



No Tax on Tips

A plain-language companion to the narrated class

Hi, I am Quinn. I'm not a financial planner, accountant or certified tax professional. But I put this together to help my restaurant squad stay informed. This is general education, not advice about your individual taxes, finances or investments.

Understand the benefit. Follow the numbers. Keep a useful record.

For restaurant workers who earn tips, including people who receive tip-outs. This guide covers the full 45-slide lesson, with extra explanations, worked examples and printable worksheets. The retirement section is optional.

THE MAIN IDEA

Eligible workers can deduct qualified tips when calculating federal taxable income for tax years **2025 through 2028**. The deduction can lower federal income tax. You still report your income, and normal Social Security and Medicare rules continue.

FIND THE PART YOU NEED

Start here	Pages
Understand your paystub and tax forms	2-3
Check eligibility and separate tips from service charges	4-5
Walk through tax savings, the cap and income limits	6-7
Track tips, report them and prepare to file	8-12
Prepare for a mortgage or car purchase	13-14
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How to use it: Read an example, follow each calculation, then use the writing spaces with your own records. Page headers show the matching slide numbers. PDF bookmarks let you jump to each topic.

Federal guidance checked September 25, 2026. Keep this guide with your pay and tip records so you can revisit a worked example or prepare a specific question.

General education, not an individual tax return, loan decision or investment recommendation. Use the final instructions for the tax year you are filing. State treatment and personal circumstances can differ.



Read the whole paycheck

A small deposit may not show all the money you received.

Term	What it means
Gross pay	Earnings before taxes and other deductions. Tips already paid may still appear in the earnings record.
Withholding	Money paid toward taxes during the year. It is not your final annual tax calculation.
Other deductions	Amounts such as insurance premiums or retirement contributions. Check each label.
Net pay	The amount payroll pays now, after deductions and any adjustment for tips already paid.

WALKTHROUGH: WHERE DID THE MONEY GO?

Jordan has \$400 of hourly wages and \$600 of reported tips for a pay period. All \$600 in tips was already paid during or after shifts. For this example, the paystub shows \$140 of combined taxes and \$20 for benefits.

Follow the paystub	Amount
Hourly wages + reported tips: \$400 + \$600	\$1,000
Subtract tips already received outside this paycheck	- \$600
Subtract the taxes shown on this example stub	- \$140
Subtract benefits	- \$20
Direct deposit from this paycheck	\$240

CHECK THE TOTAL

\$600 already received + \$240 deposited = **\$840 received after the listed deductions**. The \$600 in tips appears in the earnings record once. Payroll does not owe it a second time.

Illustration only. The \$140 is an assumed stub amount, not a calculated withholding rate. Payroll systems use different labels; tips paid through payroll will produce a different payout pattern.

ASK PAYROLL

"Can you show me my wages, tips, taxes and deposit, including which tips were already paid?"

Related guidance: sources 4 and 7 on page 21.



Know which form does what

The letters and numbers tell you the purpose.

Document	Who uses it and why
W-4	You give it to your employer to guide federal income tax withholding. Revisit it when jobs or household circumstances change.
W-2	Your employer summarizes the tax year. Box 1 reports wages, tips and other compensation under the form rules. Box 2 reports federal income tax withheld.
W-9	You give a requester your name and taxpayer information, often for independent-contractor reporting. It does not determine your legal worker classification.
1099-NEC	Reports nonemployee compensation. Receiving it does not mean your taxes have already been paid.
1099-K	Reports certain payment-card or third-party network payments. Match the gross amount to your records and explain adjustments.
1099-R	Reports distributions from retirement plans, IRAs and certain other accounts. Give it to your preparer even if you believe a rollover is tax-free.
Form 1040	Your main individual federal income tax return. It brings earnings, deductions, payments and credits together.
Schedule 1-A	An additional form attached to your return. Part II calculates the qualified tips deduction.

WALKTHROUGH: ONE PAYMENT, TWO RECORDS

You earn \$500 for a separate catering job. A payment processor includes that \$500 on a 1099-K, and the same customer also reports the same \$500 on a 1099-NEC. Your invoice and payment record show **one \$500 receipt**, not \$1,000 of work.

Bring both forms and the matching record to your preparer. Ask how to reconcile the overlap and whether a correction is needed. Do not ignore a form or add the same income twice.

Income may still need to be reported even if no form arrives. A restaurant cannot settle employee-versus-contractor status merely by using a W-9 or 1099.

