

# ONE BIG BEAUTIFUL BILL ACT (OBBBA) EMPLOYER HIGHLIGHTS

## DEDUCTION FOR TIPS

- Up to \$25,000 of qualified tips can be deducted from an Individual's income tax return for 2025 to 2028.
- Limit is \$25,000 regardless of filing status.
- Deduction only impacts federal income tax.
- IRS to issue list of qualified occupations, and tips must be voluntary.
- Automatic gratuity / service charges do not qualify.
- How do I report it? No changes to forms for 2025 tax year - For now, use a "reasonable method."
- Individual return on tips deduction is phased out once gross income reaches \$150,000 single or \$300,000 married filing jointly.

## DEDUCTION FOR OVERTIME

- Up to \$12,500 of overtime can be deducted from income on an individual's income tax return.
- Limit is \$25,000 for married couples filing jointly.
- Wages for hours worked over 40 in a week and premium portion of overtime qualify.
- Hours over 40 due to PTO, holiday, sick leave, etc. and base portion of overtime rate do not qualify.
- Do not assume it matches your state's laws.
- Individual return on overtime deduction is phased out once gross income reaches \$150,000 single or \$300,000 married filing jointly

## UPDATES TO DEPENDENT CARE & CHILD TAX CREDITS

- Dependent care flexible spending account limit increases to \$7,500 in 2026. This will impact employee elections & reporting on W-2 forms.
- Enhanced Child Tax Credit: \$2,200 per child beginning in 2025, with annual inflation adjustments to the credit amount. Income limits apply.
- Enhanced Dependent Care Credit: If income is lower than \$75,000 single and \$150,000 married filing jointly.





## 1099 REPORTING CHANGES

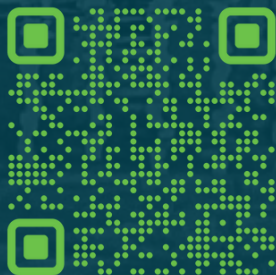
- 1099 NEC/MISC threshold increases from \$600 to \$2,000 in 2026.
- 1099-K threshold reverting to pre-2022 threshold of \$20,000 + 200 transactions.
- No changes for 2025 Tax Year Filings issued in 2026.

## EMPLOYEE RETENTION CREDIT UPDATES

- Retroactive deadline for refund claims – claims filed after 1/31/2024 for Q3 & Q4 of 2021 will not be processed.
- Extended statute of limitations – IRS now has six years, rather than five, to assess ERC claims related to Q3 and Q4 of 2021.
- There are penalties for ERC Promotions.
- Expansion of erroneous refund policy resulting in a 20% penalty of erroneous refund claims will now extend to employment tax refunds, like ERC.

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