



OBBBA: What HR & Payroll Teams Need to Know for 2026


MICHAEL WAXMAN, CPA
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Michael Waxman, CPA



Michael Waxman

Senior Manager | Tax Services

 michael.waxman@eisneramper.com

CREDENTIALS

Certified Public Accountant
BS Accounting, Ithaca College
MS Accounting, CUNY Hunter College

Tax planning for high-net-worth individuals and pass-through businesses

15 years of experience advising high-net-worth individuals and owners of closely-held, pass-through businesses. Focus on complex tax matters and proactive planning strategies that support both immediate needs and long-term wealth objectives.

Leads review of individual and pass-through returns during peak filing periods, using those insights to inform year-round planning. Works closely with clients on ownership transfers, buyouts, and stock redemptions.

SPECIALTIES

Tax Planning

Partnership Taxation

Individual Taxation

Corporate Taxation

Real Estate

Marine



Agenda

1

OBBBA at a Glance

Quick context on the law

3

No Tax on Overtime (\$225)

Narrower than the headlines

5

Other OBBBA Provisions

Trump Accounts, Meals, Moving, WFH

2

No Tax on Tips (\$224)

Final regs released April 2026

4

2026 Reporting Changes

W-2 and 1099 updates

6

Action Items & Resources

What to do now



OBBBA at a Glance

SIGNED

July 4, 2025

Public Law 119-21

SENATE VOTE

51–50

VP Vance tiebreaker

TIP / OT SUNSET

Dec 31, 2028

Unless extended

The Framing Challenge

The marketing behind “no tax on tips” and “no tax on overtime” sold something broader than what passed. **Both deductions are capped, phased out at higher incomes, narrowly defined, and sunset after 2028.**



No Tax on Tips: \$224 Deduction Overview

MAX DEDUCTION

\$25,000

Per return
(not per spouse)

EFFECTIVE

2025–2028

Above-the-line
Schedule 1-A

MAGI PHASEOUT

\$150K / \$300K

Single / Joint
\$100 per \$1K over

ELIGIBILITY

SSN Required

MFS cannot claim
ITIN excluded

WHO CAN CLAIM IT

- Both employees and self-employed individuals
- Itemizers AND non-itemizers (above-the-line)
- Workers in occupations on the TTOC list
- Self-employed: capped at net business income
- Workers with valid SSN issued before return due date

WHO IS EXCLUDED

- Married filing separately filers
- ITIN holders (no valid SSN)
- Tips for services that are felonies/misdemeanors under applicable law
- High earners (after MAGI phaseout completes)



\$224 Worked Example: Three Income Scenarios

Setup: Single filer in a TTOC occupation. Same worker, three income levels. Watch how the **\$25,000 cap and MAGI phaseout** interact.

SCENARIO A
Full Deduction
MAGI
\$48,000

Wages (W-2 Box 1): **\$30,000**
Qualified tips: **\$18,000**
\$25K cap impact: **none**
MAGI phaseout: **\$0** (under \$150K)

\$224 DEDUCTION
\$18,000
Federal tax saved at 22%: **~\$3,960**

SCENARIO B
Cap + Partial Phaseout
MAGI
\$190,000

Wages: **\$160,000**
Qualified tips: **\$30,000**
\$25K cap impact: **-\$5,000**
MAGI phaseout: **-\$4,000** (\$40K × \$100/\$1K)

\$224 DEDUCTION
\$21,000
Federal tax saved at 32%: **~\$6,720**

SCENARIO C
Fully Phased Out
MAGI
\$425,000

Wages: **\$400,000**
Qualified tips: **\$25,000**
\$25K cap impact: **at cap**
MAGI phaseout: **-\$25,000** (full)

\$224 DEDUCTION
\$0
Federal tax saved: **\$0**

Key takeaway: \$25,000 cap applies first; MAGI phaseout reduces the post-cap amount at \$100 per \$1,000 over the threshold. Fully phased out at **MAGI > \$400K (single) / \$550K (joint)**. FICA still applies in all three scenarios.



