2025 NEW DEVELOPMENTS

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INTRODUCTION

This publication is produced by the Land Grant University Tax Education Foundation. The Land Grant University Tax Education Foundation is pleased to provide the *National Income Tax Workbook* to approximately 22,000 tax practitioners in tax schools taught in 33 states. This publication supplements the *2025 National Income Tax Workbook*. It includes new legislation, guidance, and procedures that were adopted in late 2025 and are important for filing 2025 tax returns. This publication also includes corrections and clarifications for material in the *2025 National Income Tax Workbook*.

The *2026 National Income Tax Workbook* and supplemental publications and courses will provide a comprehensive discussion of these changes. Please visit our website at taxworkbook.com for more information about online courses and tax workshops near you.

NOTE: These summaries have been edited and appear in a condensed form. Tax practitioners should read the entire original text before relying on it.

Agricultural and Natural Resource Tax Issues

Involuntary Conversions

Notice 2025-52
I.R.C. § 1033

The IRS provided guidance regarding an extension of the replacement period for livestock sold on account of drought in specified counties

Notice 2025-52 explains when the 4-year replacement period under I.R.C. § 1033(e)(2) is extended for livestock sold because of drought. The Appendix to the notice contains a list of counties that experienced exceptional, extreme, or severe drought conditions during the 12-month period ending August 31, 2025.

The 12-month period ending on August 31, 2025, is not a drought-free year for an applicable region that includes any county on this list. Accordingly, for a taxpayer who qualified for a 4-year replacement period for livestock sold or exchanged because of drought and whose replacement period is scheduled to expire at the end of 2025 (for a calendar year taxpayer), the replacement period will be extended if the

applicable region includes any county on this list. This extension will continue until the end of the taxpayer's first tax year ending after a drought-free year for the applicable region.
[Notice 2025-52, 2025-41 I.R.B. 474]

Qualified Farmland Sales

Notice 2026-3
I.R.C. § 1062

The IRS provided relief from the estimated tax penalty for qualified farmland sales.

Generally, a taxpayer who has gain from the sale or exchange of qualified farmland property to a qualified farmer (a qualified sale or exchange) can make an I.R.C. § 1062 election to pay the applicable net tax liability in four equal installments. The first installment must be paid on the due date (determined without regard to any extension of time for filing the return) for the tax return for the tax year in which the qualified sale or exchange occurs. Each succeeding installment must be paid on the due date (determined without regard to any extension of time for filing the return) for the tax return for the tax year following the tax year for which the preceding installment was made.

Notice 2026-3 explains that to avoid the estimated tax penalty, the taxpayer must pay the full amount of applicable net tax liability, or a substantial portion of it, as estimated income tax for the tax year of the qualified sale or exchange. Doing so would be contrary to the purpose of the section 1062 election, which is to allow payment of the liability in installments over 4 years. Thus, the notice provides relief from additions to tax for the underpayment of estimated income tax for taxpayers who elect to pay tax on the gain from a qualified farmland sale in installments.

The IRS will waive a portion of the estimated tax penalty attributable to the qualified sale or exchange for which the section 1062 election is made for taxpayers who both qualify to make a section 1062 election and properly make a section 1062 election. The limited waiver applies to the applicable net tax liability on the payment that is deferred by the section 1062 election. Accordingly, a taxpayer may exclude 75% of the applicable net tax liability (on the qualified sale or exchange for which the taxpayer has properly made the section 1062 election) from the calculation of the required annual payment for purposes of determining estimated income tax installment amounts for the tax year of the qualified sale or exchange for which the section 1062 election is made.
[Notice 2026-3, 2026-2 I.R.B. 307]

Business Entity Tax Issues

Partnerships

REG-108822-25
I.R.C. § 6050K

The deadline to furnish information about section 751(a) exchanges is extended.

I.R.C. § 6050K(a) requires a partnership to file a return if there is a section 751(a) exchange of any interest in the partnership during any calendar year. Section 751(a) provides that the amount of any money, or the fair market value of any property, received by a transferor partner in exchange for all or a part of the

transferor partner's interest in the partnership attributable to (1) unrealized receivables of the partnership, or (2) inventory items of the partnership, will be treated as an amount realized from the sale or exchange of property other than a capital asset.

The partnership must report the gain or loss attributable to a section 751(a) exchange to a transferor by January 31 of the year following the section 751(a) exchange. The gain or loss is reported in Part IV of Form 8308, Report of a Sale or Exchange of Certain Partnership Interests. The proposed regulations would remove Treas. Reg. § 1.6050K-1(c)(2) to eliminate the requirement that partnerships furnish this information by January 31.

A partnership would be required to furnish the information reported on Parts I, II, and III of Form 8308, or a statement that includes the same information, to the transferor and transferee in a section 751(a) exchange by the later of (1) January 31 of the year following the calendar year in which the section 751(a) exchange occurred, or (2) 30 days after the partnership has received notice of the exchange. A partnership must file a completed Form 8308, including Part IV, as an attachment to its Form 1065, U.S. Return of Partnership Income.

[REG-108822-25]

Trusts

Rev. Proc. 2025-31

I.R.C. § 671, Treas. Reg. § 301.7701-4(c)

Trusts that stake digital assets can still qualify as investment trusts or grantor trusts.

This revenue procedure describes a safe harbor for trusts that otherwise qualify as investment trusts under Treas. Reg. § 301.7701-4(c) and trusts that qualify as grantor trusts under I.R.C. § 671. These trusts can stake their digital assets without jeopardizing their tax status as investment trusts and grantor trusts for federal income tax purposes. This revenue procedure also provides a limited time period for an existing trust to amend its governing instrument (the trust agreement) to adopt the requirements of the safe harbor.

Digital assets are digital representations of value recorded on a cryptographically secured distributed ledger or similar technology. Digital assets rely on cryptography and economic mechanisms designed to reduce reliance on designated trusted intermediaries to verify transactions and provide settlement assurances to users. Each protocol has a consensus mechanism that enables a distributed set of unrelated computers to agree on the authoritative record of digital asset address ownership balances, transactions, and other data relating to a digital asset's blockchain. To incentivize participants to provide validation and related activities, rewards are credited or transferred to the validators.

If a trust complies with all 14 requirements of Rev. Proc. 2025-31, staking digital assets will not cause it to lose its characterization as an investment trust or a grantor trust. A trust may amend its trust agreement to authorize staking at any time during the 9-month period beginning on November 10, 2025 and the amendment will not prevent a trust from being treated as a trust that qualifies as an investment or as a grantor trust.

