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One Big Beautiful Bill Act: What Employers Need to Know

Greater Phoenix Chamber Foundation's
Workforce Summit

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Background

One Big Beautiful Bill (“OBBB”) Act

- Nearly 900 pages
- Integrates policy priorities from across 10 Senate committees into a single piece of legislation
- Increased the statutory debt limit by \$5 trillion
 - Federal debt ceiling now stands at \$41.1 trillion
- Extends or makes permanent many of the tax provisions of the 2017 Tax Cuts and Jobs Act (“TCJA”)
 - The administration estimates the prevention of an approximately \$4 trillion tax hike as a result
- Passed by the narrowest of margins.

OBBB Impact to Arizonaans



- The White House estimates that the OBBB will:
 - Raise wages in Arizona by an inflation-adjusted range of about \$3,800 to \$6,800 over the next four years
 - Increase take-home pay by \$7,400 to \$10,600 for a typical family with two children

THE ONE BIG BEAUTIFUL BILL

Arizona

\$3,800 to \$6,800 Increase in Wages 133,000 Jobs Protected

WAGES, TAKE-HOME PAY, AND DISPOSABLE INCOME

CEA finds that the OBBB will raise wages in Arizona by an inflation-adjusted range of about \$3800 to \$6800 over the next four years.

A typical family with two children in Arizona can expect to see higher take-home pay of about \$7400 to \$10600 with OBBB compared to if it was not passed.

Around 3% of the labor force is employed in occupations that would likely benefit from the no taxes on tips provision of the OBBB.

Around 1.3 million seniors in Arizona could benefit from the no taxes on social security provision of the OBBB.

Around 23% of all employees in Arizona regularly work overtime and could benefit from the no tax on overtime provision of the OBBB. An even larger 64% of workers in Arizona are in occupations that are likely eligible for overtime and could also benefit.


JOBS, BUSINESSES, AND HOUSING

CEA finds that the OBBB will protect about 133 thousand full-time equivalent jobs in Arizona over the next four years relative to if the TCJA had been allowed to expire.

There are several provisions in the OBBB that will boost the manufacturing industry. In Arizona, about 3% of firms, 3% of establishments, and 6% of employment is in the manufacturing sector.

The OBBB extends the 199A passthrough deduction for small businesses. There are about 103 thousand firms in Arizona which could be eligible for the deduction, or about 44% of all firms.

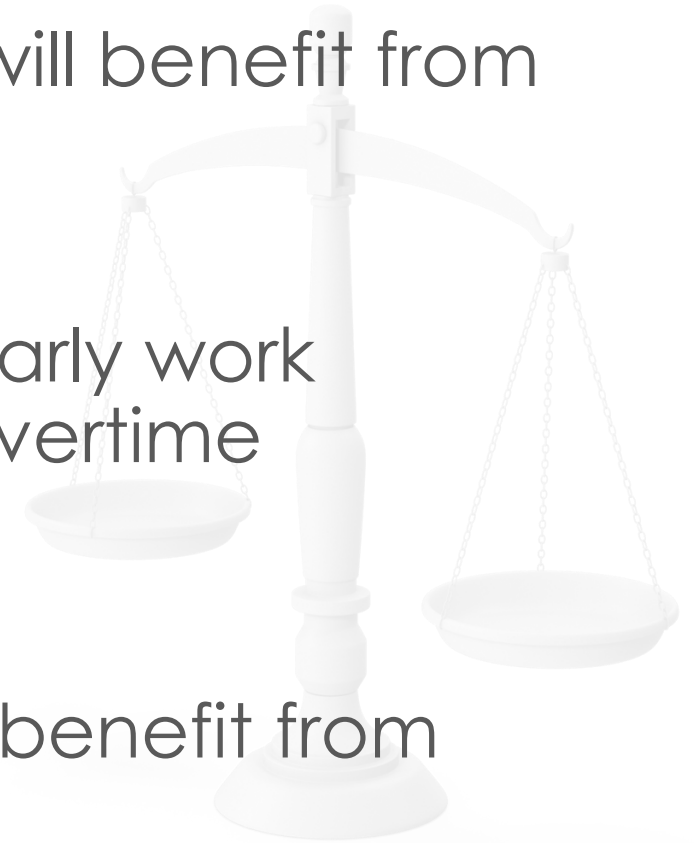
The OBBB enhances Opportunity Zones incentives and makes the policy permanent. In Arizona, there are 168 Opportunity Zones. CEA finds that Opportunity Zones created an estimated 23 thousand jobs following the passage of the TCJA through 2021 and led to the construction of about 6400 housing units in Arizona through the third quarter of 2024.



