



NO TAX ON TIPS AND OVERTIME?

The One Big Beautiful Bill Explained for Employers

Presented by Amy L. Sandlin, CPA and Amy J. Adolay

EXPERT PANEL



Amy Sandlin, CPA

Tax Quality

Blue & Co., LLC



Amy Adolay

Partner – Employment Law

Krieg DeVault LLP

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“NO TAX ON...”

Provision	OBBB	Effective Date
“No tax on tips” §224 Deduction for Qualified Tips	Individual deduction for qualified cash tips received, up to \$25,000 Deduction phaseout starting at \$150,000/\$300,000 (MFJ) Fully phased out at \$400,000 / \$550,000 (MFJ)	Jan. 1, 2025 – Dec. 31, 2028
“No tax on overtime” §225 Deduction for Qualified Overtime Compensation	Individual deduction for qualified overtime compensation received, up to \$12,500/\$25,000 (MFJ) Deduction phaseout starting at \$150,000/\$300,000 (MFJ) Fully phased out at \$400,000 / \$550,000 (MFJ)	Jan. 1, 2025 – Dec. 31, 2028



QUALIFIED TIPS

- Paid in cash or charged
- Amount determined solely by payor and voluntarily paid
- No consequences for nonpayment
- Qualified amount and occupation reported on annual form (W-2, 1099)
- Received in an occupation which customarily and regularly received tips on or before December 31, 2024



TREASURY TIPPED OCCUPATIONS



Beverage & Food Service



Entertainment & Events



Home Services



Hospitality & Guest
Services



Personal Services



Personal Appearance &
Wellness



Recreation & Instruction



Transportation & Delivery

Treasury's comprehensive list of "tipped occupations" and examples can be viewed here:

[Tipped occupations list \(proposed Reg. §1.224-1\)](#)



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POLL QUESTION



OVERTIME UNDER THE FLSA

- Exempt (salary) and non-exempt (hourly) employees
- Salary/duties requirements for exempt
- Minimum wage/overtime requirements for non-exempt
- Focus today: non-exempt and the need for an overtime audit



WHY NOT MAKE EVERYONE NON-EXEMPT?

- Significant number of hours worked by exempt employees
- Frequent shifts between exempt and non-exempt risky
- Impact on work practices: clocking in and out, capturing all hours worked
- Work outside of regular working hours
- Paying for travel and training time



MANDATING OVERTIME

- Consider state law
- Collective bargaining agreement
- Impact on workers
- Employees may be the ones pushing for it/wanting it under new tax law



ON CALL PAY – REQUIRED TO PAY?

- Consider state law
- Federal law guidance under FLSA
 - Restrictions on use of time
 - Geographical restrictions
 - Number and frequency of calls
 - Response time limits
 - Perform work, must be paid

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POLL QUESTION

WAGE AND HOUR AUDIT

- Review exempt status
- Audit pay practices
 - Meal breaks
 - Other break time, including lactation
 - Meetings, training, travel
 - Continuing workday
 - Off the clock work
 - Rounding
 - Policy review
 - Remote workers
- Privilege consideration

EMPLOYMENT LAW IMPACTS OF PAID FAMILY & MEDICAL LEAVE TAX CREDIT

- What do our policies say about paid leave?
- What pay do we provide?
 - Short-term disability
 - Parental leave
- What unpaid leave do we provide?
 - FMLA
 - ADA
 - PWFA
 - PTO
 - Sick time
- What does state law require where we have employees?

EMPLOYER CREDIT FOR PAID LEAVE UNDER THE FAMILY AND MEDICAL LEAVE ACT

Prior Law	OBBB	Effective Date
Credit based on % of eligible wages • Credit range: 12.5%-25% • Temporary – credit expires after 2025	Credit based on % of eligible wages <u>or</u> insurance premiums • Credit range: 12.5%-25% • Permanent	Tax years beginning after Dec. 31, 2025

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POLL QUESTION



FORM W-2 REPORTING 2025

22222		a Employee's social security number		OMB No. 1545-0029	
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld	
		5 Medicare wages and tips		6 Medicare tax withheld	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial		Last name		Suff.	
		11 Nonqualified plans		12a	
		13 Statutory employee Retirement plan Third-party sick pay		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form **W-2** Wage and Tax Statement
Copy 1—For State, City, or Local Tax Department

2025

Department of the Treasury—Internal Revenue Service

FORM W-2 REPORTING 2026

TREASURY/IRS AND OMB USE ONLY DRAFT

		a Employee's social security number		OMB No. 1545-0029	
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld	
		5 Medicare wages and tips		6 Medicare tax withheld	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial		Last name		Suff.	
		11 Nonqualified plans		12a	
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐		12b	
		14a Other		12c	
		14b Treasury tipped occupation code		12d	
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
		20 Locality name			

Form **W-2** Wage and Tax Statement

2026

Department of the Treasury—Internal Revenue Service

Copy 2—To Be Filed With Employee's State, City, or Local
Income Tax Return

Step 4(b) — Deductions Worksheet *(Keep for your records.)*

See *How to update withholding to account for tax law changes for 2025* at www.irs.gov/2025DeductionsWorksheet for more information about whether you qualify for the deductions on lines 1a, 1b, 1c, 3a, and 3b.