[Rev. Proc. 2025-31, 2025-48 I.R.B. 743]

Business Tax Issues

Business Interest Expense Limit

Fact Sheet 2025-09
I.R.C. § 163

The IRS released updated frequently asked questions on the business interest expense limit.

Fact Sheet 2025-09 updates frequently asked questions regarding changes to the I.R.C. § 163(j) limitation on the deduction for business interest expense made by the One Big Beautiful Bill Act (OBBBA), Pub. L. No. 119-21.

For tax years beginning after December 31, 2024, OBBBA amended section 163(j) as follows:

- Taxpayers can add back deductions for depreciation, amortization, or depletion when calculating adjusted taxable income.
- The definition of a motor vehicle is expanded to include a trailer or camper designed to provide temporary living quarters for recreational, camping or seasonal use and designed to be towed by, or affixed to, a motor vehicle.

For tax years beginning after December 31, 2025, OBBBA amended section 163(j) as follows:

- Business interest expense subject to section 163(j) includes any interest incurred and capitalized during the tax year, except for interest capitalized under I.R.C. §§ 263(g) and 263A(f).
- A US shareholder's controlled foreign corporation income inclusion items under I.R.C. §§ 951(a), 951A(a) and 78, and associated deductions, are excluded from the computation of adjusted taxable income.

[Fact Sheet 2025-09]

Individual Tax Issues

Credits

FS-2025-05
I.R.C. §§ 25C, 25D, 25E, 30C, 30D, 45L, 45W, and 179D

IRS frequently asked questions provide guidance on expiring energy credits and deductions.

The IRS issued frequently asked questions regarding the modification of I.R.C. §§ 25C, 25D, 25E, 30C, 30D, 45L, 45W, and 179D under the One Big Beautiful Bill Act (OBBBA), Pub. L. No. 119-21. The FAQs provide the following table of expiration dates:

Code Section	Section Title	Termination Date
25C	Energy efficient home improvement credit	The credit will not be allowed for any property placed in service after December 31, 2025.

25D	Residential clean energy credit	The credit will not be allowed for any expenditures made after December 31, 2025
25E	Previously owned clean vehicles credit	The credit will not be allowed with respect to any vehicle acquired after September 30, 2025.
30C	Alternative fuel vehicle refueling property credit	The credit will not be allowed for any property placed in service after June 30, 2026.
30D	New clean vehicle credit	The credit will not be allowed for any vehicle acquired after September 30, 2025.
45L	New energy efficient home credit	The credit will not be allowed for any qualified new energy efficient home acquired after June 30, 2026.
45W	Qualified commercial clean vehicle credit	The credit will not be allowed for any vehicle acquired after September 30, 2025.
179D	Energy efficient commercial buildings deduction	The deduction will not be allowed with respect to any property the construction of which begins after June 30, 2026.

For purposes of the expiring clean vehicle credits under sections 25E, 30D, and 45W, a vehicle is acquired as of the date a written binding contract is entered into and a payment has been made. A payment includes a nominal downpayment or a vehicle trade-in.
[FS-2025-05]

Notice 2025-70
I.R.C. § 25F

The IRS announced its intent to issue proposed regulations on the new credit for contributions to scholarship granting organizations.

The IRS intends to issue proposed regulations to implement new I.R.C. § 25F. Beginning January 2, 2027, section 25F provides a new nonrefundable income tax credit for a US citizen or resident individual's qualified contribution to a scholarship granting organization (SGO) that provides qualified elementary and secondary scholarships.

The amount of the credit allowable to a taxpayer for a tax year is subject to two limitations. First, the credit allowed to any taxpayer for any tax year may not exceed $1,700. Second, the amount allowed as a credit for a tax year is reduced by the amount allowed as a credit for qualified contributions on the taxpayer's state tax return. Generally, unused credits can be carried forward 5 years.

Notice 2025-70 requests comments on implementation of the new credit. Specifically, comments are welcomed on the following issues:

- A participating state's required annual certification of SGOs within the state that meet the statutory requirements to qualify as an SGO
- Policies and procedures implemented by electing states to ensure that the required certification is accurate and complete
- Issues involving single-state organizations, organizations that may fundraise and award scholarships in more than one state, and organizations operating under other fact patterns that may wish to qualify as SGO
- SGOs' reporting and recordkeeping requirements

[Notice 2025-70, 2025-50 I.R.B. 773]

Fact Sheet 2025-10
I.R.C. § 35B

The IRS updated frequently asked questions on the premium tax credit.

The IRS updated frequently asked questions related to changes to the premium tax credit under the OBBBA, including removing the limitations on repayment of excess advance payments of the premium tax credit for tax years beginning after December 31, 2025.
[Fact Sheet 2025-10]

Rev. Proc. 2025-28
I.R.C. § 174

The IRS issued guidance regarding research and experimental expenditures.

Rev. Proc, 2025-28 instructs taxpayers on how to make various elections, file amended returns, or change accounting methods for certain research and experimental expenditures under OBBBA § 70302.
[Rev. Proc. 2025-28, 2025-38 I.R.B. 393]

Notice 2025-42
I.R.C. §§ 45Y, 48E

The IRS provided guidance on the beginning of construction date for qualified wind and solar facilities.

OBBBA § 70512 terminates the I.R.C. § 45Y clean electricity production credit and OBBBA § 70513 terminates the I.R.C. § 48E clean electricity investment credit for an applicable wind facility or applicable solar facility that is placed in service after December 31, 2027 (the credit termination date). The credit termination date applies to applicable wind and solar facilities for which construction begins after July 4, 2026 (the beginning of construction deadline).

The notice provides a physical work test for taxpayers to establish that construction began before July 5, 2026. Under that test, construction of an applicable wind or solar facility begins when physical work of a significant nature begins. The taxpayer must maintain a continuous program of construction.
[Notice 2025-42, 2025-36 I.RB. 351]

Deductions

REG-113515-25
I.R.C. §§ 163, 6050AA

The IRS provided guidance on the deduction for qualified passenger vehicle loan interest.

As added by the OBBBA, new I.R.C. § 163(h)(4)(A) provides that for tax years beginning after December 31, 2024, and before January 1, 2029, personal interest does not include qualified passenger vehicle loan interest (QPVLI). As a result, taxpayers can deduct QPVLI during these years.

