



Treasury and IRS Provide Penalty Relief for Tax Year 2025 OBBBA Tip and Overtime Reporting

On Nov. 5, 2025, the U.S. Department of the Treasury (Treasury) and IRS [issued](#) guidance providing penalty relief to employers and other payors for tax year 2025 regarding new information reporting requirements on cash tips and qualified overtime compensation under the [One Big Beautiful Bill Act](#) (OBBBA).

HIGHLIGHTS

- On Nov. 5, 2025, the Treasury and IRS announced penalty relief for employers and other payors for tax year 2025 regarding new information reporting requirements for cash tips and qualified overtime compensation under the OBBBA.
- The OBBBA allows certain workers an above-the-line deduction for qualified tips and qualified overtime compensation for taxable years beginning after Dec. 31, 2024, and ending for taxable years beginning after Dec. 31, 2028.
- The penalty relief is limited to returns and statements filed and provided for tax year 2025.

Background

On July 4, 2025, President Donald Trump signed a tax and spending bill, commonly referred to as the OBBBA, into law. Among other provisions, the OBBBA allows certain workers an above-the-line deduction for “qualified tips” and “qualified overtime compensation” for taxable years beginning after Dec. 31, 2024, and ending for taxable years beginning after Dec. 31, 2028. The OBBBA proposed regulations identifying occupations that customarily and regularly receive tips and define “qualified tips” that eligible taxpayers may claim as a deduction.

Key Highlights

The guidance provides penalty relief from the new information reporting requirements for cash tips and qualified overtime compensation under the OBBBA to employers and other payors for not filing correct information returns and providing correct payee statements to employees and other payees. Specifically, employers and other payors will not face penalties for failing to provide a separate accounting of any amounts reasonably designated as cash tips or the occupation of the person receiving such tips. Additionally, employers and other payors will not face penalties for failing to separately provide the total amount of qualified overtime compensation. The relief is limited to returns and statements filed and provided for tax year 2025 and applies only to the extent that the person required to make the return or statement otherwise files and provides a complete and correct return or statement.

Employer Takeaway

The Treasury and IRS acknowledged that employers may not have the information required to be reported under the OBBBA or the systems and procedures in place to be able to correctly file the additional information with the IRS and provide it to employees and other payees. Moreover, the IRS has announced that Forms W-2 and 1099 for tax year 2025 will not be updated to account for the OBBBA-related changes. Therefore, tax year 2025 will be treated as a transition period for IRS enforcement and administration of the new information reporting requirements for cash tips and qualified overtime compensation under the OBBBA. However, the IRS encourages employers to provide employees and payees, particularly those in a tipped occupation, with the occupation codes and separate accountings of cash tips, so the employee or payee can claim the deduction for qualified tips for tax year 2025. Likewise, employers and payors are encouraged to provide employees and payees with separate accountings of overtime compensation, so the employee or payee has readily available the information necessary to claim the deduction for qualified overtime compensation for tax year 2025.