



OBBBA Explained:

Understanding how the **“One Big Beautiful Bill Act”** changes payroll and HR compliance requirements for employers



Today's Agenda

- OBBBA Overview: Impact on Professional Service Firms
- OBBBA and Employee Tax Reporting vs. Paychecks
- Law Firm Scenarios: Roles and Overtime Rules
- FLSA & State Compliance Essentials for Employers



Mike Vannoy
CMO, Asure
Host of the Mission to
Grow Podcast



Mary Simmons
VP HR Compliance, Asure
PHR, SHRM-CP



SECTION 1

OBBBA Overview: Impact on Professional Service Firms

“One Big Beautiful Bill Act” Overview of the OBBBA

a.k.a. No tax on Tips and Overtime

Who?

- Hourly, non-exempt employees (e.g., legal assistants, receptionists, file clerks, billing staff) eligible for overtime.

What?

- Federal law allowing employees to exclude up to \$12,500 of overtime wages from federal income tax.
- *Tip exclusion applies mainly to hospitality and is not relevant to most professional firms.*

When?

- President Trump signed into law July 4, 2025
- Takes Effect **retroactive** January 1, 2025 through December 31, 2028



4 Reasons Why This Matters for Employers

1. Employee Confusion – Clarify refunds come at tax time.
2. Wage-Hour Compliance – Verify exempt vs. non-exempt roles.
3. Payroll Accuracy – Track overtime for 2025 W-2s.
4. State Variance – Keep full withholding until guidance.





SECTION 2

OBBBA and Employee Tax Reporting vs. Paychecks

OBBBA and Employee Tax Reporting vs. Paychecks

How OBBBA Is Structured for Tax Reporting

Codified under Subtitle A, Chapter 1
(Applies to Form 1040)

Does not amend IRC §3401 or §3402
(No change to paycheck withholding)

Form 1040 U.S. Individual Income Tax Return 2024. The form includes sections for personal information, filing status, digital assets, dependents, and income reporting. Key sections include:

- Personal Information:** Name, address, and contact details.
- Filing Status:** Single, Married filing jointly, Married filing separately, Head of household, Qualifying surviving spouse.
- Digital Assets:** Section for reporting digital asset transactions.
- Dependents:** Table for reporting dependent information.
- Income:** Table for reporting various income sources (1a-1z).
- Standard Deduction:** Section for reporting standard deduction (2a-2c).

IRS website screenshot showing the section **4.23.8.8 (02-01-2003) Computing Income Tax Withholding**. The text includes:

4.23.8.8 (02-01-2003)
Computing Income Tax Withholding

- IRC 3402 requires employers to deduct and withhold income tax from payments of wages. When income tax withholding is involved and IRC 3509 is not applicable, use the supplemental wage withholding rates. See IRM 4.23.8.4, IRC 3402(d) - Relief for Employer When Employees Have Paid Income Tax on Wages.
- Where the employer can establish the employee's allowable number of exemptions from the Form W-4, Employee's Withholding Allowance Certificate, on file for the employees during the audit years, the computation can be made based on the laws and regulations in existence during those years.
- Treas. Reg. 31.3403-1 states that every employer required to deduct and withhold the tax under IRC 3402 from the wages of an employee is liable for the payment of such tax, whether or not it is collected from the employee by the employer.
- Under IRC 3402(d), the employer may request relief from payment of FITW. Form 4669 and Form 4670 are used for this purpose. See IRM 4.23.8.4.3, Procedures for Relief Under IRC 3402(d) and/or IRC 3102(f)(3) in Examination.

