

Part III - Administrative, Procedural, and Miscellaneous

Relief from Certain Penalties Related to Information Reporting Required in Connection with No Tax on Tips and Overtime

Notice 2025-62

SECTION 1. PURPOSE

This notice provides penalty relief for taxable year 2025 in connection with the implementation of the new information reporting requirements related to the deductions for qualified tips and qualified overtime compensation that were added to the Internal Revenue Code (Code)¹ by Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA). Specifically, this notice provides relief from the penalty under section 6721 for failure to file correct information returns and the penalty under section 6722 for failure to furnish correct payee statements. This relief applies only for taxable year 2025.

Additional guidance for individual taxpayers that addresses how they can claim the deductions for qualified tips and qualified overtime compensation when they file their taxable year 2025 returns is forthcoming.

SECTION 2. BACKGROUND

.01 Filing and Information Reporting Requirements Generally

¹ Unless otherwise specified, all “section” or “§” references are to sections of the Code.

Section 6041(a) requires a person engaged in a trade or business generally to file an information return with the Secretary of the Treasury or the Secretary's delegate (Secretary) if the person made payments in the course of such trade or business to another person of fixed or determinable income such as rent, salaries, wages, premiums, annuities, or compensation in amounts above the applicable reporting threshold in any taxable year. The information return must include the amount of the gains, profits, and income and the name and address of the recipient of the payment. A person who files a return pursuant to section 6041(a) must also, pursuant to section 6041(d), furnish to the payee a written statement showing the name, address, and phone number of the person required to make the return, and the aggregate amount of payments to the payee.

Section 6041A imposes similar filing and furnishing requirements as section 6041(a) with respect to persons engaged in a trade or business and who pay in the course of such trade or business remuneration to any person for services performed in amounts aggregating above the applicable reporting threshold during the calendar year. The information return required under section 6041A(a) must include the aggregate amount of the payments and the name and address of the recipient. A person who files a return under section 6041A(a) is required by section 6041A(e) to furnish to the payee a written statement showing the name, address, and phone number of the person required to make such return, and the aggregate amount of payments to the payee.

Information returns are also required to be filed pursuant to section 6050W(a) by certain payment settlement entities with respect to payments made in settlement of reportable payment transactions. Returns required by section 6050W(a) must include

the name, address, and taxpayer identification number of the payee, and the gross amount of the reportable payment transactions to the payee. Under section 6050W(f), a payment settlement entity required to file a return must also furnish to each payee a written statement showing the name, address, and phone number of the information contact of the person required to make such return, and the gross amount paid to the payee.

Section 6050W applies to two types of transactions: (1) payment card transactions and (2) third party network transactions. All payments made in settlement of payment card transactions must be reported in the manner described above. Section 6050W(e) provides that payments made by a third party settlement organization (TPSO) in settlement of third party network transactions must be reported only if the gross amount of payments to a payee exceeds the de minimis reporting threshold rules.

For wages paid to an employee, an employer is required under section 6051(a) to furnish a written statement to the employee if it is required to deduct and withhold from the employee a tax under section 3101 or 3402, or would have been required to deduct and withhold a tax under section 3402 if the employee had claimed no more than one withholding exemption, or if it pays remuneration for services performed by the employee. The written statement must show, among other things, the total amount of wages paid, including tips received by an employee in the course of his employment, but only if such tips are included in statements furnished to the employer pursuant to section 6053(a), and the amount of income and employment taxes deducted and withheld. An employer required to furnish a written statement to an employee under section 6051(a) must also file a copy of each written statement with the Social Security

Administration (SSA) pursuant to section 6051(d).

.02 OBBBA Amendments to Sections 6041, 6041A, and 6050W

Before amendment by section 70433 of the OBBBA, the applicable reporting threshold in each of section 6041 and 6041A was \$600. Section 70433(a) of the OBBBA increased the reporting threshold under section 6041(a) from \$600 to \$2,000 with respect to payments made after December 31, 2025, and before January 1, 2027. For payments made after December 31, 2026, section 6041(h), as added by section 70433(b) of the OBBBA, provides for an annual inflation adjustment to the reporting threshold under section 6041(a). Section 70433(c) of the OBBBA amended the reporting threshold under section 6041A from \$600 or more to an amount that equals or exceeds the dollar amount in effect for such taxable year under section 6041(a).

