



Passport Software Compliance Guide: *One Big Beautiful Bill Act*

Introduction

This document provides technical guidance for employers using Passport Software's solutions to comply with the reporting requirements of the *One Big Beautiful Bill Act* (OBBBA). The OBBBA introduces significant changes to U.S. tax law related to qualified employee overtime and tips, effective through the 2028 tax year. This guide details the necessary adjustments to payroll procedures and clarifies reporting mandates for both the 2025 transition year and subsequent years.

Impact on Payroll Procedures

Existing Withholding Practices

Employers must continue to withhold Federal Withholding Tax (FWT) on overtime and tips exactly as before. The OBBBA does not alter current withholding practices, even in future years.

New Reporting Mandates

The OBBBA introduces new reporting requirements to provide employees with supplementary information. This data enables individuals to reclaim excess FWT via their annual income tax returns (IRS Form 1040). Employers must review their internal tracking and reporting procedures immediately to capture this information accurately.

Phased Reporting Requirements

Tax Year 2025: Transition Relief

Due to the absence of updated forms and electronic filing format (EFW2) electronic files, the IRS has issued transition relief for 2025 only.

- **Box 12 Usage:** The EFW2 has not been updated for the new fields. Do not report qualified tip or overtime data to the IRS.
- **Employee Reporting:** Employers must provide employees with qualified overtime and tip totals via one of two methods; a separate document is allowed, but Passport is already prepared for the optional, temporary inclusion in Box 14 on the paper W-2 form.

Tax Years 2026 and Beyond

Starting with the 2026 tax year (filed in 2027), the IRS will introduce a new EFW2 format.

- **Revised EFW2 Format:** The EFW2 will be updated with new fields to support OBBBA reporting.
- **Updated Paper W-2s:** The 2026 W-2 Box 14 will be separated into:
 - **New Box 12 Codes:** These codes will be allowed in Box 12 of the W-2 forms.
 - **Code TT:** Qualified Overtime.
 - **Code TP:** Qualified Tips.
 - **Code TA:** Trump Account Contributions.
 - **Box 14a:** Maintaining its current usage.
 - **Box 14b:** Earmarked for the new Tipped Occupation Codes;
 - **100s:** Beverage and Food Service (Bartenders, Wait Staff, Chefs and Cooks, Dishwashers)

- **200s:** Entertainment and Events (Gambling Dealers, Dancers, Musicians and Singers, Digital Content Creators)
- **300s:** Hospitality and Guest Services (Baggage Porters and Bellhops, Concierges, Maids, and Housekeeping Cleaners)
- **400s:** Home Services (Home Maintenance and Repair Workers, Home Landscaping and Groundskeeping Workers, Home Electricians, Home Plumbers)
- **500s:** Personal Services (Personal Care and Service Workers, Nannies and Babysitters, Pet Caretakers)
- **600s:** Personal Appearance and Wellness (Skincare Specialists, Massage Therapists, Barbers, Hairdressers, Hairstylists, and Cosmetologists)
- **700s:** Recreation and Instruction (Golf Caddies, Tour Guides, Sports and Recreation Instructors)
- **800s:** Transportation and Delivery (Parking and Valet Attendants, Taxi and Rideshare Drivers and Chauffeurs, Goods Delivery People)

Tax Credits and Reporting in PBS

FWT Refund on Qualified Overtime

- **Passport Software Functionality:** 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" compensation). For the 2025 tax year, PBS permits inclusion of these totals in Box 14 of the paper W-2 form.
- **Employer Responsibilities:** Ensure correct overtime hours are recorded in the payroll system. Harvest the Qualified Overtime earnings with the function key or manual entry under *Year End>>Enter W-2 Information*.

FWT Refund on Qualified Tips

Passport Software processes voluntary tips under the **Tips** Earnings Type and harvests them for supplemental inclusion on the W-2. The **Tips** earnings type must not be used for service fees or automatic gratuities, as those are ineligible for refund under the OBBBA.

 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	401MTCH	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
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- **Passport Software Functionality:** The software tracks and aggregates qualified tips. For 2025, these totals are included in Box 14 of the paper W-2 form.
- **Employer Responsibilities:** Use the appropriate Earnings codes and continue to enforce and manage existing IRS tip reporting regulations for employee-reported cash tips.

Trump Account Contributions

The software includes functionality for reporting contributions to this new retirement account.

- **Passport Software Functionality:** The software will support the new Box 12 TA Code for this provision, beginning in the 2026 tax year.
- **Employer Responsibilities:** Track employer and employee contributions, ensuring accuracy for annual limits.
 - Employer contributions should be set up with an **FWT-exempt earnings code** and cannot exceed \$2,500 per child.
 - Employee contributions use an **after-tax deduction code**, and are capped at \$5,000 per child. However, any employer contribution would count toward that limit—if an employer contributed \$2,000, the employee would only be able to contribute an additional \$3,000.

Year End>>Enter W-2 Information

Harvesting, Importing, or Manually entering Box 12 TT/TP/TA Information

With new enhancements to *Year End>>Enter W-2 Information*, PBS offers new function keys.

- **Harvesting Qualified OT and Tips:** With the tap of a single function key, PBS will create editable records for all your employees with qualified OT and Tip earning.
- **Generate an Excel Import Template:** This spreadsheet will contain columns for the employee ID and W-2 Box 8 through 14 options, and a row for each of your active employees.
- **Import Excel Data:** This generates an editable record for each employee on the sheet and imports the new Box 12 TT/TP/TA OBBBA codes. In addition, it imports any other Box 11-14 values on the sheet. For example, if you have 500 employees with "Cost of employer-sponsored health coverage", you will no longer have to click *New*, enter an employee number, and enter an amount in Box 12DD. If its in the spreadsheet, all of that is done for you.

Note: Here is a partial header for the Excel Import. The best part is that even though there are 54 columns, our *XL TO XML* import technique means you can completely delete any columns you don't plan to use. You can reduce it to as few as 2 columns; Employee ID and any Box you choose, you just have to make sure any Excel header used is a literal match:

A	B	C	D	E	F	G	H
Employee ID	Box 8 Allocated Tips	Box 10 Dependent Care Benefits	Box 11 NQ Plan Distributions	Box 11G Section 457 NQ plan Distributions	Box 12A Uncollected SS Tax On Tips	Box 12B Uncollected Medicare Tax On Tips	Box 12C Co Group Tern Above 5000

Here is the *Enter W-2 information* entry screen. There are now boxes for 12TA, 12TP, and 12TT Boxes and three new function keys; <F5> to harvest tips/OT, <F6> to generate a template prepopulated with the active employees and all Headers, and <F7> to *import* from an Excel template.

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)

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 Acct .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

Employee Record-Keeping Procedures

Tip Reporting

Existing IRS regulations require employees receiving \$20 or more in cash tips from a single job in a given month to report the total to their employer by the tenth day of the following month.

Data Integrity

Diligent record-keeping by employees is crucial for accurate annual total reporting. The Passport Software payroll services team provides support for managing these complex data inputs efficiently.

Compliance Checklist

This section outlines key actions to ensure compliance.

- **Verify Payroll System Updates:** Confirm that Passport Software is configured for OBBBA reporting.
- **Educate Employees:** Inform employees about the new tax credits and reporting procedures for their annual returns.
- **Implement 2025 Reporting:** Decide whether to use a separate document or Box 14 for 2025 qualified overtime and tip totals.
- **Prepare for 2026 Updates:** Monitor for IRS guidance on the updated EFW2 format and W-2 forms.
- **Ensure Accurate Data Input:** Maintain rigorous standards for recording overtime hours and employee-reported tips.