

Implementation - H.R.1 OBBBA in Workday Payroll

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Abstract:

This article focusses on understanding the Overtime and Qualified Tips Specific requirement of One Big Beautiful Act and how we can architect the solution in Workday payroll using delivered concepts of lookup table, lookup calculation, and override calculation. This research outlines the concept of FLSA and various calculation options in Workday to implement the same and other configurations to implement this ACT. This article proves the success of this design with a successful case study by implementing this design in the Retail industry with over forty thousand employees across all states in USA, Canada and concludes with the implementation strategy.

Keywords: ERP, Workday Payroll, FLSA, DOL, ERP, Workday, Workday Payroll, Overtime, Premium Rate, Regular Rate of Pay, Qualified Tips, W2.

INTRODUCTION

The Fair Labor Standard Act (FLSA) is an act which establishes minimum wage, overtime pay, recordkeeping and employment standards affecting employees in the private sector and in Federal, state, and local governments. Covered nonexempt workers are entitled to a minimum wage of not less than \$7.25 per hour effective July 24, 2009. Overtime pay at a rate of not less than one and one-half times the regular rate of pay is required after 40 hours of work in a workweek. This act mandates companies to calculate pay based on these rules and the Overtime rules/calculations based on the Employee types. Apart from this, each state can have their own specific pay calculations rules specific to their state and this needs to be followed to be legally payroll compliance.



“The Fair Labor Standards Act (FLSA) establishes minimum wage, overtime pay, recordkeeping, and child labor standards affecting full-time and part-time workers in the private sector and in Federal, State, and Local governments.”

— United States Department of Labor

Figure 1: FLSA – Definition

1. What is Workday Payroll?

Workday Payroll is a Cloud-Based payroll management solution which is designed to automate and streamline the payroll business process for organizations irrespective of sizes and categories of employees. It helps payroll businesses to effectively manage their employees’ compensation, earnings and deductions configuration rules, tax deductions, tax compliance, payroll reporting, and payroll analytics in a single

software solution platform. Workday Payroll offers real-time calculations, managing FLSA rules, delivered connectors with major vendors like ADP, Fidelity, seamless integrations between HR and Finance Systems. Workday Payroll also comes in with best user self-service experience interface, maintaining employee tax elections, direct deposit information and pre-built audit controls which make payroll administrator to administer the payroll activities effectively.

2. Key Definitions in FLSA

FLSA consists of many key definitions and based on the nature of the employees and organizations these definitions will be mandated. Some of the Key Definitions are as below:

- FLSA Minimum Wage
- FLSA Overtime Pay
- Hours Worked

FLSA Minimum Wage: Minimum wage is the basic minimum wage which is required to pay for the employees. The Federal minimum wage is \$7.25 per hour. Apart from Federal minimum wage, many states also have their own minimum wage set for their state specifically. Employees who are subject to both federal and state minimum wage laws, the employee is entitled to the higher minimum wage between the federal and state.

FLSA Overtime Pay: Nonexempt employees must receive overtime pay for hours worked over 40 per workweek at a rate not less than one and one-half times the regular rate of pay. There is no limit to the number of hours employees may work in any work week with some exceptions (employees less than 16 years). The FLSA does not require overtime pay for work on weekends, holidays, rest days, unless overtime is worked on such days. Some states like California etc., are having their own overtime apart from 40 hours condition like daily overtime, double time etc.,

Hours Worked: Hours worked include all the time during which an employee is required to be in the employer's work place, on duty or an approved employer prescribed workplace.

Overtime Premium Pay: Overtime premium pay is the additional compensation paid to employees for hours worked beyond their standard workweek, typically defined as 40 hours in the United States. The overtime premium is calculated at a rate of **1.5 times** the employee's regular hourly rate.

Calculation of Overtime Premium Pay

1. **Determine Regular Rate:** Calculate the regular hourly rate by dividing total remuneration by 40 hours.
2. **Calculating Overtime Rate:** Multiply the regular rate by **1.5** to find the overtime rate.
3. **Calculating Overtime Pay:** Multiply the overtime rate by the number of overtime hours worked.

Example

- **Regular Hourly Rate:** \$50
- **Overtime Rate:** $\$50 \times 1.5 = \75
- **Overtime Hours Worked:** 10
- **Overtime Pay:** $\$75 \times 10 = \750

Important Considerations

- Employers must comply with federal and state laws regarding overtime pay.
- Specific calculations may vary based on state regulations, especially for salaried non-exempt workers with fluctuating work weeks.

OBBBA ACT

The **One Big Beautiful Bill Act (OBBBA)**, signed into law on **July 4, 2025**, significantly impacts federal taxes, credits, and deductions. Some of the major changes which impacts the payroll and W2 is “No Tax on Overtime” and “No Tax on Tips”.