What Is a “Qualified Tip”?

1

CASH OR CASH-EQUIVALENT

Cash, check, credit/debit, gift cards, electronic settlement (e.g., Venmo)

2

VOLUNTARY

Paid voluntarily without consequence in event of nonpayment

3

NOT NEGOTIATED

Not subject to negotiation; amount determined by the customer (payor)

4

LISTED OCCUPATION

Received in an occupation on the Treasury Tipped Occupation Code (TTOC) list

What Does NOT Qualify as a Qualified Tip

Service charges & automatic gratuities (POS slider/options must allow \$0) • **Digital assets / crypto** (explicitly excluded) • **Tips for illegal services**

Tip pools DO qualify — §224(d)(3) defines cash tips to include amounts received under any tip-sharing arrangement, even by employees with no direct customer interaction (e.g., cooks, dishwashers, bussers). Managers & supervisors are excluded from tip pools but may receive direct tips when performing TTOC duties.



The TTOC List: 8 Categories, 70+ Occupations

Beverage & Food Service

Bartenders, wait staff, chefs, bakers

Hospitality & Guest Services

Bellhops, concierges, desk clerks

Personal Services

Care workers, event planners, photographers, floral designers, visual artists

Recreation & Instruction

Tour guides, golf caddies, instructors

Entertainment & Events

Dealers, dancers, DJs, content creators

Home Services

Handymen, plumbers, electricians, cleaners

Personal Appearance & Wellness

Hairdressers, massage therapists, trainers

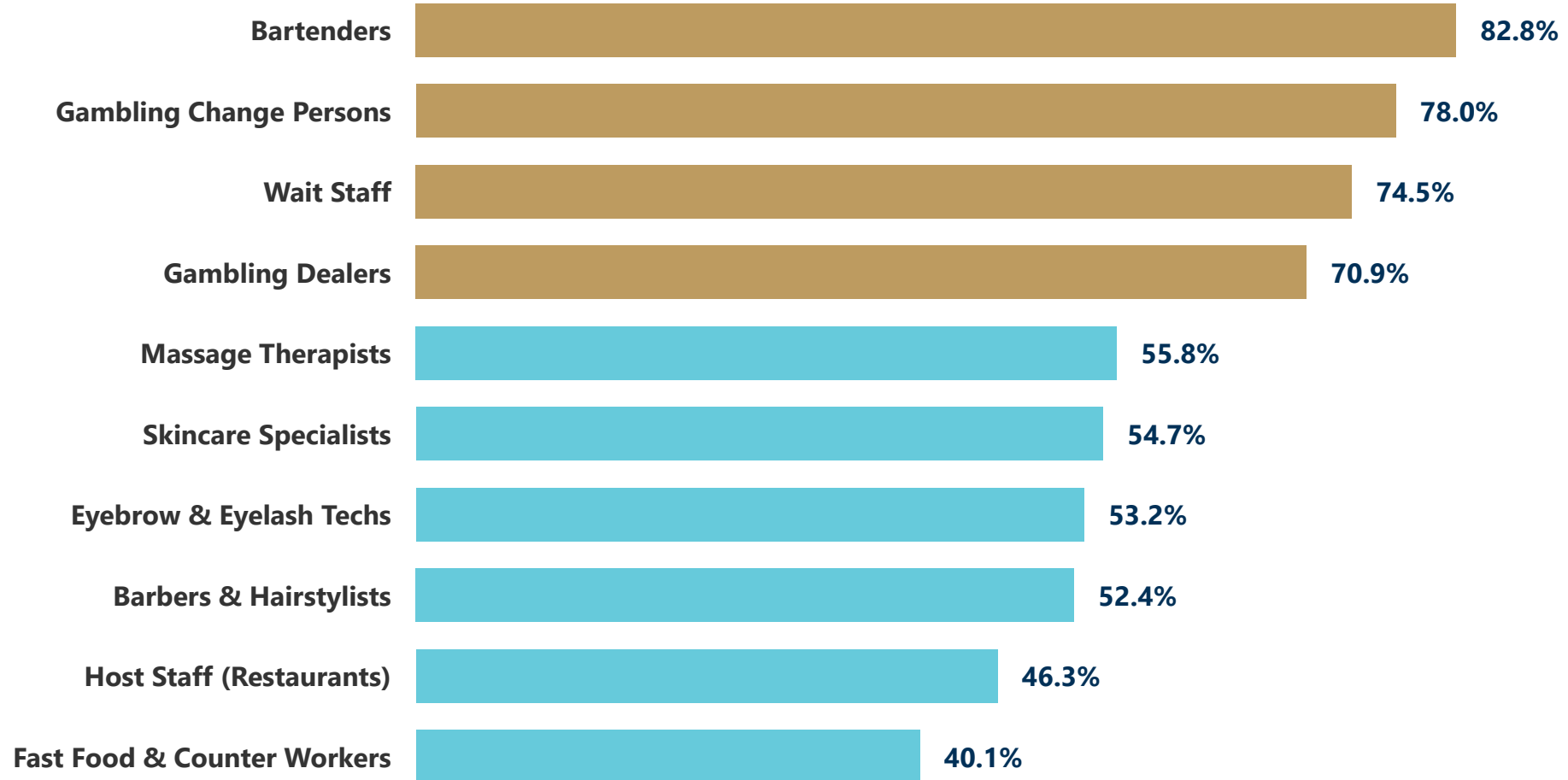
Transportation & Delivery

Rideshare, valets, delivery, gas pump attendants



Most Heavily Tipped Occupations (2023 Data)

Percentage of workers in each occupation reporting at least \$100 in tips (W-2 Box 7 or Form 4137)



Final Regs Highlights & SSTB Transition

Sept 22, 2025
Proposed Regs
REG-110032-25

Apr 10–13, 2026
Final Regs Released
T.D. 10044 (FR Apr 13)

June 12, 2026
Effective Date
60 days after pub.

SSTB ISSUE — STILL OPEN

