

IRS Announces 2025 Documentation Workarounds for Tips and Overtime Deductions (Notice 2025-69)

Labor & Employment Law Update

By Rebecca Bush on November 21, 2025

W-2s and 1099s will not have new fields this year, but the IRS has now provided guidance on how employees can still claim tax deductions for tips and overtime pay.

This is our fourth update on the evolving tips and overtime tax deductions under the One Big Beautiful Bill Act (OBBA). We've previously covered the overall impact on your compensation strategy, the proposed rules on qualified tips, and the initial transition relief on reporting requirements.

As we reported in our previous transition relief article, the IRS has confirmed that Forms W-2 and 1099s will not be modified for 2025. Notice 2025-69 now provides the specific workarounds that employees can utilize in order to still be able to claim the deduction on their 2025 individual tax returns.

In other words, Notice 2025-69 provides the specific documentation methods employees need to claim these deductions for 2025 without modified forms. The notice provides mathematical formulas, acceptable documentation alternatives, and temporary relief from the complex "specified service trade or business" restrictions.

How Employees Can Document Tips for 2025

Building on the previous proposed rules and transition relief issued by the IRS, the notice describes the following specific methods as acceptable alternative documentation methods.

FOR EMPLOYEES:

- Box 7 of Form W-2 – use the full amount shown as "Social Security tips" even though it will not be separately labeled as qualified tips;

- Forms 4070 total – add up all monthly tip reports submitted to the employer throughout 2025 (Employee's Report of Tips to Employer or similar substitute forms)
- Box 14 of Form W-2 (voluntary reporting) – if the employer chooses to report cash tip amounts and/or occupation code here, use this figure; or
- Form 4137 unreported tips – include Line 4 amount from Social Security and Medicare Tax on Unreported Tip Income (must also include this amount in income on Form 1040).

FOR NON-EMPLOYEES (I.E., CONTRACTORS, GIG WORKERS):

- Earnings statements – use tip amounts shown on any payor-provided statements, even if tips are not separately identified;
- Daily documentation – maintain contemporaneous logs showing date, customer, and tip amount for each transaction;
- Point-of-sale reports – print and retain POS system reports showing tip breakdowns by shift or day;
- Third-party platform records – download and save transaction histories from apps like Venmo, Uber, DoorDash, or similar platforms showing tip amounts; or
- Payor consultation – request year-end summaries or tip reports from contracting companies, even if not required.

How Employees Can Calculate Qualified Overtime for 2025

The notice provides specific calculation methods based on how overtime appears on pay statements.

STANDARD TIME-AND-A-HALF (1.5X REGULAR RATE):

- If pay stub shows “overtime premium” separately – use that exact amount (this is the “half” in time-and-a-half);
- If only total overtime pay is shown – divide the total by 3 (Example: \$1,500 total overtime divided by 3 = \$500 qualified overtime); or
- For varying regular rates – may need to adjust calculations if regular rate is increased by nondiscretionary bonuses or other compensation received.

HIGHER RATES (DOUBLE TIME AT 2X REGULAR RATE):

- If premium shows separately on pay stub – multiply premium by $\frac{1}{2}$ to get the FLSA portion of overtime required (Example: \$1,000 premium multiplied by $\frac{1}{2}$ = \$500 qualified overtime);
- If only the total is shown – divide by 4 (Example: \$2,000 total double time divided by 4 = \$500 qualified overtime); or

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- If mixed rates – calculate each rate separately (time-and-a-half hours divided by 3, double time hours divided by 4)

SPECIAL SITUATIONS:

- Law enforcement/fire protection – the same formulas may be used but they can be adjusted where there may be 14- or 28-day work periods instead of weekly;
- Public sector comp time – if comp time is provided at 1.5x rate, use 1/3 of the wages received (Example: \$1,500 comp time payout divided by 3 = \$500 qualified overtime);
- Hospital 8/80 agreements – apply formulas to overtime over 8 hours daily or 80 hours biweekly, whichever generates a more favorable calculation for the employee;
- Where there is no documentation of the FLSA overtime premium – use a reasonable approximation based on the regular rate of overtime hours multiplied by 0.5.

Employer Options for Assisting Employees With Documentation

While not required for 2025, employers can voluntarily do any of the following:

FORM W-2 BOX 14 REPORTING OPTIONS

- Add entry such as "Cash Tips: \$15,000" based on Forms 4070 received;
- Include occupation code such as "TTOC 101 – Bartender" (using Treasury Tipped Occupation Codes);
- Show overtime premium: "FLSA OT Premium: \$5,000;" or
- Combine multiple items: "Tips: \$15,000 / OT Premium: \$5,000."

PROVIDE SEPARATE DOCUMENTATION

- Create year-end summary letters showing total tips reported via Form 4070;
- Provide annual overtime reports breaking down premium pay vs. straight time;
- Generate tip allocation summaries for tipped employees; or
- Issue supplement statements with occupation codes and tip totals.

PAYROLL SYSTEM REPORTS

- Enable employee self-service downloads of annual tip summaries;
- Provide detailed overtime calculations showing the premium portion;

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- Generate reports separating FLSA-required overtime from voluntary overtime pay; or
- Create custom year-end statements with all needed information.

Looking Ahead

Starting in 2026, employers must separately report qualified tips and overtime on new form fields. Employers should consider the above voluntary assistance options in 2025 as an opportunity to prepare their internal payroll systems while also helping employees maximize the availability of these new deductions.

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