With some exceptions, QPVLI means any interest that is paid or accrued during the tax year on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle (APV) for personal use. Prop. Treas. Reg. § 1.163-16(c)(1) would provide that interest is QPVLI only if the interest is paid or accrued on a specified passenger vehicle loan (SPVL) that is secured by a first lien on the purchased APV at the time the taxpayer pays or accrues interest on that SPVL. A lender's release of a lien typically occurs following the borrower's final payment on the related indebtedness. Thus, at the time of the final payment, an SPVL would typically still be secured by a lien on the purchased APV

Section 163(h)(4)(B)(i) provides that QPVLI is interest paid or accrued on indebtedness incurred by the taxpayer for the purchase of an APV for personal use. Prop. Treas. Reg. § 1.163-16(a)(2)(i) would provide that only individuals, decedents' estates, and non-grantor trusts could be considered to have purchased an APV for personal use. Activities of a disregarded entity are treated as the activities of the owner. Also, a grantor or other person treated as owning any portion of a trust under I.R.C. §§ 671 through 679 is treated as the owner of the trust property. The MAGI income phaseout is determined based on the MAGI of the deemed owner of the grantor trust.

Section 63(b)(7) provides that the deduction for QPVLI is allowed for taxpayers who do not itemize deductions. Prop. Treas. Reg. § 1.163-16(a)(2)(ii) would clarify that the deduction for QPVLI may be taken by taxpayers who itemize deductions and taxpayers who take the standard deduction. For taxpayers who itemize deductions, the deduction is available under the general rule of I.R.C. § 63(a). For taxpayers who take the standard deduction, the deduction is available under section 63(b)(7).

Prop. Treas. Reg. § 1.163-16(c)(2)(i) would provide rules to determine the calculation of interest. Prop. Treas. Reg. § 1.163-16(c)(2)(ii) would provide that a payment on an SPVL is treated first as a payment of interest to the extent interest has accrued and remains unpaid on the SPVL as of the date the payment is due. Any excess is treated as a payment of principal.

The proposed regulations would provide that the deduction does not apply to lease financing. Lease financing is a transaction in which the taxpayer has use of an APV but not ownership.

Prop. Treas. Reg. § 1.163-16(b)(14) would provide that *secured by a first lien* means a valid and enforceable security interest in an APV under state or other applicable law, with priority ahead of all other security interests, other than tax liens or other similar security interests that may be given higher priority at a later date. This exception clarifies that liens that result from the operation of state or other applicable law, such as a tax lien arising from nonpayment of state property taxes, do not prevent the APV from being secured by a first lien.

Prop. Treas. Reg. §1.163-16(d)(2)(i) would provide that indebtedness qualifies as an SPVL only to the extent the indebtedness is incurred for the purchase of an APV and other items or amounts that are customarily financed in an APV purchase transaction and that directly relate to the purchased APV (for example, vehicle service plans, extended warranties, sales taxes, and vehicle-related fees). To the extent that any indebtedness is not incurred by a taxpayer for the purchase of an APV, it is not an SPVL.

Prop. Treas. Reg. § 1.163-16(d)(5) would provide additional guidance on the requirement that indebtedness be incurred by the taxpayer to qualify as an SPVL. For example, if individual A incurs an SPVL and subsequently is replaced by individual B as the obligor on the indebtedness, the indebtedness is no longer an SPVL. However, the proposed regulations would contain an exception to this proposed general rule for a change in obligor because of the obligor's death

The proposed regulations would define an APV and add ways to establish that final assembly of the vehicle occurred in the United States.

Prop. Treas. Reg. § 1.163-16(b)(10) would define *personal use* to mean use by an individual other than in any trade or business (except for use in the trade or business of performing services as an employee), or for the production of income. Costs of commuting between an individual's home and the individual's main or regular place of work are personal expenses. Prop. Treas. Reg. § 1.163-16(f)(1) would provide that a taxpayer is considered to purchase the APV for personal use if, at the time the indebtedness is incurred, the taxpayer expects that the APV will be used for personal use by the taxpayer that incurred the indebtedness, or by certain members of that taxpayer's family and household, for more than 50% of the time.

Section 163(h)(4)(C)(i) provides that the deduction allowed for QPVLI by a taxpayer for any tax year cannot exceed $10,000. It does not provide a different amount for joint filers (in contrast to the MAGI phase-out). Accordingly, Prop. Treas. Reg. § 1.163-16(h)(1) would clarify that this $10,000 limitation applies per federal tax return. Thus, the maximum deduction allowed on a joint federal income tax return is $10,000. If two taxpayers file married filing separately, the $10,000 limitation would apply separately to each taxpayer's return. The proposed regulations provide examples to illustrate the income phase-out.

The proposed regulations also provide information reporting requirements for recipients of QPVLI Prop. Treas. Reg. § 1.6050AA-1(b)(3) would provide that the term *interest recipient* means a person that is engaged in a trade or business, whether or not the trade or business of lending money, and that, in the course of that trade or business, receives interest on an SPVL.

[REG-113515-25]

REG-110032-25

I.R.C. § 224

Guidance lists occupations in which workers customarily and regularly receive tips.

OBBBA § 70201(a) provides an income tax deduction for qualified tips that are received during the tax year by individuals in an occupation that customarily and regularly received tips on or before December 31, 2024. Proposed regulations identify occupations that customarily and regularly receive tips and define *qualified tips* that eligible taxpayers may claim as a deduction.

The proposed regulations list almost 70 separate occupations of tipped workers, from bartenders to water taxi operators. The Treasury Tipped Occupation Code provides a three-digit code and descriptions for the occupations listed within the proposed regulations. The proposed regulations group the occupations into the following eight categories:

- 100s – Beverage and Food Service
- 200s – Entertainment and Events
- 300s – Hospitality and Guest Services
- 400s – Home Services
- 500s – Personal Services

- 600s – Personal Appearance and Wellness
- 700s – Recreation and Instruction
- 800s – Transportation and Delivery

To claim the deduction, a worker must be in an occupation on the list and receive qualified tips. The proposed regulations provide the following:

- Qualified tips are cash tips as tips received from customers or, for an employee, through a mandatory or voluntary tip-sharing arrangement, such as a tip pool.
- Qualified tips must be paid in cash or an equivalent medium of exchange, such as check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash (such as casino chips), or another form of electronic settlement or mobile payment application that is denominated in cash.
- Cash tips do not include items paid in any medium other than cash or charge, such as event tickets, meals, services, or other assets that are not exchangeable for a fixed amount in cash (such as most digital assets).
- Tips are amounts paid by customers for services that are in excess of the amount agreed to, required, charged, or otherwise reasonably expected to have to be paid for the services in an arm's length transaction.
- Qualified tips must be paid voluntarily without any consequence in the event of nonpayment, must not be the subject of negotiation, and must be determined by the payer.
- Qualified tips do not include some service charges. For example, a restaurant imposes an automatic 18% service charge for large parties and distributes that amount to waiters, bussers and kitchen staff. The restaurant adds the charge with no option for the customer to disregard or modify it. The amounts distributed to the workers from it are not qualified tips. See Rev. Rul. 2012-18, 2012-26 I.R.B. 1032.
- Any amount received for illegal activity, prostitution services, or pornographic activity is not a qualified tip.
- A payment is not a qualified tip if the tip recipient has an ownership interest in or is employed by the payer of the tip.