- The statute disqualifies tips received in a **Specified Service Trade or Business** (§199A(d)(2))
- Final regs **deferred** guidance — §1.224-1(g) is reserved
- **Notice 2025-69**: transition relief runs until Jan 1 of the year after final SSTB regs issue — i.e., through 2026 at minimum; listed-occupation tipped workers treated as non-SSTB
- **Practical takeaway**: tipped workers at SSTB employers shouldn't assume they're disqualified

WHAT COUNTS AS AN SSTB? — §199A(d)(2)

Categories most likely to have TTOC tipped workers shown in *gold*

Health	Performing Arts	Athletics
Law	Accounting	Actuarial Science
Consulting	Financial Services	Brokerage / Investing

+ Any trade or business whose principal asset is the reputation or skill of its employees/owners.



Anti-Abuse: Owner & Employer Rules

Final regs replaced the proposed blanket prohibition with a **facts-and-circumstances test** for recharacterized tips, with two **irrebuttable presumptions** that the amount is NOT a qualified tip.

PRESUMPTION 1

Employer-as-Payor

When the **employer is the payor** of a cash tip received by the employee, the amount is treated as recharacterized wages — not a qualified tip.

Why: *prevents employers from relabeling regular wages as “tips” to claim the deduction.*

PRESUMPTION 2

Direct Ownership Interest

When the tip recipient has a **direct ownership interest in the payor:**

- Corporation: 5%+ of stock (vote or value)
- Partnership: 5%+ of profits or capital interest
- Other entities: >5% beneficial interest

Managers & supervisors: Tips received through a tip pool are **not qualified tips**. But tips received *directly* for services performed in a TTOC occupation (e.g., a manager filling in as wait staff) **do qualify**. • **“Payor” defined:** the customer receiving the service. An employer, payment processor, or sole prop/SMLLC acting as a conduit is NOT the payor — so a sole proprietor isn’t treated as tipping themselves.



