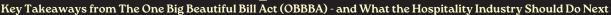


No Tax on Tips / No Tax on OT





What the OBBBA Changed

The **One Big Beautiful Bill Act**, passed in July 2025, introduced two landmark provisions that directly impact hospitality employers and their employees:

No Federal Income Tax on Tips

- Employees can exclude up to \$25,000 in reported tips annually from federal income tax.
- Applies to all legally reported tips starting January 1, 2025.
- FICA (Social Security & Medicare taxes) still apply only income tax is excluded.
- Employees must still accurately report tips to employers through payroll systems.

No Federal Income Tax on Overtime Pay

- Overtime wages (hours worked over 40/week) are excluded from federal income tax for qualifying employees.
- Like tips, this applies only to overtime earnings, not base wages.
- Also effective for tax years 2025 through 2028.

Actions Hospitality Businesses Should Take

Update Payroll Systems

- Ensure your payroll provider is aware of the OBBBA provisions and tracking tips/overtime correctly.
- Tips and OT must still be reported for FICA and wage compliance, even if not taxed federally.
- Be sure to itemize tip and OT income separately for employees on pay stubs and W-2s.

Maintain Tip Logs & Audit Trails

- Reinforce existing tip-reporting procedures to ensure accuracy and compliance.
- If using tip pooling, clearly document amounts and allocations to ensure IRS defensibility.

Educate Employees

- Employees will want to understand the new tax benefits and their responsibility to report all tips properly.
- Clarify what counts as a tip (voluntary amounts left by the customer), vs service charges (which are not exempt).

Track Overtime by Pay Category

- Overtime should be clearly tracked and categorized in your timekeeping software.
- This will ensure accurate tax treatment and simplify end-of-year W-2 reporting.

Common Pitfalls to Avoid

- Failing to update payroll software: May result in incorrect W-2s or missed tax benefits for employees.
- Misclassifying service charges as tips: Service charges are not eligible for exemption and are still taxable.
- Assuming FICA taxes are also exempt: They are not both employer and employee FICA obligations still apply.

Why it Matters

- These provisions lower tax burdens for your team, improving morale and retention.
- Employers who accurately track & educate will be seen as trusted, compliant operators.
- Missed tracking or reporting puts your restaurant at risk for IRS audits or back taxes.

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