No Tax on Overtime

Overview of the deduction

- Effective 2025 through 2028, individuals may deduct the portion of qualified overtime pay that exceeds their regular rate of pay (for example, the “half” portion of “time-and-a-half”)
- Overtime must be reported on Form W-2, Form 1099, another statement furnished to the individual, or directly by the individual
- Maximum annual deduction is \$12,500 (\$25,000 for joint filers)
- Phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers)

Who qualifies

Taxpayer who:

- Have a Social Security number (SSN)
- Claim itemized or non-itemized deductions

How to claim the deduction

- Include your Social Security number on the return
- File jointly if you are married

Reporting requirements

- Employers and other payers must report qualified overtime compensation on IRS (or SSA) information returns
- Treasury and the IRS will provide transition relief for tax year 2025

No Tax on Tips

Overview of the deduction

- Effective 2025 through 2028, employees and self-employed individuals may deduct qualified tips they received in occupations the IRS identified as “customarily and regularly receiving tips” on or before Dec. 31, 2024, and are reported on a Form W-2, Form 1099, another statement furnished to the individual, or on Form 4137 if the individual directly reports the tips
- “Qualified tips” include voluntary cash or charged tips received from customers, including shared tips
- Maximum annual deduction is \$25,000
- For self-employed individuals, deduction cannot exceed net income (before this deduction) from the trade or business where tips were earned
- Phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers)

Who qualifies

Individuals who:

- Have a Social Security number (SSN)
- Claim itemized or non-itemized deductions

Who doesn't qualify

Individuals who are:

- Self-employed in a Specified Service Trade or Business (SSTB) under Section 199A

- Employees of an employer in an SSTB

How to claim the deduction

- Include your Social Security number on the return
- File jointly if you're married

Reporting requirements

- Employers and other payors must report certain cash tips and the occupation of the tip recipient on IRS (or SSA) information returns
- Treasury and IRS will provide penalty relief for tax year 2025

Live Case Study

One of the Top Retail Company in USA having more than forty thousand employees across fifty states of USA and having employees in Canada is processing payroll in their organizations using Workday ERP and we have employees who are eligible for overtime and Tips. With this new act, we need to maintain the premium portion of overtime separately which is due to more than 40 hours of work and maintain the Tips separately to report these in Employees W2 for their tax filing.

Solution Design

This architecture model is based on Workday features of Time Calculation Tags, Earnings configuration, Calculation Overrides and W2 Box Configuration Changes.

Solution Model Steps for “No Tax On Overtime”**Step 1: Creation of Time Calculation Tags**

Time calculations are rules utilized by Workday to generate calculated time blocks from the time reported by workers. These calculations allow for the application of complex pay rules, enabling differentiated payment rates for various types of work hours.

Create Time Calculation Tags which validate the hours > 40 and tags all the time clocks which are greater than 40 with a separate tag indicating Weekly Overtime.

Name Weekly Overtime, Primary Job

Priority 90b

Inactive

Comment (empty)

General Options

Groups

Create standard overtime calculations to pay Workers overtime after they work a certain number of hours c

01/01/1930

Effective Date 01/01/1930

Criteria

Period Weekly

Replace Hours Greater than (value) 40

Replace Hours Greater than (calculated field)

Results

Add Tags [Weekly Overtime](#)

Remove Tags [Regular, Primary Job](#)

Time Day Based On Calculated Date

Figure 2: Time Calculation

Step 2: Create Payroll Calculation to derive the FLSA Premium Rate

Create a conditional calculation to derive the Overtime Percentage based on country and employee type

View Conditional Calculation Overtime Percentage

Name Overtime Percentage
Category Payroll

Calculation Usage

Conditional Calculations 2 items

Calculation Condition	Order	Condition	Result
...	a	Worker Country=Canada & Comp Plan=Commission	1.5
...	b	Worker Company is Canada as of PP End Date	1.5

Default Response .50

Figure 3: Conditional calculation
Create an Arithmetic calculation to derive the FLSA Premium Rate

View Arithmetic Calculation OT Premium Rate Calculation

Name OT Premium Rate Calculation
Category Payroll

Calculation Usage

1 item

1st Operand	Operator	2nd Operand
FLSA Rate	Multiply	Overtime Percentage

Rounding Round to nearest 0.01

Figure 4: Arithmetic calculation

Step 3: Create Payroll Earnings to compute Overtime Premium using the above Time Calculation and Premium Rate

View Earning
Overtime [CAN USA] ...

Name	Overtime
Code	OT
Default Payslip Name	Overtime
Category	Payroll
Country	Canada United States of America
Current Status	Active

▼ **Calculation Details**

Calculation

Calculation [Hours \(unprorated\) * Premium Rate \(1/2 of FLSA Rate\)](#) Input Amount Allowed? Yes Override Frequency [Hourly](#)

Retro Calculation

Do Not Recalculate During Retro No

Related Calculations

Related Calculation	Groups	US FLSA Premium Calculation Type	Default Calculation	Override Calculation
Hours (unprorated)		FLSA Premium Hours	Payroll Input	Timesheet: Approved Hours for Earning for Sub-period
FLSA Rate			FLSA Rate by Company and FLSA Period (returns 0 if FLSA Hours by Company and FLSA Period = 0)	
Premium Rate (1/2 of FLSA Rate)		FLSA Premium Rate	OT Premium Rate Calculation	

Figure 4: Earnings calculation

Solution Model Steps for “No Tax On Qualified Tips”

Qualified tips refer to cash tips or tips received under tip-sharing arrangements that are eligible for tax deductions. According to the IRS, these tips must be voluntary and received in occupations that traditionally receive tips. The No Tax on Tips Act allows for a tax deduction of up to \$25,000 a year on qualified tips for certain workers until 2028. For 2025, the definition and eligibility criteria for qualified tips are outlined in the new IRC §224.

