



Payroll and Tax Implications of the One Big Beautiful Bill Act

On July 4, 2025, the One Big Beautiful Bill Act (OBGBA) was signed into law, enacting significant changes to federal tax and payroll law. The Act extends several provisions from the Tax Cuts and Jobs Act (TCJA) and introduces new deductions, credits, and compliance requirements that will affect your payroll operations, employee benefits, and tax reporting obligations.

To help you navigate these changes, we've summarized the most relevant **payroll-related** provisions below, including effective dates and Internal Revenue Code (IRC) references.

Summary of Key Payroll-Related Provisions

Provision	Summary of Change	Effective Date	Act Section	IRC Code Sec.
Extension and enhancement of reduced individual tax rates	Permanently extends lower individual income tax brackets originally enacted under TCJA	Taxable years starting after Dec. 31, 2025	Sec. 70101	Code Sec. 1(j)
Extension and enhancement of increased standard deduction	Permanently extends the increased standard deduction and continues indexing it for inflation	Taxable years starting after Dec. 31, 2025	Sec. 70102	Code Sec. 63(c)
Termination of deduction for personal exemptions other than temporary senior deduction	Permanently repeals personal exemptions and introduces a new temporary additional standard deduction for seniors age 65 and older	Taxable years starting after Dec. 31, 2024	Sec. 70103	Code Sec. 151(d)(3)
No tax on tips	Temporarily allows employees to deduct up to \$25,000 annually in qualified tip income from their taxable wages, reducing income subject to withholding and requiring employers to report tip amounts on Form W-2	Taxable years starting after Dec. 31, 2024 (reporting prior to Jan. 1, 2026 may be approximated by reasonable method specified by Treasury Secretary)	Sec. 70201	New Code Sec. 224

Provision	Summary of Change	Effective Date	Act Section	IRC Code Sec.
No tax on overtime	Temporarily allows employees to deduct up to \$12,500 in qualified overtime pay from taxable income, reducing withholding amounts and requiring employers to report overtime separately on Form W-2	Taxable years starting after Dec. 31, 2024 (reporting prior to Jan. 1, 2026 may be approximated by reasonable method specified by Treasury Secretary)	Sec. 70202	New Code Sec. 225
Increase in threshold for requiring information 1099 reporting with respect to certain payees	Raises the threshold for information reporting under IRC 6041 from \$600 to \$2,000, indexes it for inflation starting in 2027, and aligns related reporting and backup	Taxable years starting after Dec. 31, 2025	Sec. 70433	Code Sec. 6041(a)
Permitting premium tax credit only for certain individuals; eliminating limitation on recapture of advance payment of premium tax credit	Tighten eligibility for the Affordable Care Act (ACA) premium tax credit by restricting it to U.S. citizens and certain eligible noncitizens, enhancing income and identity verification, and eliminating limitation on recapturing excess advance payments	Changes phased in between 2025 and 2027	Sec. 71301-71305	Code Sec. 36B
Extension and modification of limitation on deduction and exclusion for moving expenses	Extends suspension of moving expense deduction and exclusion for most taxpayers, while continuing eligibility for active-duty military and newly adding members of intelligence community who relocate due to job assignments	Taxable years starting after Dec. 31, 2025	Sec. 70113	Code Sec. 217(k)
Extension and enhancement of paid family and medical leave credit	Makes the paid family and medical leave credit permanent, expands it to include insurance premium payments, and clarifies coordination with state and local leave programs	Taxable years starting after Dec. 31, 2025	Sec. 70304	Code Sec. 45S
Enhancement of the dependent care assistance program	Increases the annual exclusion for employer-provided dependent care assistance from \$5,000 to \$7,500 (\$2,500 to \$3,750 for married individuals filing separately)	Taxable years starting after Dec. 31, 2025	Sec. 70404	Code Sec. 129

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Exclusion for employer payments of student loans	Makes permanent the exclusion from income for employer-paid student loan assistance up to \$5,250 per year and adds an annual inflation adjustment	Taxable years starting after Dec. 31, 2025	Sec. 70412	Code Sec. 127
Enforcement provisions with respect to COVID-related employee retention credits	Imposes new penalties and enforcement measures for improper claims of COVID-related employee retention credits (ERCs), prohibits new claims after January 31, 2024	After date of enactment (July 4, 2025)	Sec. 70605	Code Sec. 3134, Code Sec. 3131, Code Sec. 3132

Recommended Employer Actions

- *Update Payroll Systems:* Adjust withholding tables and tax calculations for 2026 and beyond. Implement new W-2 reporting fields for tips and overtime deductions.
- *Review Benefit Offerings:* Evaluate dependent care, student loan repayment, and child care programs. Coordinate with benefit providers to ensure compliance with new limits and credits.
- *Communicate with Employees:* Inform employees about new deductions (tips, overtime) and benefit changes. Update onboarding and open enrollment materials accordingly.
- *Coordinate with Tax Advisors:* Confirm eligibility for credits (e.g. Paid Leave, Child Care). Review documentation and compliance for ERC and executive compensation rules.
- *Monitor IRS Guidance:* Stay alert for IRS implementation rules and clarifications. Track effective dates for payroll-related provisions.

We are committed to helping you understand these changes and ensure your payroll operations remain compliant and efficient. Please contact us with any questions or to schedule a consultation.

Sincerely,

Catanese Group