



## JANUARY 2026

### **Squyres & Co would like to wish everyone a Happy New Year and a successful 2026!**

To help you wrap up 2025 and prepare for the new year, we have included a list of helpful reminders and important information for your review. This is a general guide, so please disregard any sections that do not apply to your situation. If you have questions or need assistance, one of our Certified QuickBooks ProAdvisors would be happy to support you.

#### **W2, W3, and 1099 Information**

The One Big Beautiful Bill Act, signed into law in 2025, includes provisions that allow eligible workers to deduct certain income from their federal taxable income, specifically overtime pay and tips. For tax years 2026 through 2028, this will affect how employers report wages and tips.

1. The “No Tax on Overtime” provision allows eligible employees to deduct the overtime premium portion of their pay. That is, generally, the extra half of the 1.5 times the regular pay rate from their taxable income. Employees can deduct up to \$12,500 per year in qualified overtime pay (\$25,000 for married couples filing jointly). Only overtime pay required under the Fair Labor Standards Act (FLSA) qualifies, excluding overtime paid under contracts or state laws unless it meets FLSA criteria. If you pay overtime at a rate other than 1.5x of the employee’s usual rate, please contact us to determine the FSLA amount for your particular situation.

Under a transition rule for qualified overtime pay required to be reported for periods *before January 1, 2026*, persons required to file returns or payee statements can approximate a separate accounting of amounts designated as qualified overtime pay by any reasonable method specified by the Treasury Secretary. The IRS is providing penalty relief from information reporting penalties for returns and statements related to amounts paid during 2025.

Beginning with the 2026 W-2’s and 1099-NEC, the employer must report the total amount of qualified overtime pay to the employee and the social Security Administration on Form W-2. Please see below for setting up your QuickBooks to track overtime pay.

★ Go to QB's Desktop instructions

★ Go to QB's Online instructions

Employers must continue to withhold all employment taxes on full overtime pay and separately report overtime compensation on Form W-2 or 1099-NEC using reasonable accounting methods per IRS guidance. This provision is effective for overtime earned from January 1, 2025, through December 31, 2028.

Under the “No Tax on Tips” provision, employees who regularly receive tips are allowed to deduct up to \$25,000 of qualified tip income from their federal taxable income. Qualified tips include voluntary payments from patrons as well as any tips received through tip-sharing pools, reported on Forms W-2, 1099, or 4137. Social Security and Medicare taxes still apply to tips, and employers must continue to report tips on the appropriate tax forms. The provision applies

retroactively from January 1, 2025, through December 31, 2028. The IRS published a list of eligible occupations that customarily receive tips to aid in determining who qualifies. The list can be found on the IRS website, which includes Treasury Tipped Occupation Codes (TTOC) for future use, or you can contact us for additional information.

The IRS has not issued new W-2 forms for 2025. The IRS has stated they will not impose penalties on employers for failing to separately report qualified cash tips or the employee's occupation code. Employers are encouraged but not required to voluntarily provide a separate accounting of cash tips or occupation information in Box 14.

Going forward, an employer must report to an employee (and to the Social Security Administration) on Form W-2: (1) the total amount of cash tips reported by the employee to the employer, and (2) the occupation of the employee who received the tips.

Similarly, for a nonemployee payee (for example, independent contractor, freelancer, gig worker, sole proprietor, etc.), the business payer with the reporting requirement must provide the IRS and the applicable payee with a separate accounting of (1) the amounts reasonably designated as cash tips, and (2) the occupation of the payee who received the tips. This requirement affects reporting on:

**Form 1099-NEC** for payments made in the course of a trade or business to a nonemployee for services provided;

**Form 1099-K** for reportable payment transactions by a third party settlement organization a participating payee

Under a transition rule, for cash tips required to be reported for periods *before January 1, 2026*, persons required to file 1099 returns or payee statements, can approximate a separate accounting of amounts designated as cash tips by any reasonable method specified by the Treasury Secretary.