Before amendment by section 70432 of the OBBA, the de minimis reporting threshold in section 6050W(e) was \$600 as enacted by section 9674(a) of the American Rescue Plan Act of 2021, Public Law 117-2, 135 Stat. 4 (March 11, 2021). Section 70432(a) of the OBBBA retroactively amended the de minimis reporting threshold rules of section 6050W(e) by specifying that the amendment “take effect as if included in section 9674 of the American Rescue Plan Act.” After amendment by the OBBBA, section 6050W(e) provides that payments made by a TPSO in settlement of third party network transactions must be reported only if the gross amount of payments to a payee exceeds \$20,000 and the number of transactions exceed 200 with respect to the payee.

.03 New Filing and Information Reporting Requirements Under the OBBBA

(a) Deduction for Qualified Tips

Section 70201(a) of the OBBBA added new section 224 to the Code, providing

an income tax deduction for “qualified tips” that are received during the taxable year. Qualified tips are cash tips received by individuals in an occupation that customarily and regularly received tips on or before December 31, 2024, subject to certain exclusions. Specifically, individuals are allowed a deduction, subject to limitations, in an amount equal to the qualified tips received during the taxable year that are included on statements furnished to the individual pursuant to section 6041(d)(3), 6041A(e)(3), 6050W(f)(2), or 6051(a)(18), or reported by the individual on Form 4137 (or successor). An individual is not eligible to claim the tip deduction under section 224 if the individual is not furnished such a statement.

Section 70201(f) of the OBBBA added to the information reporting requirements of the Code for certain payments of cash tips by:

(1) amending section 6041(a) to require a payor to include on the information return filed a separate accounting of any such amounts reasonably designated as cash tips and the occupation described in section 224(d)(1) of the person receiving such tips;

(2) adding new paragraph (d)(3) to section 6041 to provide that in the case of compensation to non-employees, a payor is required to include on the written statement furnished to the payee the portion of payments reasonably designated as cash tips and the occupation described in section 224(d)(1) of the person receiving such tips;

(3) amending section 6041A(a) to require a payor to include on the information return filed a separate accounting of any such amounts reasonably designated as cash tips and the occupation described in section 224(d)(1) of the person receiving such tips;

(4) adding new paragraph (e)(3) to section 6041A to provide that in the case of section 6041A(a), a payor is required to include on the written statement furnished to

the payee the portion of payments reasonably designated as cash tips and the occupation described in section 224(d)(1) of the person receiving such tips;

(5) adding new paragraph (a)(3) to section 6050W to provide that in the case of a TPSO, the TPSO is required to include on the information return filed the portion of reportable payment transactions that have been reasonably designated by payors as cash tips and the occupation described in section 224(d)(1) of the person receiving such tips;

(6) amending section 6050W(f)(2) to require a TPSO to include on the written statement furnished to the payee a separate accounting of any such amounts that have been reasonably designated by payors as cash tips and the occupation described in section 224(d)(1) of the person receiving such tips; and

(7) adding new paragraph (a)(18) to section 6051 to provide that an employer must include on the written statement furnished to the employee the total amount of cash tips reported by the employee under section 6053(a) and the occupation described in section 224(d)(1) such person.

Section 70201(j) of the OBBBA provides that the amendments made by section 70201 of the OBBBA with respect to qualified tips, including the additional information reporting requirements, apply to taxable years beginning after December 31, 2024.

(b) Deduction for Qualified Overtime Compensation

Section 70202(a) of the OBBBA added new section 225 to the Code, providing an income tax deduction, subject to limitations, in an amount equal to the qualified overtime compensation received during the taxable year and included on statements furnished to the individual pursuant to section 6041(d)(4) or 6051(a)(19).

