HR Mixtape: Hosted by Shari Simpson with Guest Kurt Shoemaker, Director of Compliance and Government Relations at Paylocity

Announcer:

You're listening to the HR Mixtape. Your podcast with the perfect mix of practical advice, thought-provoking interviews, and stories that just hit different so that work doesn't have to feel, well, like work. Now, your host, Shari Simpson.

Shari Simpson:

Joining me today is Kurt Shoemaker, Director of Compliance and Government Relations at Paylocity. Kurt specializes in state-mandated paid family and medical leave programs, bringing deep expertise in payroll tax compliance, regulatory changes, and government relations. Kurt, thank you so much for jumping on the podcast with me today.

Kurt Shoemaker:

Thanks for having me to talk about this.

Shari Simpson:

We have been hearing a lot over the last couple months about the big, beautiful bill in the media, through social media, through different kinds of articles. And we're at a time where I think we really need to let this audience know kind of high level what we're seeing, what we're hearing. And you are definitely an expert in this space over me. So I'd love if you could start by just giving us a general overview of the act itself.

Kurt Shoemaker:

Sure, there's been a lot of conversations about the act as different versions of the bill have been progressing through Congress. So it's probably easier if we start with a quick overview before we dive into any of the details. The One Big Beautiful Bill Act, which is also being referred to as OBBBA, extends the tax cuts that are included in a Tax Cuts and Jobs Act that was passed back in 2017. But it also includes a few changes. Some changes include a temporary increase to the state and local tax deduction, also known as the SALT deduction, and some new tax deductions on tips and overtime wages, along with changes to benefits, like dependent care plans and health savings accounts, and a new savings plan benefit for newborn children. In addition to changes that impact benefits and payroll, the Act also includes funding for Homeland Security, immigration enforcement and changes to medicated staff programs. There's a lot of sections in the bill. The final bill was signed into law by the president is just shy of 900 pages. So we can only hide a few provisions during our conversation today.

Shari Simpson:
Oh, I can imagine. I don't plan myself to read all 900 pages. So what does the one big, beautiful bill act? Sorry, when does it take effect?

Kurt Shoemaker:
Well, there are different effective dates for different provisions that are in the act. Some of the law takes effect retroactively back to January 1st of this year, such as the individual tax deductions I just mentioned for overtime and tip wages, while some of the other parts of the act don't go into effect until January 1st of the upcoming year.

Shari Simpson:
Are all of the changes that we're going to see coming out of this act permanent?

Kurt Shoemaker:
That's a great question. Glad you asked that. No, some of the provisions are short term. There are temporary changes. For example, that tax deduction that I've mentioned several times already for overtime and tips, that ends in 2028. But a lot of the other provisions are permanent. They'll go into effect for the foreseeable future.

Shari Simpson:

So as I think about, you know, employers that are listening to this, what do they need to do to make sure that they are complying with the new provisions in this bill?

Kurt Shoemaker:

I always encourage employers to be aware of the provisions that impact their business so that they're prepared for any changes. Employers should monitor resources that provide updates to payroll and HR regulations, but I'm sure we'll get into some of the details later in their conversation that'll give them a head start.

Shari Simpson:

Absolutely. You know, two of the most talked about parts of the act that I've heard that many employers and employees definitely are interested in learning more about are the no tax on tips and the no tax on overtime. I notice that you haven't specifically mentioned no tax on either of these types of wages. Instead, you mentioned tax deductions. So maybe you can provide some clarity there.

Kurt Shoemaker:

Sure. I'm glad you're pointing this out. That's a really good observation. While the sections of the law containing these new deductions use the term elimination of tax, there are some limitations that apply to the total amount of each deduction an employee is eligible for. And the deductions also phase out if you're a higher income.

Shari Simpson:

So will employees who earn these tip wages or overtime wages see any immediate impact to their net, you know, their take home pay now that the law is in effect?

