

eBook

CTR Big Compliance Advantage Toolkit

*Helping Employers Navigate the One Big Beautiful Bill Act
(OBBBA)/H.R. 1*



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A person wearing a white lab coat is holding a small, folded piece of paper with a handwritten signature. The background is a soft-focus image of the lab coat and the person's hands.

SECTION 1

Tip Reporting Compliance Guide

Tip reporting is one of the most frequently mishandled areas of payroll, particularly in industries like hospitality, food service, and salons. The One Big Beautiful Bill Act (OBBA) introduces a new employee tax deduction for tips, but employer responsibilities remain strict. Failure to comply can result in steep IRS penalties and wage/hour audits.



What Counts as a Tip?

Tips are discretionary (optional or extra) payments determined by a customer that employees receive from customers.

Tips include:

- Cash tips received directly from customers
- Tips from customers who leave a tip through electronic settlement or payment. This includes a credit card, debit card, gift card or any other electronic payment method.
- The value of noncash tips, such as tickets or other items of value.
- Tip amounts received from other employees paid out through tip pools, tip splitting, or other formal arrangement.



Managers cannot participate in tip pools.

IRS Tip Guidelines

- All cash and non-cash tips received by an employee are income and are subject to Federal (and state/local) income taxes. All cash tips received by an employee in any calendar month are subject to Social Security and Medicare taxes and must be reported to the employer.
- If the total tips received by the employee during a single calendar month by a single employer are less than \$20, then these tips are not required to be reported and taxes are not required to be withheld.
- Cash tips include tips received from customers, charged tips (for example, credit and debit card charges) distributed to the employee by the employee's employer and tips received from other employees under any tip-sharing arrangement.
- Tips also include tips received by both directly and indirectly tipped employees.



Managers cannot participate in tip pools.



General Employer Responsibilities

- **Keep Records:** Employers must retain employee tip reports.
- **Withhold Taxes:** Must withhold income tax, Social Security, and Medicare tax on wages and reported tips.
- **Pay Employer Share:** Must pay the employer share of Social Security and Medicare taxes on total wages and reported tips.
- **File Forms:** Report wages and taxes on IRS forms (e.g., Form W-2, W-3, 941, 940).
- **Deposit Taxes:** Required to deposit withheld and employer-paid taxes per IRS guidelines.

Reporting on Forms

- **Form W-2 Requirements:**
- Tips must be included in Box 1, Box 5, and Box 7. (Allocated tips- Box 8)
- Uncollected Social Security/Medicare tax reported in Box 12.
- **Form 941:** Used to report & deposit withheld taxes & employer shares.
- **Form 940:** Filed annually for FUTA tax (only paid by employer).

Unreported Tips

- **No Immediate Liability:** Employers are not liable for their share of taxes on unreported tips until IRS makes a formal notice and demand.
- **No Withholding Required:** Employers are not responsible for withholding the employee share on unreported tips.

Additional Medicare Tax (Since 2013)

- Threshold: Applies to wages exceeding \$200,000/year.
- Employer Obligation: Must withhold the additional 0.9% but doesn't pay a matching share.
- Tips Included: If tips push wages above the threshold, withholding applies.

Service Charges

- Treated as Wages: Must be taxed like wages (income, Social Security, Medicare).
- Recordkeeping Required: Must track employee info, payment details, and taxes withheld.
- Audit Readiness: Be prepared to show POS records and payroll traceability in IRS examinations.
- Employer Income: Even if distributed, service charges are employer income and not tips.
- Business Deduction: Distributed service charges may be deductible as a business expense.

Tip vs. Service Charge

- Voluntary Tips: Customer-selected tips (e.g., filling out a blank tip line) are tips, not service charges.
- Service Charges: Fixed amounts or auto-gratuities added by the employer are not considered tips.

Large Food or Beverage Establishments

- Form 8027 Required: Annual reporting of tip income and allocated tips.
- Criteria:
 - Located in U.S. or D.C.
 - On-premise food or beverage consumption
 - Tipping is customary
 - More than 10 employees on a typical business day
- One Form Per Location: Must file a separate form for each establishment.

Allocated Tips

- Threshold: If reported tips < 8% of gross receipts (or approved lower rate), employer must allocate tips to employees.
- Form W-2, Box 8: Allocated tips are shown here; no taxes are withheld on them.

FICA Tip Credit

- Eligibility: Employers may claim a credit for FICA taxes paid on employee tips.
- Calculation Required: Must track and calculate properly to claim.

What's New under OBBA

Beginning with the 2026 tax year:

- Employees with a Modified Adjusted Gross Income (MAGI) under \$150,000 may deduct up to \$25,000 of tip income from their federal taxable income
- Joint filers may each deduct up to \$25,000, subject to income limits
- This does not affect payroll tax liability — Social Security and Medicare taxes still apply to the full tip amount sharing arrangement. Tips also include tips received by both directly and indirectly tipped employees.

Best Practices for Employers

- Create a written tip reporting policy
- Use CTR's self-service portal or kiosks for daily electronic reporting
- Train employees on compliance and new deduction rules
- Reconcile reported vs. expected tips based on sales
- File all required IRS forms annually

Real-World Example

- Rosie, a server at a Pittsburgh restaurant, earns \$29,000 in base wages and \$18,500 in reported tips. She is a single filer & her MAGI is below \$150,000, so she qualifies for the full \$18,500 deduction. CTR's POS integration captures her daily tips, applies accurate tax withholding, and generates a year-end summary for her tax return.



SECTION 2

Overtime Pay Breakdown

Overtime violations are among the most common wage and hour compliance risks facing employers. Even small errors in calculation or classification can lead to class action lawsuits and DOL investigations. OBBBA does not change employer obligations under the Fair Labor Standards ACT (FLSA), but it does add a new federal tax deduction for employees receiving overtime pay.

