



The Big Beautiful Bill – Tips & OT

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Welcome & Housekeeping

- This webinar is being recorded-we will share links to the slide deck, recording as well as the SHRM code.
- We will answer your questions throughout the webinar but if we don't get to a question, we will be sure to follow up with you!

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And much, much more!!

Date: August 12, 2025 | Time: 3:00 PM ET



Here we go again!

We covered the proposed Big Beautiful Bill (BBB) in our June webinar – now it is finalized – it's a LAW!

We will cover the changes from the Bill to the Law; strategies and resources for changes, go through some real-life examples and discuss how this impacts employers and employees.



The Big Beautiful Bill (BBB) – Now a Law

- 1.) Not here to debate the merit of the law.
- 2.) Not here to discuss the full content of the law.
- 3.) Here to talk about two key points: No federal income tax on OT or tips – and apply them to real life examples.



What taxes are we talking about:

- First, keep in mind that this only addresses Federal income tax.
- Social Security and Medicare taxes still apply.
- State/local taxes still apply. This is KEY!!!

What tax years does this apply to?

- This is a short-term provision.
- It applies only to tax years 2025-2028. It has a sunset.
- KEY STRATEGY: Many employers are considering classification changes because of the BBB. If you are considering any of changes to employee classification, think long-term. What will you do in 2028? Change the employees back? Leave them “as is?” Gamble that the next administration will extend these deductions? Other (examples include retiring and moving to Hawaii...)?

Who is eligible?

Must have SS # - and spouse must have one too.

You may recall from the June webinar that the “caps” and “phase outs” on the no taxes on overtime and tips had different amounts depending on whether you read the House or Senate version of the Bill.

And the winner is (drum roll please)... More or less the Senate version.

Cap/Phase Out for both For Tips and Overtime:

The deduction starts to phase out for single filers earning \$150,000 and couples (joint filers) earning over \$300,000. Reduces deduction by \$100 for every \$1,000 of income over those thresholds. For a single filer, the deduction is completely phased out at \$250,000 income.

For tips:

Deduction limit: \$25,000

Types of Tips: Cash, paid by card, or through a tip sharing arrangements. NOTE: To count for purposes of a deduction, the tips must be “voluntary” – not mandatory – such as obligatory service charges.

What Occupations: Workers in the food service and beauty industries, and other industries where employees are “customarily and regularly” tipped. The estimate is that 4 million employees – about 2.5% of the workforce – are employed in typically tipped industries. The provision that the employee must be in a “customarily and regularly tipped” industry makes reshuffling employees difficult. Can apply to employees, self-employed or 1099 workers.

NOTE: The full list of eligible jobs will be specified by the U.S. Treasury Department and IRS at a later date.... This is a problem for 2025 and future planning if you are considering changes.

For Overtime:

Deduction limit: \$12,500 per year (\$25,000 for joint filers)

What type of overtime: ONLY the premium!!!!!! The “extra” 50%. Example: Regular Rate is \$10. Overtime rate is \$15 (at time and a half) – only the \$5 can be deducted.

Who is eligible: Anyone eligible to receive overtime under the Federal Fair Labor Standards Act (FLSA) – currently, approximately 97.7 million workers. HOWEVER, of that number only 8% of hourly and 4% of salaried employees (yes, you can have a salaried nonexempt employee) regularly worked overtime.

NOTE: Some states have their own overtime rules, which require the payment of overtime at double time or after less than 40 hours. This deduction does NOT apply to these state mandated overtime payments.

NOTE: The Law says that for 2025 employers may approximate an amount designated as the overtime premium by “any reasonable method specified by the IRS.” We do not have this guidance yet.

Action Items:

- Employers still responsible for reporting and withholding.
- Only tips/OT that are reported are eligible for this tax break.
 - Let's break this down a second.
 - What if tips haven't been reported by the employee (even if they should have been)?
 - If employees report now, they escape Federal income tax, but will now have state/local/Medicare/SS tax.
 - Will employees see this new rule as a benefit or a problem where they will actually lose money?
 - Does this open the door for audit issues?
 - Consider employee reaction on this issue.
- **EMPLOYERS REQUIRED TO REPORT/IDENTIFY THE OT/TIPS SEPARATELY FROM OTHER INCOME ON THE W-2. IRS is supposed to be updating forms.**

Does this help anyone?