Sources 3, 7 and 9 on page 21; source 17 on page 22.



Check whether you qualify

The job, payment and filing rules work together.

The benefit is a **deduction**: it reduces income subject to federal income tax. It is available with the standard deduction or itemized deductions. The annual ceiling is \$25,000 per return before other limits.

- 01 Match your actual work to the occupation list.** The IRS list includes servers, bartenders, bussers, barbacks, hosts, cooks, food preparation workers and dishwashers. A listed occupation does not make hourly wages deductible.
- 02 Identify qualified tips.** Voluntary cash, card and qualifying electronic tips can count. Eligible shares of customer tips can count too. Required service-charge pay is different; see page 5.
- 03 Make sure the income is properly reported.** Keep your tip log and employer reports. Compare them with your year-end forms. Filing rules differ for employees and self-employed workers.
- 04 Check the Social Security number and filing status.** The worker whose tips support the deduction needs a Social Security number valid for employment and issued by the return due date, including extensions. If both spouses claim their tips, both need qualifying numbers. Married taxpayers generally must file jointly.
- 05 Apply the limits.** Combine qualified tips under one annual cap. Income limits can reduce it. Self-employed workers have an additional business-income limit. Pages 7 and 12 explain these.

Standard deduction: a set deduction based on your filing facts. **Itemizing:** adding up eligible expenses under the tax rules instead. You can claim an eligible tips deduction with either approach.

USE THE YEAR WHEN YOU RECEIVED THE INCOME

For most workers, tips received or made available during **2026** belong to the 2026 tax year, even though the return is normally filed in **2027**. Ask payroll about payouts that cross year-end. Current law covers 2025-2028; do not assume the benefit continues afterward.

If you have an unusual filing status, business arrangement or payment, flag it for your preparer. The IRS tipped-occupation list is a tax rule; it does not establish whether an employer tip pool follows wage law.

Sources 1-3 on page 21. This is an eligibility screen, not a substitute for the return instructions.



Separate tips from required charges

Ask what the customer was free to choose.

Payment	How to treat it for this lesson
A guest freely adds \$10	Potential qualified tip if the other requirements are met.
A required 18% charge	A service charge. Amounts distributed to employees are generally wages, not qualified tips.
A suggested amount the guest may change to \$0	Can be voluntary. Check that the guest has a real choice, including paying no tip.
Your eligible share of a customer-tip pool	Can qualify. A required sharing arrangement among eligible employees is different from a required charge to the guest.
A gift such as a concert ticket	A noncash tip has different rules. Report its value as required; do not put it in the qualified cash-tip deduction.

WALKTHROUGH: THE \$200 PARTY CHECK

- 01 Find the required amount.** \$200 meal x 18% (0.18) = \$36 service charge. The guest must pay this under the restaurant policy.
- 02 Find the freely chosen amount.** The guest adds another \$10 voluntarily. That is separate from the required \$36.
- 03 Keep the categories separate.** Of these two amounts, only the \$10 is a potential qualified tip. If the restaurant pays you the \$36, it is generally service-charge wages.

THE RECEIPT LABEL DOES NOT DECIDE IT

Calling a required charge an "automatic gratuity" does not make it voluntary. Ask payroll to identify **wages, service-charge pay and customer tips** separately.

Manager/supervisor exception: their pooled tips are not qualified tips under the final rules. Direct tips for their own services in a listed occupation may qualify. Get help checking both tax and wage-law requirements.

Sources 2 and 4 on page 21.



Follow a deduction through the math

A deduction, tax savings and a refund are different amounts.

Assume you qualify for a full **\$10,000 tips deduction**. You have \$36,000 of taxable income after other applicable deductions but before this one. Assume the entire \$10,000 would otherwise be taxed at 12%.

Step	Calculation	Meaning
1. Start	\$36,000	Taxable income before this deduction
2. Deduct	$\$36,000 - \$10,000 = \$26,000$	Taxable income afterward
3. Convert 12%	$12 / 100 = 0.12$	12 cents of tax for each \$1 in this example
4. Calculate savings	$\$10,000 \times 0.12 = \$1,200$	Illustrated federal income tax reduction

WHAT THE \$1,200 TELLS YOU

Under these assumptions, the deduction lowers federal income tax by **\$1,200**. It does not send you the \$10,000 you deducted. Actual savings can differ when the deduction crosses brackets or other tax rules interact.

