

Sample employee communication template

IRS Notice 2025-69

Use this sample employee communication template to provide information on [IRS Notice 2025-69](#). This communication template should not be considered legal or tax advice and might not be suitable for all circumstances. You may need to modify this template to suit your circumstances. You should consult with legal counsel and/or a professional tax advisor for advice as needed prior to using this template.

The Company is aware of [recent guidance from the IRS](#) covering a new federal income tax deduction for qualified overtime compensation and cash tips. Below we have provided information that might assist you in determining whether these deductions might be available to you and, if so, how to determine the amount of the deduction.

Background

- The One Big Beautiful Bill Act (the Act) created tax deductions for qualified overtime and qualified tips for tax years 2025-2028.
- Employers are still required to withhold Social Security (if applicable), Medicare, state and local taxes from overtime pay and tips.
- The deductions are not applied automatically. You would claim the deductions (if applicable) when you file your tax return.

Deduction for qualified overtime

- If you are an employee that is entitled to overtime pay, you may be able to deduct up to \$12,500 (or \$25,000 if married filing jointly) of overtime premium pay from your federal income taxes. The deduction is not available if you have a modified adjusted gross income over \$150,000 (\$300,000 for joint filers).
- This deduction applies only to the overtime premium that is required to be paid under the federal Fair Labor Standards Act (FLSA) for hours worked over 40 hours per week. The FLSA generally requires overtime to be paid to employees who are not exempt from overtime requirements in an amount equal to 1.5 times the employee's regular rate of pay for hours worked over 40 per week. The overtime premium portion is the amount paid equal to 0.5 times the hours worked over 40.
- The deduction does not apply to overtime pay required only by state law, a collective bargaining agreement or a more generous company policy.

Claiming the deduction for qualified overtime

- You may use the following information to assist you in determining the amount of any allowable deduction for qualified overtime on your 2025 federal tax return:

- A separate accounting of qualified overtime amounts in Box 14 of your Form W-2
- A year-end pay statement with year-to-date amounts of qualified overtime
- **Note:** As mentioned above, the federal tax deduction is limited to the overtime premium required to be paid by the FLSA. The overtime premium portion is the 0.5 times paid for hours worked over 40; therefore, you may need to adjust the amount provided to you to arrive at the deductible amount on your return.

If, for example, you received double time payment and/or overtime paid at a rate greater than 1.5 times your normal rate of pay during the year and we included those amounts in the information provided to you (for example, in a year-end pay statement), you will need to adjust the amount provided to get to the qualified overtime premium.

Examples

Note: These examples use weekly pay, but the concepts in the examples provided can be applied to a year-end pay statement as well.

1. An employee with an hourly rate of pay of \$20, no additional earnings that impact the overtime rate and 10 hours of overtime at a rate of 1.5 times their hourly rate of pay. The pay statement does **not** call out separately the premium amount of overtime compensation.

The employee's weekly earnings are as follows:

Straight pay = \$800 (40 hours * \$20)

Overtime = \$300 (10 hours * \$30)

In this scenario, the employee would multiply the overtime earnings by .333 to arrive at the total qualified overtime premium for the week, as shown below:

Qualified overtime premium = \$100 (\$300 *.333)

2. An employee with an hourly rate of pay of \$20, no additional earnings that impact the overtime rate and 10 hours of overtime at a rate of 1.5 times their hourly rate of pay. The pay statement separately provides the premium amount of overtime compensation.

The employee's weekly earnings are as follows:

Straight pay = \$1,000 (50 hours * \$20)

Overtime premium = \$100 (10 hours * \$10)

In this scenario, the employee can use the overtime premium reported on their pay statement as their qualified overtime premium for the week.

3. An employee works in California and is paid \$20 an hour. The employee works 6 hours of double time, 6 hours of FLSA overtime and 40 hours of normal work. The pay statement does **not** call out separately the premium amount of overtime or double time compensation.

The employee's weekly earnings are as follows:

Straight pay = \$800 (40 hours * \$20)

Double time = \$240 (6 hours * \$40)

Overtime = \$180 (6 hours * \$30)

In this scenario, the employee would multiply the double time earnings by .25 and the overtime earnings by .333, then add the amounts together to come up with the qualified overtime premium for the work week.

Qualified overtime premium from double time above = \$240 * .25 = \$60

Qualified overtime premium from overtime above = \$180 * .333 = \$60

Total qualified overtime premium = \$120

4. An employee works in California and is paid \$20 an hour. The employee works 6 hours of double time, 6 hours of FLSA overtime and 40 hours of normal work. The pay statement separately lists the premium portion of overtime but does not list the premium portion of double time paid.

The employee's weekly earnings are as follows:

Straight pay = \$920 ((46 hours (40 normal hours + 6 hours of overtime worked) * \$20))

Double time = \$240 (6 hours * \$40)

Overtime premium = \$60 (6 hours * \$10)

In this scenario, the employee does not need to calculate the overtime premium, as it is separately stated on the pay statement already; however, they will need to calculate the overtime premium for double time. To do this, the employee will need to multiply the double time earnings by .25.

Qualified overtime premium from double time above = \$240 * .25 = \$60

After doing so, they can then add the double time premium to the overtime premium reported on the pay statement to come up with the qualified overtime premium for the work week.

Total overtime premium of \$60 + total double time premium of \$60 = total qualified overtime premium of \$120

Note: In all cases, you may want to consult a tax advisor for further guidance on how to prepare your individual tax returns and claim any available deduction.

Deduction for qualified tips

- The deduction for qualified tips is also subject to caps and limitations. You may be able to deduct up to \$25,000 of qualified tips from your federal income taxes. The deduction is not available if you have a modified adjusted gross income over \$150,000 (\$300,000 for joint filers).
- The deduction is only available for tips received while working in an occupation that customarily and regularly received tips on or before Dec. 31, 2024. For 2025, individuals are responsible for confirming that tips were received while working in a

qualifying occupation and are, therefore, eligible to be deducted.

- Beginning in 2026, companies will be required to include a worker's Treasury Tipped Occupation Code (TTOC) on their Form W-2 or Form 1099-series.

Claiming the deduction for qualified tips

- You may use the following information to assist you in determining the amount of any allowable deduction for qualified tips on your 2025 federal tax return:
 - The total amount of tips reported in Form W-2, Box 7 for 2025
 - The total amount of tips reported in 2025 by the employee to their employer on Form 4070 (Employee's Report of Tips to Employer) or any similar form used to report tips monthly to an employee.
 - A year-end pay statement with year-to-date amounts of cash tips

Note: Cash tips and tips paid on a credit or debit card and tips received under any tip-sharing arrangement can be considered qualified tips. Mandatory service charges or automatic gratuities are not considered qualified tips.

Please consult a tax professional if you have any questions regarding this information.