SAMPLE · SYNTHETIC SUBJECT · NOT A DELIVERED FILE

Method Memo — 2026 Qualified Overtime and Qualified Tips

Larkspur Tavern Group LLC · Prepared July 28, 2026 Workpaper supporting Form W-2 box 12 codes TT and TP, and box 14b, for tax year 2026. Forms W-2 for 2026 are due to SSA by **February 1, 2027**.

A separate method review, written and signed off by a person, accompanies this workpaper.

What this workpaper is, and what it is not

This is a **computation workpaper**. It reconstructs, from Larkspur Tavern Group LLC's own 2026 payroll register, the figures the new W-2 boxes require — figures the register was not set up to produce, because the reporting obligation began mid-stream and the payroll system was tracking forward, not backward.

It is **not tax advice**, it is not a filed return, and it does not substitute for the judgment of the preparer who signs these W-2s. Every number below traces to a row in the accompanying `tt-tp-workbook.csv`, and every input traces to the register you supplied. The reviewing preparer should read the method, test a sample, and satisfy themselves before filing.

Three things are outside this engagement, and are worth stating here rather than only at the point of sale:

- **We do not file your W-2s.** You receive an import-ready file; transmitting it to SSA stays with you or your filing agent.
- **No amended prior-year returns.** This engagement covers tax year 2026 only.
- **Payroll remediation is separate.** Where the method review identifies an overtime shortfall, correcting the underpayment and reconfiguring payroll going forward is not part of this engagement.

Population

Employees in the register	6
Computed and filable	6
Could not be computed from the data supplied	0

The employees that could not be computed are listed individually in `exceptions-report.pdf`, each with the specific reason. They are not silently dropped and they are not estimated.

Method — box 12 code TT, qualified overtime compensation

Code TT reports **qualified overtime compensation**: the portion of overtime pay that *exceeds the regular rate*, for overtime required under section 7 of the Fair Labor Standards Act. It is the "and-a-half" half of time-and-a-half. It is **not** total overtime pay, and reporting total overtime pay in box 12 code TT overstates the figure by roughly a factor of three.

The step that carries the risk is the regular rate, so it is set out in full.

1. The regular rate is not the base hourly rate. It is all remuneration for employment in the workweek, divided by the hours actually worked in that workweek. Non-discretionary bonuses, production and attendance incentives, shift differentials and commissions all fold in. Discretionary bonuses and genuine gifts do not.

2. It is computed per pay period, not per year. A blended annual rate appears in the workbook for readability only; it was not used to compute anything. Each period's premium was computed against that period's own regular rate, because that is what the FLSA requires and because a bonus paid in one period does not raise the rate in another.

3. Leave is not hours worked. Paid time off, holiday pay and sick pay were excluded from the hours denominator. Including them depresses the regular rate and understates the premium.

4. Formula applied per employee per period:

```
regular rate      = (straight-time earnings for hours worked + non-discretionary pay) /
hours worked
required premium  = 0.5 x regular rate x overtime hours
premium paid      = overtime earnings − (regular rate x overtime hours)
box 12 code TT    = premium paid, floored at zero
```

5. Where the two diverge, both are reported. If the register paid overtime at 1.5x the *base* rate while a non-discretionary bonus was in play, the regular rate was higher than the base rate, and the premium actually paid falls short of the premium required. Code TT reports what was paid — you cannot report as qualified overtime compensation money that was never paid. The shortfall is reported separately, because it is a wage-and-hour matter rather than a reporting one.

This register underpaid overtime. Across 1 employee(s) the overtime premium was computed on a rate that excluded non-discretionary pay, leaving $60.00 of premium unpaid for 2026. That is a wage-and-hour exposure, not only a reporting question, and it is described in the accompanying method review. Raise it with counsel before filing.

Method — box 12 code TP, qualified tips

Code TP reports **total cash tips reported to the employer**: voluntary cash tips, charged tips, and amounts received through a tip-sharing arrangement.

Mandatory service charges and automatic gratuities are excluded. They are not tips — they are wages the employer distributes, and the customer had no discretion over them. This is the most common error on the tip side, and it runs in the employer's favour to get wrong, which is exactly why it draws scrutiny.

```
box 12 code TP = cash tips + charged tips + tip-share received − tip-share paid out
                 (mandatory service charges and auto-gratuities excluded entirely)
```

Service charges excluded from code TP across this population: **$505.00**. That figure is stated so the reviewing preparer can tie it back — a large number here is normal for a restaurant with banquet or large-party business, and a zero where auto-gratuities are known to be charged is a red flag worth chasing.

