New era of healthcare payroll: navigating OB3, overtime, and tax reporting

Navigating the OB3 Act, healthcare payroll faces new tax and overtime rules, creating complexity but offering modernization opportunities for improved compliance and workforce management.

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On July 4, 2025, the One Big Beautiful Bill Act (OB3) introduced one of the most significant shifts in healthcare payroll in a generation.

From home care agencies to senior care communities, providers across post-acute care now face a new set of workforce and payroll considerations. Among the most talked-about changes are “No Tax on Overtime,” “No Tax on Tips,” and the creation of new Trump Accounts, all of which have implications for payroll processing, tax reporting, and workforce strategy.

For organizations already navigating staffing shortages, complex wage requirements, and ever-evolving compliance regulations, OB3 adds another layer of complexity. But it also presents

an opportunity: healthcare providers that modernize their workforce systems now can reduce administrative burden while staying ahead of regulatory changes.

In this blog, we'll explore what these OB3 updates mean and how healthcare organizations can prepare their payroll and workforce management strategies for the road ahead.

A new approach to overtime

One of the most widely discussed provisions of OB3 is the new tax treatment for overtime wages.

From 2025 through 2028, employees can claim "above-the-line" deductions on their personal tax returns for the half-time portion of overtime pay. These deductions are capped at:

- $12,500 for single filers
- $25,000 for joint filers

This deduction is not available for married individuals filing separately.

During 2025, employers were instructed to continue regular federal tax withholding. The IRS also allowed employers to estimate qualified overtime for year-end reporting using guidance it published, though reporting qualified overtime to employees remained optional.

Importantly:

- There were no changes to the 2025 Form W-2
- Employers could optionally report qualified overtime amounts to employees

While these changes may sound simple on the surface, the operational impact for healthcare providers (particularly those with complex scheduling and pay structures) can be significant.

State and federal overtime rules still apply

Even with OB3's new tax provisions, overtime compliance remains a critical responsibility for employers.

This is especially true in post-acute care industries, where care staff often work variable schedules across multiple locations, programs, and pay structures.

While federal overtime laws create a baseline, state-specific rules frequently add additional requirements, making it essential for employers to stay informed and ensure accurate payroll calculations.

Salary threshold ruling

A court decision in Texas invalidated the 2024 increase to the federal overtime salary threshold, effectively rolling it back to the previous level of $684 per week under the Fair Labor Standards Act (FLSA).

However, employers must remember that some states enforce their own salary thresholds that exceed federal requirements, bringing more employees under overtime coverage.

Additionally, certain states maintain unique overtime rules, including requirements such as:

- Overtime pay when employees exceed a specific number of hours in a single day
- Premium pay for employees who work seven consecutive days in a workweek
- Additional compensation for days with long spreads of hours
- Split shift premiums
- Additional pay when employees work through designated meal or rest periods

For healthcare employers operating across multiple states, these variations can create serious compliance risks if payroll systems cannot properly account for them.

Beyond standard overtime: healthcare-specific pay rules

In addition to standard overtime, many states require additional pay structures, including:

- Wage parity for home care aides
- Daily overtime
- Call-in pay
- Split shift premiums
- Spread-of-hours premiums

These requirements make payroll particularly challenging for agencies managing large workforces with constantly changing schedules.

Organizations increasingly need healthcare-savvy payroll systems capable of automating these rules, ensuring staff are paid accurately while reducing the risk of compliance violations.

The hidden complexity of blended rate overtime

Even when federal overtime requirements remain unchanged, the way they are calculated can still create compliance challenges.

One common issue in healthcare payroll is blended rate overtime, also known as weighted average overtime.

Care staff may earn different pay rates within the same workweek due to factors such as:

- Location-based wage requirements
- Program-specific pay structures
- Working in multiple roles
- Different levels of care difficulty

When this occurs, overtime must be calculated using a blended rate, determined by:

- Dividing total weekly earnings by total hours worked
- Paying overtime hours at 1.5 times that blended rate

For organizations relying on manual payroll processes, these calculations can quickly become error prone.

That's why many healthcare providers are turning to automated payroll systems designed specifically for healthcare workforces, systems that can calculate blended overtime automatically and help ensure accurate compliance.

Worker classification: W-2 vs. 1099

Another area receiving renewed attention is worker classification.

