



OBBBA Explained

Understanding how the **“One Big Beautiful Bill Act”** changes payroll and HR compliance requirements for employers

Today's Agenda

- SECTION 1: What Is the OBBBA and Why It Matters Now
- SECTION 2: Employee tax returns vs payroll withholdings?
- SECTION 3: Real-World Implications & Scenarios
- SECTION 4: Employer Action Steps



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SECTION 1

What Is the OBBBA and Why It Matters Now

“One Big Beautiful Bill Act” Overview of the OBBBA

a.k.a. No tax on Tips and Overtime

Who?

- Hourly employees who earn tips or work overtime
- All businesses (Especially: Restaurants, hospitality, manufac., retail)
- Payroll providers responsible for wage reporting

What?

- NEW Federal law eliminating tax on tips & OT
- Overtime: Up to \$12,500 of OT wages exempt from federal income tax
- Tip income: Up to \$25,000 in tips exempt from federal income tax

When?

- Initial law passed the House May 22nd, made it through the Senate July 1st, and the House ratified amendments on July 3, 2025
- President Trump signed into law July 4, 2025
- Takes Effect **retroactive** January 1, 2025 through December 31, 2028



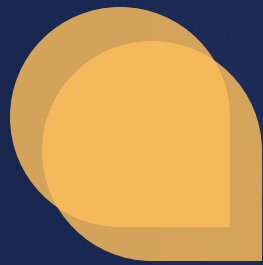
ADDITIONAL MAJOR OBBBA PROVISIONS WE'RE NOT COVERING TODAY

- Expanded R&D tax credits
- Accelerated amortization for capital investments
- New Senior Tax Deduction
- Higher standard deduction for lower- and middle-income filers
- Workforce development apprenticeship credit
- Temporary corporate repatriation tax holiday

3 Reasons Why This Matters for Employers

1. Employees may expect larger paychecks
2. Employers still required to withhold taxes normally
3. Action needed in 2025 to avoid confusion and ensure year-end compliance





SECTION 2

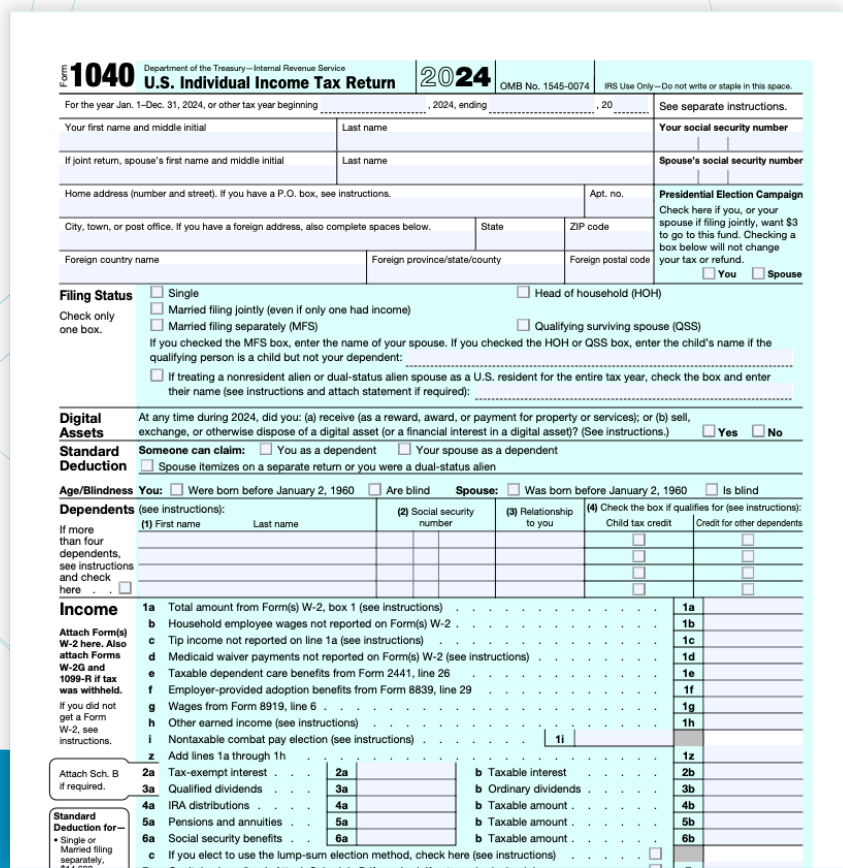
Employee tax returns vs payroll withholdings?

