

BMSS FAMILY OF COMPANIES PRESENTS:

WHAT THE OBBBA MEANS FOR EMPLOYERS



AUGUST
21ST



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THE ONE BIG BEAUTIFUL BILL ACT (aka HR 1 - the "Reconciliation" Bill)

*WHAT THE OBBBA MEANS FOR
EMPLOYERS*

AUGUST 21, 2025

Introduction

- Deduction for Tips
- Deduction for Overtime
- Updates to Dependent Care and Child Tax Credits
- 1099 Reporting Changes
- Employee Retention Credit Updates
- What's next?

Tip Deduction

- "No Tax on Tips" is a misnomer
- For 2025 through 2028, up to \$25,000 of qualified tips can be deducted from income on an individual's income tax return.
 - Limit is \$25,000 regardless of filing status and is per *return*, not per person.
- This is RETROACTIVE to January 1, 2025
- Deduction as written only impacts Federal income tax

Tip Deduction

- What's qualified?
 - IRS to issue list of qualified occupations
 - Tips must be VOLUNTARY
- What's not qualified?
 - Automatic gratuity/Service Charges
- How do we report it?
 - Per IRS on 8/7/2025, no changes to forms for 2025 tax year, use a "reasonable method"
 - Additional guidance anticipated
- Other limitations and considerations

Individual Returns: Tips

- This deduction is phased out once gross income reaches \$150,000 single or \$300,000 married filing joint. It phases out at the rate of \$100 for every \$1000 of Modified Adjusted Gross Income over the phaseout amount.
- MUST file jointly if married
- Available for both itemizing and non-itemizing taxpayers

Tip Deduction

- Example:
 - Two earner couple, both work in restaurant business, regularly receive tips reported on W-2 - no kids, both under age 65 - non itemizers claiming standard deduction
 - Assuming regular pay of \$90K combined (excluding tips)
 - If one spouse receives \$13K of tips and the other spouse \$17K of tips, tax savings would be \$3,000 under HR 1

Individual Return: Tips

- Example:
 - Two earner couple, one is CEO of private business - overtime exempt. Spouse works part time at a salon and receives tips reported on W-2 - no kids, both under age 65 - non itemizers claiming standard deduction
 - Assuming regular pay of \$319K combined (excluding tips) - they would be in phaseout range
 - If one spouse receives \$8K of tips, tax savings would be \$1,272 under HR 1 (tip deduction limited to \$5300)

Overtime Deduction

- "No Tax on Overtime" is a misnomer
- For 2025 through 2028, 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
- This is RETROACTIVE to January 1, 2025
- Deduction as written only impacts Federal income tax

Overtime Deduction

- What's qualified?
 - Wages for hours worked over 40 in a week
 - Premium portion of Overtime Rate
- What's not qualified?
 - Hours over 40 due to PTO, holiday, sick leave, etc.
 - Base portion of Overtime Rate

Overtime Deduction

- Do not assume it matches your state's Overtime Laws
 - AL - recently ended OT Exemption exempted the full amount, no limit. Otherwise, no state level regulation.
 - CA - calculated based on more than 8 hours in a day or 40 in a work week, with additional double time requirements
 - MS - follows federal for calculations

Overtime Deduction

- Sample
 - Sam makes \$30/hour regular pay, \$45/hour overtime
 - Scenario 1:
 - Works 48 hours, no PTO, no holiday.
 - No state specific OT regulations
 - 40 regular hours \$1,200 ($\$30 \times 40 = \$1,200$)
 - 8 Overtime hours \$360 ($\$30 \times 1.5 \times 8 = \360)
 - Total Gross pay \$1,560 ($\$1,200 + \$360 = \$1,560$)
 - Only the premium (\$15) over the regular rate (\$30) qualifies, so \$120 ($\$15 \times 8 = \120)

Overtime Deduction

- Sample
 - Sam makes \$30/hour regular pay, \$45/hour overtime
 - Scenario 2:
 - Works 40 hours, no PTO, 8 hours holiday.
 - No state specific OT regulations
 - 40 regular hours \$1,200 ($\$30 \times 40 = \$1,200$)
 - 8 Overtime hours \$360 ($\$30 \times 1.5 \times 8 = \360)
 - Total Gross pay \$1,560 ($\$1,200 + \$360 = \$1,560$)
 - None of the pay qualifies

