

# One Big Beautiful Bill Act Heavy Hitters

## Federal Tax Changes Affecting County Employees and Employers

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## Meet Our Presenters



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# Agenda

- Overview of OBBBA
- Qualified Overtime Deduction
- Additional OBBBA Provisions to Know
  - Tip Income Deduction
  - Employer Meal Deductibility Changes
  - “Trump Accounts” for Children
- Action Steps for Employers
- Summary & Final Thoughts

## OBBBA Overview

- Introduces new and temporary tax provisions
- Impacts employees, employers, and families
- Focus areas:
  - Overtime pay deductions
  - Tip income deductions
  - Employer meal deductions
  - Child savings accounts (“Trump Accounts”)
- Many provisions effective Tax Year 2025
- Provisions are federal income tax changes
  - New York payroll and state income tax treatment may not change in parallel!

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# Qualified Overtime Deduction

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# Overtime Deduction: Overview & Eligibility

- **New above-the-line deduction for Overtime Pay**
  - The OBBBA creates a temporary (2025-2028) above-the-line deduction for certain qualified overtime pay earned by employees.
- **What qualifies:**
  - NOT all overtime pay
  - Only the Fair Labor Standards Act (FLSA)-required amount in excess of the employee's regular rate
    - i.e., The premium portion of overtime pay (i.e., the ½ portion of “time-and-a-half”)
- **Who may claim:**
  - FLSA non-exempt employees
  - Must have valid SSN on return
  - If married, the deduction is only allowed on a joint return

## Overtime Deduction: Limits & Timing

- Annual cap:
  - \$12,500 (single)
  - \$25,000 (married taxpayers filing jointly)
- Income phase-out: Begins when modified adjusted gross income (MAGI) exceeds \$150,000 (\$300,000 joint)
  - Reduced by \$100 for every \$1,000 over the threshold, and is fully phased out at \$275,000 (\$550,000 joint)
- Effective Years: 2025-2028
  - Deduction and phase-out amounts indexed for inflation in future years

## Overtime Deduction: Tax & Payroll Considerations

- This is a federal income tax deduction only
  - Not an exclusion from wages
- Overtime pay remains subject to FICA, FUTA, and state and local taxes
- No change to payroll withholding; employees claim the deduction on Form 1040 when filing
- For New York audiences: this deduction applies only to the federal income tax return. It does not apply to FICA or New York State, New York City, Yonkers, or other local income taxes

# Overtime Deduction: Tracking and Reporting Requirements

- 2025 Tax Year – Transition Reporting Relief
  - For tax year 2025 only the Forms W-2 and 1099 were not updated to separately account for qualified overtime compensation
  - There is no employer requirement to separately identify or report the qualifying overtime portion on any information return
  - Employers are encouraged to assist employees by using any consistently applied “reasonable method” to identify the FLSA Premium Component for employee use on the federal return
  - There will be no penalties for the 2025 year where employers do not separately report the qualified overtime on 2025 statements if the statement is otherwise complete and correct
- Beginning in 2026, a dedicated W-2 reporting box with specific coding requirements will be mandatory, and draft forms demonstrating this have been released

## Overtime Deduction: County Employer Alert: Public-Sector Overtime Rules Still Matter

- Counties may have employees subject to special FLSA overtime rules, including:
  - Fire protection and law enforcement arrangements
  - Compensatory time arrangements in lieu of cash overtime
  - Hospitals and residential care facilities
- Those employees may still qualify for the federal deduction, but the amount must be computed using the applicable overtime rule and a reasonable method
  - See Notice 2025-69 for explicit consideration of public sector employees in fire protection and law enforcement, comp time, and hospital/residential care employees
- Payroll and HR should be prepared for questions from sheriff, corrections, EMS, county hospital, and social-services operations

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# Additional OBBBA Provisions to Know