Employee tax returns vs payroll withholdings?

How the Law Is Structured

Codified under Subtitle A, Chapter 1
(Applies to Form 1040)

Does not amend IRC §3401 or §3402
(No change to paycheck withholding)



Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2024 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2024, or other tax year beginning, 2024, ending, 20 See separate instructions.

Your first name and middle initial Last name Your social security number

If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street), if you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code

Foreign country name Foreign province/state/country Foreign postal code

Filing Status Single Head of household (HOH) Married filing jointly (even if only one had income) Married filing separately (MFS) Qualifying surviving spouse (QSS)
Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent.
 If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction Someone can claim: You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1960 Are blind **Spouse:** Was born before January 2, 1960 Is blind

Dependents (see instructions): (1) First name Last name (2) Social security number (3) Relationship to you (4) Check the box if qualifies for (see instructions): Child tax credit Credit for other dependents

If more than four dependents, see instructions and check here

Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a
b Household employee wages not reported on Form(s) W-2	1b
c Tip income not reported on line 1a (see instructions)	1c
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d
e Taxable dependent care benefits from Form 2441, line 26	1e
f Employer-provided adoption benefits from Form 8839, line 29	1f
g Wages from Form 8919, line 6	1g
h Other earned income (see instructions)	1h
i Nontaxable combat pay election (see instructions)	1i
z Add lines 1a through 1h	1z

Attach Sch. B if required.

2a Tax-exempt interest	2a	b Taxable interest	2b
3a Qualified dividends	3a	b Ordinary dividends	3b
4a IRA distributions	4a	b Taxable amount	4b
5a Pensions and annuities	5a	b Taxable amount	5b
6a Social security benefits	6a	b Taxable amount	6b

Standard Deduction for— Single or Married filing separately Married filing jointly

4.23.8.8 (02-01-2003) Computing Income Tax Withholding

- IRC 3402 requires employers to deduct and withhold income tax from payments of wages. When income tax withholding is involved and IRC 3509 is not applicable, use the supplemental wage withholding rates. See *IRM 4.23.8.4, IRC 3402(d) - Relief for Employer When Employees Have Paid Income Tax on Wages.*
- Where the employer can establish the employee's allowable number of exemptions from the Form W-4, Employee's Withholding Allowance Certificate, on file for the employees during the audit years, the computation can be made based on the laws and regulations in existence during those years.
- Treas. Reg. 31.3403-1 states that every employer required to deduct and withhold the tax under IRC 3402 from the wages of an employee is liable for the payment of such tax, whether or not it is collected from the employee by the employer.
- Under IRC 3402(d), the employer may request relief from payment of FITW. Form 4669 and Form 4670 are used for this purpose. See *IRM 4.23.8.4.3, Procedures for Relief Under IRC 3402(d) and/or IRC 3102(f)(3) in Examination.*

4.23.8.8.1 (08-11-2009) Income Tax Withholding Overpayments - Current Year

- If, during any return period, an employer collects from an employee more than the correct amount of FITW and repays the amount of the over-collection to the employee and obtains a written receipt showing the date and the amount of the repayment before the return for such period is filed with the IRS and before the end of the calendar year in which the over collection was made, the employer will not report on any return or pay to the IRS the amount of the over-collection.
- If, in any return period in a calendar year, an employer collects from any employee more than the correct amount of FITW under IRC 3402 and the employer pays the over-collection to the

Employee tax returns vs payroll withholdings?

What Is an Above-the-Line Deduction?

An **above-the-line deduction** is a specific type of deduction you take on your **IRS Form 1040** to reduce your **Adjusted Gross Income (AGI)** — **before** calculating other credits, taxes, or even whether you itemize deductions.

- The OBBBA creates **two new above-the-line deductions**:
 - Up to **\$25,000 in tips**
 - Up to **\$12,500 in overtime**
- Workers **claim the benefit when filing** their return — likely resulting in a **bigger refund** or **lower tax bill**.

Bottom Line for Employers:

Because the deductions are "above the line," your **payroll processes do not change**. Therefore, there's no need to modify withholding unless future IRS guidance says otherwise.