### **1099 Upcoming Changes for 2026**

The One Big Beautiful Bill Act makes notable changes to 1099 reporting thresholds starting in 2026.

1. In 2026, the bill raises the reporting thresholds for Form 1099-NEC and 1099-MISC from \$600 to \$2,000, which means businesses are only required to report payments to non-employees if the total payments reach \$2,000 or more in a calendar year. This threshold will also be adjusted annually for inflation beginning in 2027.
2. The threshold for Form 1099-K, which covers payment card (credit card, debit card, etc.) and third-party network transactions, has reverted to its pre-2024 level of \$20,000 in total payments and more than 200 transactions. This replaces the lower thresholds that were planned to take effect in 2025 and 2026.

If the payer uses a payment card or a third-party payment network, the payer *does not* need to file an information return and provide it to the recipient. Instead, the payment settlement entity that is contractually obligated to pay the recipient may have information reporting responsibilities.

## **Filing Deadlines**

Below are the filing requirements for any person or business required to file the listed 1099's for the 2025 year:

<b>Form</b>	<b>Due to Recipient</b>	<b>Due to IRS-Electronic</b>	<b>Due to IRS-Paper</b>
W-2/W-3	2/2/2026	2/2/2026	2/2/2026
1099-NEC	2/2/2026	2/2/2026	2/2/2026
1099-MISC	2/2/2026	3/31/2026	3/2/2026
1099-MISC Box 8 or 10	2/18/2026	3/31/2026	3/2/2026

The 1099-MISC form remains in use for reporting royalties, rents, prizes and awards, payments to attorneys, medical and healthcare payments, and other miscellaneous income.

If Squyres is preparing your 1099's or W-2's, please forward the necessary information by January 21, 2026 to ensure your forms will be timely filed.

## **1099 Preparation**

1. Review your vendor list and collect missing W-9 forms needed to issue 1099s by February 2, 2026. If Squyres is handling your 1099 preparation, promptly request W-9 from new vendors, ensuring you obtain their tax ID and mailing addresses, and forward to our office to guarantee timely completion and filing.
2. To ensure accurate 1099 calculations, please review the "Other Names" list in QuickBooks Desktop. If you have used "Other Names," they must be reclassified as "Vendor Names," since "Other Names" do not appear on the 1099 Summary or Detail reports and cannot be used to process 1099s. As a general rule, anyone you write a check to, excluding payroll, should be set up as a "Vendor" in QuickBooks Desktop. To review, go to "Lists" at the top menu and select "Other Names." If you find entries listed there, scroll to the bottom under "Activities" and choose "Change Other Name Types" to convert them to vendors. Additionally, checks for bill payments should not be issued to "Customer Names." If this has occurred, you will need to create a corresponding "Vendor Name" and reclassify each transaction accordingly.

The above does not apply to QuickBooks Online users.

3. If duplicate vendor entries were created for the same vendor in QuickBooks Desktop and QuickBooks Online, you can merge them by renaming one to match the other exactly, this includes identical spelling, spacing, and punctuation. To do this, go to the Chart of Accounts, select the account you want to rename and edit the account. Then enter the name of the vendor you wish to keep. QuickBooks will prompt you to confirm the merger of the two accounts. Before proceeding, make sure to record any contact information, such as addresses or phone numbers, from the duplicate vendor so you can add it to the correct profile if it is not already included.
4. After completing steps 2 and 3, QuickBooks Desktop users can use the 1099 Detail report to assist with your 1099 review process. You can access this report by selecting Reports > Vendors & Payables > 1099 Detail. Set the date range to 1/1/25 through 12/31/25 and adjust the 1099 options to include "All Vendors" and "All Allowed Accounts." Be sure to expand the Account and Memo columns to aid in your review. You'll need to determine whether the vendor is

incorporated, if payments totaled \$600 or more and whether payments were for services provided (including parts and materials) or rent. Note that attorneys should receive a 1099 if paid \$600 or more, even if they are incorporated.