4.23.8.8.1 (08-11-2009)
Income Tax Withholding Overpayments - Current Year

- If, during any return period, an employer collects from an employee more than the correct amount of FITW and repays the amount of the over-collection to the employee and obtains a written receipt showing the date and the amount of the repayment before the return for such period is filed with the IRS and before the end of the calendar year in which the over collection was made, the employer will not report on any return or pay to the IRS the amount of the over-collection.
- If, in any return period in a calendar year, an employer collects from any employee more than the correct amount of FITW under IRC 3402 and the employer pays the over-collection to the

OBBBA and Employee Tax Reporting vs. Paychecks

How Employees Claim OBBBA Tax Benefit

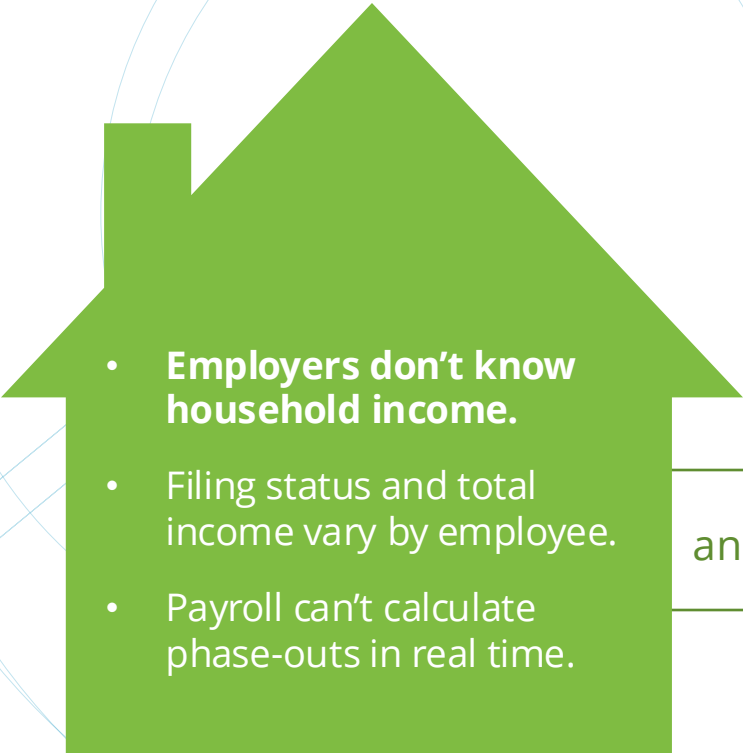
- An **above-the-line deduction** is a specific type of deduction you take on your **IRS Form 1040** to reduce your **Adjusted Gross Income (AGI)** — **before** calculating other credits, taxes, or even whether you itemize deductions.
- The OBBBA creates **two new above-the-line deductions**:
 - Up to **\$25,000 in tips**
 - Up to **\$12,500 in overtime**
- Workers **claim the benefit when filing** their return — likely resulting in a **bigger refund** or **lower tax bill**.

Bottom Line for Employers:

Because the deductions are "above the line," your **payroll processes do not change**. Therefore, there's no need to modify withholding unless future IRS guidance says otherwise.

OBBBA and Employee Tax Reporting vs. Paychecks

Why OBBBA Doesn't Change Paycheck Withholdings

- 
- Employers don't know household income.
 - Filing status and total income vary by employee.
 - Payroll can't calculate phase-outs in real time.

and if they did...



IRS applies phase-outs at tax filing.

Deductions are handled on the employee's 1040.

Refund or credit appears after year-end filing.



SECTION 3

Real-World Implications & Scenarios

Scenario 1

Employee is unsure if they are Eligible for OT

Situation:

Jane hears about OBBBA and assumes she will have no tax on her overtime. When she talks to her manager, she is told she is not eligible for overtime based on her position, she is exempt.

Risk Under the New Law:

All employees must be classified exempt or non-exempt. Job descriptions should be created to defend the classification and explained to the employee at hire, so they understand the rules of their classification.

Jane's manager went to HR and created a job description to show Jane she is Exempt and not eligible for OT.

Proactive Measures

- ✓ Educate managers and employees that the OBBBA no tax on OT is for non-exempt employees only.
- ✓ Add a job description to all new hire orientations.

