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Insights

One Big Beautiful Bill Act: Major Tax & Benefit Changes Ahead for Employers in 2026

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On July 4, 2025, President Donald Trump signed the One Big Beautiful Bill Act (OBBBA) into law. While the legislation addresses broad economic and social issues, several provisions stand out for employers. From enhanced tax incentives to new wage-based deductions, the OBBBA introduces strategic opportunities for structuring compensation and benefits.

Expanded Child Care Assistance Benefits

The employer-provided childcare tax credit has increased from $150,000 to $500,000 (and up to $600,000 for small businesses), now covering 40–50% of eligible expenses and indexed for inflation.

As more employers explore childcare assistance as a tool to recruit and retain talent, this enhanced credit presents a timely and meaningful opportunity.

Permanent Credit for Paid Family and Medical Leave

The OBBBA permanently extends the employer tax credit for paid family and medical leave. Beginning January 1, 2026, employers may continue to claim a credit of up to 25% of qualifying wages or, alternatively, may elect a new method allowing the credit to be calculated based on premiums paid for qualifying paid leave insurance policies.

Key changes include:

- Employers in states that mandate paid leave may still claim the credit for benefits provided in excess of those requirements.
- Employers may now reduce the employee eligibility threshold from 12 months of service to six months.
- The credit must be claimed either for wages paid during leave or for insurance premiums—not both.

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While states like Florida do not currently require paid leave, these updates may incentivize broader adoption among employers seeking to strengthen their benefits offerings.

New Deductions for Tips and Overtime Pay ("No Tax On Tips!")

Among the most publicized changes under the OBBBA is the creation of temporary federal income tax deductions for overtime and tip income:

- **Overtime Deduction:** Employees may deduct up to $12,500 ($25,000 for joint filers) of premium pay earned above their regular rate under FLSA standards. The deduction phases out for individuals earning over $150,000 ($300,000 for joint filers).
- **Tip Deduction:** Workers in traditionally tipped industries—such as restaurants and salons—may deduct up to $25,000 in qualified tips, subject to the same income limits.

Employers will need to report qualifying amounts on Form W-2 and ensure payroll systems are aligned with updated IRS withholding requirements. The IRS is required to adjust withholding procedures starting in 2026. These deductions will expire after 2028.

Practical Considerations for Employers

These tax incentives could meaningfully influence employee behavior—particularly in sectors experiencing chronic labor shortages. Tax-exempt overtime may boost employees' willingness to work additional shifts, while enhanced tip deductions could improve hiring and retention in hospitality and personal services.

Employers may wish to:

1. Reevaluate pay structures to balance payroll tax exposure and take-home pay.
2. Assess employee classification, as exempt employees may request conversion to hourly status.
3. Review tipping policies to ensure consistency with compensation goals and compliance with new reporting requirements.

Given the complexities involved, employers should consult legal and tax advisors before implementing changes.

Next Steps

Though most changes take effect after 2025, employers should prepare now by reviewing:

- Benefit plan documents and communications
- Leave policies, particularly for multi-state compliance
- Payroll and HRIS systems for upcoming reporting and deduction changes
- Coordination with legal and tax advisors to ensure compliance and readiness

The One Big Beautiful Bill Act represents a significant reimagining of employment-related tax policy. For employers, the Act presents both new compliance requirements and meaningful opportunities to strengthen compensation strategies. With thoughtful planning, businesses can position themselves to take full advantage of these reforms while navigating their complexities with confidence.