Arizona Impact-Continued



- Approximately 3% of Arizona's workforce will benefit from the no tax on tips provision
- Around 23% of employees in Arizona regularly work overtime, benefitting from the no tax on overtime provision
- Around 1.3 million seniors in Arizona could benefit from the no tax on social security provision



Arizona Impact-Continued



- The U.S. Council of Economic Advisers (“CEA”) estimates that OBBB will protect about **133,000** full-time equivalent jobs in Arizona over the next four (4) years



Key Provisions Impacting Employers

- Payroll and reporting changes
- Employee benefit programs
- Business Taxation



No Tax On Tips

- Establishes an above the line deduction of up to \$25,000 for qualified tip income
- Begins phasing out for individuals whose modified adjusted gross income ("AGI") exceeds \$150,000

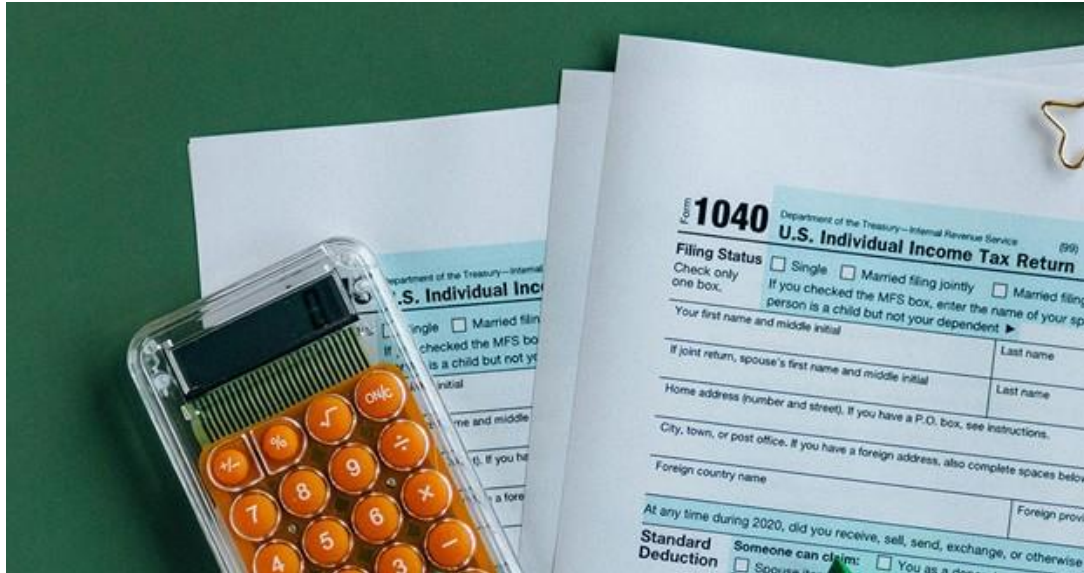
Who/What Qualifies?

- Must be a “qualified tip”
- Only available for tips earned in “traditionally and customarily tipped industries”
- Applies to independent contractors and self-employed individuals
- Employee must provide a “work eligible” social security number

Employer Requirements

- Employers will be required to report on Form W-2 (or 1099) the portion of pay that is qualified tips and will need to identify the qualifying tip-earning occupation

No Tax on Overtime



- Establishes an above the line deduction (through 2028) of up to **\$12,500** for qualified overtime income (\$25,000 for joint filers)
- Begins phasing out for individuals whose modified AGI exceeds \$150,000

Who/What Qualifies?