✓ **FLSA Overtime Rules**

- Non-Exempt employees must receive 1.5 times their regular rate of pay for all hours over 40 in a workweek
- The regular rate includes hourly wages, nondiscretionary bonuses, commissions, and shift premiums.

✓ **2026 Federal Salary Thresholds**

- Exempt employee minimum salary: \$35,568 (\$684/week)
(This does not include state-specific thresholds)
- Highly Compensated Employee:
An employee is considered an HCE if their compensation in the prior year (2025) exceeded \$160,000.
- Duties test remains a requirement for exemption



Common Employer Mistakes

- Misclassifying employees as exempt without meeting duties test
- Failing to include all compensation in the regular rate
- Allowing off-the-clock work
- Inaccurate time tracking or automatic break deductions
- Not auditing classification or payroll processes regularly

✓ **OBBBA Overtime Deduction**

- Single-filing employees under \$150,000 can deduct up to \$12,500 in overtime wages
- Joint filers under \$300,000 can deduct up to \$25,000
- Deduction applies only to federal income tax
- Employer OT pay obligations remain unchanged



CTR's Compliance Support

- Built-in overtime calculation tools
- Configurable OT rules by job type or department
- Timekeeping systems with audit logs and exception tracking

Real-World Example

Carlos, a warehouse associate, earns \$21/hour and receives a \$250 bonus each month. He regularly works 45 hours per week. CTR calculates his regular rate, including the bonus, applies correct OT, and Carlos's pay stub clearly reflects his earnings. Because his MAGI is under \$150,000, Malik can deduct his overtime pay from his 2026 federal tax return.

SECTION 3

Employer FAQs

Frequently asked questions by employers
related to compliance under OBBBA

·Q: What payroll changes must we make to comply with the Big Beautiful Bill?

A: You must review employee classifications under the new FLSA thresholds, apply new payroll deduction codes for student loan repayment, expanded FSAs, and paid leave tax credits. CTR configures these changes for you.

·Q: Do we need to update any benefit plan documents?

A: Yes. Any new or modified tax-advantaged benefits must be supported by written plan documents. CTR offers templates or referrals to assist with compliance.

·Q: How does the \$25,000 tip deduction impact our responsibilities?

A: It's a personal income tax deduction for employees. Employers must still withhold and report taxes on all tips and file all necessary forms, including Form 8027.

·Q: What's the Trump Account and do we need to support it?

A: Trump Accounts are tax-advantaged child savings accounts introduced by OBBBA. Employers are not required to administer them but should be prepared to answer employee questions.

·Q: Are we required to offer student loan repayment or expanded FSAs?

A: No, these are optional benefits. However, they offer significant tax advantages. CTR supports full setup and compliance.

·Q: How does the overtime deduction affect our payroll processing?

A: It does not change your obligation to pay overtime. Employees may benefit from the deduction when they file personal taxes. CTR assists with making sure OT is correctly calculated and tracked.

·Q: What if we make a mistake or delay implementing changes?

A: Noncompliance can lead to penalties, fines, disqualification from tax credits, and audits. CTR helps mitigate these risks.

·Q: Are there new federal reporting or disclosure requirements?

A: Yes. Employers must provide annual summaries of tax-advantaged benefits and tip income to employees. CTR automates these reports.

•Q: Will these deductions impact our payroll tax liability?

A: No. The deductions only apply to federal income tax for employees. You must still remit payroll taxes on full earnings.

•Q: What are some considerations I need to think about?

A: - May or may not want to reclassify employees

- Examine/update payroll codes
- Update benefit plan documents if necessary
- Think about employee communication
- Training for HR and managers

SECTION 3

Employee FAQs

Frequently asked questions by employees.
What your team needs to know.

•Q: Why did my paycheck change?

A: You may see changes due to updated taxes, corrected overtime, or pre-tax benefits such as FSAs or student loan assistance.

•Q: Can I really deduct up to \$25,000 in tips or \$12,500 in overtime?

A: Yes, if you are a single filer and your income is under \$150,000, you may deduct these on your federal tax return starting in 2026.

•Q: Do I need to track tips differently?

A: No, but you must report tips daily through the CTR portal, kiosk, or POS-integrated app.

•Q: What is a Trump Account and should I ask my employer about it?

A: It's a government-sponsored savings account for children. It's not employer-managed. Contact your bank or advisor.

•Q: Will I get help paying student loans through work?

A: Check with HR. If your employer participates, you may receive up to \$5,250 in tax-free assistance per year. (Ask about a possible 401(k) match.)

•Q: Can I change my FSA contributions for 2026?

A: Yes. The contribution limit for dependent care FSAs is now \$7,500 for joint filers. Update during open enrollment.

•Q: What if I think I'm owed more overtime than I received?

A: Contact your manager or HR. You can review your pay history and hours worked via the CTR employee portal.

•Q: Do I need to do anything to claim my tip or OT deduction?

A: Yes. Claim it on your federal tax return starting in 2026. CTR provides summaries to help with filing.

·Q: Where can I find help if I have questions about pay or benefits?

A: Start with HR or use the CTR self-service portal. You can submit support requests directly from the platform.

·Q: Will any of these changes affect my Social Security, Medicare, or state taxes?

A: No. The new deductions only reduce federal income tax liability. Payroll taxes still apply to full earnings.

Next Steps

- Reclassify employees if necessary
- Make sure payroll deduction codes are updated
- Implement tip reporting tools
- Prepare employee communication materials
- Train supervisors and applicable staff

Don't forget to sign up for CTR's Compliance Webinars & Events



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