



## Tip and Tricks #64

### Reporting of Tips and Overtime for Tax Year 2025 and beyond

#### Introduction

During July 2025, both Houses passed the bill referred to as the “OBBBA” – the One Big Beautiful Bill Act. One of the key provisions in the act was the removal of taxes on tips and on the incremental portion of earnings because of overtime. The former corresponds to the amount of the tips earned during the year (cash and allocated) and the latter corresponds to the “1/2” part of the time and a half rate (or greater) for overtime. This last is a bit of a complication because the worker will be taxed on all of their work (regular and overtime) at the regular rate and but the earnings from the extra 50% in the overtime pay will not be taxed.

The less than six months between the bill passing and the resulting changes to tax documentation, and tax processing was too short for the Social Security including its BSO (Business Services Online) web entity to be able to process these changes through their systems or indeed to assume that everyone else could make the appropriate changes to their payroll systems.

Despite this, employees were promised that they could take this tax relief in the 2025 payroll year and employers were directed to give the employees the information (the amount of the tips and the overtime) that qualified under the act. For 2025 this report to employees could be any communication that gave them the opportunity to have the numbers (qualifying tips and OT) so that they could take these credits in their TY 2025 1040 personal income tax declaration.

This T&T covers how this is implemented in Passport Business Solutions.

#### Setup and Context

The law dictated that from Passport’s perspective, it was responsible for providing the numbers so that employees knew what to deduct on their 1040 for TY2025. The method and the content were left rather open for 2025. However, it was indicated that in the 2026 taxation year these two values would be reported in two new W2 boxes - Boxes 12TP (tips) and 12TT (O/T). Also, in 2026 the magnetic media submission route would have been modified so these amounts could be uploaded in the data file sent to the BSO. In 2025 these amounts would not be an official/formal part of the W2 reporting. (Note: a third box “12 TA” was added for a new employer contribution. We are not discussing this since some details of the use of this account are not defined and contributions to this will not start until at least June of 2026).

Passport has addressed covering both the 2025 YE and the anticipated requirements of YE 2026. This has the following parts:

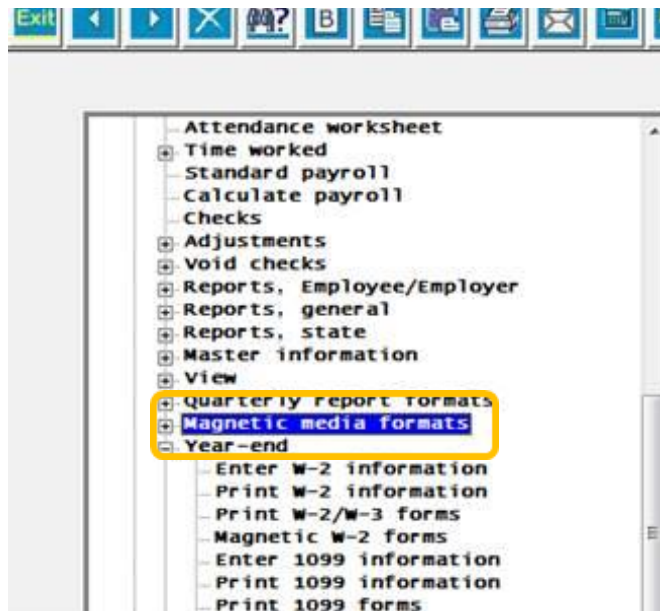
- The year-end updates to the PBS software which started being distributed in mid-December for 12.06, 12.07, 12.08 and 12.09, will include the ability to enter or calculate these two values (Tips and O/T).
- This ability will be found as an extension to the already existing facility that allows you to enter the W2 information applicable to W2 reporting where the data is not calculated by the payroll system. There are over 40 data fields of this sort and they cover a variety of generally special

reporting situations. For example: income from a long-term disability claim where the insurer does not issue a separate W2 on behalf of the employee.

