

15 Takeaways for HR Pros from the One Big Beautiful Bill Act

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The tax and spending law known as the One Big Beautiful Bill Act (OBBBA) has caused a sea change in the taxability of employee compensation and will have several effects on HR. This article highlights 15 takeaways from the new law for HR professionals.

1. Identify weekly overtime. The new “qualified overtime” deduction applies to the 2025 tax year (through taxable year 2028) only for weekly overtime under the Fair Labor Standards Act (FLSA). So, employers will have to find a way to identify only weekly overtime on Form W-2, said Nisha Verma, an attorney with Dorsey & Whitney in Costa Mesa, Calif., and Palo Alto, Calif. “Qualified overtime” means overtime paid according to the FLSA, which requires time and a half after 40 hours per week, Verma noted. States including Alaska, California, Colorado, and Nevada, as well as Oregon in certain industries, have daily overtime requirements that exceed federal law. Employers will have to set up systems to separate overtime paid under the FLSA from overtime paid for other reasons, she said.

[tools/tools/fact-sheet/need-to-know-overtime-pay.](#))

2. Update withholding procedures. Starting in 2026, HR will need to update its withholding procedures, said Michael Mahoney, an attorney with Ogletree Deakins in Morristown, N.J.

3. Don't misclassify nonexempt employees as exempt. If employers are tempted to convert nonexempt employees to exempt to avoid the "reporting headaches" connected with the overtime deduction, they should halt any such efforts, Verma said. "There is an entirely separate set of rules that control whether an exemption from overtime is met, and the changes in this bill does not change those rules," she said. "If anything, the benefits of being nonexempt may cause exempt employees to scrutinize — and challenge — their exemptions more often."

4. Review the caps on the overtime deduction. The OBBBA provides a significant tax benefit for employees who work large amounts of overtime annually. However, the law's overtime deduction cannot exceed \$12,500 per individual or \$25,000 for joint filers in any taxable year. "The capped amount is reduced by \$100 for each \$1,000 by which the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of a joint return)," said David Jones, an attorney with Offit Kurman in Los Angeles.

5. Recognize exceptions to the tip deduction. Mandatory service charges and gratuities added by a service provider will most likely not be eligible for the law's tax deduction for "qualified tips," and neither will a required gratuity that a restaurant adds automatically to a bill for large parties, Jones said. The tip deduction is effective for taxable years [2025 through 2028 - \(https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors \)](https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors). The deduction is capped at \$25,000 per taxable year and phases out for higher-income earners.

6. Communicate with employees about limits to the changes. HR should consider informing employees of the applicable limitations on the deductions — for example, they do not apply to all overtime or tips, Mahoney said. The new overtime and tips deductions apply only to federal income taxes. Other federal payroll taxes, such as Social Security and Medicare taxes, will still apply to all wages, including overtime pay and tips.

7. Align tracking and pay stub reporting with requirements. HR should contact payroll providers to ensure tracking and pay stub reporting are compliant, Jones said. "The uncertainty of the tracking and classification requirements related to employee tips and overtime provides a significant trap for employers and human resource practitioners who fail to implement pay stub reporting systems that comply with the law," he warned. There is also the risk of potential violations of state laws that require accurate pay stub information to be provided to employees.

8. Take into account the elimination of the food deduction. Because the deduction for employer-provided food to employees is generally eliminated, employers may scale back the scope of the food provided, said Marcia Wagner, an attorney with The Wagner Law Group in Boston. “At the smallest of organizations, there might be more of a conversation on the impact. And at all organizations, there could be a rethinking of how much to provide for employees,” said James Atkinson, SHRM vice president of thought leadership. “But I don’t expect most organizations to dramatically decrease these perks, given the boost in employee engagement and morale that comes with them.”

9. Make the most of a student loan reimbursement tax exclusion, if feasible. The OBBBA permanently extends the tax exclusion for [employer-paid reimbursement of qualified student loans - \(<https://www.shrm.org/topics-tools/news/benefits-compensation/new-bill-seeks-to-permanently-extend-tax-free-student-loan-repay> \)](https://www.shrm.org/topics-tools/news/benefits-compensation/new-bill-seeks-to-permanently-extend-tax-free-student-loan-repay), under the IRS Section 127 educational assistance program, Mahoney noted.

10. Consider capitalizing on a tax credit for paid family and medical leave. A tax credit for employers offering [paid family and medical leave - \(<https://www.shrm.org/topics-tools/employment-law-compliance/big-beautiful-bill-makes-paid-medical-leave-tax-credit-permanent> \)](https://www.shrm.org/topics-tools/employment-law-compliance/big-beautiful-bill-makes-paid-medical-leave-tax-credit-permanent) was also made permanent.

11. Become familiar with health savings account (HSA) and telehealth changes. The law makes important [changes to HSA - \(<https://www.shrm.org/topics-tools/news/benefits-compensation/hsa-changes-tax-law-employer-impact> \)](https://www.shrm.org/topics-tools/news/benefits-compensation/hsa-changes-tax-law-employer-impact) eligibility and reimbursements, including retroactively restoring the telehealth relief provided by the Coronavirus Aid, Relief, and Economic Security Act, Mahoney said.

12. Learn about dependent care flexible spending account (FSA) adjustments. The OBBBA provides additional tax relief, beginning in 2026, in the form of an increase to the annual exclusion from taxable income for [dependent care FSAs - \(<https://www.shrm.org/topics-tools/news/benefits-compensation/annual-dependent-care-fsa-limit-increase-2026> \)](https://www.shrm.org/topics-tools/news/benefits-compensation/annual-dependent-care-fsa-limit-increase-2026).

13. Be aware of more tax relief for child care and adoption assistance. Employees receiving child care and adoption assistance from their employers will benefit from improved tax treatment of these benefits, with the maximum employer-provided child care credit increasing and the adoption assistance credit becoming partially refundable, Mahoney said.

Toolkit: Managing Adoption Assistance Benefits - (<https://www.shrm.org/topics-tools/tools/toolkits/managing-adoption-assistance-benefits>)

14. Plan for heightened worksite immigration enforcement. The law also has “a massive increase in Immigration and Customs Enforcement’s (ICE’s) budget, which will impact critical industries such as construction, hospitality, and agriculture,” said Braden Lawes, a senior government affairs analyst with

Fisher Phillips in Washington, D.C. “ICE’s \$30 billion budget will likely result in more deportations, audits, and [workplace raids - \(https://www.shrm.org/topics-tools/news/hr-should-be-prepared-for-workplace-immigration-raids \)](https://www.shrm.org/topics-tools/news/hr-should-be-prepared-for-workplace-immigration-raids).”

15. Prepare for more AI regulation at the state level. It’s also worth noting that [a provision that would have prevented states from enforcing or enacting laws related to artificial intelligence - \(https://www.shrm.org/topics-tools/news/states-to-lead-ai-workplace-regulation-after-federal-ban-fails \)](https://www.shrm.org/topics-tools/news/states-to-lead-ai-workplace-regulation-after-federal-ban-fails) for 10 years was not included in the final version of the legislation.