THEN CALCULATE ANY REFUND OR AMOUNT DUE

A **tax credit** generally reduces the tax itself. For this separate illustration, assume your final federal income tax **after deductions and credits** is \$2,000. The final tax is the same in both rows:

Payments already made	Compare with the \$2,000 final tax	Result
\$2,500	$\$2,500 - \$2,000$	\$500 refund
\$1,700	$\$2,000 - \$1,700$	\$300 still due

The \$2,000 final tax is an assumed amount for this separate refund example. It is not the tax computed from the \$26,000 above. Other payments, credits, offsets or penalties can change a real result.

WHY YOU CAN STILL SEE TAXES ON A PAYCHECK

Social Security and Medicare are federal payroll taxes with separate rules that continue to apply. Wages and tips outside the deduction may still produce federal income tax. Check state and local rules separately. Withholding is a payment toward the final calculation.

Sources 1, 3 and 4 on page 21.



Apply the cap and income limit

A ceiling is the most you might claim, not an automatic amount.

Qualified tips before the income phaseout	Starting deduction
\$8,000	\$8,000
\$32,000	\$25,000 maximum
Spouses filing jointly: \$18,000 + \$14,000	\$25,000 shared maximum

MAGI means modified adjusted gross income. For this deduction, it starts with adjusted gross income on the return and adds certain excluded foreign or territorial income. It is not take-home pay, just your tips, or taxable income after this deduction.

The income phaseout uses a threshold of **\$150,000**, or **\$300,000 for a joint return**. Above the threshold, the deduction falls by \$100 for each completed \$1,000 of excess MAGI under the current Schedule 1-A calculation.

WALKTHROUGH: SINGLE FILER, MAGI OF \$160,500

Assume \$18,000 of qualified tips and no other applicable limit. This demonstration follows the published **2025 Schedule 1-A**.

Step	Calculation
1. Apply the \$25,000 cap	Starting amount = \$18,000
2. Find income above the threshold	$\$160,500 - \$150,000 = \$10,500$
3. Count full \$1,000 increments	$\$10,500 / \$1,000 = 10.5$; use 10
4. Find the reduction	$10 \times \$100 = \$1,000$
5. Reduce the starting deduction	$\$18,000 - \$1,000 = \$17,000$

FOLLOW THE ROUNDING INSTRUCTION

The 2025 tips calculation drops the fractional part: 10.5 becomes 10. Do not round it up. Use the final form for the year you file. The deduction cannot fall below \$0.

For a joint return, use both spouses' applicable income and the \$300,000 threshold. The cap is still \$25,000. A smaller starting deduction can phase out completely at a lower income than the maximum deduction.

Sources 1 and 3 on page 21. The example is a deduction calculation, not a tax or refund estimate.



Make one clear record for each shift

Record what came in, what went to coworkers and what you kept.

WALKTHROUGH: THE CLASS TIP-LOG EXAMPLE

Record	Example amount
Cash tips from guests	\$60
Card/electronic tips from guests	\$140
Separate pool tips received, if not already included	\$0
Tips paid to coworkers	- \$40
Tips retained: $\$60 + \$140 + \$0 - \40	\$160

- 01 Keep the facts behind the \$40.** Write the recipients' names and amounts, such as Sam \$25 and Lee \$15. Keep the tip-out or pool report. Each coworker records the tips they receive.
- 02 Save the supporting shift record.** Keep the checkout/POS report and any cash or electronic payout record. POS means point of sale: the restaurant system that records sales and payments.
- 03 Match the same earnings to payroll.** If the same \$140 of card tips later appears on your paystub, that is another record of the same \$140. Do not add it again as new tips.
- 04 Keep required-charge pay separate.** Put service-charge wages in their own category. Do not include them in the \$160 of retained customer tips.

POOL EXAMPLE

If your only tips for the shift are an **\$85 pool payout**, record \$85 received. Do not also record the entire restaurant tip pool or the coworkers' amounts that produced it.

If the numbers disagree: mark the date and amount, save both records, and ask payroll to trace the difference. A card payout may arrive later than the shift when you earned it.

These examples assume all listed tips are voluntary cash-equivalent tips and properly reported. The final deductible amount still depends on eligibility and annual limits.

Sources 2 and 4 on page 21. Use the blank log on page 9.



Your daily tip log

Print another copy for each employer and week.