Kurt Shoemaker:

Unfortunately, no, it's important for employers and affected workers to understand that employees who receive either of these two types of qualified income will continue to see this income taxed on their paychecks. So your paycheck won't really be affected in the short term, at least until we hear further guidance from the IRS. It's also important to note that employees will still pay Social Security and Medicare taxes on those earnings because the new law only provides a deduction for income taxes. For 2025, employees will take the deductions when they file their individual income tax return when they get ready to file next year, where they may be eligible to claim an income tax deduction up to the limit defined based on their filing status, whether they filed jointly or single. Since most employers have been tracking eligible wages for the deductions this year, The law requires IRS to issue guidance to employers and taxpayers on how they're going to determine the amount of deduction for 2025. Starting next year, the law requires W-2 reporting to help employees identify the amounts that they qualify for. The law also requires IRS to update withholding procedures starting in 2026 to account for the new deductions. So we'll be checking in with IRS to find out more and keep people up to date on the changes as they're coming out.

Shari Simpson:
Yeah, I can imagine this is going to be a administrative debacle for a lot of people. So as you look at what the acts has, what are which tip wages are going to be included under that new law?

Kurt Shoemaker:
Sure. The law applies to qualified tips, and then they further define qualified tips as cash tips received by an individual in an occupation which customarily and regularly receives tips. Cash tips also includes tips that are received paid in cash, but also charged tips as well. And in the case of employees that use tip pooling arrangements, it can also include those tips as well. The IRS is going to publish a list of occupations whose workers receive tips in their normal course of business to help employers identify which tips qualify for deductions. So you can't just go and take everybody's type of payment and turn it into tips. There's a lot of requirements around which occupations they're working in, in addition to those limits.

Shari Simpson:
Yeah, that makes a lot of sense because there's probably a lot of roles where

you may tip, but it might not fall underneath the, I'm using air quotes, qualified tips or roles that are qualified for it. So it'll be curious to see what that list looks like. Is there a max amount of tipped wages that will qualify under the new law?

Kurt Shoemaker:
Yeah, it's limited for everybody. It's capped at $25,000. And then it phases out for high income earners. So for joint filers, that phase out starts at $300,000 of adjusted gross income. And for everybody else, it starts at $150,000 of adjusted gross income. The phase-out works like this. It reduces the limit, that $25,000 limit, by $100 for every $1,000 that you make over that $300,000 or $150,000 AGI. So if you make $151,000 in AGI and you're a single filer, instead of $12,500, you'd have $12,400 of eligibility credit.

Shari Simpson:
Gotcha. It'll be interesting to see what all of our product tax friends are going to also do to help the consumer with this. You know, do you think it's going to matter which job or industry employees work in to qualify for the quote no tax on tips?

Kurt Shoemaker:
Yeah, I mean, like I said, the IRS is supposed to publish a list, so it'll be interesting to see what ends up on that list, right? I think we can imagine already some of the things that we'll expect to see there, you know, like people, beauticians and things like that, or delivery drivers, not necessarily just food and beverage, like delivery drivers, taxi drivers, things like that. So I'm sure when the list comes out, it'll face a lot of scrutiny. I'm not sure if there'll be any area for industries that are overlooked to push back.

Shari Simpson:
Yeah, no, it'll be very interesting to see what that final list is. In addition to the advantage that employees are going to get out of this program, there is also a section in the no tips provision of the One Big Beautiful Bill Act that actually extends the FICA tip credit for employers. Today, that tip credit's only available for food and beverage industry employers, and it's now being expanded to

cover the beauty service industry, which includes like, you know, nail salons, barbershops, things of that nature. So it'll be really interesting to see how that rolls out. And I would say, you know, employers should really consult their tax advisors about whether or not they're going to be qualified for that new credit and how to claim the credit because it's claimed against their income taxes, not on their employment tax returns.