[REG-110032-25]

US Department of Labor, FLSA 2025-05

The Department of Labor addressed overtime compensation for employees who work for two related businesses.

The Department of Labor (DOL) considered the overtime requirements of the Fair Labor Standards Act (FLSA) for an employee who worked at a restaurant on the first floor of a hotel, and a members-only club on the second floor. The restaurant and members club share a kitchen, offer substantially the same food and beverages, and operate under similar trade names. The restaurant and club are separate legal entities but they have common ownership.

The DOL letter reasons that separately incorporated entities may be considered a single employer with respect to an employee, or employees, for purposes of compliance with the FLSA. Alternatively, even if two or more entities are considered separate employers, they can nonetheless be joint employers under the FLSA if they have related employment relationships with the same employee. When one employer employs a worker for one set of hours in a workweek, and another employer employs the same worker for a separate

set of hours in the same workweek, that scenario may be, under appropriate circumstances, horizontal joint employment. Horizontal joint employment typically occurs when employers are sufficiently associated with respect to the employment of the particular employee(s).

If horizontal joint employment exists, an employee's hours worked for all the employee's joint employers must be added together to determine the employee's total hours for the workweek, and each of the employers is jointly and severally liable for any wages owed under the FLSA. The DOL concludes that hours worked for both the restaurant and the members club must be combined to determine the employee's hours worked during each workweek. The employee is entitled to overtime pay if the combined hours exceed 40 in a single workweek.
[US Department of Labor, FLSA 2025-05]

IR-2025-114, Notice 2025-69
I.R.C. §§ 224, 225

The IRS issued guidance on the deduction for qualified tips and overtime.

As part of the phased implementation of the OBBBA, there will be no changes to the 2025 Form W-2, Form 1099-NEC, Form 1099-MISC, or Form 1099-K to account for the new reporting requirements in the OBBBA. As a result, employers and other payers will not be required to separately account for cash tips or qualified overtime compensation on those forms or the written statements (copies of the forms) furnished to individuals for 2025. Notice 2025-69 clarifies how workers determine the amount of their deduction without receiving a separate accounting from their employer for cash tips or qualified overtime on information returns such as Form W-2 or Form 1099, as those forms remain unchanged for the current tax year. It also provides transition relief to workers who receive tips in the course of a specified service trade or business.

Qualified Tips

Under the OBBBA workers may be eligible for new deductions for tax years 2025 through 2028 if they received qualified tips. For tipped workers, the maximum annual deduction is $25,000, which phases out for taxpayers with MAGI over $150,000 ($300,000 for joint filers). It is estimated that there are about 6,000,000 workers who report tipped wages.

For purposes of satisfying the requirements of section 224(a) for tax year 2025, an employee may treat the requirement that qualified tips be included on a statement furnished to the employee as satisfied if the employee's cash tips are properly reported on the employee's Form W-2, without regard to the requirements to separately account for the total amount of cash tips reported by the employee under section. An employee can calculate the amount of qualified tips (subject to the other limitations and requirements for qualified tips) for tax year 2025 using the following methods:

1. Use the total amount of social security tips reported in box 7 of Form W-2.
2. Use the total amount of tips reported by the employee to the employer on all Forms 4070, Employee's Report of Tips to Employer (or any similar substitute form used to monthly report tips to the employer).
3. If an employer voluntarily chooses to report the amount of an employee's cash tips in box 14 of Form W-2 (or on a separate statement), the employee may use this amount in determining the amount of qualified tips.

In addition to these three options, employees may also include any amount listed on line 4 of the 2025 Form 4137, Social Security and Medicare Tax on Unreported Tip Income, filed with the employee's 2025 income tax return (and included as income on that return).

Section 224(d)(2) requires that qualified tips not include any amount received by an individual from a specified service trade or business (SSTB). An individual receiving tips in the trade or business of performing services as an employee is treated as receiving tips in the course of a trade or business that is an SSTB as defined in I.R.C. § 199A(d)(2) if the trade or business of the employer in which they are employed is an SSTB.

Because employers with employees who receive tips will have to make a determination as to whether their trade or business in the course of which an employee receives tips is an SSTB, there will be transition relief for the SSTB requirement. Specifically, until January 1 of the first calendar year following the issuance of final regulations regarding the determination of whether a trade or business is an SSTB for purposes of section 224 and associated employer information reporting, the IRS will treat the employee as having received tips in the course of a trade or business that is not an SSTB if the employee is in an occupation that customarily and regularly received tips on or before December 31, 2024.

Under Notice 2025-69, for tax year 2025, a non-employee can treat the requirement that qualified tips be included on a furnished statement as satisfied if the non-employee's cash tips are included in the total amounts reported as other income on the Form 1099-MISC, Form 1099-NEC, or Form 1099-K furnished to the non-employee. A non-employee can calculate the amount of qualified tips using earnings statements or other documentation such as receipts, point-of-sale system reports, daily tip logs, third party settlement organization records, or other documentary evidence that corroborates the calculation of the total amount of tips that are qualified tips for tax year 2025. Similar transitional relief applies to SSTBs.

Example 1.1 Tip Amounts Reported on Form W-2 Box 7

Ann Breck is a restaurant server. The amount reported in Ann's Form W-2 box 7 is $18,000 of social security tips. Ann did not report any additional tips on Form 4137. Ann may use $18,000 in determining the amount of qualified tips for tax year 2025.

Example 1.2 Tip Amounts Reported in Box 7 or on Form 4070

Bruce Thomas is a bartender. During tax year 2025, Bruce reported $20,000 in tips to Bruce's employer on Form 4070. Bruce's 2025 Form W-2 reports $200,000 in box 1, an amount in excess of the social security wage base, and $15,000 in box 7. Additionally, Bruce reported $4,000 of unreported tips on Form 4137, line 4, and included this amount in income on his Form 1040.

Bruce may use either the $15,000 in box 7 of the Form W-2, or the $20,000 of tips reported to Bruce's employer on Forms 4070 in determining the amount of qualified tips for tax year 2025. Regardless of the option chosen, Bruce may also include the $4,000 of unreported tips from Form 4137, line 4, in determining the amount of qualified tips.

Example 1.3 Tip Amounts Recorded in Daily Tip Logs

Daria Singh is a self-employed travel guide who operates as a sole proprietor. In 2025, Daria received $7,000 in tips from customers paid through a third-party settlement organization. For tax year 2025, Daria received a Form 1099-K from the online booking platform showing $55,000 of total payments.