Employer: _____ Week beginning: _____

Record each amount once. "Pool in" means a separate payout not already in your cash/card columns. "Out" means documented tips paid to coworkers. Keep required service-charge wages outside this table.

Date / shift	Cash	Card / electronic	Pool in	Out	Retained
Example	\$60	\$140	\$0	\$40	\$160
Weekly total					

Retained = cash + card/electronic + separate pool tips received - tips paid out. Match the total to your employer's reporting process; do not assume this worksheet by itself submits your tips.

TIP-OUTS AND SUPPORTING RECORDS

Date	Who received tips / amount	Shift or payout record saved
Example	Sam \$25; Lee \$15	Closing checkout and tip-out report

Difference to ask payroll about:

Record noncash gifts separately, including their value. Monthly employer-reporting thresholds and tax-return reporting are explained on page 10. This log is a personal record, not an IRS form.



Reporting continues

The deduction does not remove the reporting steps.

- 01 Record tips as you earn them.** Keep daily details and supporting records. Follow the restaurant's shift-reporting process if it requires reports more often than the federal monthly rule.
- 02 Check each employer separately each month.** When cash and charged tips from one employer total \$20 or more in a calendar month, report those tips to that employer. Shared cash tips count too, whether or not they qualify for the deduction.
- 03 Meet the reporting deadline.** The federal deadline is the 10th of the next month. If that falls on a Saturday, Sunday or legal holiday, use the next day that is not one of those days.
- 04 Report all tip income on the return.** An under-\$20 month is an exception to reporting to that employer, not permission to leave the income off your return. Noncash tips also need tax-return reporting even though you do not report them to your employer as cash tips.

WALKTHROUGH: TWO EMPLOYERS IN THE SAME MONTH

Employer	Cash / charged tips	What the federal monthly rule requires
Restaurant A	\$18	Below \$20: no federal monthly tip report to A is required for this amount. The income still belongs on your return.
Restaurant B	\$42	At least \$20: report all \$42 to B by the deadline. The income also belongs on your return.

Do not combine the \$18 and \$42 to decide either employer's threshold. Still follow any workplace process that requires daily reporting.

IF EMPLOYEE TIPS WERE MISSED

Tell your preparer which tips were reported to your employer and which were not. **Form 4137** addresses unreported employee tips and related Social Security and Medicare tax, including applicable allocated tips. It is not permission to skip regular reporting and is not the form for a contractor's business income.

Ask payroll and your preparer about incorrect year-end forms. Keep accurate records of any correction rather than inventing a number to make the forms agree.

Sources 4-5 on page 21.



Use the right year's paperwork

2025 transition rules and 2026 reporting are different.

Tax year 2025	Tax year 2026
Forms did not have all the new separate tip fields. IRS transition guidance permits specified records to identify qualified tips.	W-2 box 12 code TP reports cash tips reported to the employer. Box 14b supplies the Treasury Tipped Occupation Code, or TTOC.
An employee may use the permitted W-2 information, tip reports to the employer or employer statements. Ask your preparer which method fits.	Cash tips here include more than paper cash. Check the TP amount and occupation code against your records and actual job duties.
Self-employed workers need appropriate 1099-reported payments and reliable records identifying the tip portion.	Forms for 2026 normally arrive after the year ends, in 2027. Use the final return instructions for that tax year.

A REPORTED TIP TOTAL IS NOT AUTOMATICALLY THE DEDUCTION

Your preparer still checks qualified payments, occupation, filing status and limits. Use **Schedule 1-A with Form 1040**. Do not add overlapping W-2 and Form 4137 totals as if they were separate earnings.

WALKTHROUGH: UPDATE WITHHOLDING WITH THE WHOLE PICTURE

- 01 Gather current information.** Have recent paystubs for every job, your latest return, estimated qualified tips, and relevant spouse's income and credits.
- 02 Use the current IRS tool or instructions.** The 2026 W-4 can account for an expected deduction. Use the withholding estimator or current W-4 worksheet; do not copy a coworker's answers or claim exemption automatically.
- 03 Check the result after circumstances change.** Give payroll the completed W-4. Review a later paycheck. Recheck if tips, hours, jobs or household income change.

Withholding adjustments change when you receive money during the year. They do not create a second tax benefit on top of the deduction. The return reconciles your actual situation.

Sources 3 and 6-8 on page 21.



Two jobs or a separate business

Keep the records separate; apply the annual limits together.

