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Client Alert

H.R. 1: Taxes on Overtime Pay & Tips

Employer Updates

WHAT'S NEW: President Trump signed H.R. 1 into law on July 4, 2025. The bill allows employees to claim exemptions for federal taxes on overtime pay and tips.

WHY IT MATTERS: Employers will likely be confused by the provisions of the bill, especially when employees ask about the exemptions related to federal taxes on overtime pay and tips.

WHAT EMPLOYERS SHOULD DO: Employers should continue to deduct federal taxes from employee compensation including overtime pay and tips. Overtime pay and tips must continue to be tracked and documented separately for each individual employee.

Employees are responsible for claiming exemptions related to overtime pay and tips when they file their 2025 federal income taxes in 2026.

If you have any questions, please contact your HR Business Partner/Consultant.