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One Big Beautiful Update: What Employers Need to Know About the OBBBA

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On July 4, 2025, the One Big Beautiful Bill Act ("OBBBA") became law, enacting several changes that will impact employers and employees. Here are the five (5) most relevant.

1. **No Tax on Overtime**
2. **Tuition Reimbursement**
3. **Reduced Reporting Threshold for Non-Employee Compensation**
4. **Paid Family Leave Tax Credit**
5. **Dependent Care FSA Limit Increase**

No Tax on Overtime

Pursuant to the Fair Labor Standards Act ("FLSA"), employees who are not exempt from overtime are entitled to "time-and-a-half" for all hours worked over forty (40) in one week. From 2025 through 2028, employees will be permitted to deduct the "half" portion of FLSA-required overtime pay from their gross income on their federal tax return, up to $12,500 for single filers and $25,000 for joint filers. For example, if an employee's normal hourly rate is $20 per hour, and the employee is paid $30 per hour for overtime, only the $10 per hour extra pay is deductible. The deduction also phases out for those with a modified adjusted gross income ("MAGI") above $150,000 for single filers and $300,000 for joint filers. Specifically, for every $1,000 over the MAGI limit, the deduction is reduced by $100.

The OBBA requires employers to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year. The IRS is expected to provide further guidance regarding employer reporting requirements.

Tuition Reimbursement

The OBBBA extends the annual exclusion for tuition reimbursement. An employer may make tuition reimbursement payments to an employee, and the employee may exclude up to $5,250 in total of tuition repayments per year. That amount is subject to inflation, beginning in 2026.

Reduced Reporting Threshold for Non-Employee Compensation

The threshold for reporting payments made by employers to independent contractors and others (for example, payments of attorney's fees in a settlement arrangement) increases from $600 to $2,000.

Paid Family Leave Tax Credit

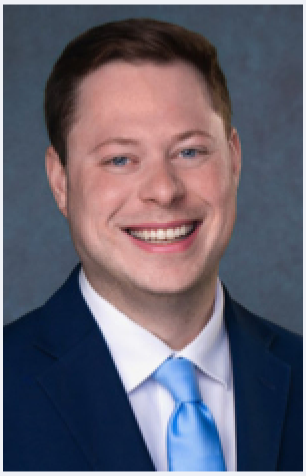
The OBBBA extends the federal income tax credit to eligible employers providing paid family and medical leave to its qualifying employees. As a change, the tax credit can now be calculated in one of two ways elected by the employer. The first option is based on a percentage of wages paid during the leave period, and the second option is based on a percentage of the total premiums paid during the taxable year. To claim the credit, employers are required to have a written policy that (1) offers a minimum of two weeks of annual paid medical family leave, (2) pays at least 50% of the employee's wages during the leave period, and (3) contains anti-discrimination, anti-retaliation, and anti-interference language.

Dependent Care FSA Limit Increase

Dependent care Flexible Spending Account contribution limits increase from $5,000 to $7,500 (or from $2,500 to $3,750 for married individuals filing separately) for tax years beginning after December 31, 2025.

It is important to understand that these changes impact federal taxes and laws. State and local taxes and laws still remain in effect.

If you have any questions about the One Big Beautiful Bill or need training and policy drafting, please contact your Knox Law attorney, our Labor & Employment group, or call us at 814-459-2800.



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