No Tax on Overtime: \$225 Deduction Overview

MAX DEDUCTION

\$12,500 / \$25,000

Single / Joint
(differs from tips!)

EFFECTIVE

2025–2028

Above-the-line
Schedule 1-A, Part III

MAGI PHASEOUT

\$150K / \$300K

Same as tips
\$100 per \$1K over

WHO QUALIFIES

Employees & 1099

FLSA-required overtime
MFS excluded

⚠️ Critical Framing: “Qualified Overtime Compensation” Is Narrower Than People Think

Only the **premium portion required by FLSA Section 7** (the “half” in “time-and-a-half” for hours worked over 40 in a workweek) qualifies for the deduction.

NOT the full overtime payment — this is the most common employee misconception. The “time” portion (the regular wage rate) remains taxable.

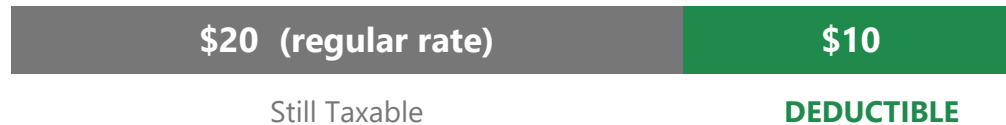


Overtime: Worked Example & Exclusions

WORKED EXAMPLE

Employee earns \$20/hr regular rate, works overtime

OT Pay Rate: \$30/hour



Employee works 50 hours in a week:

40 reg hrs × \$20 = \$800 (*taxable wages*)

10 OT hrs × \$20 = \$200 (*taxable wages*)

10 OT hrs × \$10 = \$100 (*qualified — deductible*)

If employer pays double-time: only the FLSA-required half-time portion qualifies. The extra above FLSA does not.

DOES NOT QUALIFY

- **State-law daily overtime** (e.g., California's daily OT after 8 hrs)
- **Contractual overtime** above FLSA requirements
- **Double-time premium** above the FLSA half-time requirement
- **Highly-compensated/exempt employees** (not FLSA-covered)
- **Regular-rate portion** of any overtime hour



2025: A Transition Year

Notice 2025-62 provides **penalty relief** for 2025 reporting failures under §6721/§6722

WHAT'S TRUE FOR 2025

- **Forms W-2 and 1099** for 2025 were **NOT updated** to capture tips/OT
- **Withholding tables** for 2025 also not updated
- **IR-2025-82:** *employers should "continue using current procedures for reporting and withholding"*
- **Employees can claim deduction on 2025 returns** using "reasonable methods" (Notice 2025-69)

RECOMMENDED EMPLOYER STEPS

- **Voluntarily provide** tip and OT info via Box 14 of W-2 or supplemental statement
- **Communicate** with employees about how they can document tips/OT for their personal returns
- **Begin payroll system updates** now to be ready for mandatory 2026 reporting



2026 Form W-2: New Reporting Boxes

Mandatory separate reporting begins **with the 2026 tax year (filed 2027)**

BOX 12

Code TP

Qualified Tips

Total cash tips reported by the employee. Basis for the \$224 deduction the employee claims on Schedule 1-A.

BOX 12

Code TT

Qualified Overtime

FLSA-required premium portion only (the "half" in time-and-a-half). Not total OT pay.

BOX 12

Code TA

Trump Account Contrib.

Employer contributions to a §128 Trump account on behalf of the employee or a dependent.

BOX 12

Code TS

SSTB Tips (Non-Qualifying)

Tips from an SSTB employer — NOT eligible for the \$224 deduction. (Transition relief still applies.)

BOX 14b

TTOC

Tipped Occupation Code

Treasury Tipped Occupation Code identifying the employee's tipped occupation — maps to the TTOC list in the final regs.

