

No Tax on Tips

What it means for your pay, taxes, and credit



A practical class for restaurant workers

Federal rules reviewed September 13, 2026

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.

The questions this class answers

- 01 Which tips can qualify for the deduction?

- 02 What do I report and keep track of?

- 03 How can this affect my paycheck and tax bill?

- 04 What will a car or home lender need to see?

Your paystub explains this payday

- 01 Gross pay: earnings before taxes and other deductions.

- 02 Withholding: money sent toward your taxes—not the final tax calculation.

- 03 Other deductions may include insurance or retirement contributions.

- 04 Net pay: the amount paid now. Check whether tips were already paid separately.

W-4: you give payroll withholding instructions

You complete it. Your employer uses it to calculate federal income tax withholding.

- 01** Complete it when starting a job; revisit it when your situation changes.
- 02** It asks about filing status, multiple jobs, credits and other adjustments.
- 03** It is not your tax return and does not guarantee a refund.

W-2: your employer summarizes the year

WHAT IT REPORTS

Annual wages, reported tips and tax information

Box 1: wages, tips and other compensation; box 2: federal income tax withheld

WHAT YOU DO WITH IT

Use it to prepare your tax return and document earnings.

Compare it with your records; ask payroll about discrepancies.

W-9 and 1099-NEC are not W-4 and W-2

W-9: INFORMATION YOU PROVIDE

Gives a requester your name and taxpayer identification information.

Often requested before paying an independent contractor.

1099-NEC: PAYMENT INFORMATION

Reports nonemployee compensation, not an employee wage statement.

A form label alone does not decide whether you are legally an employee.

“1099” is a family of forms

- 01 1099-NEC: nonemployee compensation, such as qualifying contractor payments.

- 02 1099-K: payment-card or third-party network transactions; reconcile to your records.

- 03 1099-R: distributions from retirement plans, IRAs and certain other arrangements.

- 04 The letters matter. A reporting form does not, by itself, calculate the tax you owe.

The tax return brings the information together

- 01 Form 1040: the main individual federal income tax return.

- 02 W-2s and relevant 1099s supply information used to prepare it.

- 03 Schedule 1-A: an additional form used for the qualified tips deduction.

- 04 Your refund or balance due depends on the full return—not one form or one deduction.

A deduction lowers taxable income

Eligible workers may deduct qualified tips when calculating federal taxable income.

- 01** The deduction can reduce federal income tax.
- 02** It does not give everyone a \$25,000 refund.
- 03** You still report the income you actually earned.

The years and the maximum

2025 through 2028

- 01 Current federal deduction window
- 02 Up to \$25,000 per return each year, before applicable limits
- 03 A joint return has one \$25,000 cap, not \$25,000 per spouse.

Your job and your tips both matter

RESTAURANT OCCUPATIONS

Servers, bartenders, bussers, barbacks and hosts

Cooks, food prep workers and dishwashers also appear on the IRS list.

CHECK THE ACTUAL PAYMENT

Being on the list does not turn wages into qualified tips.

Check the actual job duties and the source of the tips.

What qualified tips can look like

- 01 The customer chooses whether to tip and how much.

- 02 Cash, card and eligible electronic payments can qualify.

- 03 Tips received through a sharing arrangement can qualify.

- 04 Regular wages and required service charges do not qualify.

A party check with two different payments

A \$200 meal has a required 18% service charge. The guest freely adds \$10.

Required service charge: \$36

Additional voluntary tip: \$10

Only the \$10 is a potential qualified tip.

The eligibility check

- 01 Confirm your occupation, qualified tips and reporting records.

- 02 The worker claiming tips needs the required valid Social Security number.

- 03 Married taxpayers generally must file a joint return to claim this deduction.

- 04 It is available with the standard deduction or itemized deductions.

Income limits can reduce the deduction

PHASEOUT STARTS ABOVE

\$150,000 for filers other than joint filers

\$300,000 for married filing jointly

WHAT TO CHECK

The test uses modified adjusted gross income, called MAGI.

Include the household and filing-status facts the tax form requires.

A deduction example with real numbers

Assume \$10,000 of tips qualifies in full.

Taxable income before this deduction: \$36,000

Subtract qualified tip deduction: \$10,000

Taxable income afterward: \$26,000

If all \$10,000 would face a 12% rate: \$1,200 less federal income tax.

Illustration only. Assumes no phaseout, other tax interactions or limits. This is not a refund calculation.

Taxes you may still see

- 01 Social Security and Medicare rules still apply.

- 02 Wages and tips outside the deduction can still create federal income tax.