WALKTHROUGH: TWO RESTAURANT JOBS

You receive \$12,000 of qualified tips at Restaurant A and \$16,000 at Restaurant B. Assume no income phaseout or other limitation.

Step	Result
Combine qualified tips: \$12,000 + \$16,000	\$28,000
Apply one annual maximum	\$25,000 deduction
Tips above that maximum: \$28,000 - \$25,000	\$3,000 outside the deduction

Bring both W-2s and both employers' records. Report all income; the second job does not create another \$25,000 cap.

WALKTHROUGH: ELIGIBLE SELF-EMPLOYED TIPPED WORK

Suppose a self-employed caterer has \$5,000 of otherwise qualified tips included in appropriately reported business payments. After the business expenses and applicable business-related adjustments used for this rule, the tipped business has \$3,000 of net income.

- 01 Compare tips with the business limit.** The lower amount is \$3,000. That business cannot supply a \$5,000 tips deduction when its applicable net income is only \$3,000.
- 02 Then check the return-wide rules.** Apply the shared \$25,000 cap and any MAGI phaseout along with other qualifying tips. The example assumes the occupation and payment requirements are met.

REPORT THE BUSINESS INCOME FIRST

The tips deduction does not remove ordinary self-employment tax. A personal log alone does not make every contractor tip deductible; information-reporting requirements also apply.

The net-income test can include adjustments beyond Schedule C profit. Certain service-business restrictions have transitional relief covering listed occupations. Your preparer should check current rules for both employee and self-employed work.

Ask: "Which of my payments are employee wages, business receipts, qualified tips or required-charge pay? Which business adjustments affect my tips limit?"

Sources 1, 3, 4 and 6 on page 21.



Prepare your income story for a lender

Taxable income and qualifying income are separate calculations.

Taxable income follows tax rules after allowed deductions. **Qualifying income** is the amount a lender accepts under its loan program after reviewing records, history and other requirements. The tips deduction does not erase your earnings record or guarantee approval.

WALKTHROUGH: THE \$48,000 EARNINGS RECORD

Calculation	What it tells you
$\$24,000 \text{ wages} + \$24,000 \text{ tips} = \$48,000$	Total annual earnings in this illustration
$\$48,000 / 12 \text{ months} = \$4,000$	A simple monthly average before taxes
Lender review still required	The lender decides what amount qualifies

Do not subtract the tips from what you actually earned. Do not add the tax deduction as extra earnings. The \$4,000 is not take-home pay and is not a promised qualifying amount.

A MORTGAGE EXAMPLE: FANNIE MAE GUIDANCE

For loans following this guidance, tip-income documentation generally uses a completed employer verification form **or** the latest paystub plus two years of W-2s. Verbal employment verification is also required. For tips the employer did not report, two years of personal returns with Form 4137 may replace W-2 documentation **for those tips**.

Two years of income history is recommended. At least 12 months may be considered with positive factors. The lender reviews the current trend; a recent busy month alone does not settle the calculation. If income is declining, the lender must establish that it has stabilized before using it.

ASK BEFORE YOU APPLY

"I earn hourly wages and tips. Which documents do you need, how will you calculate my income, and how will you handle my qualified tips deduction?"

Have accurate paystubs, W-2s, requested returns and tip records ready. Explain deposits with genuine supporting records. For a mortgage, ask which job, income or debt changes you should discuss before closing.

This is one mortgage program's example. Other loans and lenders can differ. The relationship between the deduction and the earnings record follows from the separate IRS and lender rules; it is not a blanket underwriting promise.

Sources 3 and 10 on pages 21-22.



Can the car fit a slower month?

Use take-home money you can reasonably count on.

Monthly item	Class example	Your amount
Take-home income	\$3,200	\$ _____
Other living costs	- \$2,350	- \$ _____
Proposed car payment	- \$400	- \$ _____
Insurance	- \$180	- \$ _____
Fuel + maintenance reserve	- \$200	- \$ _____
Money left	\$70	\$ _____

WALK THROUGH EACH SUBTRACTION

$\$3,200 - \$2,350 = \$850$ after living costs.

$\$850 - \$400 = \$450$ after the payment.

$\$450 - \$180 = \$270$ after insurance.

$\$270 - \$200 = \$70$ left after fuel and maintenance.

TEST A SLOWER WEEK

If monthly take-home income falls by \$200, the \$70 cushion becomes a **\$130 shortfall**: $\$70 - \$200 = -\$130$. Loan approval by itself does not make this budget comfortable.