Method — box 14b, Treasury Tipped Occupation Code

Each tipped employee needs the Treasury Tipped Occupation Code for the occupation the tips were earned in.

Codes were assigned by exact match against the published Treasury list, never inferred. Where an employee's recorded occupation did not resolve to exactly one code, no code was assigned and the employee appears in the table below for a person to decide. A guessed occupation code is a wrong information return, and the wrongness is invisible until it is not.

EMPLOYEE	OCCUPATION AS RECORDED	WHY NO CODE WAS ASSIGNED
—	—	Every tipped employee resolved to a Treasury Tipped Occupation Code.

Results

Total box 12 code TT (qualified overtime)	**$566.31**
Total box 12 code TP (qualified tips)	**$2528.00**

Service charges excluded from TP	$505.00
Overtime premium shortfall identified	$60.00 across 1 employee(s)

Per-employee figures: `tt-tp-workbook.csv`. Import-ready file: `w2-import.csv`.

SAMPLE

All filable employees shown.

EMPLOYEE	HOURS	OT HOURS	BLENDED REGULAR RATE	BOX 12 TT	BOX 12 TP
A. Whitcombe	74.0	0.0	18.00	0.00	0.00
D. Persaud	97.0	17.0	25.03	274.31	0.00
J. Nakamura	82.0	2.0	17.00	17.00	183.00
M. Calderon	94.0	14.0	22.13	100.00	860.00
R. Delacroix	84.0	6.0	20.00	87.00	700.00
T. Okafor	88.0	8.0	22.00	88.00	785.00

What the reviewing preparer should do

1. **Tie the totals** back to the payroll register's own year-to-date figures. Gross wages should reconcile; TT and TP are subsets of amounts already in boxes 1 and 7 territory, not additions to them.
2. **Test a sample of three to five employees** by hand against the formula above — particularly one with a bonus in an overtime week, which is where the method earns its keep.
3. **Resolve every row** in the exceptions report and the TTOC table before filing. Both are deliberately short and deliberately specific.
4. **Read the shortfall finding** if there is one, and decide with the client whether it goes to counsel before the W-2s go out.
5. **Sign behind your own review**, not behind this memo. This workpaper exists to make your review fast, not to replace it.

Source data

Payroll register supplied by Larkspur Tavern Group LLC for tax year 2026, exported from Gusto. No data was obtained from any other source and no figures were estimated, interpolated or carried forward from a prior year.

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Exceptions Report — 2026

Larkspur Tavern Group LLC · Prepared July 28, 2026

Why this document is short and specific

Everything the register could support was computed. This lists only what it could not, one row at a time, with the actual reason rather than a category. **0** of **6** employees could not be computed at all; the rest computed cleanly but may still carry a note.

Nothing here was estimated. An estimated qualified-overtime figure on an information return is worse than an unresolved exception, because the exception is visible and the estimate is not.

Exceptions

EMPLOYEE	PERIOD	WHAT BLOCKED IT
M. Calderon	year	overtime was paid on a rate that excluded non-discretionary pay. Required premium 160.00, paid 100.00, shortfall 60.00. This is an FLSA exposure as well as a reporting question — flag it to the client before filing.

How to clear the common ones

"No overtime column." The export ran without the overtime hours field. Re-run the payroll register report with overtime hours included — in most systems it is a column toggle rather than a different report.

"No total-hours column." The regular rate divides earnings by hours worked, so hours are structural, not optional. Straight-time earnings alone cannot produce a rate.

"Non-discretionary bonus paid alongside overtime." This is not a data problem; it is the computation working. The bonus raises the regular rate for that period, so the premium owed is higher than 1.5x base. It is flagged so a person confirms the bonus really was non-discretionary before the rate is raised — a genuinely discretionary bonus stays out.

"Tips present with no separate service-charge column." Voluntary tips and mandatory service charges are in one bucket in the export. They have to be separated at source; there is no defensible way to split a single combined figure after the fact. Most POS systems track auto-gratuity separately even when the payroll export does not — the number usually exists, one system upstream.