4.1. QuickBooks Online users can use the 1099 Transaction Detail Report to assist with year-end review. To access it, go to Reports from the left-side menu, then select Standard Reports > Expenses and Vendors > 1099 Transaction Detail Report. Click “Customize” and apply the following filters: set the report period to 1/1/25 through 12/31/25, select All vendors, and under Type of Contractors, choose “Contractors not marked for 1099.”

### **General Year-End Items**

1. Contact all loan holders and request a statement in writing verifying the loan balance as of 12/31/2025 and interest paid during the 2025 calendar year. Please provide copies of all documents to Squyres for tax return preparation.
2. If you use company credit cards, keep in mind that charges made through December 31, 2025, are deductible for income tax purposes, even if the credit card balance has not been paid in full by year-end. Be sure to enter these charges in QuickBooks Desktop using the “Enter Credit Card Charges” option under the Banking menu and confirm that the QuickBooks balance matches the actual credit card balance as of December 31, 2025. For year-end processing and tax return preparation, please provide copies of your December 2025 and January 2026 credit card statements.
  - 2.1. QuickBooks Online users can contact us if you have issues entering credit card transactions. There are several methods to accomplish this.
3. If you maintain inventory, be sure to complete a physical inventory count on or near year-end. Use this count to adjust your final-end inventory balance to ensure accurate financial reporting.
4. Review your outstanding check list from the bank reconciliation report and clear up any unresolved items. For checks issued in a prior year or closed period, be sure to correct the account by using a journal entry in QuickBooks Desktop and QuickBooks Online, **DO NOT USE the “Void Check” feature for non-payroll checks, as this can disrupt your bank reconciliation and affect the balance forward.** Pay close attention to any **payroll checks** that did not clear the bank in 2025 before issuing W-2s. If you need to void any payroll checks, please notify us, as your fourth quarter 941 report will need to be adjusted. Lastly, ensure all bank accounts are fully reconciled before preparing W-2s or 1099s, or before submitting your QuickBooks Desktop file to us for year-end processing.
5. If your books are maintained on an accrual basis, be sure to review your Accounts Receivable and Accounts Payable reports, specifically the Open Invoices and Unpaid Bills Detail reports on QuickBooks Desktop and clean up any outstanding balances as needed. To correct entry errors from prior years, issue an invoice or credit memo dated in 2025. **Avoid using the “Void” feature,** as it can disrupt prior period reporting.
  - 5.1. QuickBooks Online users can utilize the Accounts Receivable Aging Detail Report and the Accounts Payable Aging Detail Report to review outstanding balances.

6. The IRS has announced that the business standard mileage rate for 2026 has increased to 72.5 cents per mile, up from 70 cents per mile in 2025.

### **Payroll Items**

1. If you process your own payroll using QuickBooks Desktop or another software package, be sure to update the system before running your first payroll in January 2026 to reflect your new Texas Workforce Commission (TWC) rate for 2026. You should have received a letter from TWC with your updated rate. If not, contact the TWC office in Tyler at 903-561-8131 to request your new tax rate. Please provide a copy of this letter to Squyres to include in your file. If your payroll system is not updated with the correct rate, all TWC filings generated by the software will be inaccurate. To update your TWC rate in QuickBooks, go to Lists > Payroll Item List, select the TX Unemployment item, and choose to “Edit”. Click “Next” until you reach the Company Tax Rates for 2026 screen, then update all four fields with the new rate, paying close attention to decimal placement. Finally, make sure to run the payroll tax table update feature in QuickBooks Desktop (or your chosen software) to ensure the 2026 tax tables are properly loaded before processing payroll.
  - 1.1. QuickBooks Online users can update their TWC rate by navigating to All Apps, Payroll, and selecting Payroll Taxes. From there, click the pencil icon to edit Payroll Settings. Click the pencil icon in the Texas Tax section, then click “Edit” next to the Unemployment Insurance (UI) rate. Enter the new rate and its effective date.
2. W-2 forms must be issued to both the recipients and the IRS by the deadline of February 2, 2026.
3. The IRS has been sending notices outlining your tax deposit requirements for 2026, indicating whether you must follow the monthly or semi-weekly deposit schedule. If you have not received this notice, you can either contact the IRS directly or calculate your deposit schedule using the Look Back Period table found in Circular E (Publication 15). Keep in mind that penalties for late deposits are significant, and it is your responsibility to ensure you are following the correct payment rule.
4. For 2026, the 401(k) elective deferral limit is \$24,500, with an additional catch-up contribution of \$8,000 available to individuals who are age 50 or older by year-end. If the individual is aged 60-63, there is super catch-up amount of \$11,250 if the plan permits. The SIMPLE IRA deferral limit for 2026 is \$17,000, with a maximum catch-up contribution of \$4,000 for those over 50, and a super catch-up for those ages 60-63 of \$5,250.
5. Employees only need to complete a new W-4 form if they wish to adjust their withholdings for 2026. We recommend providing each employee with a copy of the W-4 so they can decide whether a new submission is necessary.
6. Form I-9, Employment Eligibility Verification, **must** be completed for all new employees at the time of hire. The most recent edition was released on August 1, 2023, and is valid through May 31, 2027.
7. If you have an S Corp shareholder who owns 2% or more of the company, any employer-provided health insurance must be reported on their W-2 in Box 1. However, it does not need to be included in Boxes 3 or 5.