Include registration, taxes, parking and other vehicle costs where they apply. Keep room for irregular expenses and savings. Avoid counting a predicted tax refund as steady monthly income.

COMPARE OFFERS USING THE SAME FACTS

Amount financed: how much you borrow. **APR:** the annual percentage rate, which reflects interest and certain fees. **Term:** the length of the loan. Compare those along with the payment, fees and total amount you will pay. A longer term can lower a payment while increasing total cost.

The monthly cushion I want to protect is:

A change I would make before committing to this purchase:

Sources 11 on page 22. Illustration only; replace every budget amount with your own.



Retirement basics: your 401(k)

Optional section. Start with where the money goes.

A **401(k)** is an employer retirement plan. If you are eligible, you can contribute through payroll under the plan's rules. Some plans enroll employees automatically. Check the notices and your paystub so you know what is happening.

A **contribution** is money going into the account. An **employer match** is money the company adds according to its formula. Some plans offer no match. The account holds investments whose values can rise or fall; it is not a second checking account.

WALKTHROUGH: A DOLLAR-FOR-DOLLAR MATCH UP TO 3%

Assume this plan matches 100% of your contribution up to 3% of eligible pay. Your eligible pay this period is \$1,000.

- 01 Turn the percentage into dollars.** $3\% = 0.03$. $\$1,000 \times 0.03 = \30 .
- 02 Apply the match formula.** You contribute \$30. The employer adds \$30 because it matches dollar for dollar up to that limit.
- 03 Add the contributions.** \$30 from you + \$30 from the employer = \$60 contributed before fees or investment changes.

If you contribute	Employer adds in this example	Total contributed
1% = \$10	\$10	\$20
3% = \$30	\$30	\$60
5% = \$50	\$30	\$80

THE MATCH HAS A CEILING

Contributing 5% does not earn a 5% match under this formula. The employer stops matching at 3% of eligible pay. Your own plan may use a different formula.

Ask which earnings, including tips, count as eligible pay, when contributions are deposited, and whether the plan calculates the match each pay period or over the year. Deposit timing and any later adjustment depend on the plan.

Sources 12-13 on page 22.



Ownership and tax treatment

Vesting tells you what you own. Traditional and Roth describe taxes.

Vesting means ownership. Your own 401(k) contributions and their associated earnings are always fully vested. Employer contributions may become yours immediately or according to a service schedule.

WALKTHROUGH: 40% VESTED IN EMPLOYER MONEY

Amount in the example	What is vested
Your own contribution balance: \$2,000	\$2,000 is yours
Employer contribution balance: \$1,000; 40% vested	$\$1,000 \times 0.40 = \400
Total vested balance	$\$2,000 + \$400 = \$2,400$
Employer amount not yet vested	$\$1,000 - \$400 = \$600$

Assume these are the current balances and that the plan's schedule says 40%. Ask the administrator what happens to any unvested money when you leave. The vested balance is not necessarily what you would receive after taxes if you cash out.

TRADITIONAL PRE-TAX AND DESIGNATED ROTH 401(K)

Traditional pre-tax 401(k)	Designated Roth 401(k)
Your contribution generally lowers current federal income-tax wages.	Your contribution remains in current taxable wages.
Withdrawals of pre-tax money are generally taxable later.	Qualified withdrawals are federally tax-free.
Normal Social Security and Medicare taxes generally still apply to your pay before these deferrals.	Social Security and Medicare taxes generally still apply.

For a Roth 401(k), a qualified withdrawal generally requires **five taxable years** from the first designated Roth contribution to that plan **and** age 59 1/2, disability or death. Special rollover rules can affect the clock. A Roth label does not make every withdrawal tax-free.

KEEP THESE QUESTIONS SEPARATE

What do I own? Check vesting.

What tax applies? Check the contribution and withdrawal rules.

What is it worth? Check the investments and current balance.

Sources 13-15 on page 22. IRA withdrawal rules differ; see page 17.



An IRA and your next move

A personal retirement account has its own rules.

An **IRA** is an individual retirement arrangement, often called an individual retirement account. You can open a personal IRA through a financial provider. It is separate from a workplace 401(k), and you may be able to have both. Some employers offer SEP or SIMPLE IRA plans; confirm the exact type.