Scenario 2

Non-exempt Employee Thinks Their OT Should Not be Taxed in 2025.

Situation:

Ron is upset that his paycheck is not larger as he thinks his OT should not be taxed as per OBBBA.

His manager is also confused so they consult with HR to understand the law. Ron wants to quit he is so angry with his employer.

Risk Under the New Law:

The company needs to educate managers and staff on OBBBA and how it effects employees. If the employee quits and goes to the DOL it could lead to a wage and hour audit that may cost the company large fees if their practices are not compliant.

Companies should be proactively conducting a Wage and Hour audit to catch errors and correct them.

Proactive Measures

- ✓ Conduct a wage and hour audit mapped and reviewed before year-end filings.
- ✓ Ensure managers are trained in wage policies.
- ✓ Create clear time policies in the handbook.



SECTION 4

FLSA Compliance Prep Checklist

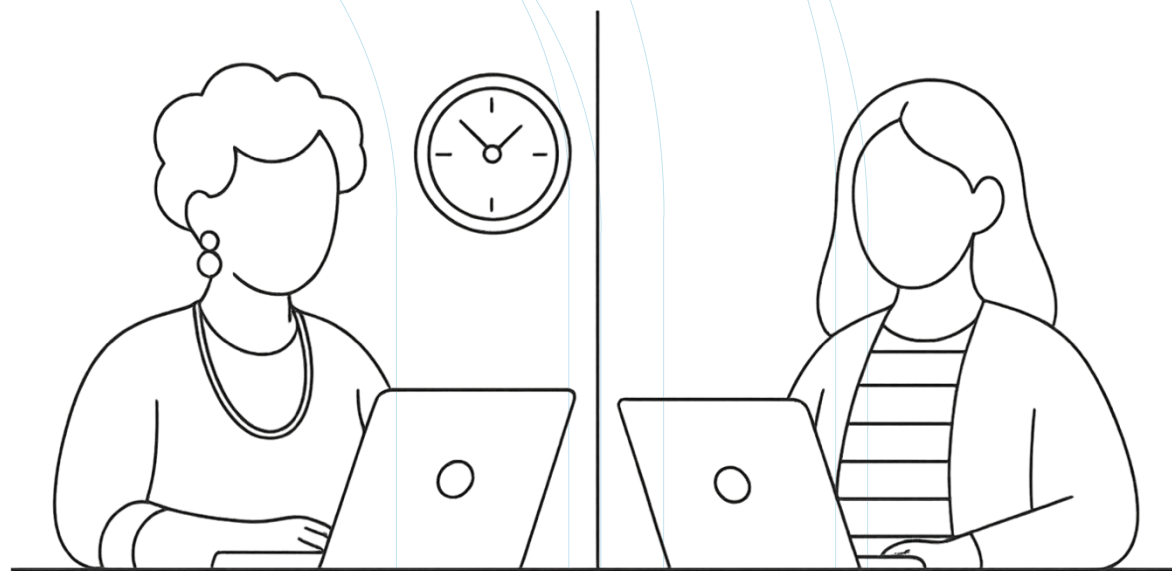
What Employers Must Do NOW



- Maintain standard withholding of federal income tax
- Accurately track tips and overtime—regardless of method
- Communicate with employees to ensure they understand the new law

Payroll & HR

FLSA Compliance Prep Checklist



Exempt vs. Nonexempt Classification

Ensure roles meet duties and salary tests for exemption.

Overtime Policy

Employee Handbook

Verify it complies with federal and state law (e.g., when OT begins, required approvals).

