2025 Tip & Overtime Deduction Explainer

New Tax Deductions for Tips and Overtime Wages

What Changed?

On July 4, 2025, a new federal tax law – the One Big Beautiful Bill Act - was signed, which brings significant financial benefits to many employees.

Two major changes you should know about:

1. If you earn tips, you can now deduct **up to $25,000 of your tip income** from your taxable income each year.

2. If you earn overtime pay, you can now deduct **up to $12,500** of those earnings from your taxable income annually.

Both changes are retroactive to January 1, 2025.

What This Means for You

- These are *deductions*, not tax credits - they reduce the amount of income you are taxed on, but you won't see immediate changes to your paycheck.
- You may owe less in federal taxes when you file in 2026 for the 2025 tax year.
- The deductions could result in a larger tax refund or a smaller tax bill.
- Both tipped and overtime income are eligible, and you can benefit from both deductions if you qualify.
- These deductions are per person, per year, through 2028 (unless extended).

Questions

While we're happy to provide general guidance and support, we cannot offer personal tax advice, as individual tax situations may vary. This information is provided for general awareness only and should not be considered tax advice. Employees are encouraged to consult a qualified tax professional for personalized guidance.