- Only overtime pay required by Section 7 of the Fair Labor Standards Act (FLSA) is deductible
- Does not include “qualified tips”
- Employee must provide a “work eligible” social security number

Employer Requirements

- Employers will be required to report on Form W-2 the portion of pay that is qualified overtime compensation

Enhanced Employer-Provided Childcare Credit



- Increases the tax credit available to employers who provide childcare to their employees
 - The portion of the tax credit for qualified childcare expenses increases to 40% (from 25%) or to 50% for eligible small businesses
 - The maximum amount of the tax credit increases to \$500,000 (from \$150,000) or \$600,000 for eligible small businesses (adjusted for inflation)

Paid Family and Medical Leave (“PFML”) Tax Credit

- Prior to the passage of OBBB, the employer credit was based on wages actually paid to qualifying employees while they received PFML
- OBBB retains the original credit calculation and further expands the credit to include a percentage of the total insurance premiums paid or incurred by the employer during the taxable year for insurance policies that provide PFML coverage

PFML Continued

- The new calculation method expands employers' ability to utilize the credit and provide PFML
 - Even in instances where utilization may be low
- OBBA expands qualification for eligible employees
 - Lowers the employment requirement from 12 months to six
 - Included to increase employer adoption PFML policies
- Any leave required by state law will not count toward the federal tax credit



529 Account Expansion

Qualified Post-Secondary Credentialing

- OBBB expansion now allows for 529 funds to be utilized for “qualified postsecondary credentialing expenses.”
- Examples:
 - Occupational or professional
 - DOL approved apprenticeship programs
 - Postsecondary credentials recognized under the Workforce Innovation and Opportunity Act (WIOA)
 - “Industry Recognized Credentials”

Dependent Care FSA Expansion

- Beginning in 2026, employers can update their FSA benefit offerings to include the increased dependent care limit of \$7,500 (\$3,750 for married couples filing separately)
- Changes made should be communicated during open enrollment for the 2026 plan year





Student Loan Repayment Assistance

- OBBB makes permanent the exclusion of employer-paid student loan repayments from employees' taxable income (I.R.C. § 127)
- Employers can provide up to \$5,250 annually in student loan repayment assistance, tax-free





“Trump” Accounts

- Essentially creates IRA accounts for minors
- Up to \$5,000 contributed annually
- Employer may make a tax-free contribution of up to \$2,500 to an employee's dependent
- Contributions can begin after January 1, 2026
- Employer must have a written program for contributions



Executive Compensation Limits



Public Companies

- Limits deductible amount of compensation paid to covered employees to \$1M annually

Non-Profits

- IRC §4960 imposes excise tax of 21% for compensation over \$1M or excess parachute payments
- Beginning December 31, 2025, OBBB expands group of covered employee to any employee earning over \$1M

What Steps Should Employers Take?



Payroll/Wages

- Update payroll systems to account for new tips and overtime categories
- Continuing withholding on tips and overtime
- Reporting and withholding obligations will change, pending IRS guidance

Employee Benefits

- Evaluate cost and utilization- as with any employee benefit
- Work with providers and advisors to determine which provisions align with business goals



Key Takeaways

- **We're still reviewing, and you should too:** The bill is in its infancy and we do not fully know its potential impacts
- **Consult with your providers before making changes:** Unless something is mandatory, you have time to evaluate and determine if a change is right for your business
- **There are good benefits offered to employers and their employees:** Implementation and adoption will not be a one-size-fits-all solution
- **Determine what works best for you and your workforce:** Options available under OBBB provide employers an opportunity to revisit their employee benefits, recruitment strategies, and retention capabilities through specific benefit offerings



Thank you.