A worker is generally classified as either:

- An employee (W-2)
- An independent contractor (1099-NEC)

The distinction carries major implications for employers. For W-2 employees, companies must:

- Pay 7.65% in Social Security and Medicare taxes
- Pay federal and state unemployment taxes
- Provide workers' compensation and disability coverage
- Meet ACA health insurance requirements

For independent contractors, employer obligations are typically limited to:

- Collecting a taxpayer identification number
- Meeting state-specific new hire reporting requirements

Another important difference: non-exempt W-2 employees must receive overtime pay, while independent contractors are generally not entitled to overtime.

Because employers save significantly on payroll taxes when classifying workers as contractors, the IRS routinely conducts worker classification audits to ensure employees are correctly categorized.

How worker classification is determined

Determining whether a worker should be classified as a W-2 employee or a contractor can be complicated, especially in healthcare settings.

For example:

- Is a physician assistant making in-home health visits an employee or a contractor?
- What about an occupational therapist who works for multiple agencies?

The criteria have changed across different administrations.

During the first Trump administration, it was generally easier to classify workers as contractors. In 2024, the U.S. Department of Labor (DOL) issued a rule that made contractor classification more restrictive.

On May 1, 2025, the DOL reverted to earlier guidance originally issued in 2008, without finalizing a new definitive rule.

The current guidance identifies multiple factors used to determine worker status:

- The extent to which services are integral to the business
- The permanency of the relationship
- The contractor's investment in equipment or facilities
- The degree of control exercised by the company
- The worker's opportunity for profit or loss
- The amount of initiative and independent judgment
- The degree of independent business organization

However, on February 26, 2026, the DOL announced a proposed rule that would revise the standard to focus on two "core" factors (i.e., the nature and degree of control that the individual has over the work and that individual's opportunity for profit or loss).

Until final guidance is issued, healthcare organizations should refer any classification questions to legal counsel or tax advisors.

The tip transformation

Another OB3 change that could surprise healthcare providers involves tax treatment of tips. While gratuities are typically associated with hospitality industries, the Treasury's new Tipped Occupation Codes (TTOC) now include certain healthcare roles.

Specifically, the preliminary codes include personal care aides and elderly companions.

Like the overtime provision, this change allows employees to claim deductions for qualifying tips on their personal tax returns, though limits may vary.

The law makes an important distinction: eligibility for "No Tax on Tips" depends on the employee's occupation, not the employer's industry.

In fact, the preliminary TTOC list includes a specific classification for personal care and service workers who provide personalized assistance with daily living tasks for individuals with disabilities or illnesses.

For agencies employing workers in these roles who receive tips, this means tip reporting may soon become part of payroll compliance.

Introducing Trump Accounts

OB3 also introduces a brand-new savings vehicle for families: Trump Accounts.

Starting July 5, 2026, parents can open Trump Accounts for minor children with Social Security numbers and contribute up to $5,000 per year in post-tax dollars (adjusted annually for inflation).

Employers can also choose to participate by contributing up to $2,500 per year per child, tax-free to the employee, provided the organization establishes a written plan.

Additional provisions include:

- A $1,000 one-time government contribution for children born between January 1, 2025 and December 31, 2028
- Potential additional $250 grants funded by a private grant
- Funds must be invested primarily in U.S. stock funds
- Withdrawals can begin January 1 of the year the child turns 18

For employers, these accounts introduce another potential employee benefit strategy, particularly for post-acute care, which competes heavily for talent.

Why payroll specialists matter more than ever

With new reporting requirements, tax deductions, and workforce classifications, payroll complexity in healthcare is only increasing.

General-purpose payroll systems often struggle to keep up with healthcare-specific requirements, especially when new reporting elements are introduced.

For example, OB3 introduces new reporting codes, including:

- Box 12 codes (TT, TP, TA)
- Split Box 14 reporting

These changes can be difficult for traditional payroll platforms that weren't designed for the flexibility that healthcare compliance often requires.

The case for a workforce management ecosystem

Ultimately, OB3 highlights a broader truth: healthcare workforce management is no longer just about payroll processing.

Organizations must manage an increasingly complex employee lifecycle that includes:

- Recruiting and onboarding
- Scheduling and time tracking
- Payroll and tax compliance
- Benefits administration
- Workforce analytics

Trying to handle these functions across disconnected systems creates inefficiencies, compliance risks, and administrative burdens.

The future lies in integrated workforce management,platforms designed specifically for healthcare organizations that manage the entire employee journey in one place.

When onboarding, payroll, compliance, and workforce analytics work together seamlessly, organizations gain two powerful advantages:

- Operational confidence that payroll and tax requirements are handled correctly
- A higher level of employee trust that results in improved recruitment and retention

In an industry where workforce shortages remain one of the biggest challenges, that shift in focus can make all the difference.

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