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# Tip Income Deduction

- What it is
  - Federal income tax deduction for qualified tips received during the year
  - Maximum deduction: \$25,000 (federal only)
  - Does not reduce FICA or NYS/local taxes
  - Final regulations issued April 13, 2026; effective June 12, 2026
- Who qualifies
  - W-2 employees and independent contractors in occupations that customarily received tips on or before 12/31/2024
  - Tips must be voluntary (not negotiated, mandatory, or subject to consequences for nonpayment) and meet IRS requirements
  - Valid SSN required
  - Married taxpayers must file jointly
- Limits & phase-out
  - Deduction limited to net income from the business where tips were earned
  - MAGI phase-out:
    - Begins at \$150,000 (\$300,000 joint)
    - Reduced \$100 per \$1,000 over threshold
    - Fully phased out at \$275,000 (\$550,000 joint)
- Reporting & documentation (2025)
  - Forms W-2, 1099-NEC, 1099-MISC, 1099-K not updated for separate tip reporting
  - Employees: Box 7 (SS tips), Forms 4070/4137, employer Box 14 statements
  - Nonemployees: POS reports, tip logs, receipts, settlement records, other corroboration
  - Notice 2025-62: Penalty relief for 2025 reporting failures if return/statements are otherwise complete and correct

# Employer-Provided Meals & Snacks Deduction

- What changes
  - OBBBA confirms the TCJA rule that most employer-provided meals become nondeductible after December 31, 2025
- Meals generally nondeductible
  - Meals provided for the convenience of the employer (IRC §119)
  - Employer-operated eating facilities (IRC §132(e)(2))
  - Includes food, beverages, snacks, and de minimis fringes
- Exceptions preserved or expanded
  - Existing exceptions continue (e.g., commercial vessels, oil & gas drilling)
  - OBBBA adds certain fishing industry activities
  - Meals treated as taxable compensation to employees remain deductible
  - Recreational or social events for non-highly compensated employees remain fully deductible
- What's unchanged
  - Rules for off-site meals, travel meals, employee events, and similar situations
  - IRS guidance under IRC §274 still governs definitions, substantiation, and exceptions
- Planning note
  - Employers with employee eating facilities should review §274(o) and §274(e)(8) — amounts for food/beverages sold in bona fide transactions for adequate consideration may still be deductible

# Trump Accounts

- What it is
  - New tax-favored savings account for children under age 18
  - Treasury auto-creates an account shell; a parent, guardian, adult sibling, or grandparent must activate it
- Eligibility & federal contribution
  - Children born 1/1/2025–12/31/2028
  - One-time \$1,000 federal contribution
  - Not taxable and does not count toward annual contribution limits
  - Child must have a valid SSN
- Contributions
  - Annual limit: \$5,000 per beneficiary (indexed after 2027)
  - Employer contributions: Up to \$2,500 annually (count toward \$5,000 limit)
  - Employer contributions excluded from employee income if made under a qualifying plan
  - No contributions allowed before July 2026
- Growth period rules (until Jan. 1 of year child turns 18)
  - Investments limited to low-cost, broad U.S. equity index mutual funds/ETFs (no leverage; expenses capped at 0.1%)
  - No withdrawals permitted, except limited exceptions (rollovers, excess removals, death)
- After the growth period
  - Account functions similarly to a traditional IRA
  - Upon withdrawal: earnings and employer contributions taxable; after-tax contributions not

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# Action Steps for Employers

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- For Overtime deduction specifically
  - Configure timekeeping systems to isolate the premium portion of overtime pay
  - Document the methodology used for identifying and reporting the qualified overtime pay (especially this year, where reasonable methods are permitted)
  - Prepare HR and payroll teams to answer employee questions
  - Communicate clearly to employees where to find the information needed at tax time

# Action Steps for Employers

- Do not treat the new deductions as payroll tax exemptions (federal return deductions only)
- Preserve supporting records for tips and overtime for employee questions and 2025 return preparation
- Coordinate across payroll, HR, labor relations, and department heads for sheriff, corrections, hospital, and emergency-services employees
- Communicate clearly that any benefit is generally claimed on the federal return, not through 2025 payroll withholding
- Watch for post-2025 reporting/withholding changes as Treasury implements the statute
- Remember NYS state-level differences

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# Final Thoughts

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## Final Thoughts for NY Counties

- These rules create real federal tax planning opportunities for employees in 2025–2028
- But 2025 is a transition year, with temporary reporting relief and reliance on reasonable methods
- County employers should focus on documentation, employee communication, and public-sector overtime nuances
- The biggest practical message: do not confuse a federal return deduction with a payroll or New York wage exclusion

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