

H.R. 1 Provisions Impacting Employers

H.R. 1, commonly referred to as the “One Big Beautiful Bill,” was signed into law on July 4. The law has several provisions that will impact payroll operations, employee benefits, and tax reporting obligations. Key provisions employers should be aware of are summarized below.

| Provision | Summary of Changes |
|---|---|
| Effective for taxable years starting after Dec. 31, 2024: | |
| No Tax on Tips* | Temporarily allows employees to deduct up to \$25,000 annually in qualified tip income from their taxable wages, reducing income subject to withholding and requiring employers to report tip amounts on Form W-2 |
| No Tax on Overtime* | Temporarily allows employees to deduct up to \$12,500 in qualified overtime pay from taxable income, reducing withholding amounts and requiring employers to report overtime separately on Form W-2 <i>Note: Only the premium portion of overtime pay (i.e., the extra 50% in the “time and a half” rate) is eligible for the deduction.</i> |
| Enhancement of adoption credit | Increases the annual exclusion for employer-provided dependent care assistance from \$5,000 to \$7,500 (\$2,500 to \$3,750 for married individuals filing separately) |
| <i>* Note: For the “No Tax on Tips” and “No Tax on Overtime” provisions, reporting for 2025 may be approximated by reasonable method specified by the Treasury Secretary.</i> | |
| Effective after date of enactment (July 4, 2025) | |
| Enforcement provisions with respect to COVID-related ERCs | Imposes new penalties and enforcement measures for improper claims of COVID-related employee retention credits (ERCs) and prohibits new claims after January 31, 2024 |
| Effective for taxable years starting after Dec. 31, 2025 | |
| Exclusion for employer payments of student loans | Makes permanent the exclusion from income for employer-paid student loan assistance up to \$5,250 per year and adds an annual inflation adjustment |
| Extension and enhancement of paid family and medical leave credit | Makes the paid family and medical leave credit permanent, expands it to include insurance premium payments, and clarifies coordination with state and local leave programs |
| Enhancement of dependent care assistance program | Increases the annual exclusion for employer-provided dependent care assistance from \$5,000 to \$7,500 (\$2,500 to \$3,750 for married individuals filing separately) |

| Provision | Summary of Changes |
|--|---|
| Increase in threshold for requiring information reporting with respect to certain payees | Raises the threshold for information reporting under IRC § 6041 from \$600 to \$2,000, indexes it for inflation starting in 2027, and aligns related reporting and backup withholding rules accordingly |
| Extension and modification of qualified transportation fringe benefits | Eliminates exclusion for bicycle commuting reimbursements and simplifies the structure of qualified transportation fringe benefits, while continuing to allow pre-tax treatment for transit and parking. |
| Extension and modification of limitation on deduction and exclusion for moving expenses | Extends suspension of moving expense deduction and exclusion for most taxpayers, while continuing eligibility for active-duty military and newly adding members of intelligence community who relocate due to job assignments |

We recommend employers take the following actions to ensure compliance with the law and consider whether changes to employee benefits are needed:

- **Update payroll systems** – The IRS announced that there will be no changes to information return forms or withholding tables for Tax Year 2025. According to the [notice](#), “employers and payroll providers should continue using current reporting procedures for reporting and withholding.” The IRS will provide new guidance and updated forms for 2026, including changes to how tips and overtime pay are reported. Transitional relief will be provided for Tax Year 2025 for employers subject to the new reporting requirements regarding tips and overtime pay.
- **Review benefit offerings** – Evaluate dependent care, student loan repayment, and child care programs. Coordinate with benefit providers to ensure compliance with new limits and credits.
- **Communicate with employees** – Inform employees about new deductions (e.g., tips and overtime) and benefit changes. Update onboarding and open enrollment materials accordingly.
- **Coordinate with tax advisors** – Confirm eligibility for credits (e.g., paid leave, child care). Review documentation and compliance for previous ERC claims and executive compensation rules.
- **Monitor IRS guidance** – Stay alert for IRS implementation guidance and clarifications. Be cognizant of effective dates for payroll-related provisions.

We are committed to helping you understand these changes and ensure your payroll operations remain compliant and efficient. Please contact us with any questions or to schedule a consultation.

The bill contains many other tax-related provisions that may impact you or your business. We will continue to study the details contained in the legislation. Should you have specific questions, please reach out to your JTaylor tax advisor.