The Form 1099-K does not separately identify the tips. However, Daria kept a log of each tour that showed the date, customer, and tip amount received. Because Daria has daily tip logs substantiating the $7,000 tip amount, she may use the $7,000 tip amount in determining qualified tips for tax year 2025.

Qualified Overtime

For tax years 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay (generally, the one-half portion of time-and-a-half compensation) that is required by the Fair Labor Standards Act (FLSA) and reported on a Form W-2, Form 1099, or other specified statement furnished to the individual. The maximum annual deduction is $12,500 ($25,000 for joint filers). The deduction phases out for taxpayers with MAGI over $150,000 ($300,000 for joint filers).

Generally, the FLSA requires that most employees in the United States be paid at least the federal minimum wage for all hours worked and overtime pay at not less than time and one-half their regular rate of pay for all hours worked over 40 in a workweek. However, the law provides for certain exemptions.

I.R.C. § 225(c) limits qualified overtime compensation to overtime compensation in excess of the individual's regular rate that is required and paid. Thus, for overtime to be required, it must, among other requirements, be paid to an individual who is both covered by and not exempt
from the FLSA (an FLSA-eligible employee).

For tax year 2025, a separate accounting of qualified overtime compensation may not appear on the written statement furnished to the individual. Some employers may choose to report the amount of qualified overtime compensation to employees using box 14 of Form W-2 or on a separate statement, in which case employees may treat the separate accounting requirement as satisfied for purposes of their eligibility for the deduction and use this amount for purposes of determining the deduction.

If the amount of qualified overtime compensation is not provided by the employer in box 14 of the Form W-2 or on a separate statement, for tax year 2025, an FLSA-eligible employee can treat the separate accounting requirement as satisfied if the qualified overtime compensation is properly reported on the individual's Form W-2, Form 1099-NEC, or From 1099-MISC, without regard for the requirement to separately account for the amount of qualified overtime compensation. The employee may base the determination of the amount of qualified overtime compensation on other documentation such as earnings or pay statements, invoices, or similar statements that support the determination, using a reasonable method described below to determine the amount of the qualified overtime compensation. Individuals who had multiple employers during 2025 may use different methods for each employer.

Individuals may use any of the following reasonable methods for purposes of determining the amount of qualified overtime compensation for tax year 2025:

1. If the individual is paid overtime compensation at a rate of one and one-half times the individual's regular rate for hours worked in excess of 40 hours in a workweek and receives a statement covering the entire 2025 tax year that separately accounts for the overtime premium, which is generally, the one-half portion of the one and one-half times amount (the FLSA Overtime Premium), the individual may use that separate amount.
2. If the individual is paid overtime compensation at a rate of one and one-half times the individual's regular rate for hours worked in excess of 40 hours in a workweek and receives a statement covering the entire 2025 tax year that does not separately account for the FLSA Overtime Premium, but does include an entry showing the aggregate dollar amount of the FLSA Overtime Premium combined with the portion of the individual's regular wages for the hours worked over 40 in a workweek, the individual may use one-third of that aggregate dollar amount.
3. If the individual is paid overtime compensation at a rate in excess of one and one-half times the individual's regular rate for hours worked in excess of 40 hours in a workweek (for example, two times the individual's regular rate), and receives a statement covering the entire 2025 tax year that separately

accounts for the portion in excess of the employee's regular rate, the individual may multiply that separate amount by an appropriate fraction to approximate the FLSA Overtime Premium (for example, if overtime is paid at a rate of two times the regular rate, the appropriate fraction is one-half) and use the product.

4. If the individual is paid overtime compensation at a rate in excess of one and one-half times the individual's regular rate for hours worked in excess of 40 hours in a workweek (for example, two times the individual's regular rate), and receives a statement that does not separately account for the FLSA Overtime Premium but does include an entry showing the aggregate dollar amount of overtime compensation at that higher rate for the hours worked over 40 hours combined with the portion of the individual's regular wages for the hours worked over 40 in a workweek covering the entire 2025 tax year, then the individual may multiply the aggregate dollar amount by an appropriately smaller fraction (for example, if overtime is paid at a rate of two times the regular rate, the appropriate fraction is one-fourth) and use the product.
5. If the method for determining the amount of qualified overtime compensation described in 2 or 3 would result in underestimating the employee's qualified overtime compensation (for example, because the individual's regular rate is increased by a nondiscretionary bonus), the individual may adjust the method described in 2 or 3 to take the difference into account.
6. If the individual is paid overtime compensation at a rate described in paragraphs 1-5 but does not receive any statement covering the entire 2025 tax year separately accounting for the FLSA Overtime Premium, the aggregate dollar amount of FLSA overtime, or the aggregate dollar amount of overtime compensation paid at a higher rate, the individual may use a reasonable method that takes into account (1) the regular rate paid to the individual by the employer (or a reasonable approximation of this amount), and (2) the individual's hours of service in excess of 40 hours in a workweek (or a reasonable approximation if the individual does not have records of actual hours of service) for purposes of determining the amount of qualified overtime compensation. A reasonable method includes requesting information from the individual's employer and using the information provided by the employer for purposes of calculating the deduction.
7. If an individual's employer satisfies the requirements to pay overtime by operation of another subsection of the FLSA other than 29 U.S.C. § 207(a) (including but not limited to public sector employees in fire protection and law enforcement, employees of a political subdivision of a state or an interstate governmental agency who receives compensatory time off in certain circumstances in lieu of cash overtime compensation, and employees of hospitals or certain residential care facilities), the individual must compute the amount of overtime compensation by operation of the different overtime rules used in the relevant provision of 29 U.S.C. § 207 that apply to the individual and may use any reasonable method contained in the notice that takes those alternative overtime rules into account.

Notice 2025-69 provides several examples of calculating qualified overtime compensation. The examples in the notice assume that each individual is furnished a Form W-2 without a discrete entry reporting qualified overtime in box 14 or on a separate statement, each individual is an FLSA-eligible employee, and all other requirements for claiming the deduction are satisfied.

Example 1.4 Overtime Reported on a Payroll System

Kendra Brown has access to a payroll system that shows totals of amounts paid to her in 2025, including the FLSA Overtime Premium paid in 2025. In 2025, Kendra was last paid wages on December 22, 2025, for the payroll period beginning on November 30, 2025, and ending on December 13, 2025. The payroll system shows $5,000 as the "overtime premium" that Kendra was paid in 2025. For purposes of determining

the amount of qualified overtime compensation received in tax year 2025, Kendra may include $5,000 (the FLSA Overtime Premium).