Personal account	Contribution rules to understand
Traditional IRA	You may contribute if eligible, but a contribution is not automatically deductible. Income and workplace retirement coverage can limit the deduction.
Roth IRA	Contributions are not deductible. Income limits can restrict whether and how much you may contribute.
Both types	Eligible compensation and annual limits apply. Check the limits for your age and contribution year. Having two IRAs does not give you two separate annual personal IRA limits.

WHERE TIPS FIT

IRS rules include tips in IRA compensation. Claiming the qualified tips deduction does not, by itself, erase that reported compensation: the deduction reduces taxable income later in the return. It also does not create unlimited contribution room or guarantee extra tax savings.

This explanation connects the IRS compensation rules with the Schedule 1-A calculation. A workplace plan has its own definition of eligible pay, so ask how it treats tips.

BEFORE LEAVING A JOB OR TAKING MONEY OUT

- 01 Check your choices before cashing out.** Ask whether you can leave money in the plan or make an eligible direct rollover to another plan or IRA. A direct rollover sends money to the receiving retirement account.
- 02 Check the tax treatment of the destination.** A qualifying move that preserves tax treatment generally avoids current tax. Moving pre-tax money into Roth is a conversion and can create taxable income.
- 03 Check withdrawal rules for the actual account.** Early withdrawals may create income tax and an additional tax; exceptions have specific rules. Roth IRA regular contributions and earnings have different treatment. Do not apply Roth IRA rules to a Roth 401(k).

Get the administrator's instructions before moving money. Keep your address and beneficiary information current. Review fees and investments as well as taxes.

Sources 3 and 16-17 on pages 21-22.



Your retirement conversation sheet

Write down the actual plan rules before choosing a contribution.

Start with: **"Can you show me what I contribute, what the company adds, and what I keep if I leave?"**

Ask the plan administrator or benefits contact for the written plan information.

Question	Answer / where to confirm
What exact account do I have? 401(k), personal IRA, SEP or SIMPLE?	
When am I eligible? Am I already enrolled? How much comes out of each paycheck?	
Which wages and tips count as eligible pay?	
What is the match formula? When does the company deposit it?	
What is the vesting schedule? How much is mine if I leave now?	
Are traditional and/or Roth available? How are employer contributions treated?	
What investments and fees apply?	
What are my options if I leave? What taxes or restrictions apply to a move?	

If there is no company plan: ask a qualified provider or tax preparer about personal IRA eligibility, the current annual limit and the contribution's tax treatment.

An amount I can afford after checking my regular budget:

One rule I need explained before deciding:

A match, ownership and investment performance are separate issues. Choose only after you understand the account and can afford the contribution.



Check your understanding

Explain each answer in your own words before reading the walkthrough.

1 / THE BANQUET PAYMENT

You receive \$80 from a required charge and a separate \$20 the guest freely chose. How much may qualify for the tips deduction?

ANSWER: \$20, IF THE OTHER RULES ARE MET

The \$80 came from a required charge, so it is generally service-charge wages. The voluntary \$20 may qualify. The banquet setting does not automatically disqualify an otherwise eligible worker. The answer is not all \$100 and not automatically \$0.

2 / THE \$10,000 DEDUCTION

Assume you qualify for a \$10,000 deduction and every dollar removed would otherwise face a 12% federal income tax rate. What does the deduction do?

ANSWER: \$1,200 LESS FEDERAL INCOME TAX IN THIS EXAMPLE

$\$10,000 \times 0.12 = \$1,200$. The deduction lowers taxable income; it does not create an automatic \$10,000 refund. You continue reporting tips. The actual refund or balance due requires the full return.

3 / PREPARING FOR A HOME LOAN

You expect to claim an eligible tips deduction and apply for a mortgage. What is your next step? Name two documents to prepare.

ANSWER: KEEP ACCURATE RECORDS AND ASK THE LENDER

Have current paystubs and W-2s ready, plus tax returns and other records the lender requests. Ask how it evaluates tip income. Leaving tips off the record is incorrect; assuming the deduction guarantees approval is also incorrect.

Review pages 5-6 and 13 if an answer was unclear.



Before your next payday

Turn the lesson into one check you can complete.

- 01 Compare one shift with your pay information.** Identify wages, cash/card tips, pool tips received, tip-outs, service-charge wages and amounts already paid. Mark one difference you need explained.
- 02 Ask the person who can trace the amount.** Payroll can explain paystub labels, payouts, occupation codes and form corrections. Bring the specific date, amount and supporting record.
- 03 Keep a file for the tax year.** Save paystubs, employer tip reports, daily logs, W-2s, relevant 1099s and any correction. Keep employee work and each business clearly identified.
- 04 Prepare the next conversation.** Use a preparer for your deduction, filing status, business limits and state treatment. Use the lender for its income calculation. Use the retirement plan administrator for plan rules.