- Passport has added entry fields 12TP (Tips) and 12TT (O/T) to the W2 Entry function and, as well, you can have the program calculate these and place them into the fields automatically.
- Since in 2025 these fields are not fully integrated into Social Security processing, PBS will instead print these data in Box 14 (the “options/information only” area of the W2) with the data type (TP or TT) and the appropriate amount. This means that the employee’s copy of their W2 will have the information they need to take the deduction on their 1040 document.
- Finally, anticipating tax year 2026, the 12 TP and TT fields will still be used but presumably these fields will be active and so printed as Box 12TP and Box 12TT. In other words, the two box 12’s will actually be used in the W2 form instead of Box14. And these amounts will also be part of the magnetic media file sent to the BSO.

## Sample Screens

The W2 Entry screen and print functions:





and a sample screen (the first of the 4 such tabbed data entry screens):

First orange highlight shows the various W2 Boxes that can be entered by this function. Examples of the data that can be entered are: Dependent Care Benefits (Box 10), Sick Pay not included as income (Box 12J), Various Roth contributions (12AA, 12BB, 12EE). The Second highlight shows the F5 (harvesting), F6 (exporting) and F7 (importing) function keys described below.

The reporting program (Print W2 Info) is a basic dump of the accumulated data in the W2 Info file. This is an accounting report designed to vet your data before putting it on the various reporting forms like W2's. A sample is shown here showing the new Box 12 fields discussed below:

## Operations

Harvesting is the name that PBS has given to the steps 1) of passing the employee history files to arrive at the qualified Tips and O/T for an employee and 2) placing these values into the appropriate 12 TP and 12 TT boxes on the third tab of the W2 Info function. This function effectively replaces the necessity of going to each of the employee W2 Info screens and entering the data.

To run the harvesting, open the W2 Info entry screen and hit the <F5> prompted at the bottom of the screen. (See the bottom of the screen shot two screen shots prior). The program will calculate and move the data into the two boxes 12s:

Box 12 (Codes Q - TT)		Federal Boxes 13 and 14	
box 12Q)	Cost of employer-spons. health cov.	.00	(W2 box 12DD)
box 12R)	Gov. sect. 457(b) plan Roth contr.	.00	(W2 box 12EE)
box 12T)	Qualified small employer health reimburse.	.00	(W2 box 12FF)
box 12V)	Sect. 83(i) qualified equity grants income	.00	(W2 box 12GG)
box 12W)	Sect. 83(i) elections aggregate deferrals	.00	(W2 box 12HH)
box 12Y)	Trump account contributions	.00	(W2 box 12IA)
box 12Z)	Qualified tips	.00	(W2 box 12II)
box 12AA)	Qualified overtime	6,615.00	(W2 box 12TT)
box 12BB)			

delete employee W-2, <F5> = Harvest tips/OT, <F6> = Create W-2 template, <F7> = Import W-2 boxes

Note that each running of the harvesting function will replace any data that is already in these fields. However, if the generating data (Employee History) has not changed running the program multiple times will not cause a problem.

## Additional features

Separate from the harvesting function, there are newly added Export and Import functions. The export will allow you to create an empty Excel template for the W2 Info data outside of PBS. The template export is based on your employee file (all active employees in the payroll year). This file can be saved to any location you have access to:

Federal Boxes 8 through 11		Federal Box 12 (Codes A - P)		Federal Box 12 (Codes Q - TT)		Federal Boxes 13 and 14	
Allocated tips		.00		(W2 box 8)			
Dependent care benefits		.00		(W2 box 10)			
Nonqualified plan distributions (not section 457)		.00		(W2 box 11)			
Nonqualified plan distributions (section 457)		.00		(W2 box 11G)			

<F1> = next employee W-2, <SF1> = previous employee W-2, <F3> = delete employee W-2, <F5> = Harvest tips/OT, <F6> = Create W-2 template, <F7> = Import W-2 boxes

