changes for **Form W-4** and **Form 941**.
- Possible changes to the federal tax withholding tables.
- Awaiting further guidance.

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The One Big Beautiful Bill Act (OBBBA)

No Tax on Tips

Question:
What does "No Tax on Tips" really mean?

Answer:

- All payroll taxes still apply to tips.
- The bill created a new federal tax deduction of up to $25,000 for **qualified tips,** applicable for tax years 2025 through 2028.
- Taxpayers will claim this deduction on their personal federal tax returns.

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No Tax on Tips:

Qualified Tips Are...

*Cash tips received by an individual in an occupation that customarily and regularly receives tips on or before December 31, 2024.**

The IRS will publish the list of qualified occupations by **October 2, 2025.**

*"Cash" means cash or charged tips.

No Tax on Tips:

Qualified Tips Are...

Voluntary cash or charged tips received from customers or through tip sharing.

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IMPORTANT

NOT Qualified for the Tips Deduction:

- Involuntary tips, such as a required gratuity added to the bill for large parties
- Mandatory service fees and charges
- Tips earned in occupations that are not included on the list published by the IRS

No Tax on Tips:

Qualified Tips Apply To…

Both employees and self-employed individuals (Form 1099-NEC).

Employers must designate tip pay separately for their Form 1099 contractors.

No Tax on Tips:

Qualified Tips Are…

- Required to be reported on **Form W-2** or **Form 1099**, or other specified statement and furnished to the individual.
- Tips can also be reported directly by the individual on **Form 4137** (Social Security and Medicare Tax On Unreported Tip Income).

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No Tax on Tips:

Taxpayer Requirements

- The taxpayer must include their 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.

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How to Comply with No Tax on Tips

What We Know For 2025:

- Per the IRS: No changes to **Form W-2, Forms 1099,** or **Form 941** and no changes to the federal tax withholding tables.
- **Transitional relief:** Employers are permitted to approximate qualifying Tips "by any reasonable method specified by the Secretary of the Treasury".
- Awaiting further guidance about the transitional relief and how to report **qualified tips** and the **occupation of the tip recipient.**

What We Know For 2026 – 2028:

- Qualified tips and the occupation of the tip recipient will be required to be reported on **Form W-2** or **Form 1099**.
- Possible changes for **Form W-4** and **Form 941**.
- Possible changes to the federal tax withholding tables.
- Awaiting further guidance.

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Other Key Payroll Provisions

Trump Accounts

- Custodial savings accounts for qualifying children under age 18 (similar to an IRA)
- Accounts may be opened in July 2026
- Annual contribution limit is $5,000---limit includes up to $2,500 from an employer (not included in employee's taxable wages)
- One time $1,000 deposit from the U.S. government for children born in the U.S. between 1/1/2025 and 12/31/2028
- Employers must set up a plan document and follow plan rules.

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Other Key Payroll Provisions

Forms 1099-NEC and 1099-MISC Threshold Change

- Threshold increases from $600 to $2,000 (to be adjusted for inflation each year)
- Effective for tax year 2026

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Other Key Payroll Provisions

- Paid Family and Medical Leave Credit Enhancements
- Dependent Care FSA Limit Increase
- HSA Expansions
- Increased ICE Enforcement (I-9 audits and worksite inspections)

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OBBBA: Questions for Employers To Consider

- Do any of my employees receive overtime pay that is **not qualified** for the overtime deduction, such as overtime paid under company policy, state law, or a union contract that is not required by the FLSA?
- Do any of my employees receive tips that are not qualified for the tips deduction, such as involuntary tips or mandatory service charges/fees?
- Do any of my 1099 workers receive tips? If so, are those tips reported **separately** from other 1099 earnings for payroll purposes?
- For my employees and 1099 workers who receive tips, what are their **occupations**?

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Thank You

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