

## What You Need to Know: Changes In How Tips and Overtime Pay Are Taxed

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Employers should be aware that as of 2025, there is a new tax deduction available to workers who are paid overtime and/or tips. The “no tax on tips and overtime” provision was included in the One Big Beautiful Bill, signed into law by President Trump in July 2025. It took effect at the start of the 2025 tax year and is currently approved through 2028. Employers are subject to documentation filing requirements by the IRS and must provide workers with certain information.

### No Tax on Tips

Employees and self-employed individuals may deduct qualified tips received in specific occupations that are reported on a Form W-2, Form 1099, or other specified statement or reporting instrument. The maximum annual deduction is \$25,000, which is applied after the employee’s adjusted gross income is calculated. For self-employed individuals, the deduction may not exceed the individual’s net income from the trade or business in which the tips were earned. The deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers).

### No Tax on Overtime

Employees who work overtime will be able to deduct up to \$12,500 of qualified overtime compensation per year (\$25,000 if filing a joint return), which is applied after the employee’s adjusted gross income is calculated. The earnings that count toward the deduction only include the actual pay above and beyond a worker’s regular hourly rate. For example, if you earn \$20.00 per hour and receive \$30.00 per hour for overtime, \$10.00 of pay for each overtime hour qualifies for the tax deduction.

### What Employers Need to Know

As there was a one-year safe harbor rule to ease the transition, beginning in 2026, employers and other payors must file appropriate information returns with the IRS, as well as furnish statements to workers. The requirement includes separately reporting certain cash tips received and the occupation of the tip recipient, as well as qualified overtime compensation.

**Takeaway:** The new “no tax on tips and overtime” provision offers meaningful tax relief for eligible workers, but it also introduces added reporting and compliance responsibilities for employers. If you need assistance in determining whether your business is affected by this new law or whether you have new reporting obligations, do not hesitate to reach out to the Employment Law team at Wilentz.

### **Attorney**

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### **Practice**

- Employment Law