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HR Insights

One Big Beautiful Bill: Q&A Edition)

To all our clients, subscribers, and friends, we hope you are enjoying the last days of summer! In this issue of *HR Insights* we break down the key employment related provisions of the One Big Beautiful Bill (OBBB), in Q&A format, to help readers understand what's changed and what it means for their organizations.

Q1. How does the new overtime tax deduction work?

Starting 2025, employees can now claim an income tax deduction for overtime pay of up to $12,500 per year (or $25,000 if filing jointly).

- ***Income limits:*** If the employee's gross income exceeds $150,000 (or $300,000 if filing jointly) the deduction is reduced by $100 for every $1,000 their gross income exceeds the income limits.
- ***Eligibility:*** To qualify for the deduction, the overtime must be paid at time-and-a-half for hours worked beyond 40 in a week. Importantly, the deduction covers only the premium portion of overtime pay (the "extra half-time" above the employee's regular hourly rate of pay).
- ***Other taxes still apply:*** This deduction applies to federal income taxes only. Employees must still pay FICA and Medicare taxes on all wages, including the overtime premium, and the same rules apply to tips.

Q2. Are cash tips also eligible for a tax deduction?

Yes. Under the OBBB, employees in **tipped occupations** (such as servers, bartenders, and hotel staff) can claim a **federal income tax deduction of up to $25,000 per year** starting 2025.

- ***Income limits:*** Like the overtime tax deduction, for employees with gross income above **$150,000** (or **$300,000 if filing jointly**), the deduction is reduced by **$100 for every $1,000** of income that exceeds the income limits.
- ***Eligible tips:*** Only **cash tips** count, including those collected through credit cards and distributed in **tip-sharing or pooling arrangements**, provided they are **reported for payroll tax purposes**.
- ***Guidance coming soon:*** The Treasury Department will release the official list of eligible tipped occupations by **October 2, 2025**.

Q3. When does the tax deduction for overtime and tips take effect and for how long?

The new tax deductions for overtime and tips take effect immediately for the 2025 tax year. They will sunset after the 2028 tax year unless Congress extends the deductions.

Q4. Must an employer continue to withhold federal taxes from employee paychecks from overtime and tips?

Until the IRS provides more information, including withholding tables and updated W4s, it appears that federal taxes must still be withheld. Stay tuned for more information as it becomes available!

Q5. What does an employer need to do now as a result of the OBBB special tax deductions for overtime and tips?

Employers will need to **update their payroll systems** to track and report both overtime and tips accurately on employees' **W-2 Forms**.

Q6. Can employees on Bronze Level and Catastrophic Exchange Plans contribute to an HSA?

Yes. As of 2026, Bronze level and Catastrophic Exchange plans will be treated as High-Deductible Health Plans, thereby allowing plan members to contribute to an HSA.

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Q7. What other changes did the OBBB make concerning HDHPs and HRAs?

The OBBB also made the following changes:

- ***Direct Primary Care Coverage:*** HSAs can now be used to pay for **direct primary care arrangements**, monthly fees that cover office visits before the deductible is met (within set limits).

- ***Telehealth Access:*** The OBBB makes it permanent for **HDHPs** to **waive deductibles for telehealth visits**, keeping virtual care more affordable and accessible.

Q8. What is the Dependent Care FSA limit for 2026?

The OBBB significantly increased the Dependent Care FSA limit from $5,000 to $7,500 (not subject to cost of living increases). This change is effective for 2026.

These plans must still pass required nondiscrimination testing to ensure that highly compensated employees are not favored.

Q9. Considering the increased ICE funding, what should our company do to ensure compliance?

The OBBB provides a major funding boost to **Immigration and Customs Enforcement (ICE)**, which is expected to result in more frequent **immigration audits**. Here's a **Quick Action Checklist** of ways that you can help keep your organization compliant.
:

- ☑ **I-9 Audit:** Review I-9 records regularly to confirm accuracy and completeness
- ☑ **Expired Documents:** Check that no supporting documentation has expired
- ☑ **Routine Reviews:** Schedule regular internal audits to stay up to date.
- ☑ **Training:** Make sure HR staff are trained on proper I-9 completion and retention requirements.
- ☑ **Recordkeeping:** Ensure records are organized and easily accessible in case of an audit. Maintain I-9s in files separate from employee files.

Taking these steps now will help reduce risks and keep your organization compliant.

Q10. What changes were made to Student Loan Assistance?

Many employers offer **Student Loan Assistance** as a benefit to attract and retain talent, particularly for hard-to-fill roles. Under the OBBB, this benefit is now **permanently tax-free** for both employers and employees. Employers can contribute up to **$5,250 per year** toward an employee's student loan debt (with annual inflation adjustments starting in 2027).

Q11. Can employers still deduct bicycle commuting or moving expenses?

No, OBBB permanently repealed the tax deduction previously allowed for bicycle commuting expenses through 2025. The OBBB also permanently repealed the moving expense deduction for non-military employees. Therefore, any reimbursement for bicycle commuting or moving expenses is taxable to the employee.

Q12. What are "Trump Accounts"?

The OBBB created a new type of savings vehicle called **Trump Accounts**, designed to encourage families and others to save for a child's future. Key details include:

- ***Contributions:*** Parents and others can contribute up to **$5,000 per year combined**, and employers can contribute up to **$2,500 per year** (adjusted for inflation starting in 2027).

- ***Government deposits:*** For children born in the U.S. from **2025 through 2028** (with Social Security numbers), the federal government will automatically open a Trump Account and deposit **$1,000**. The funds must be claimed through a bank or other qualified financial institution.

- ***Guidance:*** Employers should consult their tax advisors for details on reporting and compliance. Additional federal guidance is expected soon.

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Q13. What should employers do next?

- ***Coordinate with payroll:*** Contact your payroll provider (or adjust your payroll systems internally) to reflect these changes.
- ***Train staff:*** Ensure HR and payroll teams are informed and trained on the new requirements.
- ***Stay updated:*** More federal guidance is expected. Be sure to watch for updates and be ready to adjust your policies.

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