Section 70202(c) of the OBBBA added to the information reporting requirements of the Code for certain payments of qualified overtime compensation by:

(1) adding new paragraph (a)(19) to section 6051 to provide that an employer must include on the written statement furnished to the employee the total amount of qualified overtime compensation (as defined in section 225(c));

(2) amending section 6041(a) to require a payor to include on the information return filed a separate accounting of any amount of qualified overtime compensation (as defined in section 225(c)); and

(3) adding new paragraph (d)(4) to section 6041 to provide that a payor is required to include on the written statement furnished to the payee the portion of payments that are qualified overtime compensation (as defined in section 225(c)).

Section 70202(g) of the OBBBA provides that the amendments made by section 70202 of the OBBBA, including the additional information reporting requirements, apply to taxable years beginning after December 31, 2024.

.04 Penalties

Penalties under sections 6721 and 6722 are applicable to payors subject to the requirements of sections 6041, 6041A, 6050W, and 6051.

Section 6721 imposes a penalty for any failure to file an information return on or before the required filing date, and for any failure to include all of the information required to be shown on the return or the inclusion of incorrect information.

Section 6722 imposes a penalty for any failure to furnish a payee statement on or before the required furnishing date to the person to whom such statement is required to be furnished, and for any failure to include all of the information required to be shown on

a payee statement or the inclusion of incorrect information.

Section 6724(a) provides an exception to a penalty for any failure under sections 6721 and 6722 if it is shown that the failure is due to reasonable cause and not due to willful neglect. Under § 301.6724-1 of the Procedure and Administration Regulations, a penalty may be waived for reasonable cause if the filer establishes that there are significant mitigating factors with respect to the failure or the failure arose from events beyond the filer's control. In addition, the filer generally must establish that the filer acted in a responsible manner both before and after the failure occurred.

SECTION 3. TRANSITION PENALTY RELIEF

.01 Qualified Tips and Occupations

Prior to the enactment of the OBBBA, payors reporting payments pursuant to sections 6041, 6041A, and 6050W, were not required to include a separate accounting of amounts designated as cash tips or the occupation of recipients. Employers reporting the payment of wages pursuant to section 6051 generally were required to report certain tips but were not required to report the occupations of employees. The Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) are aware that payors and employers may not currently have the information required to be reported under the information reporting changes made by the OBBBA, or the systems or procedures in place to be able to correctly file the additional information with the Secretary (or the SSA in the case of a Form W-2) and furnish such information to payees and employees. Moreover, the IRS has already announced that Forms W-2 and 1099 for taxable year 2025 will not be updated to account for the OBBBA-related changes. Therefore, taxable year 2025 will be regarded as a transition

period for purposes of IRS enforcement and administration of the new information reporting requirements for cash tips added to the Code under section 70201(f) of the OBBBA.

For taxable year 2025, the IRS will not impose a penalty under section 6721 or 6722 in any of the following circumstances:

(1) if a payor required to file an information return under section 6041(a) fails to provide on that return a separate accounting of any such amounts reasonably designated as cash tips or the occupation described in section 224(d)(1) of the person receiving such tips;

(2) if a payor required to furnish a written statement under section 6041(d) fails to provide on that statement the portion of payments that have been reasonably designated as cash tips or the occupation described in section 224(d)(1) of the person receiving such tips;

(3) if a payor required to file an information return under section 6041A(a) fails to provide on that return a separate accounting of any such amounts reasonably designated as cash tips or the occupation described in section 224(d)(1) of the person receiving such tips;

(4) if a payor required to furnish a written statement under section 6041A(e) fails to provide on that statement the portion of payments that have been reasonably designated as cash tips or the occupation described in section 224(d)(1) of the person receiving such tips;

(5) if a TPSO required to file an information return under section 6050W(a) fails to provide on that return the portion of reportable payment transactions that have been

reasonably designated by payors as cash tips or the occupation described in section 224(d)(1) of the person receiving such tips;

(6) if a TPSO required to furnish a written statement under section 6050W(f) fails to provide on that statement a separate accounting of any such amounts that have been reasonably designated by payors as cash tips or the occupation described in section 224(d)(1) of the person receiving such tips;

(7) if an employer required to furnish a written statement under section 6051(a) fails to provide on that statement the total amount of cash tips reported by the employee under section 6053(a) or the occupation described in section 224(d)(1) of such employee; or

(8) if an employer required to file a copy of the written statement under section 6051(a) with the SSA pursuant to section 6051(d) fails to provide on that statement the total amount of cash tips reported by the employee under section 6053(a) or the occupation described in section 224(d)(1) of such employee.

