

# IRS Rolls Out Expanded Guidance on the Big, Beautiful Tax Break on Tips and Overtime

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The new IRS guidance (Notice 2025-69) clarifies how workers can claim the One Big Beautiful Bill Act's recently enacted federal tax deductions for qualified tips and overtime pay without receiving a separate accounting from their employer. This update is especially relevant for employers in industries where tipping and overtime are common, such as hospitality, food service, and retail.

**Key Takeaways for Employers:**

- **No Immediate Changes to Tax Forms:** For the 2025 tax year, employers are not required to separately report qualified tips or overtime pay on Forms W-2, 1099-NEC, 1099-MISC, or 1099-K. However, employers may voluntarily include this information in Box 14 of Form W-2 or on a separate statement to help employees substantiate their deductions.
- **Deduction Limits:** Employees can deduct up to \$25,000 in qualified tips and up to \$12,500 in qualified overtime pay (\$25,000 for joint filers), subject to income-based phaseouts.
- **Transition Relief:** The IRS is providing penalty relief for 2025, recognizing that employers need time to adapt their payroll and recordkeeping systems.
- **Recordkeeping Emphasis:** Even though separate reporting isn't required yet, employers should ensure their payroll, tip, and overtime records are accurate and accessible, as employees will rely on these records to claim deductions.
- **Specified Service Trade or Business:** Until final regulations are issued, employees in occupations that customarily and regularly received tips before December 31, 2024, will be treated as eligible for the deduction, easing compliance burdens for employers.
- **Future Requirements:** The IRS has signaled that separate reporting for these amounts will be required in future years, so employers should begin preparing their systems and processes now.

Employers are encouraged to use this transition year to review payroll practices, educate staff, and coordinate with payroll providers. Proactive preparation will help ensure compliance and support employees in maximizing new tax benefits as the rules evolve.



The IRS released guidance Friday for workers who want to claim the new tips and overtime deductions and how to calculate it.

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