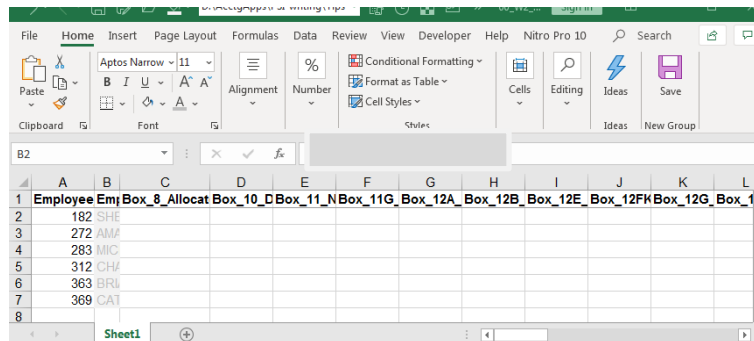
This is the lower half of the W2 Info screen we saw above on page 4. Showing the prompt that appears after hitting F6.

The output will be written to the drive and folder that you choose but the file name will be xx\_W2\_Import\_Template.xlsx (where xx=company ID e.g. "00").



After extraction of the data to an Excel sheet, you can delete any of the unwanted columns (probably most of the them) and just keep columns you need. Once this template has been modified and then manually filled in with the necessary data, you can import this back into PBS where it will be used in creating the W2s, saving the time for manual entry into PBS.

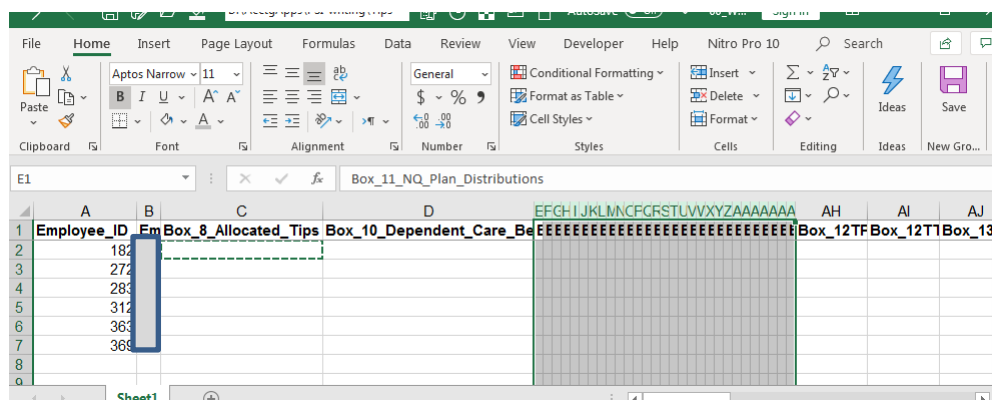
Note: the export always exports an empty template. Here is a sample showing just the first few columns. The columns go out to column 'AW' covering all of the available W2 boxes and box types not covered by the PBS payroll. (Column B is the employee name - hidden.)



The import function is the <F7> key you can see in the screen shot two above. You can fill in just the columns for just the employees that you need to have data for. It is important to note that the if there is data for a box-and-employee combination it will overwrite what exists in the PBS for the combination. However, the import will treat blank cells or missing/deleted columns of cells as do-not-update i.e. if the corresponding field of the W2 Info employee/box# combination has no data in it, the PBS field will not be touched. But a template cell with a zero or any non-blank character will overwrite what is currently in that W2 Info field for that employee. In other words, blanks and zeros are different.

Clearly if there are employees in the template that need no W2 Info data, the lines for these in the template can be deleted. However, a somewhat unique feature of this spread sheet is that you can also delete columns and still import the template and have the correct data updated. This is because the import feature is written to recognize the column names and use the names as the guide to which field to delete. (Do not change these column names.)

