



Important Notice about Overtime and Tips Reporting on 2025 Forms W-2 Under the OBBBA

The [One Big Beautiful Bill Act \(OBBBA\)](#), signed into law by President Trump in July 2025, established **new federal income tax deductions for qualified Overtime pay and qualified Tips for tax years 2025 through 2028**.

Employees can claim these tax deductions for 2025 on their Form 1040 Schedule 1-A. Under the OBBBA, employers are required to report qualified Overtime and qualified Tips on their employees' Forms W-2. Employers are also required to report on Forms W-2 the appropriate occupation code from the list of Treasury Tipped Occupation Codes (TTOC) for tipped employees, so the employees can verify whether they are eligible to take the Tips tax deduction.

Due to the timing of the passage of the OBBBA, the 2025 Form W-2 was not updated to add the coding and boxes for the new qualified Overtime, qualified Tips, and TTOC designations. Therefore, the Internal Revenue Service has stated that employers are not required to report these new items on the 2025 Forms W-2. The IRS has issued guidance to communicate the expectations for employers regarding reporting for 2025.

Quick Summary:

- **Transitional Relief:** Employers are not required to report qualified overtime and tips on 2025 W-2 forms due to timing and system limitations.
- **Employee Action Needed:** Employees must verify eligibility and calculate deduction amounts themselves for 2025, using employer estimates as guidance.
- **Ahola's Support:** Ahola provides estimated overtime and tips on W-2s (Box 14 and Box 7) to help employees prepare accurate tax returns.

- **Future Compliance:** Mandatory W-2 reporting for these items begins in 2026, with penalties for non-compliance.

Important points you need to know:

1. Employers are not required to report qualified Overtime and qualified Tips on Forms W-2 for 2025.

The IRS understands that employers may not have the 2025 reporting information required or the programming in their payroll systems to obtain the information. The IRS also acknowledges that the 2025 Forms W-2 do not contain the new boxes and coding for the information. Therefore, 2025 is a transitional grace period. The IRS will not penalize employers for failing to report qualified Overtime, qualified Tips, and TTOC codes on the 2025 Forms W-2. However, the IRS states that non-compliance in 2026 through 2028 could result in penalties of approximately \$60 to \$680 per incorrect form.

2. Transitional relief has been granted for employers to provide employees with qualified Overtime and qualified Tips for tax year 2025.

Although the OBBBA's qualified Overtime and qualified Tips reporting requirements for Form W-2 are not in effect for 2025, the IRS has stated that employers are encouraged to provide employees with "approximate" qualified Overtime and qualified Tips for 2025 using a "reasonable method specified by the Secretary of the Treasury". Employers can provide these amounts through a variety of means, such as on Forms W-2 in Box 14, on separate written statements, or through electronic reports. Employers are encouraged to provide these amounts to employees to assist them with filing accurate 2025 returns as well as to prepare employers for 2026, when this W-2 reporting will be mandatory.

3. IMPORTANT: For 2025, employees (taxpayers) are responsible to determine their eligibility for and to determine the eligible dollar amounts for any Overtime or Tips tax deductions prior to claiming the tax deductions on their federal income tax returns. Due to the timing of the OBBB and the transitional relief granted for employers for 2025, the estimated amounts provided by employers may not represent the actual eligible amounts for the deductions.

The rules under the OBBBA for the qualified Overtime and qualified Tips tax deductions are complex. Before claiming a tax deduction, employees are

responsible for verifying their eligibility for the deductions as well as verifying the dollar amount claimed for the Overtime and Tips tax deductions. Employees must follow the rules as stated in the instructions for Form 1040 Schedule 1-A on the IRS website. Employees should also consult with an income tax professional prior to taking deductions on their tax returns. Due to the timing of the OBBBA and the transitional relief granted for employers for 2025, the estimated amounts provided by employers may not represent the actual eligible amounts for the deductions.

How Ahola Clients Can Manage OBBBA Reporting for 2025

For 2025, Ahola will report the Estimated Overtime Premium and Total Tips on the 2025 W-2 Forms to assist clients during this transition period before the W-2 reporting requirements go into full effect in 2026.

The amounts listed are qualified estimates only, calculated as best estimates based on information in the payroll system during 2025. It is the employee's responsibility to verify their eligibility for the deductions as well as the amounts claimed for the tax deductions based on all guidance from the Internal Revenue Service. Employees must follow the rules as stated in the Form 1040 Schedule 1-A instructions.

Employees should consult with an income tax professional before taking deductions on their tax returns.

- **Estimated Overtime Premium**
 - Will display in **Box 14 Other** with the title, “Est OT Premium”.
 - This amount is the employee's estimated half-time Premium portion of Overtime, not the full Overtime pay. This is generally equal to approximately 1/3 of the employee's total Overtime pay. Employees can only claim the deduction for the half-time Premium portion of Overtime. In addition, employees can only claim the deduction for Overtime paid if it was required under the FLSA. Overtime paid that was not required under the FLSA must be subtracted to determine the Qualified Overtime total.
- **Estimated Tips**

- Will display in **Box 7 Social security tips**. *Note: If the employee's total in Box 3 plus Box 7 equals \$176,100.00, then the employee should use their final 2025 pay stub to obtain their Tips amount.*
- This amount is the employee's total Tips received, which includes voluntary and involuntary Tips. Employees can only claim the deduction for voluntary Tips. If an employee received any involuntary Tips such as mandatory service fees or required gratuities for large parties, these amounts must be subtracted to determine the Qualified Tips total.
- Employees must confirm that their qualified Tips were received while they worked in an occupation contained in the list of "Treasury Tipped Occupation Codes" (TTOC). Tips earned while working in an occupation that is not on the TTOC list must be subtracted to determine the Qualified Tips total. The complete list of occupations, including the TTOC list, occupation titles, occupation descriptions, examples, and SOC codes can be found at www.irs.gov/TippedOccupations.

How Ahola Clients Can Manage OBBBA Reporting for 2026 through 2028

Reporting Overtime Premium

Starting with 2026 payrolls, the Estimated Overtime Premium will be calculated every payroll and will display for each employee on the Payroll Register report under the memo code "FLSA OT PREM". This is an informational memo code and will be used to populate the 2026 Forms W-2. It does not affect the employees' pay. If your company pays Overtime outside of FLSA requirements, please notify your Dedicated Client Partner so they can ensure the settings on your account will accurately reflect the qualified Overtime Premium under the OBBBA. An example of Overtime that is outside of FLSA requirements is Overtime paid for working on Saturday or Sunday when the employee did not work over 40 hours in the work week.

Reporting Tips

To accurately report the Qualified Tips on 2026 through 2028 Forms W-2, you will need to report voluntary Tips and involuntary Tips separately in the payroll system. If your company does not currently report and use separate earnings codes for voluntary and involuntary Tips, please contact your Dedicated Client

Partner to add these to your account for 2026. You will also need to provide the TTOC code for your tipped employees so the codes can be added to the payroll system.

For more information, view [Questions & Answers about Overtime and Tips Reporting on 2025 Forms W-2 Under the OBBBA](#).

Ahola will be hosting an upcoming webinar in Quarter 1 2026 to explain the payroll updates needed to comply with the OBBBA rules for the qualified Overtime and qualified Tips deductions for tax years 2026 through 2028.

Watch your email for the upcoming invitation and further resources.
Please contact your Dedicated Client Partner with any further questions regarding OBBBA.



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