As tips are coming from POS system as direct input to payroll, we just need to configure an Earnings which will get the inputs and process the same in payroll.

Name	Tips
Code	TIPS
Default Payslip Name	Tips
Category	Payroll
Country	United States of America
Current Status	Active

Effective Dated Details

Effective Date [01/21/2018](#)

∨ **Criteria**

Worker Eligibility 1 item

Worker Eligibility
Payroll Input Exists for Pay Component

∨ **Calculation Details**

Calculation

Calculation [Payroll Input](#) Input Amount Allowed? Yes

Retro Calculation

Do Not Recalculate During Retro No

Figure 5: Tips Earnings Configuration

Final Step

As the earnings and calculations are completed and assigned, these earnings need to be mapped in W2 Box configuration area so that the amounts will be reported in W2 and Employees can file the tax returns to get the tax deduction benefits

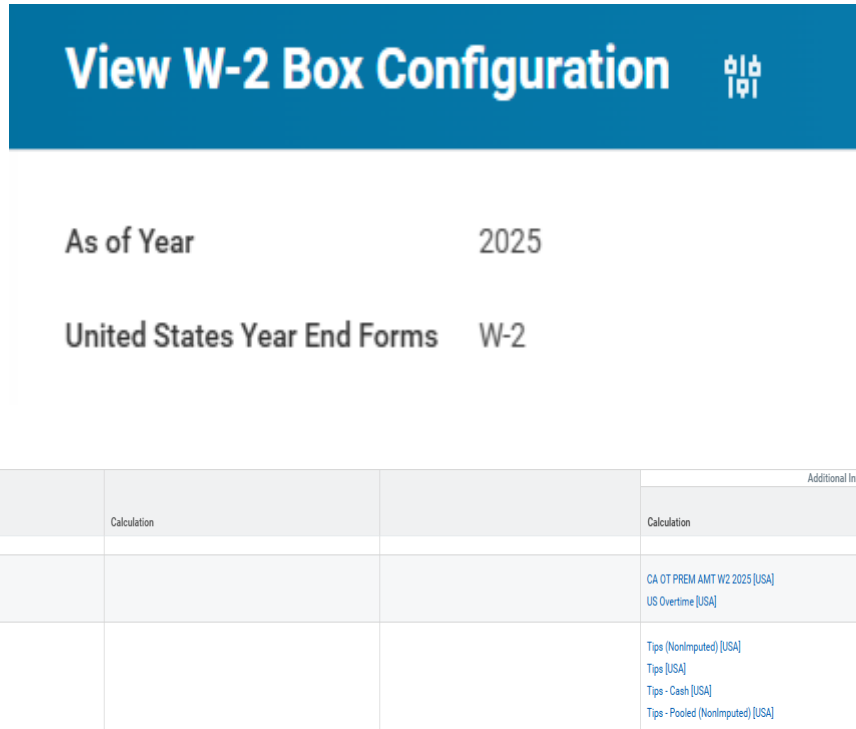


Figure 6: W2 Box Configuration

Implementation Methodology

The Implementation Methodology requires building of Time Calculation Tags interacting with Payroll to calculate the OT Premium using the tags. The calculation of the OT Premium Rate is built from Payroll side and payroll computed the OT Premium amount. Regarding the tips, the tips data is already integrated with the Company’s POS System, payroll will automatically calculate the amount as the amount is directly inputted into payroll from the POS System.

Case Study Outcome:

This model has been successfully implemented to process more than Forty thousand employees across all states in USA and Canada. This automation design has successfully processed the OT and Tips for all applicable states with all FLSA rules. This process has already successfully generated W2 with the required OT and Tips data for more than 20000 employees across all states in USA.

CONCLUSION

Organizations always need to implement any ACT signed by US Government as per the requirement otherwise results in Legal and Penalty clause. As a payroll SME or user, they should know how the calculation can be configured effectively/quickly. Workday Payroll is having very flexible/efficient solution to manage this FLSA calculation by means of configuration. Also, handling FLSA for various period types, various payroll types and Tips across various periods makes Workday Payroll the one of the best solutions. Automatic adjustment of OT premium rate based on any backdated changes or coverage dates not only simplify the payroll business work but also provide accurate calculations. Workday Payroll also eliminates any manual computation of FLSA calculations or adjustments. Workday Payroll also have

the option of generating the W2s for the employees who got processed in Workday payroll for the year. With the combination of these methods, the OBBA Act was successfully implemented on time.

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