

INFORMATION CONCERNING NEW EMPLOYER/PAYER REPORTING REQUIREMENTS FOR TAX YEAR 2025

New Reporting requirements under the One Big Beautiful Bill:

1. **No tax on tips:** Certain employees and self-employed individuals who receive qualified tips may deduct qualified tips that are reported on a Form W-2 or Form 1099. Employers and other payors must file the information returns with the IRS, or SSA in the case of Form W-2, and provide statements to taxpayers showing certain cash tips received during the year and the occupation of the tip recipient.
2. **No tax on overtime:** Certain individuals who receive qualified overtime compensation may deduct the qualified overtime compensation that is reported on Form W-2 or Form 1099. Employers and other payors are required to file information returns with the IRS, or SSA in the case of Form W-2, and provide statements to the taxpayers showing the total amount of qualified overtime compensation paid during the year. **In lieu of a statement, qualified overtime compensation may be reported in Box 14 of the employees Form W-2.** (Qualified overtime compensation is the ½ portion of time and a half.)

The IRS has announced that the 2025 Forms W-2 and 1099 will not be updated to account for the above changes and has stated that transition penalty relief will be provided for tax year 2025.

While not required, employers and payors are encouraged to provide employees and payees with a separate statement that will provide them with needed information for them to claim the deductions as follows:

1. Employees and payees in a tipped occupation should be provided with the occupation codes (see page 2) and a separate statement of cash tips so they can claim the deduction for qualified tips for tax year 2025.
2. Employees and payees should be provided with a separate statement of qualified overtime compensation so they can claim the deduction for qualified overtime compensation for tax year 2025.

List of occupations that receive tips

Treasury Tipped Occupation Code, provides a three-digit code and descriptions for the occupations listed within the proposed regulations. The proposed regulations group the occupations into eight categories:

- 100s – Beverage and Food Service
- 200s – Entertainment and Events
- 300s – Hospitality and Guest Services
- 400s – Home Services
- 500s – Personal Services
- 600s – Personal Appearance and Wellness
- 700s – Recreation and Instruction
- 800s – Transportation and Delivery

Definition of qualified tips

In order to claim the deduction, a worker must both be in an occupation on the list and receive qualified tips. The proposed regulations provide a definition of qualified and not qualified tips which includes the following factors:

- Qualified tips must be paid in cash or an equivalent medium, such as check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash, or another form of electronic settlement or mobile payment application (excluding most digital assets) denominated in cash.
- Qualified tips must be received from customers or, in the case of an employee, through a mandatory or voluntary tip-sharing arrangement, such as a tip pool.
- Qualified tips must be paid voluntarily by the customer and not be subject to negotiation. Qualified tips do not include some service charges. For instance, in the case of a restaurant that imposes an automatic 18% service charge for large parties and distributes that amount to waiters, bussers and kitchen staff; if the charge is added with no option for the customer to disregard or modify it, the amounts distributed to the workers from it are not qualified tips.
- Any amount received for illegal activity, prostitution services, or pornographic activity is not a qualified tip.

If you have any questions about this matter, please contact us for further explanation and/or assistance.