Note: Box 14 is now split — 14a (Other) and 14b (TTOC).

Form W-2 finalized by IRS January 9, 2026 (final General Instructions followed). 2026 withholding tables updated; employees can adjust W-4 Line 4b for estimated tips/OT.



2026 Form 1099-NEC: New Boxes for Contractors

DRAFT Form 1099-NEC, Rev. December 2026 — Nonemployee Compensation

1a	Nonemployee compensation \$15,000.00
1b	Cash tips \$3,200.00
1c	TTOC 603
1d	Overtime compensation \$0.00

← **NEW BOX** already included in 1a

← **NEW BOX** up to two codes (000 = not qualified)

← **NEW BOX** already included in 1a

Also reportable: 1099-MISC adds Box 13a (Cash tips), 13b (TTOC), Box 14 (Overtime). 1099-K updated to report cash tips and TTOC.



Other 2026 Reporting Changes

1099-NEC / 1099-MISC

\$600 → \$2,000

**Reporting threshold rises
beginning 2026**

Indexed for inflation starting 2027

1099-K THRESHOLD REVERTS

\$20K & 200 txns

Old rule restored

Rolled back from lower ARPA thresholds

FILING SYSTEM TRANSITION

FIRE → IRIS

FIRE system retiring

IRIS becomes the only intake system for tax
year 2026 / filing season 2027



HR & Payroll Action Checklist

Steps to review before the 2026 reporting cycle

1

Isolate FLSA-required premium from total OT pay

Review how your payroll system tags overtime hours

2

Build a process to capture and apply TTOCs

Map each tipped employee to their occupation code

3

Review earnings codes

Many employers lump all OT together — break it apart

4

Validate regular-rate calculations

Shift differentials & nondiscretionary bonuses must factor in

5

Coordinate with payroll vendors

ADP, Gusto, Paychex — confirm system-update timelines

6

Prepare employee communications

Manage expectations about what actually qualifies

7

Determine SSTB status

Assess §199A(d)(2) SSTB exposure



Trump Accounts: New §128 Employer Benefit

First contributions allowed **July 4, 2026** — Reported on **W-2 Box 12 Code TA**

ANNUAL CAP

\$5,000

Per account, all sources combined
(indexed after 2027)

EMPLOYER LIMIT

\$2,500

Per employee under §128 (tax-free;
counts in \$5K cap)

FIRST CONTRIBUTIONS

July 4, 2026

No contributions allowed before
this date

W-2 REPORTING

Code TA

Box 12 — new on the 2026 Form
W-2

WHAT EMPLOYERS NEED TO KNOW

- **\$2,500 cap is per employee, NOT per child** — even if the employee has multiple eligible children
- Counts inside the \$5,000 aggregate annual cap (reduces room for parent/family contributions)
- Excluded from employee's gross income; report in **W-2 Box 12, Code TA**
- Employer must affirmatively tell the trustee the contribution is a §128 contribution
- Employer must have a separate written employer plan/program (can't simply cut a check)

PLANNING & OPEN ISSUES

- **\$1,000 federal pilot deposit** for U.S.-citizen children born 2025–2028; does NOT count against the \$5K cap
- Funds locked until the child turns 18; account then converts to a traditional IRA
- **Decision point:** whether to offer a §128 program as part of employee benefit package.

Established under OBBBA §70204 (new IRC §§128, 530A, 6434). Preliminary guidance: IRS Notice 2025-68 (Dec. 3, 2025); proposed regulations issued March 9, 2026.



