



One Big Beautiful Bill Employee FAQ

1. What exactly changed?

Starting in the 2025 tax year, a new federal law (*the One Big Beautiful Bill Act*) provides above-the-line tax deductions (i.e. reductions to taxable income) for certain tips and certain overtime earnings.

2. Does this mean tips and overtime are completely tax-free?

Not exactly — they are not excluded from income, but qualified amounts may be deducted when you file your federal income tax return.

Also note: Social Security (FICA), Medicare, and other payroll taxes still apply to tips and overtime.

3. What are the deduction limits?

- Tips: up to **\$25,000** in qualified tips may be deducted.
- Overtime: up to **\$12,500** (or \$25,000 for married filing jointly) for eligible overtime premiums.

4. Will this change my paycheck (withholding)?

No. Your paycheck will continue to be calculated as before, and taxes will be withheld. This deduction is made when filing your personal taxes.

5. Do I still need to report tips?

Yes. You must still report tips to your employer and they must be reported on your W-2 for tax purposes.

6. Are all overtime earnings eligible?

No. Only overtime required under the federal Fair Labor Standards Act (FLSA) is eligible. Extra overtime beyond what FLSA requires (e.g. by state law or employer policy) or overtime for exempt employees may not qualify.

7. Does this affect state and local taxes?

Maybe not. These deductions currently apply to **federal income tax** only. State or local income taxes may still apply to tips and overtime, depending on your state's tax rules.

8. What should I do now?

- Keep accurate records of your tips and overtime hours
- Ensure you properly report tips to your employer
- Consult a tax professional to see how this interacts with your overall tax situation