## **Property Taxes**

1. Property tax rendition forms must be submitted to your local county tax office by April 15, 2026. Late filings are subject to a penalty of 10% of the total annual taxes assessed. 30-day automatic extension requests are permitted by submitting a written request.
2. Many of you rely on the depreciation listing maintained by Squyres as a reference for preparing your property tax rendition. Please take a moment to review this list and remove any items that have been sold or disposed of. If you need a copy of your depreciation listing, feel free to contact our office, we'll be happy to provide it. Additionally, certain leased equipment is required to be included in the rendering. Please review your contract to determine who is responsible for remitting the property tax.

## **QuickBooks Items**

1. Make sure you have a reliable backup of your QuickBooks Desktop file saved offsite and allow QuickBooks to verify the integrity of the backup to ensure there are no data errors. Memory sticks are a great option for this.
2. To protect the integrity of your prior year's data, it's important to close your books as of December 31, 2025. This helps prevent accidental posting of 2026 transactions into the year 2025. To do this, you must be logged in as an Administrator on QuickBooks Desktop. Once all 2025 transactions have been entered, go to Edit > Preferences > Accounting, then select the Company Preferences tab. Click the "Set Date/Password" button at the bottom, enter 12/31/25 in the "Closing Date" field, and assign a password. Be sure to store this password in a safe place, you will not use it often, but Squyres will need it if we prepare your tax return and need to make journal entries.
  - 2.1. QuickBooks Online users can close their books by clicking the Gear icon > Account and Settings > Advanced tab. Under the Accounting section, click "Edit" to turn on the Close the Books feature. Enter 12/31/25 as the closing date, then select the option to "Allow changes only after viewing a warning and entering a password".
3. Once your year-end procedures are complete, it is a good idea to evaluate the size of your QuickBooks Desktop data file to determine whether a "Condense Data" procedure is necessary. This process can help reduce file size and clean up your customer and vendor lists, ultimately improving performance when generating reports, running statements, and completing other tasks. If you would like assistance with this procedure, feel free to contact our office and we will be happy to assist you. Please note that for very large files, the condensing process can take up to a full day and is best scheduled over a weekend.

As always, our Accounting team is here to support you with any questions or assistance you may need. Please feel free to reach out at any time.

**Elaine Alford**

Accounting Services Manager

**Connie Glasscock**

Accounting Services

Certified QuickBooks ProAdvisor

**Reyna Robledo**

Accounting Services

Certified QuickBooks ProAdvisor

**Cindy Henry**

Accounting Services

## **QUICKBOOKS DESKTOP PAYROLL – this is an excerpt from QuickBooks instructions to set up information to track qualified overtime in QB's Desktop for reporting purposes:**

Be sure you have installed all current QuickBooks and Tax Table updates.