One Big Beautiful Bill Act: Tax deductions for working Americans and seniors

Topics in the news

News releases

Multimedia center

Tax relief in disaster situations

Inflation Reduction Act

Tax reform

Taxpayer First Act

Tax scams and consumer alerts

The tax gap

Fact sheets

Fact sheets for frequently asked questions

IRS Tax Tips

e-News subscriptions

FS-2025-03, July 14, 2025

Below are descriptions of new provisions from the One Big Beautiful Bill Act, signed into law on July 4, 2025, as Public Law 119-21, that go into effect for 2025.

“No Tax on Tips”

- New deduction:** Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations that are listed by the IRS as customarily and regularly receiving tips on or before December 31, 2024, and that are reported on a Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137.
 - “Qualified tips” are voluntary cash or charged tips received from customers or through tip sharing.
 - Maximum annual deduction is \$25,000; for self-employed, deduction may not exceed individual’s net income (without regard to this deduction) from the trade or business in which the tips were earned.
 - Deduction phases out for taxpayers with modified adjusted gross income of \$100,000 (\$200,000 for joint filers).
- Taxpayer eligibility:** Deduction is available for both employees and self-employed individuals in a Specified Service occupation. Employees whose employer is in an Specified Service occupation. Taxpayers must:
 - include their Social Security Number on the return and
 - file jointly if married, to claim the deduction.
- Reporting:** Employers and other payors must file information returns with the IRS (or SSA) and furnish statements to taxpayers showing certain cash tips received and the occupation of the tip recipient.
- Guidance:** By October 2, 2025, the IRS must publish a list of occupations that “customarily and regularly” received tips on or before December 31, 2024.
 - The IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and payors subject to the new reporting requirements.

IRS guidance due by October 2, 2025

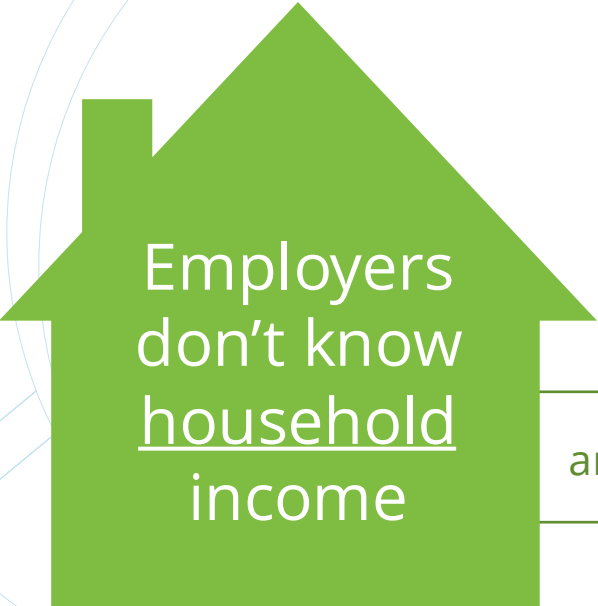


Employee tax returns vs payroll withholdings? What the IRS Has (and Hasn’t) Said

- ❖ No new updates to W-4 or Publication 15-T which explains how to apply W-4 withholdings
- IRS issues new regulations modifying W-4 or withholding
- As of now, deduction-only seems the only plausible model

Employee tax returns vs payroll withholdings?

Why else paychecks likely won't change?



Employers
don't know
household
income

and even if they did...



Real-time phase-outs
aren't possible

- Single filers: \$150,000
- Joint filers : \$300,000



SECTION 3

Real-World Implications & Scenarios



Scenario 1

Employee Misled by Media Coverage Files Complaint Over “Missing” Tax Benefit

Situation:

A hotel front desk clerk earns overtime regularly. After hearing news headlines about “no tax on overtime,” she checks her July paycheck and sees that federal income tax is still being withheld. Thinking her employer is doing something wrong, she posts about it in a local workers’ Facebook group — and is advised to file a complaint.

Risk Under the New Law:

The employee doesn’t understand that the OBBBA benefit is a deduction claimed at tax time, not a paycheck exclusion. But the employer also failed to communicate that clearly, creating a false perception of non-compliance. A minor issue turns into an official complaint — or worse, viral reputational damage.