- Approximately 25% - 40% of tipped employees don't earn enough to pay Federal income tax in the first place.
 - Standard deduction wipes out federal tax liability on the first \$15,000 of income for single workers and the first \$30,000 for married couples.
 - After deductions, other tax credits (such as the Child Tax Credit) eliminate tax liability further up the income distribution, particularly for those with children. As a result, the overtime deduction is likely to primarily benefit a subset of middle-income workers.
- This does not help the very lowest wage earners; doesn't help (as much) those with other deductions.
- Depending on source, for eligible workers, this will likely save them between \$1,400 and 2,000/year.

Let's look at OT:

- More of a potential reshuffling option here.
- Changing from exempt to nonexempt with OT?
- Cautions with timekeeping and paying for all time actually worked.

Horizontal equity issue – workers earning the same are treated differently depending on classification and how they are paid.

Keep in mind employee morale, recruitment, competition for employees, etc.

If you are considering reshuffling/reclassifying employees,
talk with Compass....



Let's make this real:

Meredith Mason (known on Discord as the “Mass Effect Commander Shepard GameMaster”) is a first level supervisor and serves as the Assistant Manager at the Global Gaming Store. She loves the PS5!!!

Back in the 1980s – the last time the company reviewed its handbook – the employer determined, without the benefit of legal counsel, an HR Consultant or even the owner’s dog (which was a pretty smart Collie), that all Assistant Managers were exempt under the FLSA. This worked out really well for the company – especially during the holidays when Assistant Managers routinely worked 80-hour weeks.

Meredith hears about the BBB. Then she hears about her subordinate Teenage Tim. Tim is a nonexempt hourly front-line employee. She’s never cared for him that much – he’s an Xbox fan.... During the holidays, he works beaucoup overtime. He’s saving for his new dirt bike. Meredith does the math (no, not the new math from her kid’s elementary school – nobody can do that! – good old-fashioned math) and discovers to her horror that Teenage Tim will out-earn her during the holidays because of the BBB and the OT exemption.

What’s next?

Nancy Nurse, she's a compassionate hardworking caregiver at a hospital. She gets a lot of overtime. There's a nurse shortage. She picks up every shift she can. She's a single mom saving for her son, Teenage Tim's future college career (assuming she can convince him not to join the dirt bike circuit...) She's so excited about the BBB. She's done the math and can't believe her luck. She tells her Nursing Floor Supervisor Sally how excited she is and Sally starts crunching numbers. To Sally's horror, Nancy will earn a lot of loot while Sally who is exempt will not. Sally and Nancy do the same work. In fact, Sally, as a supervisor has more on her plate. This does NOT seem fair!

Valet Vince, along with Delivery Driver Dan, Hotel Maid Service Sam, Uber/Lyft Driver Daisy, and Personal Shopper Pam, have all read about the “no tax on tips.”

Okay, they only read the headline of the news article that flashed onto Insta while they were scrolling – but they know all they need to know! They don’t need to drill down (they could miss an important Reel if they take the time to read the full news article – it’s a 2 minute read!) Boy, oh boy, they can’t wait for this perk. Boy, oh boy, does HR have a headache?

Other ways employees are impacted:

Child tax credit: \$2,200 (from \$2,000) with annual inflation increases. Single filers must earn less than \$200,000 and joint filers less than \$400,000. (Would have reverted to \$1,000 without the BBB.)

State and Local Tax (SALT) deduction. From 2025 through 2029, the cap will temporarily rise to \$40,000 for households earning under \$500,000. After that period, the cap reverts to the original \$10,000 limit. The mortgage interest deduction, limited to mortgages of \$750,000 or less, is also made permanent.

Not all of this is in the BBB – but beware of the changes to student loans (garnishments, limits in borrowing, etc.)

Your Questions...





Contact



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A photograph of a smiling woman with blonde hair wearing a denim jacket, with a blurred man in the background. The image is framed by orange bars at the top and bottom.

Thank You