Trump Accounts vs. Other Savings Vehicles

How a Trump Account compares to familiar long-term savings vehicles

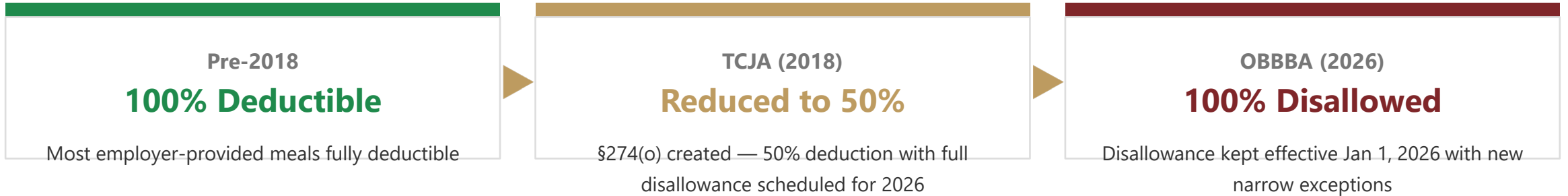
Feature	TRUMP ACCOUNT	ROTH IRA	TRADITIONAL IRA	529 PLAN
Income limits on contributors	None	Yes — Roth phaseout	None for contributions	None
Contributions deductible?	No — creates basis	No — creates basis	Yes (subject to limits)	No federal; some state
Tax on growth	Tax-deferred	Tax-FREE	Tax-deferred	Tax-FREE if used for qualified higher education
Tax on withdrawals	Taxable as ordinary income; basis recovered pro-rata (mix of basis + earnings each \$)	Basis returned first — always tax-free ; earnings tax-free if qualified	Taxable as ordinary income (less any basis recovered pro-rata)	Tax-FREE for qualified higher ed; otherwise earnings taxable
Early withdrawal penalty (under 59½)	10% penalty; qualified uses may avoid penalty but earnings still taxable	10% on earnings only — basis is always penalty-free	10% penalty with standard exceptions (medical, first home, etc.)	10% on earnings unless used for qualified higher education

Key distinction: Roth basis comes out first (always tax-free). Trump Account basis is mixed pro-rata with earnings — every withdrawal contains both, so part is always taxable.



Employee Meals: §274(o) — Big Change for 2026

How we got here:



WHAT'S NOW 100% NON-DEDUCTIBLE (amounts paid/incurred after Dec 31, 2025)

- Meals provided for the convenience of the employer** under §119 • **Meals at employer-operated eating facilities** (cafeterias, breakrooms)
- Snacks, coffee, overtime meals, breakroom supplies, on-site cafeteria meals

⚠ Important: this applies even where the meal remains **excludable from employee income** under §119 or §132(e). The change affects the **employer deduction**, not employee taxation.



Employee Meals: Exceptions & What Survives

NEW OBBBA EXCEPTIONS — 100% DEDUCTIBLE

- **Restaurants & similar establishments** that sell food to customers AND provide meals to employees — §274(e)(8); Treas. Reg. §1.274-12(c)(2)(v)(A)
- **Fishing vessels & certain fish processing facilities** — new §274(n)(2)(C)
- **Oil/gas platforms, drilling rigs, and remote support camps** — generally still allowed under existing exceptions

STILL DEDUCTIBLE AT 50%

- **Business meals with customers** (employee present, not extravagant, business purpose)
- **Travel meals** (employee away from tax home)

STILL 100% DEDUCTIBLE

- Meals treated as taxable comp (in W-2 wages)
- Employee social/recreation events (holiday parties, picnics)
- Meals to public for marketing/promo

Entertainment: *Still 100% non-deductible — no change from TCJA.*



Employee Meals: Modeling the Tax Cost

ILLUSTRATIVE EXAMPLE

\$26,250 – \$31,250

in additional federal tax cost per year

for a company spending ~\$250,000/year on cafeteria subsidies

PLANNING CONSIDERATIONS

- **Quantify the impact:** model the after-tax cost of existing cafeteria, snack, and meal programs at corporate rate (21%) or individual marginal rate if passthrough (estimated 25%)
- **Restructure where possible:** consider whether moving to a taxable-to-employee model preserves the deduction (still 100% if W-2 taxable)
- **Check exception eligibility:** restaurant providing employee meals may qualify for the new §274(e)(8) exception



Moving Expenses: Disallowance Now Permanent

OBBBA §70113 made the TCJA suspension permanent

Employer-paid moving expenses are now **permanently includible in employee wages** — employees cannot deduct moving expenses.