How to Prevent:

- Proactively educate employees about how the deduction works
- Add a FAQ or one-pager to onboarding and payroll documentation
- Include notes on pay stubs or employee portals when new laws impact pay
- Use town halls or team meetings to clarify legislative changes



SCENARIO 2

Misclassified Employee Works Overtime

Situation:

A small business promotes a warehouse team lead to a salaried position and assumes they're exempt from overtime. But the employee's actual job duties don't meet the FLSA duties test for exempt status — they do hands-on work, not managerial or administrative functions.

Risk Under the New Law:

That employee regularly works 10+ hours of overtime per week. When media coverage of the One Big Beautiful Bill Act hits, they hear that there's "no federal tax on overtime" and start asking why their paycheck hasn't changed. Confused and frustrated, they Google their rights — and realize they may have been misclassified and underpaid for months. That becomes the trigger to file a wage complaint or legal action.

How to Prevent:

- Conduct a full FLSA classification audit
- Create written job descriptions that clearly support each exemption
- Communicate classifications to employees and explain the difference
- Don't assume salaried = exempt

A woman with long dark hair, wearing a white t-shirt and a dark blue apron, is looking down at a tablet computer she is holding. The background is a dimly lit cafe or bar with warm lighting and blurred shelves.

Scenario 3

Poor Tip Tracking Results in Underreporting and Legal Risk

Situation:

A busy café relies on servers to self-report tips, which they jot down manually at the end of each shift. No one audits the totals, and pooled tips are often redistributed informally among the staff.

Risk Under the New Law:

A server reads about the \$25,000 tax deduction for tips and asks for a year-to-date total to estimate her benefit. She finds that only half her tips have been recorded in payroll. Now, not only can she not claim the full deduction — she realizes she may have been paid below minimum wage after tip credits. She contacts the Department of Labor.

How to Prevent:

- Implement tip tracking process
- Audit tip records weekly for accuracy
- Ensure tip pooling policies follow federal and state law
- Train staff and managers on proper reporting to avoid underpayment

A mechanic in a grey long-sleeved shirt and dark pants is working on the underside of a car that is elevated on a lift. The mechanic is holding a tool and appears to be focused on the task. The background shows a typical garage environment with various tools, equipment, and a stack of tires. The lighting is somewhat dim, with a blueish tint, suggesting an indoor setting.

SCENARIO 4

Incomplete OT Policy Leads to Frustration

Situation:

An auto repair shop allows flexible scheduling, and employees often stay late to finish jobs. There's no formal overtime policy in the handbook, and managers rarely review timesheets closely.

Risk Under the New Law:

After the OBBBA becomes law, one technician hears that overtime pay will no longer be taxed and expects to see a bigger check. When that doesn't happen, they challenge the manager and discover their extra hours weren't coded as OT. Angry that they "missed out" on tax-free income, they file a complaint with the state labor board, triggering a wage audit.

How to Prevent:

- Clearly define what constitutes overtime in your handbook
- Require written approval or manager sign-off on extra hours
- Train supervisors to recognize and properly code OT
- Use timekeeping software with alert settings for unauthorized OT



SECTION 4

Employer Action Steps

What Employers Must Do NOW



- Maintain standard withholding of federal income tax
- Accurately track tips and overtime—regardless of method
- Communicate with employees to ensure they understand the new law

