

# H.R.1, the One Big Beautiful Bill Act has been signed into law on July 4th 2025

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[Text - H.R.1 - 119th Congress \(2025-2026\): One Big Beautiful Bill Act | Congress.gov | Library of Congress](#)

TITLE VII—FINANCE

Subtitle A -- Tax

## Overview

This alert is intended to provide a high-level overview of select provisions that may impact employers of what we know thus far. This is a large Act with various regulations included. Among other provisions, the Act extends the tax cuts in the Tax Cuts and Jobs Act passed in 2017 and includes numerous new provisions affecting tax, compensation and benefits. ProLiant will continue to monitor updates relating to the new regulations and requirements in this Act.

## Key Takeaways

### Qualified Tips (Sec. 70201 – No tax on Tips)

Under this law, there is no federal tax on qualified tips through a federal tax deduction on an individual's personal income tax. This is retroactive to January 1, 2025, and is in effect until December 31, 2028. Deductions are available regardless of whether an individual chooses to itemize deductions or take the standard deduction. Individuals would deduct tips on their personal federal income tax returns, resulting in tipped income being exempt from federal income tax.

- Deductions would phase out beginning when an individual's modified adjusted gross income exceeds \$150,000 for the year (or \$300,000, for married filing jointly).
  - Deduction is capped at \$25,000 per year.
  - Social Security and Medicare taxes still apply.
  - Employer reporting requirements are expected to change slightly with consideration to the Form W-2.
    - Pending additional guidance from the IRS.
    - The law codifies a requirement for the Form W-2 to include the total tips reported to the employer, including tips above the Social Security wage base.

The term 'qualified tips means cash tips received by an individual in an occupation which customarily and regularly received tips – the IRS will be providing additional details on qualification and reclassification of income to prevent abuse of the deduction allowed.

- “Cash tips” is inclusive of tips received from customers that are paid in cash or charged for the individual as any tip-sharing agreement.
- Within 90 days after the date of enactment of this Act, the IRS will publish a list of occupations which are considered to “customarily and regularly receive tips on or before December 31, 2024”.

There is transition relief for cash tips that must be reported for periods prior to January 1, 2026. Filers will be able to approximate cash tips by using a “reasonable method”, to be later specified by the IRS. Additional guidance is pending.

### **Qualified Overtime (Sec. 70202 – No Tax on Overtime)**

Additionally, there is no federal tax on qualified overtime wages through a federal deduction on an individual’s personal income tax. This new law is retroactive to January 1, 2025, and will end December 31, 2028. Deductions are available regardless of whether an individual chooses to itemize deductions or take the standard deduction. “Qualified overtime” is defined using Section 7 of the Fair Labor Standards Act of 1938 (FLSA) that is in excess of the regular rate. Meaning only the premium portion of overtime can be deducted.

Previously, overtime wages were included in gross income. While there were recordkeeping requirements for overtime wages, there previously has been no separate reporting requirement for tax purposes on earned overtime wages. Under the new law, reporting requirements for overtime wages will be included on the Form W-2. The reporting requirements are pending.

- Deductions would phase out beginning when an individual’s modified adjusted gross income exceeds \$150,000 for the year (or \$300,000, for married filing jointly).
- Individuals would deduct overtime earnings on their personal federal income tax returns, resulting in overtime income being exempt from federal income tax.
  - Deduction is capped at \$25,000 per year for joint returns; \$12,500 for individual filers.
  - The deduction excludes highly compensated individuals.
  - Any qualified tip amount is excluded from the overtime earning.

There is transition relief for overtime wages that must be reported for periods prior to January 1, 2026. Filers will be able to approximate qualified overtime wages by using a “reasonable method”, to be later specified by the IRS. Additional guidance is pending.

### **Personal and Standard Deductions (Sec. 70102 – Increased Standard Deduction)**

Standard deductions are temporarily increased as follows:

- \$2,000 for married filers
- \$1,500 for head of household filers
- \$1,000 for individual filers

This increase will expire as of January 1, 2029.

The standard deduction under the Tax Cuts and Jobs Act of 2017 are permanent as of January 1, 2026. Adjustments for inflation will now apply to the 10% and 12% tax brackets.

## **Employee Retention Tax Credit (ERTC) (Sec. 70605 – Enforcement Provisions for COVID-related Employee Retention Credits)**

The Act retroactively ends the Employee Retention Tax Credit (ERTC) program for third and fourth quarter (Q3 and Q4) 2021 claims that were filed after January 31, 2024. While businesses are not eligible to claim any Q3 and Q4 2021 claims filed after that date, claims from those quarters that were filed before January 31, 2024, will still be processed. Claims from prior quarters are unaffected by the Act.