TWO NARROW EXCEPTIONS

- 1. Active-duty Armed Forces** moving pursuant to a military order and a permanent change of station (PCS) — already in TCJA
- 2. U.S. Intelligence Community** members who move after Dec 31, 2025 pursuant to a change of assignment requiring relocation — **NEW under OBBBA §70113(b)**

WHAT HR NEEDS TO DO

- Treat reimbursements as taxable wages subject to withholding
- Update relocation policies and offer letters
- Communicate tax consequences clearly to relocating employees
- **Consider gross-ups** to make employees whole on relocation packages



Remote Work Reimbursement: Accountable Plans

Federal landscape didn't change much: W-2 employees **still cannot claim the home office deduction** on federal returns (TCJA suspension is now permanent under OBBBA §70110). The best vehicle remains the **accountable plan** under §62(c) and Treas. Reg. §1.62-2.

1

Business Connection

Expenses must be ordinary and necessary, incurred while performing services

2

Substantiation

Adequate records (date, amount, place, business purpose) within reasonable time — generally 60 days

3

Return of Excess

Any reimbursement over substantiated amount returned within reasonable time — generally 120 days

If all three are met:

Non-taxable to employee • deductible to employer • no payroll taxes

If not met:

Taxable wages — subject to income tax and FICA



State-Level Reimbursement Requirements

Mandates vary widely — most states have no requirement beyond the federal minimum wage protection

BROAD NECESSARY-EXPENSE MANDATE

All necessary business expenses must be reimbursed

- ✓ **California** (Labor Code §2802)
- ✓ **Illinois** (Wage Payment Act)
- ✓ **Massachusetts** (case-law based)
- ✓ **Montana**
- ✓ **New Hampshire**
- ✓ **North Dakota**
- ✓ **South Dakota**
- ✓ **Washington, D.C.**

NARROWER / CONDITIONAL

Limited categories or specific conditions only

- **Iowa** — only for employer-authorized expenses
 - **Minnesota** — limited to uniforms, tools, supplies
 - **Seattle, WA** — city-level Wage Theft Law
- VOLUNTARY ONLY (enforced if in writing):**
New York and Pennsylvania have **no statutory mandate** — they only enforce reimbursement commitments an employer has made in a written policy, contract, or offer letter.

⚠️ LOUISIANA SPOTLIGHT

Louisiana has NO state-level mandatory reimbursement statute

- Reimbursement is largely **discretionary** for LA employers
- **FLSA minimum wage protections still apply** if expenses would push pay below federal minimum wage
- **Practical advice:** *even without a mandate, accountable plan reimbursement remains the cleanest tax answer for both sides*

Mileage for WFH employees attending in-office training: *generally non-deductible commuting; if reimbursed under a non-accountable plan, it's taxable wages.*



Other OBBBA Provisions to Have on Your Radar

Brief mentions for Q&A — mostly employee-benefit changes, many effective in 2026

DEPENDENT CARE FSA

\$5,000 → \$7,500

Effective 2026

(\$3,750 MFS)

EMPLOYER CHILDCARE CREDIT (\$45F)

25% → 40%

50% for small biz

Cap: \$150K → \$500K (\$600K small)

STUDENT LOAN REPAYMENT (\$127)

\$5,250 Exclusion

Now Permanent

Indexed for inflation after 2025

PFML CREDIT (\$45S)

Now Permanent

Paid Family & Medical Leave

Now covers state-mandated programs

HSA EXPANSION

Broader Access

Bronze + Catastrophic plans

Telehealth & DPC relief permanent



Key Dates & IRS Resources

KEY DATES TO REMEMBER

July 4, 2025 OBBBA signed into law

Apr 13, 2026 Final tips regs published in Federal Register

June 12, 2026 Final tips regs effective date

Jan 1, 2026 §274(o) employee meals disallowance begins

TY 2026 Mandatory separate W-2 / 1099 reporting begins

Dec 31, 2028 Tips & overtime deductions sunset (unless extended)