FLSA Compliance Prep Checklist



FLSA Compliance Prep Checklist



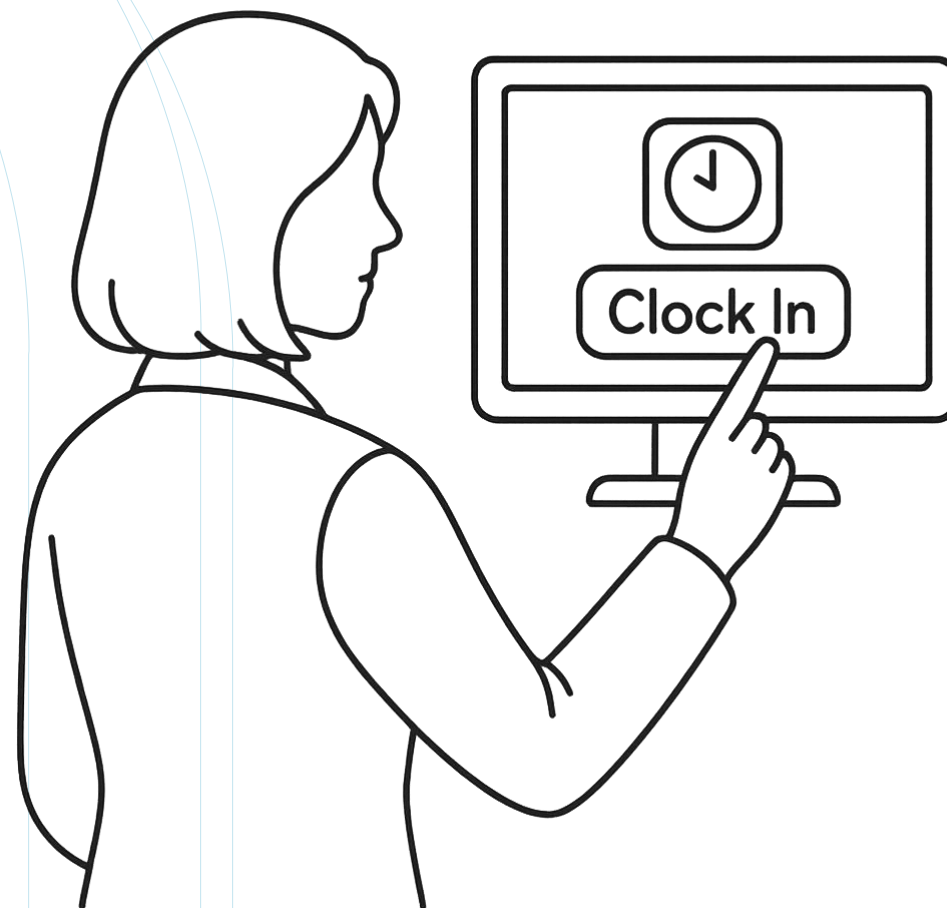
Job Descriptions

Align duties with FLSA standards to defend classification decisions.

FLSA Compliance Prep Checklist

Timekeeping Practices

Confirm employees are accurately tracking hours, breaks, and meal periods.



FLSA Compliance Prep Checklist

Unauthorized Overtime Procedures

Have clear rules for how unapproved OT is handled — but remember, it still must be paid