- 03 State and local treatment depends on those jurisdictions.

- 04 Your withholding and your final tax bill are separate calculations.

Your paycheck during 2026

- 01 The 2026 Form W-4 can account for an expected qualifying deduction.

- 02 Use current IRS instructions or the withholding estimator.

- 03 Include other jobs and a spouse's income when applicable.

- 04 Recheck when your income or household situation changes.

A useful daily tip record

Example: one shift, one record

Cash tips received: \$60

Card tips received: \$140

Tip-out paid to coworkers: \$40

Tips retained: \$160

Keep the date, employer, shift and tip-out recipients. Match the record to payroll without counting amounts twice.

Reporting still happens

Report all tip income on your federal tax return.

- 01** At \$20 or more in a calendar month from one employer, report cash and charged tips to that employer.
- 02** Federal deadline: the 10th of the following month, with weekend/holiday adjustments.
- 03** Follow your workplace's more frequent reporting process.

Filing the deduction

- 01 Report your wages and tips using the appropriate tax forms.

- 02 Use Schedule 1-A with Form 1040 for the qualified tips deduction.

- 03 Compare the form amounts with your own records.

- 04 Ask about Form 4137 if tips were not reported to your employer.

2025 and 2026 paperwork differ

2025 TAX YEAR

Special transition guidance allowed qualifying supporting records.

Do not assume missing separate fields means no deduction.

2026 TAX YEAR

W-2 box 12 code TP reports cash tips reported to the employer.

Box 14b identifies the Treasury Tipped Occupation Code.

Use the final IRS instructions for the year you file. Form fields alone do not establish personal eligibility.

A second job or self-employment

- 01 Combine qualifying tips across jobs under the one annual cap.

- 02 Self-employed workers also face a net-income limit for the tipped business.

- 03 Keep employee wages and business receipts clearly identified.

- 04 Get help if your work or business falls outside ordinary restaurant employment.

What a lender means by income

ON A TAX RETURN

Taxable income reflects the deductions allowed by tax law.

Claiming an eligible deduction does not erase the earnings record.

ON A LOAN APPLICATION

A lender verifies income under the loan program's rules.

Income history, stability, debts and credit also matter.

The mortgage documentation example

- 01 Fannie Mae guidance generally uses employer verification or a current paystub and two years of W-2s.

- 02 Two years of income history is recommended; at least 12 months may qualify with supporting factors.

- 03 The lender checks the income trend and calculates an eligible amount.

One mortgage program's guidance, not a guarantee or a rule for every lender. Other documentation requirements apply.

Your income record still matters

Suppose records show \$24,000 in wages and \$24,000 in tips over a year.

Total reported earnings: \$48,000

Simple monthly average: \$4,000

The lender decides how much qualifies after its review.

A tax deduction does not add a second income stream.

Illustrative arithmetic only. This is not an underwriting calculation or loan approval.

A car payment in a slower month

Example monthly budget using take-home money you can reasonably count on

Income: \$3,200 Other living costs: \$2,350

Proposed payment: \$400 Insurance: \$180

Fuel and maintenance reserve: \$200

Money left: \$70

Illustration. Replace every figure with your actual budget. Annual tax savings are not a guaranteed monthly paycheck.

The conversation before you apply

“I earn hourly wages and tips. Which records do you need, and how will you calculate my income?”

- 01** Ask how they handle variable tips and the deduction.

- 02** Ask about the full payment, total borrowing cost and other debts.

- 03** Use genuine records. A bank deposit alone does not explain its source.

Question 1: the banquet payment

A required charge gives you \$80. The guest freely adds \$20. Which amount may qualify as a tip?

- A** All \$100

- B** The voluntary \$20, if the other rules are met

- C** Neither amount, because banquet work never qualifies

PAUSE THE VIDEO • CHOOSE YOUR ANSWER • THEN CONTINUE

Answer 1: follow the guest's choice

B. The voluntary \$20 may qualify.

- 01 A is wrong: the required \$80 is generally service-charge wages.
- 02 C is wrong: eligible banquet staff can receive qualified tips.
- 03 The payment must still meet the other deduction requirements.

Question 2: the \$10,000 deduction

You qualify for a \$10,000 deduction. In this simplified example, all of it would face a 12% rate. What follows?

- A** You automatically receive a \$10,000 refund.

- B** Federal income tax falls by \$1,200 in this example.

- C** You can stop reporting tips after reaching \$10,000.

PAUSE THE VIDEO • CHOOSE YOUR ANSWER • THEN CONTINUE

Answer 2: \$1,200 in this example

$$\text{B. } \$10,000 \times 12\% = \$1,200$$

- 01 A confuses a deduction with a refund.