IRS GUIDANCE TO BOOKMARK

T.D. 10044 / Treas. Reg. §1.224-1 Final qualified tips regs; TTOC list; deduction limits

Notice 2025-62 2025 penalty relief for tip / overtime information reporting

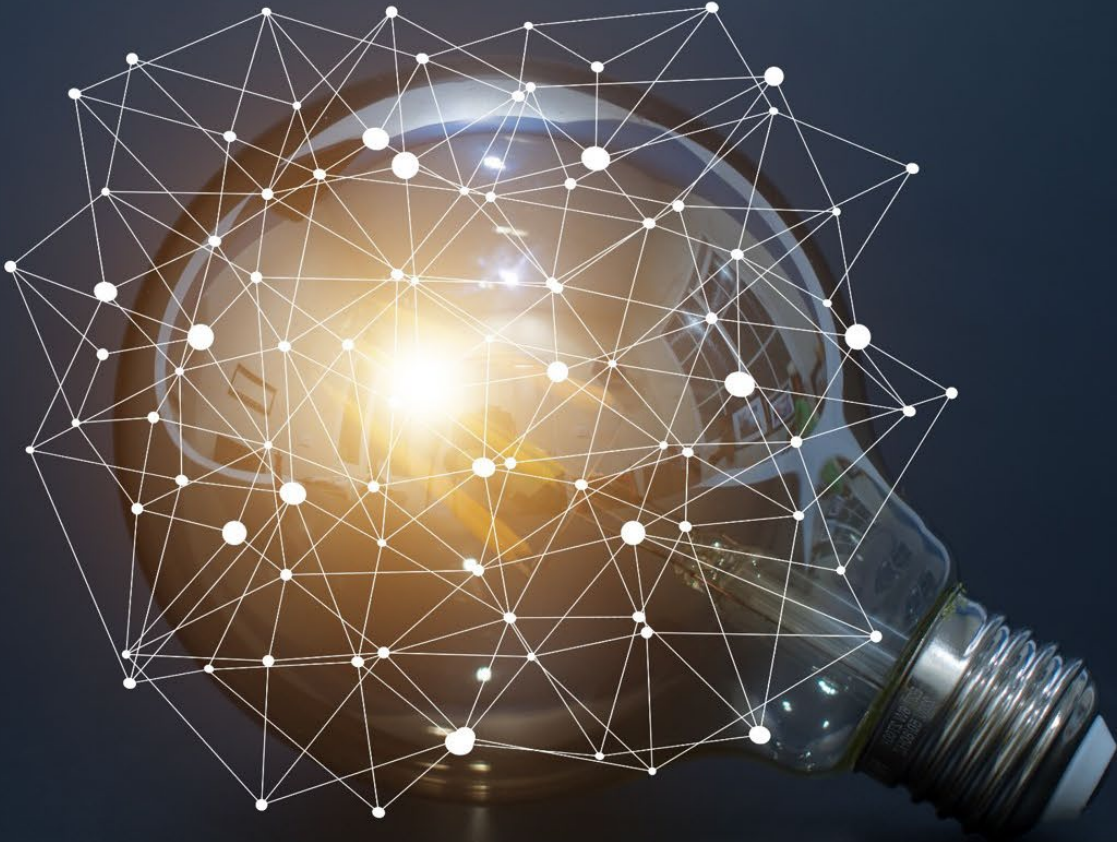
Notice 2025-69 2025 calculation methods; SSTB transition relief (Nov 21, 2025)

Notice 2026-10 2026 standard mileage rates (72.5¢ business; 20.5¢ moving)

FS-2026-01 Q&A on Qualified Overtime Compensation



Questions?





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