

How The **ONE BIG BEAUTIFUL BILL** Impacts Payroll

The “One Big Beautiful Bill Act” is over 1,000 pages long and changes everything from tax rules to workplace compliance. For employers, it introduces new payroll, reporting, and benefits requirements—especially around tips, overtime, and dependent care.

Federal Tax Exemption for Tips and Overtime

- ✓ Starting in 2025, employees can claim a federal income tax credit for:
 - Up to **\$12,500 in annual overtime pay**.
 - Up to **\$25,000 in tip income**.
 - Limits double for married couples filing jointly.
- ✓ Applies only to employees earning under \$150,000/year (or \$300,000 for couples).
- ✓ **Important:** Employers must still withhold federal income tax until IRS guidance updates.
- ✓ Tips and overtime remain **subject to FICA and state income taxes**.

Payroll and Reporting Impacts

- ✓ Employers must:
 - **Track tips and overtime separately** in payroll systems.
 - Continue withholding all applicable federal, state, and FICA taxes.
 - IRS Guidance for tax year 2025 states that eligible tips and overtime under the “One Big Beautiful Bill Act” will be reported on Form W-2 in Box 14. Starting in tax **year 2026, these will be reported in Box 12** with special codes.
- ✓ No W-4 changes are required as of yet.

Benefits & Plan Adjustments

- ✓ Dependent Care FSAs: Limit **increases from \$5,000 to \$7,500** in 2026.
- ✓ Employers must:
 - Update Section 125 plan documents.
 - Ensure nondiscrimination testing compliance.
 - Communicate updates during open enrollment.

The One Big Beautiful Bill is complex, and increased ICE and I-9 audits make compliance more critical than ever. Paper Trails is here to **help small business owners and HR teams** stay ahead of payroll changes, documentation requirements, and workplace enforcement.