Payroll & HR

FLSA Compliance Prep Checklist

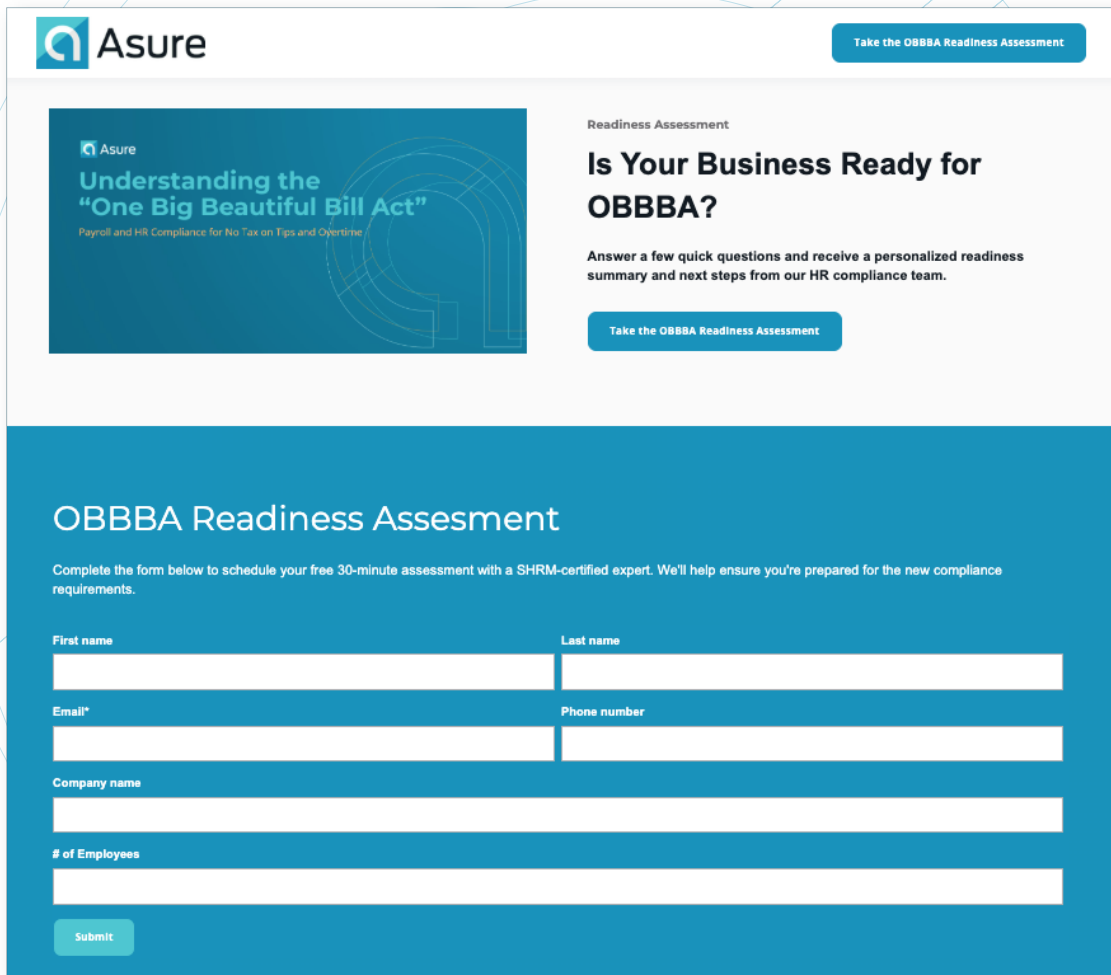
- **Exempt vs. Nonexempt Classification**
Ensure roles meet duties and salary tests for exemption.
- **Overtime Policy**
Verify it complies with federal and state law (e.g., when OT begins, required approvals).
- **Job Descriptions**
Align duties with FLSA standards to defend classification decisions.
- **Timekeeping Practices**
Confirm employees are accurately tracking hours, breaks, and meal periods.
- **Unauthorized Overtime Procedures**
Have clear rules for how unapproved OT is handled — but remember, it still must be paid.
- **Training for Managers**
Ensure supervisors understand when OT is owed and how to avoid violations.
- **State-Specific Rules**
Some states (e.g., California) have daily OT triggers — review local requirements.

How Can We Help? OBBBA Readiness Assessment

Schedule a free 30-minute assessment with a SHRM-certified expert. We'll help ensure you're prepared for the new compliance requirements.

Offers.AsureSoftware.com/OBBBA

- Download presentation
- Share and watch this webinar on-demand
- Request a free OBBBA readiness assessment



The screenshot shows a landing page for the OBBBA Readiness Assessment. At the top left is the Asure logo. A blue button in the top right corner says "Take the OBBBA Readiness Assessment". Below the logo is a blue box with the text "Understanding the 'One Big Beautiful Bill Act'" and "Payroll and HR Compliance for No Tax on Tips and Overtime". To the right of this box, the text reads "Readiness Assessment" and "Is Your Business Ready for OBBBA?". Below this, it says "Answer a few quick questions and receive a personalized readiness summary and next steps from our HR compliance team." and another "Take the OBBBA Readiness Assessment" button. The main section has a blue background with the title "OBBBA Readiness Assessment" and a sub-headline "Complete the form below to schedule your free 30-minute assessment with a SHRM-certified expert. We'll help ensure you're prepared for the new compliance requirements." The form fields are: "First name", "Last name", "Email*", "Phone number", "Company name", and "# of Employees". A "Submit" button is at the bottom left of the form area.