Example 1.5 Overtime Total Reported

The facts are the same as in Example 1.4 except that Kendra's pay stub, showed a total "overtime" amount of $15,000 (which is the FLSA Overtime Premium combined with the portion of her regular wages for the hours worked over 40 in a workweek). For purposes of determining the amount of qualified overtime compensation received in tax year 2025, Kendra may include $5,000 (the FLSA Overtime Premium, computed by dividing $15,000 by 3).

Example 1.6 Excess Overtime Paid

Meadow Sunshine's employer has a practice of paying overtime at a rate of two times an employee's regular rate of pay and Meadow was paid $20,000 in overtime pay under that practice, even though the FLSA only requires the employer to pay at one and one-half times the employee's regular rate. Meadow's last pay stub for 2025 showed "overtime premium" of $10,000 paid in 2025 (which is Meadow's overtime premium paid at a rate of two times the regular rate). For purposes of determining the amount of qualified overtime compensation received in tax year 2025, Meadow may include $5,000 ($10,000 divided by 2).

Example 1.7 Excess Overtime Paid - Total Overtime Reported

The facts are the same as in Example 1.6 except that Meadow's pay stub showed a total "overtime" amount of $20,000 (which included the overtime premium paid at a rate of two times the regular rate of pay combined with the portion of the regular wages for the hours worked over 40 in a workweek). For purposes of determining the amount of qualified overtime compensation received in tax year 2025, Meadow may include $5,000 (the FLSA Overtime Premium, computed by dividing $20,000 by 4).

Example 1.8 Overtime Paid under a Different Subsection – Work Period

Claudia Dubois works in law enforcement and was paid $15,000 of total annual overtime pay on a "work period" basis of 14 days that complies with section 207(k) of the FLSA. For purposes of determining the amount of qualified overtime compensation received in tax year 2025, Claudia may include $5,000 ($15,000 divided by 3).

Example 1.9 Overtime Paid under a Different Subsection – Time and a Half

Derek Scmidt works for a state or local government agency that gives compensatory time at a rate of one and one-half hours for each overtime hour worked under 29 U.S.C. 207(o). In 2025, Derek was paid wages of $4,500 with respect to compensatory time off taken in accordance with section 207(o). Derek may include $1,500, one-third of these wages for purposes of determining qualified overtime compensation under section 225(c).

[Notice 2025-69, 2025-50 I.R.B. 766]

Income

REG-132805-17
I.R.C. § 132

Proposed regulations would provide guidance on determining an employer's line of business for purposes of the exclusions from gross income for no-additional-cost services fringe benefits and qualified employee discounts fringe benefits.

I.R.C. § 132(a)(1) and (2) exclude from the gross income of an individual any fringe benefit that qualifies as a no-additional-cost service or a qualified employee discount, respectively. Section 132(b) defines the term *no-additional-cost service*, in part, as any service provided by an employer to an employee for use by such employee if such service is offered for sale to customers in the ordinary course of the line of business of the employer in which the employee is performing services.

Section 132(c)(1) defines the term *qualified employee discount*, in part, as any employee discount with respect to any property (other than real property and other than personal property of a kind held for investment) or services that are offered for sale to customers in the ordinary course of the line of business of the employer in which the employee is performing services. To determine whether the exclusion under section 132(a)(1) or (2) applies, an individual to whom or on behalf of whom the fringe benefit is provided must have performed substantial services in the employer's line of business that offers such services or property for sale to customers in the ordinary course of business.

The proposed regulations would provide that the North American Industry Classification System (NAICS) is the industry classification system used to determine an employer's line of business for purposes of excluding no-additional-cost services and qualified employee discounts from employees' gross income. If an employer has multiple primary activities corresponding to multiple four-digit NAICS industry group classifications causing it to have more than one line of business, the proposed regulations continue to apply the aggregation rules under Treas. Reg. § 1.132-4(a)(3).
[REG-132805-17]

IRS Issues

Joint and Several Liability

REG-132251-11; REG-134219-08
I.R.C. §§ 55, 6015

The IRS withdrew notices of proposed rulemaking on relief from joint and several liability.

On August 13, 2013, the Department of the Treasury and the IRS published a notice of proposed rulemaking (REG-132251-11) that proposed guidance for taxpayers on when and how to request relief from joint and several liability under I.R.C. § 6015 and relief from the operation of State community property law under I.R.C. § 66 of the Code (2013 proposed regulations). In addition, on November 20, 2015, the Treasury Department and the IRS published a notice of proposed rulemaking (REG-134219-08) that reflected changes to section 6015 made by the Tax Relief and Health Care Act of 2006, Pub. L. No. 109-432 92006), and changes in the law arising from litigation.

The changes would have, in part, changed the 2-year time period to request relief to align with the statute of limitations on collections (generally 10 years). The IRS has withdrawn the notices to focus time and resources on other matters.
[REG-132251-11; REG-134219-08]

PTINS

T.D. 10035, REG-108673-25

The PTIN user fee is reduced

The IRS issued interim final regulations and a notice of proposed rulemaking that reduce the PTIN user fee from $11 to $10, plus $8.75 payable directly to a third-party contractor. The new fee is effective for the start of the next PTIN renewal cycle beginning October 16, 2025.
[T.D. 10035, REG-108673-25]

Math Errors

The Internal Revenue Service Math and Taxpayer Help Act (H.R. 998)

I.R.C. § 6213

The IRS must now provide additional information on math error notices.

The bill requires the IRS to provide specific information on a notice related to a math or clerical error, send a notice related to an abatement of taxes assessed due to a math or clerical error, provide procedures for requesting such an abatement, and implement a pilot program for sending notices of a math or clerical error. Under the bill, a notice sent by the IRS regarding a math or clerical error must include the following:

- A clear description of the error, including the type of error and the specific federal tax return line on which the error was made
- An itemized computation of adjustments required to correct the error
- The telephone number for the automated transcript service
- The deadline for requesting an abatement of any tax assessed due to the error.

The bill also requires the IRS to provide procedures for requesting in writing, electronically, by phone, or in person an abatement of tax assessed due to a math or clerical error; implement a pilot program to send notices of a math or clerical error by certified or registered mail; and report to Congress certain information about the pilot program.
[The Internal Revenue Service Math and Taxpayer Help Act (H.R. 998), Pub. L. No. 119-39]

Refunds

IR-2025-94

Executive Order 14247

The IRS is phasing out paper tax refunds for individual taxpayers.