1	Deductions for qualified tips, overtime compensation, and qualified passenger vehicle loan interest.	
a	Qualified tips. If your total income is less than \$150,000 (\$300,000 if married filing jointly), enter an estimate of your qualified tips (up to \$25,000)	1a \$ _____
b	Overtime compensation. If your total income is less than \$150,000 (\$300,000 if married filing jointly), enter an estimate of your qualified overtime compensation (up to \$12,500 (\$25,000 if married filing jointly) of the "and-a-half" portion of time-and-a-half compensation)	1b \$ _____
c	Qualified passenger vehicle loan interest. If your total income is less than \$100,000 (\$200,000 if married filing jointly), enter an estimate of your qualified passenger vehicle loan interest (up to \$10,000)	1c \$ _____
2	Add lines 1a, 1b, and 1c. Enter the result here	2 \$ _____
3	Seniors age 65 or older. If your total income is less than \$75,000 (\$150,000 if married filing jointly):	
a	Enter \$6,000 if you are age 65 or older before the end of the year	3a \$ _____
b	Enter \$6,000 if your spouse is age 65 or older before the end of the year and has a social security number valid for employment	3b \$ _____
4	Add lines 3a and 3b. Enter the result here	4 \$ _____
5	Enter an estimate of your student loan interest, deductible IRA contributions, educator expenses, alimony paid, and certain other adjustments from Schedule 1 (Form 1040), Part II. See Pub. 505 for more information	5 \$ _____
6	Itemized deductions. Enter an estimate of your 2025 itemized deductions (from Schedule A (Form 1040)). Such deductions may include qualifying:	
a	Medical and dental expenses. Enter expenses in excess of 7.5% (0.075) of your total income	6a \$ _____
b	State and local taxes. If your total income is less than \$500,000 (\$250,000 if married filing separately), enter state and local taxes paid (up to \$40,000 (\$20,000 if married filing separately))	6b \$ _____
c	Home mortgage interest. If your home acquisition debt is less than \$750,000 (\$375,000 if married filing separately), enter your home mortgage interest expense	6c \$ _____
d	Gifts to charities	6d \$ _____
e	Other itemized deductions	6e \$ _____
7	Add lines 6a, 6b, 6c, 6d, and 6e. Enter the result here	7 \$ _____
8	Standard deduction.	
Enter:	• \$31,500 if you're married filing jointly or a qualifying surviving spouse • \$23,625 if you're head of household • \$15,750 if you're single or married filing separately	8 \$ _____
9	If line 7 is greater than line 8, subtract line 8 from line 7 and enter the result here. If line 8 is greater than line 7, see below for the amount to enter here.	
Enter:	• \$1,500 if you're married filing jointly or a qualifying surviving spouse • \$1,125 if you're head of household • \$750 if you're single or married filing separately	9 \$ _____
10	Add lines 2, 4, 5, and 9. Enter the result here and in Step 4(b) of Form W-4	10 \$ _____

USE OF AI IN THE WORKPLACE

- Are we using it?
- How are we using it?
- What's our plan for the future?
- Evaluation of possibility for discrimination
- Collaboration between IT, HR, legal, management
- ChatGPT self-identified risks: bias, lack of transparency, privacy

BEST PRACTICES: AI IN THE WORKPLACE

- Legal landscape
- Vendor pitches/risk for employer
- Compliance audits/responses
- Insurance policies
- Anti-discrimination laws
- Focus on essential abilities and qualifications
- Human oversight

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POLL QUESTION

STRATEGIC RECOMMENDATIONS

To remain compliant and proactive, organizations should take time to review exempt status and conduct a thorough wage and hour audit to ensure proper classification and compensation practices. In addition, policies related to paid family and medical leave should be carefully audited to confirm alignment with current laws and evolving workforce needs. Businesses should evaluate both their current and planned uses of artificial intelligence, considering not only the potential benefits but also the related risks and compliance implications that come with integrating AI into workplace practices.

Now is the time for businesses to assess their preparedness to meet employer reporting obligations. This includes confirming that payroll providers are ready to meet employee reporting requirements, evaluating whether existing or outdated software systems can handle reporting needs, and planning ahead to implement future guidance while remaining responsive to legislative changes.



ADDITIONAL OB3 RESOURCES

- What's In The One Big Beautiful Bill?
Practical Tax Insights from Blue & Co.

[Watch the recording](#)

- IRS Announces Impacts of OB3B to
the 2025 and 2026 Form W-2

[Read the article](#)



Amy Sandlin, CPA

Tax Quality
Blue & Co., LLC

asandlin@blueandco.com



Amy Adolay

Partner – Employment Law
Krieg DeVault LLP

aadolay@kdlegal.com



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QUESTIONS?