Kurt Shoemaker:
You know, many employers end up in a situation where they are going to pay or do pay now state overtime or other types of overtime, think under maybe a CBA, a collective bargaining agreement, and they may not follow that, you know, federal FLSA overtime rules. Is the non-FLSA overtime eligible for the new tax deduction?

Kurt Shoemaker:
Not really. The law in its current form allows only wages outlined under Section 7 of the Fair Labor Standards Act for the federal overtime exemption. That means that state or voluntary overtime policies that are more generous than what the Fed requires will not allow more deductions than what is required under FLSA. So they'll have to keep it to the amount that's required under FLSA.

Shari Simpson:
That makes sense. You know, I heard recently that only a fraction of the FLSA overtime earned is considered qualified for that tax deduction. Is that true?

Kurt Shoemaker:
Yeah, and I think that's one of the things that people have been most confused about and are slowly learning and understanding as time goes on. So this is probably come to surprise as some workers who had expected all of the overtime that they earn over the 40 hours, for example, to be qualified. That's why it's really important for employers to stay informed and why we create this type of contact to help educate employers on what they need to know.

Shari Simpson:
Yeah, for sure. You know, I think it's one of those things that employers are going to have to navigate and be surprised by what they see there. Can you maybe dive a little deeper and tell us what portion of the FLSA overtime will be qualified for that new overtime tax deduction?

Kurt Shoemaker:
Sure. The qualified overtime, as they're defining it in this law, is the overtime compensation that's paid to an individual that's in excess of their regular rate of pay. That's sometimes referred to as the overtime premium. So I think really the easiest way to explain this is just give a quick example, right? So let's say an employee earns $10 an hour for their regular time and they make $15 an hour for overtime. So they, you know, the regular time and a half, which is what's required under FLSA. If the employee works 10 hours of overtime, The employee earns $400 for their regular time and then they'll earn $150 for the overtime. Now, since it's only the amount that's in excess of the regular rate of pay, only the $50 or the $5 an hour premium times the 10 hours is qualified for the tax deduction because that's the portion that's in excess of the regular rate of pay.

Shari Simpson:
Is there a maximum amount of overtime wages that qualify for the overtime tax deduction law? I think we touched base on this a little bit, but is there anything else related to that, that cap we had talked about earlier?

Kurt Shoemaker:
Yeah, it's pretty, it's very similar to how the tips work, except instead of having that $125,000 limit, there's a different limit for single piece principal versus married people. So for single, the limit's $12,500. And if you're filing jointly, it's the same as tips at $25,000. And the income phase outs are exactly the same. So if you make $300,000 for married or $150,000 for single, that starts to phase out at $100 per $1,000.

Shari Simpson:
As we think about the larger landscape of, you know, the HR system admins

who are thinking about how to handle this, what are some of the things that HCM providers are looking at to help their clients set up and or change things for these new federal tax deductions coming?

Kurt Shoemaker:
Well, right now we're waiting for more guidance from IRS before we can finalize all the details, but we expect it's probably going to require some pretty minimal changes to employer reporting, at least for this year, with more changes coming next year. So as we learn more, you know, we'll provide some more updates, maybe some more content like this or updates from articles that keep people informed of what those changes have been.

Shari Simpson:
Okay, we've spent a lot of time on the tip and overtime provisions. Let's maybe pivot a little bit and touch base quickly on a few others. What are the changes to the personal and standard tax deductions that we're gonna see?