The IRS, working with the Department of the Treasury, announced that paper tax refund checks for individual taxpayers will be phased out beginning on September 30, 2025, as required by Executive Order 14247, to the extent permitted by law. This step marks the first move of the broader transition to

electronic payments. The IRS will publish detailed guidance for 2025 tax returns before the 2026 filing season begins, and will share updated guidance on IRS.gov and through outreach efforts nationwide [IRS.gov/modernpayments].
[IR-2025-94]

Payroll and Estimated Tax

IR-2025-82

The IRS will not change information returns and withholding tables for tax year 2025.

The IRS announced that, as part of its phased implementation of the OBBBA, there will be no changes to certain information returns or withholding tables for tax year 2025. Form W-2, existing Forms 1099, and Form 941 and other payroll return forms will remain unchanged. Federal income tax withholding tables will not be updated. Employers and payroll providers should continue using current procedures for reporting and withholding.
[IR-2025-82]

New Form W-4

The IRS finalized the new Form W-4 for 2026

The IRS finalized the 2026 Form W-4, Employee's Withholding Certificate. The new form incorporates significant changes made by OBBBA, including an expanded deductions worksheet that reflects the new deductions for qualified tips and overtime compensation
[New Form W-4]

Retirement and Savings Tax Issues

Health Savings Accounts

Notice 2026-05
I.R.C. § 223

The IRS issued guidance on new tax benefits for health savings account participants.

OBBBA expanded eligibility for a health savings account (HSA) by making the following changes:

1. Telehealth and Remote Care Services. The OBBBA made permanent the ability to receive telehealth and other remote care services before meeting the high-deductible health plan (HDHP) deductible while remaining eligible to contribute to an HSA, effective for plan years beginning on or after January 1, 2025.
2. Bronze and Catastrophic Plans Treated as HDHPs. As of January 1, 2026, bronze and catastrophic plans available through an Exchange are considered HSA-compatible, regardless of whether the plans satisfy the general definition of an HDHP. This expands the ability of people enrolled in these plans to contribute to HSAs. Notice 2026-05 clarifies that bronze and catastrophic plans do not have to be purchased through an Exchange to qualify for the new relief.
3. Direct Primary Care Service Arrangements. Beginning January 1, 2026, an otherwise eligible individual enrolled in certain direct primary care (DPC) service arrangements may contribute to an HSA. In addition, they may use their HSA funds tax-free to pay periodic DPC fees.

[Notice 2026-05, 2026-02 I.R.B. 309]

Roth Catch-Up Rule

T.D. 100033
I.R.C. § 414

The IRS issued final regulations on the new Roth catch-up rule and other Secure 2.0 Act provisions.

Final regulations provide guidance for retirement plans that allow participants who have attained age 50 to make additional elective deferrals that are catch-up contributions. The regulations reflect statutory changes made by Division T of the Consolidated Appropriations Act, 2023, Public Law 117-328, known as the SECURE 2.0 Act of 2022, including the requirement that catch-up contributions made by certain catch-up eligible participants must be designated Roth contributions.

I.R.C. § 414(v) permits a retirement plan to allow catch-up eligible participants to make additional elective deferrals that are catch-up contributions and sets forth requirements relating to those contributions. Section 603(a) of the SECURE 2.0 Act adds I.R.C. § 414(v)(7), which sets forth the requirement that catch-up contributions made by certain catch-up eligible participants must be designated Roth contributions (the Roth catch-up requirement).

To facilitate compliance with the Roth catch-up requirement, the proposed regulations generally would permit a plan to provide, for tax years beginning after December 31, 2023, that a participant who is subject to the Roth catch-up requirement is deemed to have irrevocably designated any catch-up contributions as designated Roth contributions. The final regulations clarify that the deemed election ceases to apply to an employee within a reasonable time following the date on which: (1) the employee ceases to be subject to the requirement to make any catch-up contributions as designated Roth contributions, or (2) an amended Form W-2 is filed or furnished to the employee indicating that the employee is not subject to the requirement to make any catch-up contributions as designated Roth contributions.

The final regulations retain the proposed rule that a plan may provide that an employee who is subject to the Roth catch-up requirement is deemed to have irrevocably designated any elective deferrals that are catch-up contributions as designated Roth contributions. In addition, the final regulations permit a plan administrator to aggregate wages received by a participant in the prior year from certain separate common law employers in determining whether the participant is subject to the Roth catch-up requirement. The provisions in the final regulations relating to the Roth catch-up requirement generally apply to contributions in tax years beginning after December 31, 2026.

For tax years beginning after December 31, 2024, section 109 of the SECURE 2.0 Act amends section 414(v)(2) of the Code to increase the applicable dollar catch-up limit for a catch-up eligible participant who attains age 60, 61, 62, or 63 during the tax year. For such a participant in an applicable employer plan other than a SIMPLE plan, the increased applicable dollar catch-up limit is 150% of the otherwise applicable dollar catch-up limit. The final regulations provide guidance relating to the increased catch-up contribution limits and how to correct a failure to comply with the Roth catch-up requirement.
[T.D. 100033]

Trump Accounts

Notice 2025-69
I.R.C. § 530A

The IRS issued guidance on new Trump accounts for eligible children.

Notice 2025-68 informs taxpayers that the Treasury Department and IRS intend to propose regulations to provide guidance on I.R.C. § 530A (Trump accounts). Trump Accounts are a new type of individual retirement account (IRA) for eligible children.

The Working Families Tax Cuts provides for establishing a Trump account on behalf of every eligible child for whom an election is made, generally by a parent or guardian, and who has not turned age 18 before the end of the calendar year in which the election is made. Contributions to Trump accounts cannot be made before July 4, 2026.

Additionally, the federal government will make a one-time $1,000 pilot program contribution to the Trump account of each eligible child for whom an election is made, who is a US citizen and who is born on or after January 1, 2025, through December 31, 2028.

Certain governmental entities and charities may also make qualified general contributions to Trump accounts, if given to a qualified class of account beneficiaries. Other persons can make contributions up to an aggregate limit of $5,000 per year. An employer may contribute to a Trump account of the employee or the employee's dependent up to $2,500 per year (which counts against the $5,000 annual limit) under an employer's Trump account contribution program, and the contribution will not count toward the employee's taxable income. The annual contribution limits are indexed to inflation and will adjust starting after 2027.

The funds in Trump accounts must be invested in certain mutual funds or exchange-traded funds that track the S&P 500 or another index of primarily American equities. Amounts generally cannot be withdrawn from Trump accounts before January 1 of the calendar year in which the child turns 18 years old. After that time, the account generally is treated as a traditional IRA and is generally subject to the same rules as other traditional IRAs.

[Notice 2025-68, 2025-52 I.R.B. 856]

Tax Practice and Procedure

Information Returns

Car Loan Interest

Notice 2025-57

I.R.C. § 6050AA

The IRS announced penalty relief for information reporting on car loan interest.