The penalty relief provided in this notice is limited to returns and statements filed and furnished with respect to taxable year 2025. The penalty relief applies only to the extent that the person required to make the return or statement otherwise files and furnishes a complete and correct return or statement. A complete return or statement must include the amount of cash tips that would otherwise be required to be separately accounted for on the return or statement in the aggregate amount of payments required to be reported under section 6041(a) or (d), section 6041A(a) or (e), the gross amount of reportable payment transactions required to be reported under section 6050W(a) or (f), or the total amount of wages paid required to be reported under section 6051(a) or

(d).

While not a requirement to receive the penalty relief provided in this notice, employers and payors are encouraged to provide employees and payees, particularly those in a tipped occupation, with the occupation codes and separate accountings of cash tips, such that the employee or payee has the information the employee or payee needs to determine whether the employee or payee can claim the deduction for qualified tips under section 224 for taxable year 2025. Employers are also encouraged to provide employees with information regarding whether the employer's trade or business is a specified service trade or business as defined in section 199A(d)(2). Employers and payors can make such information available to their employees and payees through an online portal, additional written statements furnished to the employees or payees, or other secure methods.

.02 Qualified Overtime Compensation

Prior to the enactment of the OBBBA, payors reporting payments pursuant to section 6041 were not required to file returns and furnish statements containing a separate accounting of amounts designated as qualified overtime compensation. Employers reporting the payment of wages pursuant to section 6051 generally were also not required to separately report the total amount of qualified overtime compensation. The Treasury Department and the IRS are aware that payors and employers may not currently have the information required to be reported by the OBBBA or the systems or procedures in place to be able to correctly file the additional information with the Secretary (or the SSA in the case of a Form W-2) and furnish such information to payees and employees. Therefore, taxable year 2025 will be regarded as

a transition period for purposes of IRS enforcement and administration of the new information reporting requirements for qualified overtime compensation added to the Code under section 70202(c) of the OBBBA.

The IRS will not impose a penalty under sections 6721, or 6722 in any of the following circumstances:

(1) if an employer required to furnish a written statement under section 6051(a) fails to separately provide on that statement the total amount of qualified overtime compensation (as defined in section 225(c));

(2) if an employer required to file a copy of the written statement under section 6051(a) with the SSA pursuant to section 6051(d) fails to separately provide on that statement the total amount of qualified overtime compensation (as defined in section 225(c));

(3) if a payor required to file an information return under section 6041(a) fails to provide on that return a separate accounting of any amount of qualified overtime compensation (as defined in section 225(c)); or

(4) if a payor required to furnish a written statement under section 6041(d) fails to provide on that statement the portion of payments that are qualified overtime compensation (as defined in section 225(c)).

The penalty relief provided in this notice is limited to returns and statements filed and furnished with respect to taxable year 2025. The penalty relief applies only to the extent that the person required to make the return or statement otherwise files and furnishes a complete and correct return or statement. A complete return or statement must include the amount of qualified overtime compensation that would otherwise be

required to be separately accounted for on the return or statement in the aggregate amount of payments required to be reported under section 6041(a) or (d), or in the total amount of wages required to be reported under section 6051(a).

While not a requirement to receive the penalty relief provided in this notice, employers and payors are encouraged to provide employees and payees with separate accountings of overtime compensation such that the employee or payee has the information the employee or payee needs to determine whether the employee or payee can claim the deduction for qualified overtime compensation under section 225 for taxable year 2025. Employers and payors can make such information available to their employees and payees by including it in box 14 of the employee's Form W-2, or through an online portal, additional written statements furnished to the employees or payees, or other secure methods.

SECTION 5. EFFECTIVE DATE

This notice is effective for returns and statements related to amounts paid during 2025.

SECTION 6. DRAFTING INFORMATION

The principal author of this notice is the Office of Associate Chief Counsel (Procedure and Administration). For further information regarding this notice contact the office at (202) 317-3400 (not a toll-free call).