



Special NTC Update on Overtime Provision in the “One Big Beautiful Bill”

July 10th, 2025

We are pleased to provide this special NTC update on the overtime provision that was included in the “One Big Beautiful” Bill that as passed by Congress and signed into law by President Trump over the 4th of July holiday.

First, we have provided [the actual bill text](#) and highlighted it on Page 10 where the sections on Tips and Overtime are listed in the Table of Contents. The tips section begins on page 670 and the overtime section on page 678. I’ve also summarized them briefly below. The reason we have included a summary of the tips deduction is that income limitations are interrelated between the two provisions. Another key item of note is that the benefit is temporary for the next three years and has income limitations.

Here are quick summaries of each relevant provision highlighted. Please note we have also provided reference to what the House had proposed at the earlier stages of work on this bill as reference to what the Senate decided and which ultimately became law (Senate version).

Tip Deduction: The measure would create a deduction for qualified tips for **tax years 2025 through 2028**. The deduction would be capped at \$25,000, in contrast with the House measure, which wouldn’t have set a cap. Employees would need to have a work-eligible Social Security number. **The deduction would phase out income that exceeds \$150,000 for individual filers and \$300,000 for joint filers.** Under the House measure, employees with earned income that exceeds the **threshold** for “highly compensated employees” — which is \$160,000 in 2025 — wouldn’t have been eligible for the deduction. Tipped income would include cash tips earned in an occupation where tipping is customary, would have to be paid voluntarily, and would be determined by the payer. Tips couldn’t be earned in a [specified service trade or business](#), such as law, health care, consulting, financial services, athletics, and performing arts. It also would expand the [Federal Insurance Contribution Act](#) tip credit to beauty services, such as hair and nail salons, esthetics, and spas. Employers with tipped employees can claim the credit for the amount of employer Social Security and Medicare taxes paid on workers’ tipped income. The credit is currently available to employers in the food and beverage industry.

Overtime Deduction: **The bill would establish a deduction for overtime compensation for tax years 2025 through 2028 structured similarly to the tipped deduction, but overtime pay would exclude qualified tips. Under current law, overtime pay is generally included in a taxpayer’s gross income and is subject to federal income and payroll taxes. The deduction would be capped**

at \$12,500 for individual filers and \$25,000 for joint filers, with the same income phaseouts as the tip deduction. The House bill wouldn't have set a cap.

Key Question on What Portion of Overtime Qualifies for this Credit:

The bill text mentions no tax on "Qualified Overtime Compensation" which according to Section 7 of the Fair Labor Standards Act of 1938 is the pay *in excess of* the regular rate at which the individual is employed. So, the .5 to the 1.5 by that definition would be the only portion eligible for no tax.

The tax law change is temporary and ends Dec. 31, 2028.

The new law would require separate reporting on Form W-2 of total overtime wages paid.

Additional resources as may be helpful

- **One Big Beautiful Bill Act is Passed: What You Should Know**
- **No Tax on Tips and Overtime: What Employers Should Know**
- **The One Big Beautiful Bill Act Back to House for Approval**