



Division of Revenue and Taxation
Tax Announcement 25266

**No Tax on Tips and No Tax on Overtime - U.S. Public
Law 119-21**

September 18, 2025

This announcement provides guidance on how the “No Tax on Tips” and “No Tax on Overtime” provisions of the One Big Beautiful Bill Act (*U.S. Public Law 119-21*) affect the CNMI.

The One Big Beautiful Bill Act, signed into law on July 4, 2025, established above-the-line deductions for qualified tips and qualified overtime compensation. These deductions operate by reducing your adjusted gross income. Due to the unique structure of CNMI’s rebate tax system, the federal provisions create different outcomes for Chapter 2 and Chapter 7 tax obligations on qualifying tips or qualifying overtime.

Chapter 2 Tax: Inapplicable

Chapter 2 imposes the Wage and Salary Tax, which is a tax on gross wages.

The “No Tax on Tips” and “No Tax on Overtime” deductions do not reduce Chapter 2 tax.

- All tips are taxable under Chapter 2.
- All overtime pay (including the premium portion) is taxable under Chapter 2.

Chapter 7 Tax: Applicable

Chapter 7 imposes the Northern Marianas Territorial Income Tax, which mirrors federal income tax rules and uses AGI.

Because AGI is reduced by above-the-line deductions, the federal provisions for tips and overtime do reduce Chapter 7 tax liability.

- Workers in tipped occupations can lower their Chapter 7 tax by deducting qualified tip income.
- Employees with overtime can deduct the premium part of overtime pay (the 0.5x portion above regular wages).

Effective Date and Implementation

- Effective for Tax Years 2025–2028.
- Employers should adjust payroll systems for tax year 2025 onward to reflect
- Employees should ensure deductions are correctly reflected on their returns.