Kurt Shoemaker:
Sure. There are both some retroactive and also some prospective changes with regard to the standard deduction. Keep in mind that most of these changes will be handled when the employee files their 2025 taxes. Any limit set to change next year, payroll companies and ATM providers will be updating their software to incorporate those limits for next year. Retroactive to January 1st this year, the standard deduction will temporarily increase by $2,000 for married couples, $1,500 for head of household, and $1,000 for individuals. This is just a temporary increase, though, and it's going to expire on January 1st of 2029. The law also eliminates deduction for personal exemptions permanently, which were already temporarily eliminated under the Tax Cuts and Jobs Act. So those will just stay out of effect for the foreseeable future. And beginning January 1st of next year, the new law makes the standard deduction under Tax Cuts and Jobs permanent, and then it will adjust for inflation for the lower tax brackets for the next few years going forward. The new law also keeps the tax rates in place that were set to increase as of December 31st of this year for the highest tax bracket, which would have seen a 2 percent increase. So that really is no change as they'll remain the same as they are right now.

Shari Simpson:
What are the new challenges that we're going to see for SALT deductions? And for those of you who don't know what SALT deductions are, it stands for the state and local tax deduction.

Kurt Shoemaker:
Yeah, I know a lot of folks when the Tax Cuts and Jobs Act was passed saw a lot of issues with the SALT cap. There was previously no SALT cap. You actually would only end up with an alternate minimum tax in some circumstances. So that was moved down to $10,000 under Tax Cuts and Jobs. But with the recent changes under OBBB, that's going to increase to $40,000 for most taxpayers, higher income, will have a phase out. The bad news, though, is it's only temporary. So this will slowly phase out and go back to the $10,000 limit by 23rd.

Shari Simpson:

I heard something about an increase also to the Dependent Care Assistant Program annual limit. Can you tell us about that and how that's included in the Act?

Kurt Shoemaker:

Yeah, the Dependent Care Assistance Program annual limits have been increased. This act will permanently increase the Dependent Care annual limit from $5,000 to $7,500 for all filers except for Mary filing separate, and a lower amount because they can split it, and their limit will be $3,750. And that will apply to plan years starting in 2020 cents. Employers that sponsor a Dependent Care Assistance Plan They're going to want to work with their benefit advisors to prepare for the 2026 plan year. And they might be through open enrollment now or in the near future. So they need to make sure they're getting those plans amended and that the increase needs to be communicated to their participants during this open enrollment period. There's also a new benefit for children born between January 1st, 2025 and January 1st, 2029 that provides a one-time Learn establishment contribution to an IRA account in that child's name and that contribution is going to be provided by the federal government. The new accounts will allow employers to contribute as well, up to $2,500 annually, should they choose to offer it. It's not mandatory that they do this, but it's just a new benefit that they'll probably want to add to their existing benefit programs. And we hope to learn more about this soon as the IRS releases guidance, and I'm sure we'll hear about it from a lot of those retirement and benefit plan providers as they start to offer changes to employer benefits.

Shari Simpson:

Yeah, it's really fascinating. I can see this new increase in the dependent care annual limit really helping some working parents out. So that's interesting to see. You know, I know earlier versions of the bill contain lots of changes for health savings accounts, HSAs. Did any of those end up in the final version?

Kurt Shoemaker:

Yeah, a few did make it across the finish line. The act permanently adopts the flexibility for an otherwise HSA compatible high deductible health plan to offer telehealth services prior to the deductible being met without jeopardizing the individual's HSA eligibility. And then starting in 2026, more types of plan will be able to offer HSA benefits. For example, qualified direct primary care arrangements with monthly premiums of $150 or less will no longer disqualify coverage for HSA eligibility purposes. Also, employees of employers who offer individual coverage health reimbursement arrangements, also known as ICHRAs, will have more HSA-compatible options. Starting in January 2026, all bronze and catastrophic plans available on an individual marketplace through the ACA exchange will be HSA-compatible as well.

Shari Simpson:
Kurt, I feel like this is one episode where I should include an acronym decipherer in our show notes.

Kurt Shoemaker:
Yeah, we need a glossary.

Shari Simpson:
Are you seeing any provisions in the new law that employers might find surprising beyond some of the ones we already talked about?