When you first run payroll or access Payroll Setup, a wizard will appear to help step you through adding the Qualified Overtime Tracking payroll item.

If the wizard doesn't appear, you will need to manually add the tracking item. Follow the steps in [Set up and manage company contributions](#), to create a company contribution payroll item and choose the tax tracking type of Qualified Overtime Tracking.

- Because this is a tracking item only, we recommend that you select the same chart of accounts account on the Agency for company-paid liability screen so that the impact to your chart of accounts is 0. For example, choose the Payroll Liabilities account in both the Liability account and Expense account sections.

### **What to expect**

**If you chose yes during the Qualified Overtime Tracking wizard, stating that you pay employees only when they have worked over 40 hours in a week:**

- We assume that all overtime paid is in line with FLSA standards. We'll automatically enter the qualified amount into the new tracking item when you run payroll. You may edit this amount at any time when running payroll or by editing a paycheck after it's been created.

**If you chose no during the Qualified Overtime Tracking wizard, it means you are either in a state with overtime laws that differ from the Federal FLSA rules, or you have a company policy that is more generous.**

- In this scenario, QuickBooks Desktop Payroll is unable to automatically enter the qualified amount. You will need to manually calculate the correct amount based solely on FLSA guidelines and enter it on each paycheck. You can also enter a lump sum amount for the year on the last paycheck for each employee.

**If you chose the wrong option during the Qualified Overtime Tracking wizard:**

- The ability to change this option will be available in the future.
- Until the preference change is available, manually enter the Qualified Overtime Tracking amount on paychecks, as needed.

**If you use pay types other than the embedded Overtime 1.5x payroll item:**

- The new Qualified Overtime Tracking item won't automatically show up on your employees, even after you complete the wizard. In this situation, the item will need to be added to employees manually.

**If you add multiple Qualified Overtime Tracking payroll items to a paycheck, or multiple Overtime Pay items with different rates:**

- We won't be able to automatically calculate the Qualified Overtime Tracking amount. You will need to manually adjust this when running payroll.

## **QUICKBOOKS ONLINE PAYROLL – this is an excerpt from QuickBooks' instructions to set up information to track qualified overtime in QB's online payroll for reporting purposes:**

Add the new “Qualified Overtime Tracking” pay type to each employee who's subject to Overtime rules. For new employees added, we'll automatically include the Qualified Overtime Tracking item when Overtime Pay is added to an employee.

Follow the steps in [Add or change pay types](#), to create a new payroll item. Choose “Qualified Overtime Tracking” from the list of available pay types.

- Because this is a tracking item only, it won't appear within your chart of accounts.

### **What to expect**

#### **If you *only* use QuickBooks' embedded Overtime 1.5x and Double Time pay types:**

- We assume that all overtime paid is in line with FLSA standards. We'll automatically enter the qualified amount into the new tracking item when you run payroll. You may edit this amount at any time when running payroll or by editing a paycheck after it's been created.

#### **If you have company overtime policies or state laws that differ from the Fair Labor Standards Act:**

- If you use our embedded overtime pay types, we'll still populate a Qualified Overtime Tracking amount during run payroll. You'll need to manually calculate the correct amount based solely on FLSA guidelines and edit the amount we have pre-populated. You may edit the amount when running payroll or by editing a paycheck after it's been created.

#### **If you use pay types other than our embedded overtime or double overtime items:**

- The new Qualified Overtime Tracking item won't automatically show up on your employees. To manually add this tracking item:
  - Go to **Payroll**, then select **Employees**.
  - Click the employee's name to open their profile.
  - Select **Edit** in the **Pay** section.
  - Under **Pay types**, click **Add additional pay types**.
  - Locate and select **Qualified Overtime Tracking**.
  - Click **Done**, then **Save**.

This step ensures overtime hours paid through custom or non-embedded pay types are properly tracked for qualified overtime purposes. Repeat these steps for **each employee** who earns overtime using custom or alternative pay types.