The new law extends the statute of limitations for the IRS to assess the validity of Q3 and Q4 2021 ERTC claims. The IRS now has six years, as opposed to five years, from the date of filing to assess and audit claims from these quarters. The statute of limitations for 2020 and the first and second quarters of 2021 remains unchanged -- three years.

## **Paid Family and Medical Leave Tax Credit (Sec. 70304 – Extension and enhancement of paid family and medical leave)**

The federal paid family and medical leave employer tax credit created by the 2019 Tax Cuts and Jobs Act (TCJA) was set to expire at the end of 2025. The Act has extended this credit.

Original provisions:

- Eligible employers could claim a general business credit equal to 12.5% of wages paid to qualifying employees on paid family and medical leave, provided they paid at least 50% of the employee's regular wages.
  - The credit increased incrementally by 0.25% for each percentage point above that 50% threshold, up to a maximum credit of 25%.
  - The credit applied for up to 12 weeks of leave annually per employee.
- Eligibility requirements:
  - Employers had to maintain a written policy granting full-time workers at least two weeks of paid family and medical leave, with part-time employees eligible on a proportional basis.
  - Employees had to have been employed for at least one year and earn less than 60% of the highly compensated employee threshold.

Updated provisions:

- The credit is permanent.
- Lowered the employment to six months.
- State or local mandated paid leave counts toward satisfying the eligibility requirements for the credit.

## **Deduction for Business Meals (Sec. 70305 – Exceptions from limitations on deduction for business meals)**

Currently, for amounts incurred and paid after December 31, 2017, and before January 1, 2026, or expenses of the employer associated with providing food or beverages to employees through an eating facility that meets the requirements for de minimis fringes and for the convenience of the employer are limited to a 50% deduction. Such amounts incurred and paid after December 31, 2025, are not deductible.

The Act maintains the current exemptions from the 50% deduction limitation, thereby preserving – and in some cases increasing – the amount eligible to be deducted. Further, the Act expands the list of exemptions to include food or beverage provided on certain fishing vessels or certain fish processing facilities, making those meals fully deductible.

## **Employer Provided Child Care Credit (Sec. 70401 – Enhancement of employer provided child care credit)**

Currently, employer-provided childcare credit provides businesses with a nonrefundable tax credit of up to \$150,000 per year on up to 25% of qualified childcare expenses provided to employees. Meaning, an employer must spend at least \$600,000 on childcare related expenses to receive the full credit.

The Act permanently raises the maximum credit from \$150,000 to \$500,000 and increases the percentage of childcare expenses covered from 25% to 40% of qualified expenses. Meaning, a business must spend at least \$1.25 million on childcare services to claim the full credit amount.

The Act allows small businesses to pool their resources to provide childcare to their employees and for businesses to use a third-party intermediary to facilitate childcare services on the business' behalf. An eligible small business is one that meets the gross receipts test of less than or equal to \$25 million (inflation adjusted) based on the 5-year period (rather than 3- year period) preceding the taxable year.

In 2025, the small business gross receipts threshold is \$31 million.

Eligible small businesses benefit further as the maximum credit increases to \$600,000 with a 50% credit rate, requiring \$1.2 million in eligible spending to receive the full credit.

## **Dependent Care Assistance (Sec. 70404 – Enhancement of the dependent care assistance program)**

Effective tax years beginning after December 31, 2025, the new law increases the Dependent Care Assistance Program (DCAP) annual limits:

- \$7,500 for single individuals and individuals who are married filing jointly
- \$3,750 for married filing separately.

## **Qualified Transportation Fringe Benefits (Sec. 70112 - Extension and modification of qualified transportation fringe benefits)**

The 2019 Tax Cuts and Jobs Act (TCJA) suspended the tax exclusion for qualified bicycle commuting expense reimbursements. The Act permanently eliminates the \$20 per month qualified bicycle commuting reimbursement benefit, effective for tax years after December 31, 2025.

For qualified transportation fringe benefits other than the qualified bicycle commuting reimbursement, the Act adds an additional year of inflation adjustment.

## **Qualified Moving Expense Reimbursement (Sec. 70113 – Extension and modification of limitation on deduction and exclusion for moving expenses)**

Both the tax-free qualified moving expenses reimbursement for employees and the employer deduction for moving expenses were suspended in 2018 by the TCJA, scheduled to last until the end of 2025.

The Act permanently removes both the exclusion for qualified moving expenses reimbursement and the deduction for moving expenses. There is an exception for active-duty members of the Armed Forces and members of the Intelligence Community.

ProLiant will continue to provide updates and guidance as additional information, requirements, and clarifications become available. We are actively working on system update planning to support the updates within this new law.

We will continue to monitor for updates and guidance on any new reporting requirements as it relates specifically to the overtime and tip changes. Thank you for choosing to partner with ProLiant! ProLiant will continue to monitor for updates.