

THE EFFECTS OF THE OBBBA ON YOUR 2026 EMPLOYEE HANDBOOK

On July 4, 2025, Congress enacted the *One Big Beautiful Bill Act* (“OBBBA”), a statute that, while primarily tax-focused, has meaningful downstream implications for wage administration and employer-provided benefits. Although the OBBBA does not amend core federal employment statutes such as the Fair Labor Standards Act (“FLSA”), Title VII or the Family and Medical Leave Act, several provisions directly affect how compensation and leave benefits are structured and reported. For health care employers that often rely on complex pay practices and layered leave programs, the changes outlined below may trigger important reviews of employee handbooks and related policies during the 2026 calendar year.

CHANGES TO EMPLOYEE COMPENSATION

One of the more significant provisions affecting health care employers is the OBBBA’s creation of a tax deduction for “qualified overtime compensation” for taxable years beginning after December 31, 2024, and before January 1, 2029. See OBBBA § 70202. This provision allows individual employees to deduct a portion of their qualified overtime pay from taxable income for a limited period. The statute defines “qualified overtime compensation” to include overtime compensation paid to an individual required under Section 7 of the FLSA, but limits the deduction to the portion of overtime compensation that exceeds the employee’s regular rate of pay. The OBBBA further amends the Form W-2 reporting statute to require employers, starting with the 2026 tax year, to separately report the total amount of this qualified overtime compensation paid during the year. See OBBBA § 70202.

The OBBBA amendments to overtime compensation are particularly consequential for health care employers, which frequently utilize weekend and holiday premiums, on-call and call-back pay, and alternative scheduling models. Even though the deduction is claimed by individual employees on their individual tax returns, employers must be able to distinguish federal overtime from other premium compensation created by state, local or contract law. Misclassification of employees or errors in overtime calculations may lead to inaccurate reporting of the deduction for employees and result in significant federal, state, and/or local penalties, wage-hour exposure, and increased compliance costs. For example, if a payroll system improperly mixes categories of pay, employees may assume that more (or less) pay qualifies for overtime compensation than their hours actually reflect, exposing both employees and employers to potential issues involving wage inaccuracies and back-pay. In this context, employee handbooks can play an important compliance role by clearly articulating overtime authorization requirements, expectations for accurate recording of all hours worked and procedures for payroll corrections.

The OBBBA also introduces a temporary deduction for “qualified tips” received by employees during the same period as discussed above regarding qualified overtime compensation. See OBBBA § 70201. To qualify, tips must be cash tips received in an occupation that is “traditionally and customarily tipped,” as determined by the Secretary of the Treasury, and must be properly reported. In September 2025, the IRS released regulations listing nearly **70 separate occupations of tipped workers**. While tipping is not typical for clinical staff, health care employers that operate hospital-based food service, valet or other ancillary services should review handbook provisions addressing tips, service charges and reporting obligations to ensure the handbook supports accurate payroll administration and employee compliance with the new deduction framework.

CHANGES TO EMPLOYEE BENEFITS

The OBBBA amendments made to employer-provided benefits are primarily presented as tax incentives instead of requirements, but health care employers may want to consider addressing these incentives in their employee handbooks and/or benefits materials. The OBBBA expands the employer-provided child care credit, increasing both the credit percentage and the maximum credit amount for qualifying expenditures paid or incurred in taxable years beginning after December 31, 2025. See OBBBA § 70401. For health care employers operating at all hours, expanded child care benefits may serve as a meaningful workforce support tool. Accordingly, where employers adopt or expand such programs in response to the OBBBA incentives, employee handbooks and benefits materials should be updated to clearly describe eligibility, enrollment and any limitations tied to capacity or third-party provider arrangements, as unclear benefit descriptions can create employee relations and compliance concerns.

The OBBBA also modifies the paid family and medical leave credit, allowing eligible employers to elect a credit calculated either as a percentage of **wages paid** during qualifying leave or as a percentage of **premiums paid** for an insurance policy providing paid family and

medical leave, effective for tax years beginning after December 31, 2025. See OBBBA § 70304. While the statute does not mandate paid leave, it incentivizes formalized leave programs. For health care employers who must often navigate overlapping federal, state and employer-provided leave benefits, this shift underscores the importance of clearly drafted handbook provisions explaining eligibility, coordination among leave programs and administration practices, particularly for part-time and variable-schedule employees.

The OBBBA expands existing tax incentives for employer-provided dependent care but does not mandate that employers offer such benefits (i.e., maximum annual exclusion for employer-provided dependent care assistance is increased from \$5,000 to \$7,500 per household). See OBBBA § 70405. Therefore, health care employers that choose to adopt or expand dependent care programs in response to these incentives should ensure that employee handbooks and benefits materials accurately describe eligibility, enrollment and any operational limitations.

Finally, the OBBBA addressed some restrictions regarding Health Savings Accounts ("HSAs"). First, for plan years beginning after December 31, 2024, employers can offer telehealth services to employees with an HSA and a High-Deductible Health Plan. See OBBBA § 71306. Additionally, effective for months beginning after December 31, 2025, Direct Primary Care Service Arrangements, which are arrangements solely for primary care services where a patient pays a fixed fee, with a monthly premium of \$150 or less for an individual (\$300 or less for a family), are now considered qualified medical expenses that can be paid using HSA funds. See OBBBA § 71308. Once again, these new changes can allow health care employers to expand health coverage and offer more comprehensive benefits to their employees.

In short, the OBBBA is not an employment reform statute in the traditional sense, but it meaningfully reshapes certain aspects of the compliance environment for health care employers by tying tax benefits and reporting obligations to wage and leave practices governed by existing employment laws. As a result, the OBBBA provides a timely prompt for health care employers to review and update employee handbooks and related policies to ensure clarity, consistency and alignment with evolving payroll and benefits administration requirements.

PRACTICAL TAKEAWAYS

- **Review Overtime Policies Which Warrant Particular Attention:** Since the OBBBA ties the definition of qualified overtime compensation directly to FLSA Section 7 and requires separate Form W-2 reporting, health care employers should ensure their handbooks clearly address overtime authorization and accurate reporting of hours worked.
- **Review Formalized Paid Leave Policies As Increasingly Valuable:** While the OBBBA does not mandate paid leave, its modifications to the paid Family and Medical Leave Credit incentivize clear handbook provisions explaining eligibility and coordination among leave programs offered.
- **Monitor Differences Between Voluntary Incentives Versus Mandatory Reporting Requirements:** As further legislation is created regarding tax incentives for those employers who provide further family and dependent care leave, keep in mind that not all of these amendments to the Internal Revenue Code represent mandatory employment amendments, but rather voluntary tax incentives.
- **Update Addendums for State and Local Law Compliance:** Work with your compliance and legal teams to ensure that your employee handbooks contain state and local law addendums on these topics, as they may vary widely.

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