

Employer Takeaways from the One Big Beautiful Bill Act, by Keith J. Gutstein, Esq. and Benny Menaged, Esq., 9-4-2025

Earlier this summer, the One Big Beautiful Bill Act (“H.R.1”) was signed into law, marking a substantial overhaul of federal tax and spending policy. Among its many provisions, H.R.1, introduces wide-ranging changes that directly affect employers, including new tax incentives, benefit plan modifications, and expanded compliance obligations.

Below is a summary of some key takeaways so that employers may begin assessing when and how these provisions will impact their operations and start preparing for changes accordingly.

1. Payroll & Income Tax Changes: Tip and Overtime Income Deductions

Summary

The Act introduces new above-the-line deduction for workers’ qualified tip income and overtime pay, beginning tax year 2025. These changes are temporary, only running through 2028 unless extended by a future law.

No Tax on Tips

- Employees and self-employed individuals may deduct up to \$25,000 in qualified tips from federal income tax. For self-employed, the deduction may not exceed individual’s net income (without regard to this deduction) from the trade or business in which the tips were earned.
- Deduction phases out at a 10% rate until it reaches \$0 when modified adjusted gross income (MAGI) exceeds \$150,000 (single filers)/ \$300,000 (joint filers). That means for a single taxpayer claiming the maximum deduction, the deduction would reach \$0 at \$400,000 of MAGI, and for joint filers, the deduction would reach \$0 at \$550,000 of MAGI.
- Employees and self-employed individuals who may use this are defined as those who “customarily and regularly receive tips.”
 - It will ultimately be up to the Treasury and the IRS to determine exactly who falls into this category.

No Tax on Overtime

- Employees may deduct up to \$12,500 for single filers (or \$25,000 for joint filers) per year in qualified overtime pay.
- Deduction phases out at a 10% rate when adjusted gross income is over \$150,000 (single filer)/\$300,000 (joint filers). For each \$1,000 by which a taxpayer’s adjusted gross income exceeds those amounts, the deduction will be reduced by \$100.

For more on this, check out the IRS fact sheet [here](#).

Action Items

Although the deduction applies on the individual's return, employers must act now if they have not done so already to accommodate for payroll reporting changes given that the changes are retroactive to January 1, 2025. This includes:

- Updating payroll systems to track tip/overtime earnings under new IRS guidance.

Monitoring IRS and Treasury guidance on employer obligations.

2. Expanded Tax Credits: Childcare, Paid Family Leave

Employer-Provided Childcare Tax Credit

The Act expands the existing employer-provided childcare credit by the following potentially incentivizing employers to invest in childcare for their employees:

- Increases the maximum allowable employer-provided childcare credit from \$150,000 to \$500,000 per year.
- Increases the percentage of childcare expenses covered from 25% to 40%.
- For qualified small businesses the maximum credit increases to up to \$600,000 with a 50% credit rate.

Paid Family & Medical Leave Credit

The Act provides incentives to employers who offer their workers up to 12 weeks of paid time off for family and medical leave.

- Credit is now permanent (it was previously set to expire at the end of 2025).
- The tax credit generally ranges from 12.5% to 25% of the wages paid to employees while they are on paid leave, according to AARP .
- Employee eligibility threshold reduced from 12 to 6 months of employment.
- Employers may also receive credit for insurance premiums paid during a leave of absence.
- The Act now offers a credit for employers in states with mandatory paid family leave laws, such as New York and California. Employers who provide more than their state's mandated paid medical leave can claim a tax credit on the wages and insurance premiums paid during leave in excess of state requirements.

Action Items

- Businesses offering on-site or third-party childcare should maximize credit opportunities.
- Review PFML leave policies to ensure they meet IRS requirements. States that have required PFL leave laws should make sure their policies fully comply with the law.
- Prepare documentation for credit substantiation.

3. Health & Welfare Benefit Plan Changes

Health Savings Account (HSA) Enhancements

- The Act broadens HSA eligibility.
- Starting in 2026, Direct Primary Care (DPC) arrangements will no longer disqualify individuals from contributing to an HSA.
- DPC monthly fees (not exceeding \$150/month (individual) / \$300/month (family)) can now be paid from HSAs.
- Marketplace Bronze/Catastrophic plans qualify as HSA-eligible HDHPs beginning in 2026.

Dependent Care Assistance Plan (DCAP) Limit Increase

- Starting with tax years after December 31, 2025, the annual limit for a dependent care flexible spending account (FSA) increases from \$5,000 to \$7,500 (\$2,500 to \$3,750 for married couples filing separately).
- Tax-free to the employee and deductible to the business.

Action Items

- Review Section 125 and HSA plan documentation for necessary amendments.
- Prepare employee communications for 2026 open enrollment season.

4. ERC (Employee Retention Credit) Limitations

The ERC is a Covid-era payroll tax credit enacted as part of the CARES Act. H.R.1's changes expand the IRS's rules to enforce improper ERC claims. Of note:

- Employers may no longer claim ERCs for Q3 or Q4 of 2021 if the claim was filed after January 31, 2024.
- IRS given extended 6-year window to assess amounts attributable to ERC.

Action Items

- Audit past ERC claims for timeliness and eligibility.
- Preserve documentation in case of IRS examination.

5. Research & Development (R&D) Expensing Restored

Highlights

- Domestic R&D costs are now immediately deductible, rather than realized over a several year period (certain tax years apply).

- Applies to both corporate and pass-through entities.
- Foreign R&D costs remains subject to 15-year amortization.

Action Items

- Review prior year returns for possible amended claims, consulting with accounting professionals to ensure accuracy and assess how the new law impacts firm finances and to develop updated strategies.

Consider future hiring/investment decisions in light of improved R&D tax treatment.

6. Immigration & Compliance-Increased ICE Enforcement Funding

- The U.S. Immigration and Customs Enforcement (ICE) will get a significant boost in funding through FY 2029 including over \$29 billion for such initiatives as hiring and training, and recruitment and onboarding.
- Employers can expect potentially more frequent Form I-9 audits and worksite investigations.

Action Items: Conduct internal I-9 audits and train HR teams to ensure I-9 forms are complete and ready for government review.

These are just a few of the changes in the One Big Beautiful Bill Act. Given the breadth and depth of the bill, employers should be proactive and take proper measures to ensure readiness for upcoming implementation deadlines.

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