The MRA
Massachusetts Restaurant Association
Access • Influence • Protection

Getting the most out of the 2025 Tax Reforms

The One Big Beautiful Bill, also referred to as the Working Families Tax Cut, passed in July 2025, includes extensive tax reforms making pro-business tax policy permanent. These changes will be essential to supporting the growth of the restaurant industry and other small businesses for years to come. The changes provide a new foundation in the tax code that will help operators balance running a restaurant on their tight margins with their need to make purchases and take on appropriate debt to meet their consumer demands.

The changes include:

- Full expensing for capital equipment purchases
- Qualified business income deduction
- Business interest expense deduction
- Family and medical leave tax credits
- Estate tax relief

The tax reforms also included individual tax deductions to benefit tipped restaurant workers and any hourly employees that earn time-and-a-half overtime during the year. From 2025-2028, these employees will be eligible for tax deductions on portions of their pay, which should add up to millions of dollars in savings for their hard work.

No Tax on Tips – How it Works

A tipped restaurant worker already reports their tips to their employer each shift. To file their taxes every year, the server's employer gives them a W-2 that itemizes all of their annual income into cash wages and tips, and calculates their total taxes paid.

In 2026, when a tipped employee is filing their 2025 tax return, they will input all their income information (tips and cash wage) as they do now. They should be prompted to deduct up to $25,000 of their tip income before other deductions like mortgage interest.

Example: A server with an annual income of $50,000 ($10,000 in cash wages paid by their employer, $40,000 in tips) currently pays taxes on the full $50,000. From 2025-2028, the server will only be responsible for taxes on $25,000 ($10,000 + $15,000) Eligible tipped workers can deduct up to $25,000 of tip income from their federal tax return. All tips over $25,000 will be taxed as normal.

No Tax on Overtime – How it Works

You are eligible for the No Tax on Overtime tax deduction if you are a non-exempt, hourly employee who earns time-and-a-half their hourly rate when working more than 40 hours a week. Beginning in 2025, employers will track how much premium overtime pay (the "half" in time-and-a-half) each employee earns. Their employer will provide this amount on their W-2 form tax form

Up to $12,500 ($25,000 for joint filers) of premium overtime pay (the extra pay on top of their normal hourly rate) can be deducted from federal taxable income. All premium pay over $12,500 ($25,000 for joint filers) will be taxed as normal.

Click **here** for more.