Overtime Deduction

- Sample
 - Sam makes \$30/hour regular pay, \$45/hour overtime
 - Scenario 3:
 - Works (4) 10-hour days, no PTO, no holiday.
 - State mandated OT policy over 8 hours in a day (CA)
 - 32 regular hours \$960 ($\$30 \times 32 = \960)
 - 8 Overtime hours \$360 ($\$30 \times 1.5 \times 8 = \360)
 - Total Gross pay \$1,320 ($\$960 + \$360 = \$1,320$)
 - None of the pay qualifies

Individual Returns: Overtime

- Overtime
 - This deduction is phased out once gross income reaches \$150,000 single or \$300,000 married filing joint. It phases out at the rate of \$100 for every \$1000 of Modified Adjusted Gross Income over the phaseout amount.
 - MUST file jointly if married

Individual Returns: Overtime

- Example:
 - Single mom, works at small business and regularly works overtime - head of household, under age 65 - non itemizer claiming standard deduction
 - Assuming regular pay of \$44K (excluding overtime)
 - If she receives \$12K of overtime, tax savings would be \$480 (before child tax credit)

Individual Returns: Overtime & Tips

- Example:
 - Two earner couple, taxpayer works at manufacturing plant & regularly works overtime. Spouse works in restaurant business, regularly receives tips reported on W-2 - no kids, both under age 65 - non itemizers claiming standard deduction
 - Assuming regular pay of \$94K combined (excluding tips & overtime)
 - If one spouse receives \$24000 of tips and the other spouse has \$12600 of overtime, tax savings would be \$3,599 under HR 1

Individual Returns: Overtime & Tips

- Example:
 - Single taxpayer, working in retail as primary job with occasional overtime, also moonlighting in restaurant business, and receives tips reported on W-2 - no kids, under age 65 - non itemizer claiming standard deduction
 - Assuming regular pay of \$65000 (excluding overtime & tips)
 - If taxpayer receives \$10000 of tips and \$5400 of overtime, tax savings would be \$2,596 under HR 1

Dependent Care

- Dependent care flexible spending account limit increases to \$7,500 in 2026
- This will impact employee elections and reporting on W-2 forms

Other Individual Credits for Employees

- Enhanced Child Tax Credit: \$2,200 per child beginning in 2025, with annual inflation adjustments to the credit amount. Income limits apply, and high-income taxpayers do not receive full credit once their annual income is more than \$200,000 (\$400,000 married filing jointly)
- Enhanced Dependent Care credit if income is lower than \$75,000 Single (\$150,000 Married Filing Jointly)

1099 Threshold

- Looking ahead to changes in 2026
 - 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

- Retroactive Deadline for refund claims
 - Refund claims filed after 1/31/2024 for Q3 and Q4 of 2021 will not be processed
- Extended Statute of Limitations
 - IRS now has six years, rather than 5, to assess ERC claims related to Q3 and Q4 of 2021
- Penalties for ERC Promoters
- Expansion of erroneous refund policy
 - 20% penalty for erroneous refund claims now extends to employment tax refunds, like ERC

What to do Now.....

- Review payroll and accounting processes
- Stay up to date on regulations as they are issued
- Address employee questions as they arise
- Request new 2026 W4 (when available) from *all* employees

And, most importantly, contact BMSS for guidance and be on the lookout for more webinars to come!

Upcoming Webinars

- September 4 – *The OBBBA and Year-End Tax Planning: What Businesses Need to Know*
- October 28 – *The OBBBA and Year-End Tax Planning: What Individuals Need to Know*

Panelist Information

Caryn Stark, CPA, CMPE, CGMA

Member

BMSS Advisors & CPAs

cstark@bmss.com

256.964.9798

Caroline Wasson

Manager

BMSS Advisors & CPAs

cwasson@bmss.com

256.384.7398

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