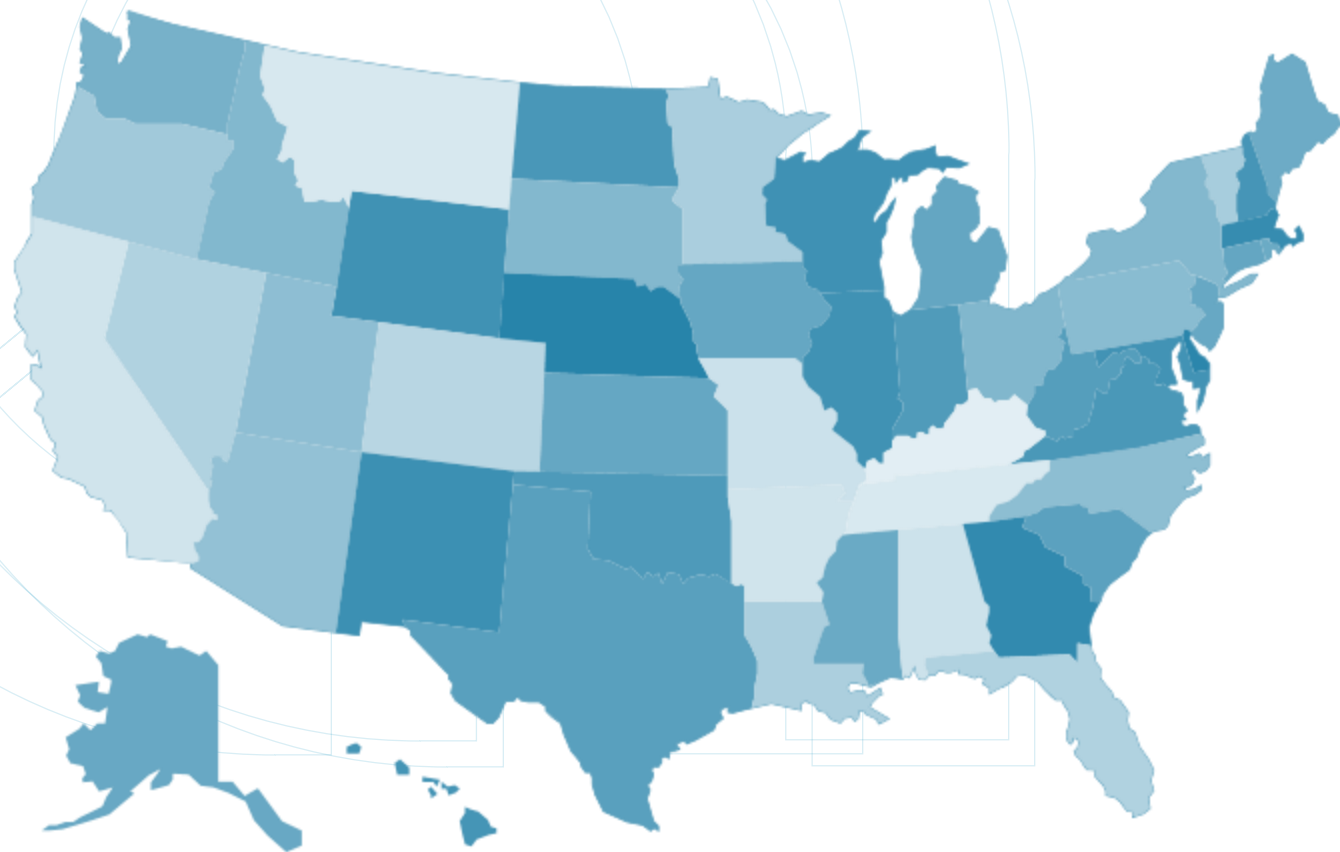
FLSA Compliance Prep Checklist

Training for Managers

Ensure supervisors understand when OT is owed and how to avoid violations.



FLSA Compliance Prep Checklist



State-Specific Rules

Some states (e.g., California) have daily OT triggers — review local requirements.

White Collar Exemptions

- 1. Executive Exemption:** Managing the enterprise, a department, or subdivision. Supervision: Regularly directs the work of at least two full-time employees (or the equivalent). Authority: Has the authority to hire or fire, or their recommendations carry significant weight.
- 2. Administrative Exemption:** Office or non-manual work directly related to management or general business operations. Discretion: Exercises independent judgment on significant matters.
- 3. Professional Exemption-Two** main types: **Learned Professional** Work requiring advanced knowledge in a field of science or learning (law, medicine, accounting, engineering, etc.). Typically acquired through prolonged, specialized education. **Creative Professional** Work requiring invention, imagination, originality, or talent in artistic/creative fields.



Must meet the duties & salary test

Minimum \$684 a week

Many states such as NY and CA are higher



THANK YOU!