QUESTIONS TO TAKE TO YOUR TAX PREPARER

"Which tips qualify for this tax year? Do my filing status, Social Security number, occupation and income meet the rules? Does any business-income limit apply? How does my state treat the deduction? Are my withholding payments still sensible?"

MY NEXT ACTION

The record or amount I will check:

Who I will ask, and the exact question:

When I will do it, and what answer or correction I need:

KEEP THESE THREE IDEAS CLEAR

Report the earnings accurately.

Calculate the deduction under the tax rules.

Use the right records for each money decision.

The following pages provide clickable official references. Check them again before filing or relying on the guide in a later year.



Official sources: tax and records

Click a resource title to open the official page.

1. The deduction and who can claim it

IRS overview: years, cap, eligibility and income thresholds.

[Working Families Tax Cuts: individuals and workers](#)

2. Qualified tips and eligible occupations

Final Treasury/IRS regulations and the occupation descriptions.

[Final regulations \(TD 10044, IRB 2026-18\)](#)

[IRS tipped-occupation list](#)

3. Filing the deduction and applying limits

Use final instructions for your filing year. Publication 525 explains when income is received.

[2025 Schedule 1-A](#)

[Form 1040 instructions, Schedule 1-A section](#)

[Publication 525: taxable and nontaxable income](#)

4. Daily records, employer reports and service charges

IRS guidance on tip records, reporting and tax treatment.

[Tip recordkeeping and reporting](#)

[Topic 761: withholding and reporting](#)

5. Unreported employee tips

Form 4137 and instructions for applicable Social Security and Medicare tax.

[Form 4137 and instructions](#)

6. 2025 transition guidance

Notice 2025-69 explains permitted methods and supporting records.

[Notice 2025-69 \(IRB 2025-50\)](#)

7. 2026 W-2 reporting

Final W-2 instructions explain box 12 code TP and box 14b occupation codes.

[General Instructions for Forms W-2 and W-3](#)

8. Adjusting withholding

Use your actual jobs and household information.

[Current Form W-4 and instructions](#)

[IRS Tax Withholding Estimator](#)

9. Worker status and overlapping payment records

Help for employee/contractor classification and 1099-K reconciliation.

[Independent contractor or employee](#)

[Understanding your Form 1099-K](#)

Checked September 25, 2026. IRS webpages and form links can update. Confirm the tax year shown on any downloaded form; page 7 uses the published 2025 Schedule 1-A rounding instruction.



Official sources: loans and retirement

Keep the rules tied to the account or loan you actually use.

10. Mortgage documentation and tip-income history

Fannie Mae guidance is a program example, not a universal lender rule.

[Bonus, Commission, Overtime, and Tip Income](#)

11. Car affordability and comparing loan offers

CFPB guidance on the complete budget and borrowing costs.

[How much can I afford to borrow for a car?](#)

[How do I compare auto loan offers?](#)

12. 401(k) contributions and employer match

IRS explanation of plan operation and match examples.

[Operating a 401\(k\) plan](#)

13. Vesting and understanding your plan

U.S. Department of Labor guidance on ownership and plan information.

[What You Should Know About Your Retirement Plan](#)

14. Traditional and Roth contribution taxes

IRS comparison of current federal income tax, Social Security and Medicare treatment.

[Tax withholding on retirement-plan contributions](#)

15. Designated Roth 401(k) withdrawals

IRS explanation of the five-year and qualifying-event rules.

[Designated Roth account FAQs](#)

16. Personal IRA contributions and distributions

IRS publications cover compensation, eligibility, deductions and withdrawals.

[Publication 590-A: contributions](#)

[Publication 590-B: distributions](#)

17. Rollovers and leaving a job

IRS guidance on direct rollovers, conversions and early distributions.

[Rollovers of retirement plan and IRA distributions](#)

[Exceptions to tax on early distributions](#)

Class source: No Tax on Tips, 45-slide PowerPoint v1.1 and its matching narration script supplied with the completed narrated video. All figures in the guide are teaching examples unless you enter your own.

Peak Shift / Base / Your Money. Companion guide v1.0. Prepared for the Quinnvestments website. Guidance review date: September 25, 2026.