"One Big Beautiful Bill Act" Tax Deductions

On July 4, 2025, President Donald J. Trump signed the "One Big Beautiful Bill Act" into law. The Act contains hundreds of provisions, including new tax deductions for individuals who earn tips and overtime pay.

"No Tax on Tips"

The Act creates a temporary deduction for tipped workers (employees and self-employed individuals) for "qualified tips."

Starting this year through 2028, tipped workers may be able to deduct up to $25,000 in reported qualified tips. The deduction phases out for taxpayers with a modified adjusted gross income over $150,000 ($300,000 for joint filers).

"Qualified tips" subject to the deduction are:

- voluntary cash or charged tips received from a customer or through tip sharing – mandatory service charges automatically assessed to customers do not count; and
- those tips earned in "traditionally and customarily tipped industries" – the IRS is slated to publish a list of occupations that "customarily and regularly" receive tips by October 2, 2025.

Employers will need to report, on Form W-2s and Form 1099s, the qualified tip amounts earned during the year and the occupation of the tip recipient.

"No Tax on Overtime"

The Act also creates a temporary deduction for employees who receive "qualified overtime compensation."

Starting this year through 2028, employees may be able to deduct up to $12,500 ($25,000 for joint filers) in reported qualified overtime compensation. The deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers).

"Qualified overtime compensation" subject to the deduction is the pay which exceeds an employee's regular rate of pay required by the federal Fair Labor Standards Act (FLSA). If a nonexempt employee's hourly rate is $15, for example, and they work one hour of overtime at an overtime hourly rate of $22.50, the employee can seek to deduct the $7.50 received in excess of their regular rate for that hour of overtime. Qualified overtime compensation does not include compensation paid as a result of heightened state law requirements or negotiated collective bargaining agreements.

Employers will need to report, on Form W-2s, qualified overtime compensation received during the year.

In addition to the Form W-2 recordkeeping requirements, employers may wish to review their overtime policies and practices. While clients have shared that certain employees prefer to be classified as exempt (salaried), the Act's highly publicized overtime deduction provides employees with a new incentive to be classified as nonexempt and work overtime. Accordingly, employers should ensure they have in place a policy and practice of overtime being approved in advance and, most notably, review and confirm which employees are eligible for overtime under federal and state law.

While employees may ask about their classification status due to the deduction, misclassifying and/or changing an employee's exemption can have significant consequences. Employers should work closely with counsel to review current classifications and before making any changes to minimize such consequences.

If you have questions related to the topics in this information memo or about the "One Big Beautiful Bill Act" please reach out to Erin M. Callahan, Hilda (Hildy) Marinello Curtin or the attorney at the firm with whom you are regularly in contact.

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