

The One Big Beautiful Bill Act (OBBBA) – The Impact on Payroll

Webinar Questions and Answers

DISCLAIMER: Questions #1 and #2 highlight the complexities that employers and payroll providers will face in implementing the No Tax on Overtime provision. The answers provided are general answers—not applicable to client-specific situations. If you have questions specific to your unique pay policies, Ahola will be happy to address them after the IRS releases guidance on the rules.

1. **We have salary employees that get paid a flat fee for on-call duties for nights and weekends. Is this considered eligible overtime?**

Qualified overtime pay for the tax deduction under OBBBA only applies to overtime that is required to be paid under the Fair Labor Standards Act (FLSA). For most employers, the FLSA requires that overtime be paid to covered non-exempt employees at a rate of no less than 1.5 times the employee's regular rate of pay for all hours worked over 40 in a workweek. It is difficult to answer this question without more information (such as whether the flat fee covers non-worked hours). However, this pay would only be eligible for the overtime deduction calculation if it is required to be paid under the rule for FLSA overtime. The pay would also need to be classified as an "overtime type" code so your payroll provider will be able identify it for year-end reporting.

2. **Our employees get an automatic 4 hours of OT pay when they are called out on a weekend or after hours during the week even if they only work 1.5 hours - is this considered eligible OT?**

Qualified overtime pay for the tax deduction under OBBBA only applies to overtime that is required to be paid under the Fair Labor Standards Act (FLSA). For most employers, the FLSA requires that overtime be paid to covered non-exempt employees at a rate of no less than 1.5 times the employee's regular rate of pay for all hours worked over 40 in a workweek. This question is difficult to answer without more information. However, the automatic Call Out pay that is paid for hours not worked would definitely not qualify for the overtime deduction. The Call Out pay that is paid for worked hours might qualify for the overtime deduction, but the pay would only be eligible for the overtime deduction calculation to the extent it is required to be paid under the rule for FLSA overtime.

3. **Although I didn't hear mention about hairdressers in the Tip discussions, I assume that they will qualify. What about SMLLC owners that are in a LOFT type of working environment but only have their own tips to claim. They don't get a 1099 so what do you think the documentation would have to be?**

Because this question regarding Single Member LLC owners is not related to payroll wages reported on Form W-2 or Form 1099, we recommend that you consult with a qualified tax professional or the Internal Revenue Service for advice regarding your specific situation.

4. **Are all employers required to offer Trump accounts?**

There is no requirement for employers to offer contributions to Trump accounts for their employees. This is a voluntary option that employers can choose.

5. **Will the W-2 have a line item for overtime pay so the employee uses that when doing their taxes?**

Qualified overtime pay will be reported on the employee's Form W-2 for use when the employee completes their tax return. The Internal Revenue Service will be updating the 2026 Form W-2 to accommodate the qualified overtime reporting. However, the Internal Revenue Service has not yet announced any details about what W-2 box or coding will be used for qualified overtime pay. Please note: The IRS is not making any changes to the 2025 Form W-2. As of August 2025, it is not known what the reporting requirements will be for tax year 2025. We expect that the Internal Revenue Service will be releasing information about what is needed for 2025 in the coming weeks.

6. **Will a pdf of FAQs for employees be made for employers to issue?**

It is too early for any employee FAQ information because there are still so many unanswered questions. In the coming weeks, it is expected that the Internal Revenue Service and Department of the Treasury will be providing guidance for employers and payroll providers. We appreciate your suggestion and will consider creating a document for employees as details are made known.

- 7. We are a whole distribution company and quite often our Distribution Center Associates work Overtime. Can you please clarify how I determine whether their OT pay is qualified or not?**

The starting point is to determine if the overtime pay is required to be paid under the Fair Labor Standards Act (FLSA). For most employers, the FLSA requires that overtime be paid to covered non-exempt employees at a rate of no less than 1.5 times the employee's regular rate of pay for all hours worked over 40 in a workweek. If you are paying overtime for any hours that are not over 40 worked in the workweek, then the overtime pay for those hours would not be eligible for the overtime deduction calculation. In addition, the overtime deduction is limited to the FLSA premium portion (the 0.5 portion).

- 8. Will Ahola help us track qualified overtime on paychecks and W2's?**

We are currently waiting for further guidance from the Internal Revenue Service and the Department of the Treasury regarding the specific requirements for implementing the No Tax on Overtime and No Tax on Tips provisions. We expect that the appropriate updates will be made to the payroll system to comply with these requirements, including W-2/1099 reporting.