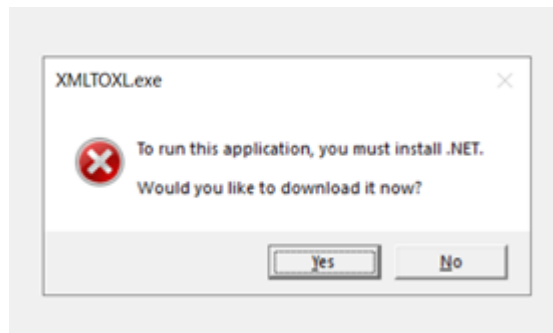
For example:



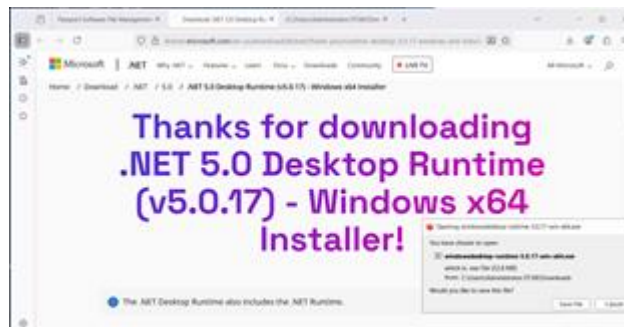
In this example we can delete columns E though AG leaving just AH and up. Only the remaining columns will update the W2 Info file and only if they are filled in.

This export/import function uses some new technology in producing this spreadsheet and in doing so requires some recent updates to the Windows OS. This has to do with a general set of Open Source code called .NET which is incorporated into the Windows OS and its functions. To provide the functionality of both exporting a spread sheet and having the capability of tailoring the size of the sheet by removal of columns, the PBS routines will need an up-to-date version of .NET.

Practically speaking, this means that it is probable and likely that the first time you go to export your data from PBS into the W2 Info spread sheet you will get a message like this:



This can be a little perturbing but the Passport developers anticipated that this functionality would be required and made the update to include this both automatic and safe. If you answer yes to the above question your default browser will open up and will go to the required Microsoft download site, and it will then automatically download the update:



Follow the in-screen instructions and the update may be automatically installed or there may be a small window (see bottom right of the display above) that needs to be acted on to save and or execute the new code now residing in your Download area.

Important note: since this operation is installing updates to your Windows system, your IT staff may have put a restriction on you doing this install. In that case you will be prompted for an administrator login. Locating an IT person at that moment maybe be a problem because you can't get the template made until this software is installed. So, we advise doing a dummy run of the export before you want to use the harvesting function. If you need to involve your IT people you can that at this point and that will mean the update is in place when you need it.

## Summary

Bottom line, in this document we discuss the nature of the changes in the processing and reporting of tip and overtime income for the W2 document, with the aim that the individual receiving this W2 will be able to apply these to their 1040 personal tax return later this year (the 2026 tax year). As a result, Passport Software passes on the following information:



The IRS has therefore instructed Employers to provide guidance about the meaning of these codes and their usage for claiming tax refunds on the employee's tax return. Employers are expected to post this information in the workplace and/or send documentation to their employees. Here is an example of such guidance:

*The new W-2 codes 12TT (Total qualified overtime compensation) and 12TP (Total qualified tips) relate to new federal income tax deductions.*

*What Employees Need to Know*

*The new codes indicate amounts you may be able to deduct on your personal federal income tax return, thanks to the "No Tax on Tips" and "No Tax on Overtime" provisions of the One Big Beautiful Bill Act, effective for tax years 2025 through 2028.*

- 12TT (Total qualified overtime compensation): This amount is the "half-time" portion of your time-and-a-half overtime pay required by the Fair Labor Standards Act (FLSA).*
- 12TP (Total qualified tips): This is the total amount of voluntary cash and non-cash tips you reported to your employer.*
- For the 2025 Tax Year, these codes and their amounts can be found in Box 14 of your W-2. In future years, they will print in Box 12.*

*Important Notes:*

- These deductions only apply to federal income tax. The amounts are still subject to Social Security, Medicare, and any applicable state/local taxes.*
- The deductions are subject to income limitations and annual maximums (\$25,000 for tips; \$12,500 for overtime, per individual).*
- You can claim these deductions whether you itemize or take the standard deduction.*