

NO TAX ON TIPS

YOUR GUIDE TO TAX SAVINGS ON TIPS (2025-2028)



WHAT YOU NEED TO KNOW

- You can deduct up to \$25,000 of your tips each year
- Works for employees AND self-employed workers
- Applies to ~68 eligible tipped jobs (servers, bartenders, hairdressers, valets, and more)
- This saves you money on federal income taxes only — Social Security and Medicare taxes still apply
- Available for tax years 2025-2028

DO I QUALIFY?

You likely qualify if you:

- Work in one of the ~68 eligible tipped occupations
- Receive voluntary tips from customers (not mandatory service charges)
- Have a Social Security number valid for work
- Make under \$150,000 per year (\$300,000 if married filing jointly)

Common Eligible Jobs

- | | |
|-------------------------------|----------------------------|
| • Servers & Waitstaff | • Taxi & Rideshare Drivers |
| • Bartenders | • Nail Technicians |
| • Hairdressers & Barbers | • Massage Therapists |
| • Hotel Staff & Bellhops | • Tour Guides |
| • Casino Dealers | • Concierges |
| • Valets & Parking Attendants | • Hotel Housekeeping |

WHO DOESN'T QUALIFY?

Professional service workers are excluded. If you work in these fields, your tips don't qualify:

- | | |
|--|----------------------------------|
| • Healthcare (doctors, nurses, therapists in medical settings) | • Consulting |
| • Legal services (lawyers, paralegals) | • Financial services and brokers |
| • Accounting and actuarial services | • Performing arts |
| | • Professional athletics |

WHAT TIPS COUNT?

YES - THESE QUALIFY

- Cash tips from customers
- Credit card and electronic payment tips
- Tips from gift cards, debit cards, even casino chips
- Your share from tip pools or tip sharing

NO - THESE DON'T QUALIFY

- Mandatory service charges (like auto-18% gratuity)
- Service charges customers can't modify or remove

HOW MUCH CAN I DEDUCT?

Maximum Benefit

You can deduct up to **\$25,000 in tips per year**.

Example: \$20,000 in tips × 24% tax bracket = \$4,800 in tax savings!

PHASE-OUT ALERT:

If you make over \$150,000 (or \$300,000 married filing jointly), your deduction reduces by \$100 for every \$1,000 over the limit. For example, at \$160,000 income, you'd lose \$1,000 of the deduction.

HOW TO CALCULATE YOUR TIPS

You can use any of these sources to figure out your qualified tips:

- **Box 7 on your W-2** (Social Security tips)
- **Form 4070** (tip reports you gave your employer)
- **Form 4137** (unreported tips)
- **Daily tip logs with dates and amounts**
- **Credit card receipts and point-of-sale reports**
- **Form 1099-K** from payment processors

HOW TO GET THIS BENEFIT

1. **For 2025 (filing in early 2026):** Add up all your tips from the year using your W-2, pay stubs, or tip logs. Claim the deduction when you file your taxes. That's it!
2. **For 2026 and beyond (RECOMMENDED):** Update your W-4 form to get the tax savings in every paycheck! Estimate your annual tips, fill out the new W-4 tip deduction section, and submit it to your employer. You'll see bigger paychecks right away instead of waiting for a tax refund.

QUICK Q&A

Q: Will this reduce my Social Security benefits?

No. You still pay full Social Security and Medicare taxes on all your tips. This only reduces federal income tax.

Q: Do credit card tips count?

Yes! "Tips" include cash, credit cards, debit cards, electronic payments, gift cards, and even tokens like casino chips.

Q: What if I didn't report all my tips?

You can include unreported tips (Form 4137) in your deduction, but you should be reporting all tip income for tax and Social Security purposes.

Q: Should I adjust my W-4 now for 2025?

For 2025, it's too late in the year. Just claim the deduction on your tax return in early 2026. But definitely update your W-4 for 2026 to get the benefit throughout the year!

Q: I work at a salon owned by a consulting company. Can I claim this?

No. If your employer operates a professional service business (consulting, healthcare, law, etc.), you're excluded even if you're a hairdresser or other tipped worker.

Q: What about mandatory 18% gratuity?

Mandatory service charges that customers can't modify or remove don't count as tips. Only voluntary tips qualify.

Q: I'm self-employed. Can I claim this?

Yes! Self-employed and independent contractors can claim up to \$25,000 in tip deductions, but it can't exceed your net income from the business where you earned the tips.

Q: What records should I keep?

Keep all pay stubs, W-2 forms, daily tip logs with dates and amounts, credit card receipts, and any statements from your employer. Good records make tax time easier!

ACTION ITEMS

- Check if your job is on the IRS list of ~68 eligible occupations
- Add up your 2025 tips (check W-2 Box 7, tip logs, or pay stubs)
- Keep detailed records of all tips received
- Claim the deduction when filing your 2025 taxes
- Plan to update your W-4 in January 2026 for bigger paychecks

PRO TIP

Starting in 2026, your employer will report your qualified tips in Box 12 (Code TP) and your occupation code in Box 14b of your W-2. This makes it even easier to claim your deduction!

This benefit expires after 2028 unless Congress extends it.

Questions?

Check [IRS.gov](https://www.irs.gov) for the complete list of eligible occupations or talk to a tax professional.

TAX DISCLAIMER

The information provided here is for general informational purposes only and should not be considered tax, legal, or financial advice. Tax laws are complex and subject to change, and individual circumstances vary significantly. We strongly recommend consulting with a qualified tax professional, certified public accountant (CPA), or tax attorney who can provide personalized guidance based on your specific situation. Reliance on any information provided here is solely at your own risk.