

The tax and spending law, known as the One Big Beautiful Bill Act (OBBBA), has caused great changes in the taxability of employee compensation and will have several effects on HR.

Highlighting 15 takeaways from the new law for HR professionals:

1. **Identify weekly overtime:** The new “qualified overtime” deduction (2025–2028) applies only to FLSA weekly overtime. Employers must separate FLSA overtime from daily/state overtime in payroll systems and will have to find a way to identify only weekly overtime on Form W-2.
2. **Update withholding:** HR must adjust federal tax withholding procedures by 2026.
3. **Avoid misclassification:** Don’t reclassify employees to exempt status to bypass reporting. The bill doesn’t change exemption rules.
4. **Know deduction caps:** Overtime deductions cap at \$12,500 per person (\$25,000 joint), reduced for higher earners.
5. **Tip rules:** Only voluntary tips qualify. Mandatory service charges and auto-gratuities don’t. Deduction caps at \$25,000.
6. **Communicate limits:** Explain to employees that 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 payroll tracking:** Confirm payroll systems meet reporting rules for overtime and tips to avoid compliance issues. HR should contact payroll providers to ensure tracking and pay stub reporting are compliant.
8. **Food deduction removed:** Employer meal deductions are eliminated, which may affect food perks. It is not expected that most organizations will dramatically decrease these perks given the boost in employee engagement and morale that comes with them.
9. **Student loan aid:** Employer-paid student loan reimbursement remains tax-free permanently.
10. **Paid leave credit:** The tax credit for employers offering **paid** family/medical leave is now permanent.
11. **HSA and telehealth:** The law makes important changes to HSA eligibility and reimbursements, including retroactively restoring the telehealth relief provided by the Coronavirus Aid Relief and Economic Security Act
12. **Dependent care FSAs:** Annual contribution limits rise in 2026, offering more tax relief.
13. **Childcare/adoption benefits:** Enhanced tax credits and partially refundable adoption assistance improve employee benefits. Employees receiving childcare and adoption assistance from their employers will benefit from improved tax treatment of these benefits, with the maximum employer-provided childcare credit increasing and the adoption assistance credit becoming partially refundable.
14. **Immigration enforcement:** ICE’s \$30B budget increase will drive more audits, raids, and deportations in key industries such as construction, hospitality, and agriculture.
15. **AI regulation:** States retain authority to regulate AI, as federal preemption was excluded.