"No occupation column." Box 14b needs a Treasury Tipped Occupation Code per tipped employee. Supply a job title per employee and these resolve.

"Overtime pay recorded is less than the regular rate for those hours." The register is internally inconsistent for that period — the overtime line cannot be smaller than straight time for the same hours. Usually a mis-mapped column or a correction posted in the wrong period. It needs a human to look at the underlying periods.

What happens next

Send a corrected or extended export covering the employees above and they will be recomputed and folded into a reissued workbook at no additional charge. Partial exports are fine — only the affected employees are needed, not the whole year again.

If a row cannot be cleared because the data genuinely does not exist, say so and it will be documented as such in the final workpaper. A documented gap the preparer knows about is a defensible position. A silent one is not.

Prepared by Truing for Larkspur Tavern Group LLC on July 28, 2026. A computation workpaper — not tax advice.

Reconciliation Summary — 2026

Larkspur Tavern Group LLC · Prepared July 28, 2026 · W-2 filing deadline **February 1, 2027**

The numbers

Employees in register	6
Computed and filable	6
Unresolved (see exceptions report)	0
Employees with tips	4
Total box 12 code TT	**$566.31**
Total box 12 code TP	**$2528.00**
Service charges excluded from TP	$505.00
Overtime premium shortfall	$60.00 (1 employee(s))

Control checks to run before filing

1. Does the employee count match your W-2 count? The register population and the number of W-2s you are about to file should agree. A gap usually means terminated employees dropped out of the export — they still get a W-2.

2. Is TT plausible against total overtime? Code TT should land near one third of total overtime pay, because the premium is the half in time-and-a-half. If TT is close to your total overtime figure, total overtime pay has been reported instead of the premium, and the number is roughly three times too high.

3. Is TP less than or equal to reported tips? Code TP excludes mandatory service charges, so it should be at or below the tip figure your POS reports. If TP is higher, service charges have leaked in.

4. Does the service-charge exclusion look right for this business? $505.00 was excluded. For a restaurant with banquet or large-party business a zero here is suspicious — auto-gratuities are almost certainly being charged and are almost certainly landing in the tips bucket.

5. Are the exceptions cleared? 0 employees are unresolved. Each needs a decision before filing, not after.

Filing

`w2-import.csv` carries one row per filable employee: box 12 code TT, box 12 code TP, and box 14b TTOC. Column headers are generic on purpose — map them to whatever your filing system expects rather than assuming a layout.

Do not import the workbook itself. `tt-tp-workbook.csv` is the workpaper, and it carries diagnostic columns (required premium, premium paid, shortfall) that are not W-2 fields and must not be filed.

Retention

Keep this pack with the 2026 payroll workpapers. If a figure is ever questioned, the method memo is what explains how it was derived, and the register you supplied is what it derives from. A number with no method behind it is difficult to defend three years later.

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Method review — regular rate and the overtime premium

Prepared for Larkspur Tavern Group LLC · reviewed by a person before release · not legal advice

What the register shows

Two employees received non-discretionary pay in a period in which they also worked overtime: a monthly sales bonus and a retention bonus. In both periods the overtime premium was computed on the base hourly rate alone.

Why that matters

Under 29 U.S.C. §207(e) the regular rate includes non-discretionary bonuses. A bonus that is announced in advance, or that employees expect for meeting a target, is not discretionary — the label on the payroll line does not decide it. When such a bonus is excluded, the regular rate is understated and every overtime hour in that period is underpaid by half the difference.

What we did and did not do

We recomputed the regular rate with the non-discretionary pay included and carried the difference into the workbook's "Shortfall" column. That figure is arithmetic on the register as supplied.

We have not concluded that the bonuses are non-discretionary as a matter of law. That depends on how they were announced and administered, which the register does not record. We have not assessed any statute-of-limitations question, any state-law overtime rule, or any exposure beyond the periods in this register.

What the preparer should do with it

Raise the classification of these bonuses with the client and with counsel before the W-2s are filed. If the bonuses are genuinely discretionary, the shortfall column is not owed and the box 12 code TT figures stand as computed on the base rate. If they are not, the underpayment is a wage-and-hour matter that this workpaper documents but does not resolve.