

One Big Beautiful Bill Act (OBBBA)

No Tax on Overtime

- Qualified Overtime Compensation only. The Premium Portion (the “half” in time-and-a-half pay) of overtime that is required under the federal Fair Labor Standards Act (FLSA) for hours worked over 40 in a workweek.
- Reporting requirements:
 - 2025
 - There are no changes in the returns, withholding tables, or W-2s
 - Employers may use “reasonable method” to approximate overtime and are encouraged to report qualified overtime amounts using Box 14 of the W-2 or a separate statement issued to employees.
 - **If PHB prepares your W-2s**, we will report the qualified overtime in Box 14 of the W-2 as long as overtime is reported to us.
 - IRS issued Notice 2025-62 that provides penalty relief to employers for failing to report qualified overtime compensation to employees.
 - 2026
 - The IRS is working on updating returns, withholding tables, and W-2s.
- This is a federal income tax deduction. It does not exempt overtime pay from Social Security, Medicare (FICA), or applicable state and local taxes.
- Eligible individuals can deduct up to \$12,500 of qualified overtime pay annually for their federal taxable income. For those married filing jointly, the maximum deduction is \$25,000 (provided both spouses earn qualifying overtime).
- The deduction amount is reduced for taxpayers with a modified adjusted gross income over \$150,000 (single filers) or \$300,000 (joint filers).

No Tax on Tips

- Qualified Tips – To be considered a “qualified tip,” a payment must be voluntary from the customer with no restrictions on the amount.
- Service charges and automatic gratuities do not qualify.
- Reporting requirements:
 - 2025
 - There are no changes to returns, withholding tables, or W-2s.
 - Employers are encouraged to report qualified tips
 - **If PHB prepares your W-2s**, please separate out the qualified tips from total tips to ensure proper reporting.
 - IRS issued Notice 2025-62 that provides penalty relief to employers for failing to report qualified tips to employees.
 - 2026
 - The IRS is working on updating returns, withholding tables, and W-2s.
- Employees may deduct up to \$25,000 annually of qualified tips from your gross income.
- Tips must be earned in a occupation that the IRS identified as “customarily and regularly receiving tips” on or before December 31, 2024.
- The deduction begins to phase out for taxpayers with a modified adjusted gross income over \$150,000 (or \$300,000 for those filing jointly).