



Critical Notice - Qualified Tip and Overtime Tax Refunds Under the One Big Beautiful Bill Act

While assisting with PBS Year End updates recently, we've seen how many payroll administrators are either unclear about what these recent changes mean, or assume they need to manually calculate, enter, and disseminate this critical information to their employees.

The OBBBA has made millions of employees eligible for refunds of their Federal Withholding Tax (FWT) from qualified tips and overtime, **retroactive** to January 1st, 2025

Tips

As long as you have used the Earnings **Type** classification of "Tips", PBS Payroll can accumulate that amount for the entire year. The IRS has designated the W-2 code of **12TP** for these.

P Deductions/Earnings Company 00 TEST - XYZ Company

File View Tools Help

New Edit Save Save / New Delete Cancel Exit

Select code by ascending code #

Code	Description	Type
MAT	401MTC	Employer matching contribution
MEA	meals	Meals
S	SupEarn	Supplemental earn
SP1	special	Special tax
SP2		Special tax
TIP	tip	Tips

Code TIP Description tip Type Tips

Overtime

The software captures overtime earnings totals and calculates the portion exceeding the employee's regular rate - typically the "half" portion of "time-and-a-half". The IRS has designated the W-2 code of **12TT** for these.

Harvesting the data automatically

Here is the Year End>>*Enter W-2 information* screen. There are new boxes for 12TA, 12TP, and 12TT. You may enter data manually, but PBS has made the process even easier for you. By pressing the **<F5>** key once, the software will generate records for all of your employees with

earnings for the year, *and* harvest tips/OT automatically! You do not need to do any manual calculations or data entry.

Year-end (Enter W-2 information) Company 00 TEST - XYZ Company

File View Tools Help

New Edit Save Save / New Delete Cancel Edit states Exit

Select Employee W-2 information by ascending employee #

Employee number	Employee name	Type	State tax code	City tax code
1	Palmer	Hourly	AK-A	NY-A

Employee 1 Palmer (Hourly)
Employee 2 Edward W.

Federal Boxes 8 through 11 Federal Box 12 (Codes A - P) Federal Box 12 (Codes Q - HH) Federal Boxes 13 and 14

Non-taxable combat pay	.00 (W2 box 12Q)	Cost of employer-spons. health cov.	.00 (W2 box 12DD)
Medical savings account contributions	.00 (W2 box 12R)	Gov. sect. 457(b) plan Roth contr.	.00 (W2 box 12EE)
Adoption benefit reimbursements	.00 (W2 box 12T)	Qualified small employer health reimburse.	.00 (W2 box 12FF)
Income from nonstatutory stock option(s)	.00 (W2 box 12V)	Sect. 83(i) qualified equity grants income	.00 (W2 box 12GG)
Empr contrib to Empe Health Savings Act	.00 (W2 box 12W)	Sect. 83(i) elections aggregate deferrals	.00 (W2 box 12HH)
Sect. 409A Non-qual comp plan def.	.00 (W2 box 12Y)	Trump account contributions	6,000.00 (W2 box 12TA)
Failed Sect. 409A Non-qual comp income	.00 (W2 box 12Z)	Qualified tips	888.00 (W2 box 12TP)
Sect. 401k Roth contributions	.00 (W2 box 12AA)	Qualified overtime	2,000.00 (W2 box 12TT)
Sect. 403b Roth contributions	.00 (W2 box 12BB)		

<F1>=next empl. W-2, <SF1>=prev empl. W-2, <F3>=del empl. W-2, <F5>=Harvest Tips/OT, <F6>=Create W-2 Template, <F7>=Import W2 boxes

There are also options to generate an importable Excel template, prepopulated with the active employees and headers for all W-2 boxes 8 through 14.

It gets even better

After passing the OBBBA in July, the IRS did not have time to change the 2025 W-2 forms or the EFW2 electronic filing specifications. The intended Box 12 may not be used to report the tips and overtime earnings. Instead, they have given employers two options.

1. Provide separate statements to all affected employees with their tip/OT earnings.
2. For TY 2025 only, enter the 12TP tips/12TT overtime earnings in Box 14.

Passport has enhanced the software using option 2. Tip and OT data will automatically go into Box 14, but there is one thing you need to do—educate your employees on what these amounts mean and their importance if they want a bigger refund.

We recommend distributing an identical notice to all employees, attached to their W-2.

Example:

*"If you have an amount labeled **12TP** (tips) or **12TT** (overtime) in **Box 14** of your W-2, you may be eligible to claim a deduction for those amounts on your personal federal income tax return. This could result in a larger refund—typically 22%. There may be limitations based on income and filing status."*

Those maximums and phase-outs are handled on the 1040 tax return side. As an employer, you don't need to be concerned about those.

Your employees are counting on you to provide the correct information to help them claim the deductions they are entitled to, and Passport has made it as easy as one keystroke for you to do so. Please, if you have any questions or need help getting the most out of your PBS Payroll software, contact your Passport Partner or Passport Software Inc.

For more information, employees should consult official IRS guidance, such as [IRS Notice 2025-69](#) or the [IRS One Big Beautiful Bill provisions page](#).