Kurt Shoemaker:
Yeah, actually, there is. There's a section in the law that retroactively ends eligibility for the COVID era. employee retention credit, but it only applies to certain tax periods, and it's only for claims that were postmarked after January 31st of 2024. And that's kind of strange, right? It's got a long effective retro date back to the prior year, and that's because this bill was previously introduced in Congress and just didn't make it into prior packages. Now, the reason they're doing this is they're making this change with an aim to minimize fraud. And they're also adding some new regulations to penalize paid promoters who encouraged a lot of ineligible employers to file claims that they maybe weren't eligible for. And another piece of this law adds another three years to the statute of limitations. So the IRS has more time to investigate some of those claims. So if you're following the employee

retention credit closely, you would know that the statute of limitation ended for the last year that claims were available, 2021, just this past April. So now the IRS has a little bit of extra time to look a little bit deeper into some of these cases. And hopefully we'll see, you know, not too much come out of that as far as, you know, employers who already had eligible claims awarded.

Shari Simpson:
Yeah, hopefully. You know, before we go, are there any other tax items that you want to make sure we call out?

Kurt Shoemaker:
Yeah, I mean, there's a number of corporate tax changes, you know, we're focusing on the payroll and benefit stuff, but there's a ton of corporate tax changes that have been made permanent, or they were enhanced. A lot of these were originally part of the Tax Cuts and Jobs Act. So some of these things may not necessarily be new. For example, income tax credits for employers who sponsor paid leave benefits. They've been increased, and they've also been made permanent. They were supposed to expire at the end of 2025. And they've also expanded eligibility, so more employers are going to be able to take that credit. Previously, it was only allowed for employers who were self-insured, and now it's being expanded to cover employers who sponsored their paid family leave benefits through a private insurer. There's also a lot of changes to the immediate expensing of domestic research and experimentation costs. These are referred to as R&D credits that a lot of industries take advantage of, and they take this credit against their employment taxes. And these have been made retroactive for certain small businesses. So if you're a smaller business, you might want to talk to your tax advisor about whether you might qualify for this retroactively. And there's also a ton of different changes for property depreciation and other asset expenses that apply to corporations. So I think it's best that businesses can learn more about this. They talk to their tax advisor to find out what kind of changes might affect their economy.

Shari Simpson:
Yeah, for sure. You know, many of our listeners are going to definitely want

more details. I'm sure that we've just barely scratched the surface of some of the questions that they might have. You know, where can they find more information about the new law in a digestible way, I guess I would ask, so they don't feel like they have to go read the 900 pages.

Kurt Shoemaker:
Well, yeah, that's a good question. You know, like many of our listeners, we also have a lot of unanswered questions about how parts of this law are going to be implemented. And we anticipate we'll start to get additional guidance over the next couple months from IRS along with the other applicable enforcement agencies. And this may come in the form of different regulatory updates. You know, you can always check out irs.gov. There's a ton of information and subscriptions you can sign up for and get news from IRS. Some agency FAQs, you know, Department of Labor is another great resource. And they may just come through the form updates and instruction updates that the IRS regularly publishes. So keep an eye out for the new Pub 15, the new W-4, those types of things that get regularly refreshed every fall season. But if you want to go look at the act, you can always go to congress.gov and just search HR1 or the One Big Beautiful Bill Act, and it'll bring you right to a copy of the final enacted version of the bill. And of course, we also have a ton of resources available on our website and also through, you know, some internal resources as well. So if folks are interested, they can always check that out.

Shari Simpson:
Yeah, Kurt, I am sure I will have you back on in the future here as some of this stuff comes to light, especially as we see some of that guidance coming out from the IRS. We're fortunate that we have a compliance and government relations team here. So I will bring you back on again, because hopefully this has been a good episode for our listeners. I know it's educated me on some things that I didn't quite have all the details on. So I appreciate you taking time out of your busy day, Kurt, to sit down with me.

Kurt Shoemaker:

No problem. I'm glad you took the time to find out more about this bill and look forward to sharing more information.