

August 2025

No Tax on Tips and Overtime

On July 4, 2025, the One Big Beautiful Bill Act (“OBBBA”) became law and with it provisions for “**No Tax on Tips**” and “**No Tax on Overtime**” were enacted. Below is a summary of these provisions. It is anticipated that further guidance will be issued by the Internal Revenue Service (“IRS”) in the coming months. As such guidance becomes available, COMD will provide our clients with updates.

No Tax on Tips

Effective January 1, 2025 through December 31, 2028, the OBBBA provides a personal tax deduction on qualified tips received in occupations that are listed by the IRS as “customarily and regularly receiving tips” and that are reported on IRS Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137, Social Security and Medicare Tax on Unreported Tip Income.

The IRS must publish a list of occupations by October 2, 2025 that “customarily and regularly” receive tips and will qualify for inclusion in the no tax on tips provisions. Presently, certain occupations like chefs, kitchen staff, dishwashers, or other behind the scenes club staff who do not traditionally receive tips appear not be eligible for the deduction. The IRS has indicated that it will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and payors subject to the new reporting requirements.

- “Qualified Tips” are defined as **voluntary** cash or charged tips received from customers or through tip sharing. Tips must be reported by employees to be eligible for the deduction.
- Mandatory service charges are likely not a voluntary tip. In order to be a “Qualified Tip”, the tip amount must be paid voluntarily, is not subject to negotiation, and is determined by the payor.
- The deduction provides for a maximum annual \$25,000 federal income tax deduction and phases out for taxpayers with modified adjusted gross income over \$150,000 for single filers/ \$300,000 for joint filers.
- The deduction is a personal federal income tax deduction taken by individuals directly on Form 1040, U.S. Individual Income Tax Return. Reported tips remain subject to payroll taxes (*Social Security and Medicare taxes*) as well as state taxes. It is advisable that employees work with their personal tax advisors to claim the deduction when filing annual personal taxes.
- The deduction is available for both itemizers and non-itemizing taxpayers. To be eligible, an individual must file an annual Form 1040, and include their social security number, and if married they must file a joint return.
- The IRS announced Form W-2, existing Form 1099, Form 941, and other payroll related forms will not be changed for the 2025 tax year. Federal income tax withholding tables will also remain unchanged. Employers and payroll administrators should begin tracking qualified tips under the 2025 Act immediately as well as implementing processes for retroactive tracking. Taxpayers should expect new guidance and updated forms for tax year 2026.

As most private clubs do not allow tipping (*mandatory service charges likely would not qualify as tips*), should those clubs consider a tipping model in the future? Or should private clubs stay the course? It would be prudent for private clubs to begin evaluating options and forecasting the best scenarios not only for the club itself but also for eligible employees. Clubs may need to educate employees on the OBBBA no tax on tips provisions and the benefits of working for the club rather than in a traditional tipping environment.

No Tax on Overtime

Effective January 1, 2025 through December 31, 2028, the OBBBA provides for a personal tax deduction on qualified overtime compensation based on reported overtime pay on IRS Form W-2. The provision allows certain eligible employees to take a deduction for overtime wages paid pursuant to the Fair Labor Standards Act of 1938 (FLSA). The IRS has indicated that it will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and payors subject to the new reporting requirements.

- The deduction provides for a maximum annual \$12,500 federal income tax deduction for single filers (\$25,000 for joint filers) and phases out for taxpayers with modified adjusted gross income over \$150,000 for single filers/\$300,000 for joint filers.
- The deduction is applicable only to pay that exceeds the employees' regular rate of pay (i.e. the "premium portion of overtime pay," not the full overtime amount).
 - *For example, if an individual is paid \$20 an hour regular pay and \$30 an hour overtime pay, the deduction is only applicable to the additional \$10 an hour earned as overtime pay, up to the annual maximum, not the full overtime pay earned..*
- The deduction is available for both itemizers and non-itemizing taxpayers. To be eligible an individual must file an annual Form 1040, and include their social security number, and if married they must file a joint return.
- The deduction is a personal federal income tax deduction taken by individuals directly on Form 1040, U.S. Individual Income Tax Return. Overtime remains subject to payroll taxes (*Social Security and Medicare taxes*) as well as state taxes. It is advisable that employees work with their personal tax advisors to claim deductions when filing annual taxes.
- The IRS announced Form W-2, existing Form 1099, Form 941, and other payroll related forms will not be changed for the 2025 tax year. Federal income tax withholding tables will also remain unchanged. Employers and payroll administrators should begin tracking overtime under the 2025 Act immediately as well as implementing processes for retroactive tracking. Taxpayers should expect new guidance and updated forms for tax year 2026.

Conclusion

It is important for clubs to note that these changes are largely at the employee level and do not require day-to-day changes by the clubs. Clubs, in large part, will be tasked with educating employees on how the deductions work, but such employees will need to work with their personal tax advisors to claim the deductions when filing annual taxes. Proper reporting on Form W-2 will be critical and payroll advisors will need to adapt as future guidance is provided.

If questions arise as your club gets accustomed to the new rules, do not hesitate to contact us.

This bulletin is prepared by our tax department and is provided to our clients for informational purposes only and may not be used or cited as precedent. If you have any questions about the information contained in this bulletin, please do not hesitate to give us a call.

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