As amended by the OBBBA, I.R.C. § 163(h)(4) provides that the term personal interest does not include qualified passenger vehicle loan interest for tax years beginning after December 31, 2024, and before January 1, 2029. I.R.C. § 6050AA requires information reporting for interest received on a specified passenger vehicle loan. This interest may be qualified passenger vehicle loan interest that is deductible under section 163(a).

Notice 2025-57 provides penalty relief and guidance to certain lenders for new information reporting requirements for car loan interest received in 2025. Lenders and other interest recipients are required to file information returns with the IRS and provide statements to borrowers showing the total amount of interest received on qualified passenger vehicle loans and other information related to the loan.

A qualified passenger vehicle is a car, minivan, van, SUV, pick-up truck or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and that has undergone final assembly in the United States. Under the transitional guidance, the IRS will consider that lenders have met their reporting obligations for interest received on a qualified passenger car loan in 2025 if they make a statement available to the buyer indicating the total amount of interest received. Specifically, lenders can meet their reporting requirements by making this total amount of interest available

- on an online portal the buyer can easily access,
- in a regular monthly statement,
- on an annual statement provided to the buyer, or
- by other similar means designed to provide accurate information to the buyer regarding interest received.

The IRS will not impose penalties on lenders for a failure to file information returns and provide payee statements if they satisfy their reporting obligations described in the notice.
[Notice 2025-47, 2025-45 I.R.B. 692]

Digital Assets

Form 1099-DA
I.R.C. § 6045

The IRS issued a new digital asset reporting form.

Brokers must report digital asset transactions under I.R.C. § 6045. This reporting is required to be made on Form 1099-DA, Digital Asset Proceeds from Broker Transactions, beginning with transactions on or after January. 1, 2025. The IRS has issued a new digital asset form for 2025 transactions.
[Form 1099-DA]

Form 1099-K

IR-2025-107, Fact Sheet 2025-8
I.R.C. § 6050W

The IRS issued FAQs on the 1099-K reporting requirements.

The IRS issued frequently asked questions on the dollar threshold for filing Form 1099-K under the OBBBA. The OBBBA retroactively reinstated the reporting threshold in effect prior to the passage of the American Rescue Plan Act of 2021 and third-party settlement organizations are not required to file Forms 1099-K unless the gross amount of reportable payment transactions to a payee exceeds $20,000 and the number of transactions exceeds 200.

The FAQs state that there is no threshold amount that must be met to receive a Form 1099-K due to payments received through a payment card transaction. Therefore, if the taxpayer received $0.01 of payments from a payment card transaction, he or she should receive a Form 1099-K for those payments. The term *payment card* includes credit cards, debit cards, and stored-value cards (including gift cards), as well as payment through any distinctive marks of a payment card (such as a credit card number).
[IR-2025-107, Fact Sheet 2025-8]

Tips and Overtime

Notice 2025-62
I.R.C. §§ 6721, 6722

The IRS announced penalty relief for information reporting on qualified tips and overtime.

Notice 2025-62 provides penalty relief for tax year 2025 in connection with the implementation of the new information reporting requirements related to the deductions for qualified tips and qualified overtime compensation added by the OBBBA. Specifically, the notice provides relief from the penalty under I.R.C. § 6721 for failure to file correct information returns and the penalty under I.R.C. § 6722 for failure to furnish correct payee statements.

For wages paid to an employee, an employer that is required to furnish a written statement to the employee must show, among other things, the total amount of wages paid, including tips received by an employee in the course of his or her employment if such tips are included in statements furnished to the employer pursuant to I.R.C. § 6053(a), and the amount of income and employment taxes deducted and withheld.

OBBBA § 70201(a) added the I.R.C. § 224 income tax deduction for qualified tips. OBBBA § 70201(f) added information reporting requirements for certain payments of cash tips. Generally, the employer or payer must include on the information return a separate accounting of any such amounts reasonably designated as cash tips and the occupation of the person receiving the tips.

OBBBA § 70202(a) added the I.R.C. § 225 income tax deduction for qualified overtime compensation. OBBBA § 70202(c) added information reporting requirements for certain payments of qualified overtime compensation. Generally, the employer or payer must include on the information return the total amount of qualified overtime compensation.

I.R.C. § 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. I.R.C. § 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.

Before the enactment of the OBBBA, certain payers 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 generally were required to report certain tips but were not required to report the occupations of employees. The IRS recognizes that payers and employers may not have the information required to be reported under the OBBBA information reporting changes, or the systems or procedures in place to be able to correctly file the additional information.

Prior to the enactment of the OBBBA, certain payers and employers were not required to file returns and furnish statements containing a separate accounting of amounts designated as qualified overtime compensation. The IRS is aware that payers 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.

In addition, the IRS announced that Forms W-2 and 1099 for tax year 2025 will not be updated to account for the OBBBA-related changes. Therefore, tax 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 and overtime. For tax year 2025, the IRS will not impose a penalty under section 6721 or 6722 if, in general, certain payers and employers fail to file and provide a separate accounting of any amounts reasonably designated as cash tips (or the amount of cash tips reported by the employee in certain cases) or the occupation of the person receiving such tips, or payers fail to separately provide the amount of qualified overtime.

The penalty relief provided in this notice is limited to returns and statements filed and furnished for tax 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. Note that a complete return or statement must include the amount of cash tips and overtime that would otherwise (pre-OBBBA) be required to be separately accounted for or included on the return or statement.
[Notice 2025-62, 2025-48 I.R.B. 741]

Withholding

Nonresident Gambling Winnings

C.C.A. 202547016
I.R.C. § 1441

There is a 30% withholding on gambling winnings of a nonresident noncitizen.

Gambling winnings of a nonresident noncitizen that are not effectively connected with a US trade or business are subject to withholding under I.R.C. § 1441. The withholding is 30%.
[C.C.A. 202547016]

Tax Rates

Rev. Proc. 2025-32
Various code sections

The IRS released inflation adjustments for tax year 2026.

Rev. Proc. 2025-32 provides inflation adjusted items for tax year 2026.
[Rev. Proc. 2025-32, 2025-45 I.R.B. 695]

2025 National Income Tax Workbook Corrections and Clarifications

P. 204	SECURE 2.0 contains conflicting provisions for the applicable age of employees or IRA owners born in 1959. Under the proposed regulations, the applicable age is 73 [Prop. Treas. Reg. § 1.401(a)(9)-2(b)(2)(v)].
P. 274	The GDS method for single-purpose agricultural and horticultural structures placed in service before 2018 is 150% and it is 200% for structures placed in service after 2017.
P. 470	The 2025 refundable portion of the child tax credit is up to $1,700.