



TaxNewsFlash

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Notice 2025-69: Guidance for individual taxpayers on deductions for qualified tips and overtime

The IRS today released [Notice 2025-69](#), providing guidance to individual taxpayers eligible to claim federal income tax deductions for qualified tips or qualified overtime compensation for tax year 2025, as enacted under Pub. L. No. 119-21 (known as the “One Big Beautiful Bill Act” (OBBBA)).

The OBBBA added new section 224, granting an income tax deduction for “qualified tips,” and new section 225, granting an income tax deduction for “qualified overtime compensation”. Both deductions are available for tax years beginning after December 31, 2024, and ending before January 1, 2029. To that end, the OBBBA revised several information reporting provisions (including sections 6041, 6041A, 6050W, and 6051) to require employers and payors to separately account for cash tips and qualified overtime compensation on statements furnished to individuals, such as Form W-2 and various Form 1099s.

However, as previously announced in [IR-2025-82](#) (August 7, 2025), there will be no changes to the 2025 Form W-2, Form 1099-NEC, Form 1099-MISC, or Form 1099-K to account for the new reporting requirements in the OBBBA, nor will the employer be required to provide an employee any separate reporting of information outside of these forms. The relevant forms are slated for updates in tax year 2026. As a result, employers and other payors will not be required to separately account for cash tips or qualified overtime compensation on those forms furnished to individuals for 2025.

In light of this phased implementation and absence of this 2025 information reporting, Notice 2025-69 provides guidance for individual taxpayers on the requirements to qualify for the deductions, including how to determine the amount of the qualified tips or qualified overtime compensation, for tax year 2025 and the types of information that may be used to substantiate the deduction. The notice also provides transition relief for taxpayers regarding the requirement that qualified tips must not be received in the course of a trade or business that is a specified service trade or business.

As explained in the related IRS release—[IR-2025-114](#) (November 21, 2025)—for tax years 2025 through 2028, workers receiving qualified tips may be eligible for a deduction of up to \$25,000 (which phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers)). Notice 2025-69 provides examples to illustrate various situations tipped employees (such as waiters, bartenders, self-employed travel guides) might encounter. In addition, individuals who receive qualified overtime compensation may deduct (whether or not they itemize) up to \$12,500 (\$25,000 for joint filers) (which also phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers)) of the pay that exceeds their regular rate of pay (generally, the “half” portion of “time-and-a-half” compensation) that

is required by the Fair Labor Standards Act (FLSA) and reported on a Form W-2, Form 1099, or other specified statement furnished to the individual. **Most significantly, Notice 2025-69 confirms that only the “time-and-a-half” premium required by the FLSA will constitute qualifying overtime, and not any additional amounts paid to address state overtime laws, collective bargaining agreements, or for any other reason.** Overtime compensation paid to an employee based on hours of work ineligible for the FLSA overtime premium also is not qualified overtime compensation. Notice 2025-69 provides a series of examples illustrating situations that employees receiving qualified overtime might encounter, including how to address situations involving overtime payments in excess of the required FLSA amounts. The IRS says it is in the process of updating income tax forms and instructions for taxpayers to use this filing season that will assist them in claiming these deductions.

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