- 02 C ignores the continuing requirement to report tip income.

- 03 Your own result depends on the full tax return.

Question 3: preparing for a home loan

You plan to claim an eligible tip deduction and apply for a mortgage. What is the sound next step?

- A** Leave the tips off your income records.

- B** Assume the deduction guarantees approval.

- C** Keep accurate records and ask the lender how it evaluates tips.

PAUSE THE VIDEO • CHOOSE YOUR ANSWER • THEN CONTINUE

Answer 3: accurate records and an early conversation

C. Keep the earnings record and ask how it will be evaluated.

- 01 A is wrong: claiming a deduction does not remove reporting duties.

- 02 B is wrong: lenders still review income, debts, credit and program requirements.

- 03 Have paystubs, W-2s and any requested returns ready.

What to do before your next payday

- 01 Check one paystub against your tip and tip-out record.

- 02 Ask payroll to explain any unclear tip or service-charge entry.

- 03 Save the records you will need for your return and a future loan.

- 04 Use current IRS guidance before changing withholding.

Where to check the current rules

- 01 IRS.gov: qualified tips, eligible occupations and Schedule 1-A

- 02 IRS.gov: tip reporting and the tax withholding estimator

- 03 Your tax preparer: eligibility, filing year and state treatment

- 04 Your lender: documented income, loan program and affordability

Federal rules reviewed September 13, 2026. Source links are in the notes and takeaway. Recheck before recording an updated edition.

If you have a retirement benefit—or want one

This optional section explains the words before you make a decision.

- 01** 401(k): a workplace retirement plan.
- 02** IRA: an individual retirement arrangement; some employers offer IRA-based plans.
- 03** Learn the account, contribution, tax and ownership rules—not a stock-picking formula.

A 401(k) is a workplace retirement account

- 01 Eligible employees contribute through payroll under the plan's rules.

- 02 The employer may add money; not every plan offers a match.

- 03 The account holds investments. Contributions and investment results are different.

- 04 Ask which earnings—including tips—count when payroll calculates your contribution.

What an employer match means

Example plan: employer matches 100% of your contribution, up to 3% of eligible pay.

Eligible pay this period: \$1,000

You contribute 3%: \$30

Employer match under this example: \$30

\$60 goes into the account before fees or investment changes.

Illustration, not a promised benefit. Match formulas, eligible pay, deposit timing and vesting depend on the plan.

Vesting means which money is yours to keep

YOUR CONTRIBUTIONS

Your own 401(k) contributions are always fully vested.

Ownership does not protect the account against investment losses.

EMPLOYER CONTRIBUTIONS

Some employer contributions become yours over a service schedule.

Leaving before full vesting may mean forfeiting an unvested employer amount.

Traditional and Roth describe tax treatment

TRADITIONAL / PRE-TAX 401(k)

Generally lowers current federal income-tax wages.

Withdrawals of pre-tax money are generally taxable later.

ROTH 401(k), IF OFFERED

Contributions are included in current taxable wages.

Qualified withdrawals are federally tax-free after the required conditions are met.

Roth qualification includes holding-period and age or other rules. Traditional 401(k) deferrals generally remain subject to Social Security and Medicare taxes.

An IRA is separate from a company 401(k)

INDIVIDUAL RETIREMENT ARRANGEMENT

A personal traditional or Roth IRA can be opened through a financial provider.

You may be able to have an IRA and a workplace plan.

CHECK YOUR ELIGIBILITY

Contributions require eligible compensation and stay within annual limits.

Income and workplace coverage can affect deductions or Roth IRA contribution eligibility.

Tips and retirement: separate rules still apply

- 01 Reported tips can count as compensation for IRA purposes.

- 02 The tips deduction does not create unlimited retirement contribution room.

- 03 A traditional IRA contribution is not automatically deductible.

- 04 Ask how the full tax return and your plan rules work together.

Before withdrawing or leaving a job

- 01 Check your vested balance and keep your contact details current.

- 02 Ask about leaving funds in the plan or an eligible direct rollover.

- 03 Early withdrawals can create income tax and additional tax; exceptions have specific rules.

- 04 Check the account type, fees and tax treatment before moving money.

Your next retirement conversation

“Can you show me what I contribute, what the company adds, and what I keep if I leave?”

- 01** Ask about eligibility, match, vesting, fees and investment choices.

- 02** Ask whether traditional, Roth or both are offered.

- 03** Choose an affordable contribution after understanding the rules and your budget.