

“No Tax on Tips” Deduction: Information and How-To (2025 only)

Introduction

The **No Tax on Tips** deduction allows eligible taxpayers to claim an additional deduction for qualified tip income while still properly reporting all tips as income on their tax return.

Qualified tips generally include cash and charged tips reported on Form W-2, unreported tips, and tip income for self-employed taxpayers. In order to qualify for the deduction, the tips must be earned in an occupation that customarily and regularly receives tips and is recognized by the IRS as a Treasury Tipped Occupation (TTOC).

The **No Tax on Tips** deduction **does not eliminate the requirement to report tips or pay Social Security and Medicare taxes on them**. It reduces taxable income by claiming an additional deduction on **Schedule 1-A**.

- Taxpayers must have a Social Security Number (SSN) that is valid for employment. In the case of a joint return, the tip earner must have a valid SSN to claim the deduction.
- Filing status cannot be Married Filing Separately.
- Tips must be received for work in occupations listed by the IRS as regularly and customarily receiving tips.
- The maximum allowed deduction is \$25,000 for the year, per return and not per person.

To assist the taxpayer, complete the following steps.

Step 1: Determine if the Taxpayer Qualifies for the No Tax on Tips Deduction

Before you claim the deduction, you must determine whether the taxpayer is eligible for the deduction.

1. Does the taxpayer who may have earned tips have a Social Security Number and a filing status that is not Married Filing Separately?

- If NO, stop. The deduction is not allowed.
- If YES, continue to step 2 below.

2. Did the taxpayer receive tips as part of their income? The taxpayer may have:

- checked “Yes” to Tip Income on **Form 13614-C**;
- have an amount listed in **Form W-2, Box 7** (Social Security Tips);
- have an amount listed in **Form W-2, Box 8** (Allocated Tips);
- have an amount listed in **Box 14, Code TP**;
- a statement from the employer; and/or
- tips from self-employment that are self-identified or appear on a driver dashboard (for

rideshare drivers) or other documentation

- If NO, stop. The deduction is not allowed.
- If YES, continue to step 3 below.

3. Were the tips received in cash, from a credit/debit card, or from a tip sharing arrangement?

- If NO, stop. The deduction is not allowed.
- If YES, continue to step 4 below.

4. Were the tips freely given by clients, without being required, negotiated, or included as part of a service price? (Note that tips automatically added at a set rate to a bill based on company policy are not eligible for the deduction.)

- If NO, stop. The deduction is not allowed.
- If YES, continue to step 5 below.

5. Is the taxpayer's job on the IRS list of occupations that customarily received tips before 2025? See [Treasury Tipped Occupation Codes \(TTOC\)](#) for a list of qualified occupations. (The taxpayer may have **Form W-2, Box 14 Code TTOC** that identifies the occupation code.)

- If NO, stop. The deduction is not allowed.
- If YES, continue to step 6 below.

6. Was the tip properly reported on **Form W-2** or **Form 1099** — or will be reported on **Form 4137, Social Security and Medicare Tax on Unreported Tip Income** and properly designated tip income?

- If NO, stop. The deduction is not allowed.
- If YES, continue to step 7 below.

7. If the tips were earned through self-employment, will the taxpayer report a business loss? (A business loss is when business expenses exceed business income including tips.)

- If YES, stop. The deduction is not allowed.
- If NO or the taxpayer is not self-employed, continue to step 8 below.

8. Is the taxpayer's MAGI below \$150,000 (or \$300,000 if Married Filing Jointly)?

- If NO, the deduction is allowed but your deduction is reduced by \$100 for every \$1,000 above the threshold..
- If YES, the deduction is allowed up to \$25,000, or the amount of tips, whichever is less. If self-employed, the deduction cannot exceed the net profit on your **Schedule C** before the tip deduction. (You cannot use the tip deduction to create a business loss.)

Step 2: Complete TaxSlayer Entry for All Tip Income (Reported and Unreported)

All tip income (reported and not) must be entered in TaxSlayer. The “No Tax on Tips” deduction doesn't replace reporting the tips. **The deduction reduces taxable income, but the tip income is still included in calculating Social Security/Medicare taxes.**

1. In TaxSlayer, navigate to **Federal@Income**.

2. Verify that all income tax forms for the taxpayer, including **Forms W-2, 1099-NEC, 1099-K**, etc. have been entered.

➤ Be sure to enter all information from the forms into TaxSlayer, including any amounts in **Box 7** and **Box 8** of **Form W-2**. This generally includes all reported tips.

➤ Any unreported tips from **W-2** wages that were not reported to the employer because they did not exceed \$20 per month and are not included in **Box 1** of the **W-2** should be entered on the **Form W-2** screen as **Unreported tips**. These will

9 - IRS verification code

10 - Dependent care benefits

11 - Nonqualified plans

Unreported tips

. These will automatically feed to **Form 4137**.

➤ If the taxpayer has tips from self-employment income, these should be included in the total **nreported Tip Income**.

Step 3: Claim the No Tax on Tips Deduction

If the taxpayer qualifies for the No Tax on Tips deduction and you have entered all income tax documents in the tax return, if applicable, follow these instructions to claim the deduction.

1. Navigate to **Federal**➤**Deductions**➤**Additional Deductions**➤**No Tax On Tips**.
2. In the **No Tax on Tips** screen, click on **Add tip employer**.

No Tax on Tips

CANCEL

+ Add tip employer

Qualified tips included on Form 1099-NEC, 1099-MISC or 1099-K

\$

CANCEL

3. In the **Employer Qualified Tips Entry** screen, enter the following:
 - a. **Employer name** - Enter the employer name as it appears on **Form W-2**.
 - b. **Qualified tips reported in Form W-2, box 7 or Form(s) 4070** - Enter **Box 7** amounts here. (**Form 4070** is used by employees to report tips to employers and is used to calculate **Box 7**.)
 - c. **Qualified tips reported on Form 4137, Line 1(c)** - Enter any **Allocated Tips** shown in **Box 8** of **Form W-2**. Allocated tips are not included in **W-2, Box 1** income and must be entered here to claim the deduction.

Employer Qualified Tips Entry

Employer name *

Qualified tips reported on Form W-2, box 7 or Form(s) 4070 *

Qualified tips reported on Form 4137, Line 1(c) *

SAVE

CANCEL

4. Click on **Save**.
5. If the taxpayer had tip income reported on more than one **Form W-2**, click on **Add another tip employer** and enter employer and tip income for each **Form W-2**.
6. If the taxpayer had tip income from self-employment that was included in total income on **Schedule C**, click in **Qualified tips included on Form 1099-NEC, 1099-MISC or 1099-K** and enter the amount.

No Tax on Tips

CANCEL

+ Add tip employer

Qualified tips included on Form 1099-NEC, 1099-MISC or 1099-K

\$

CANCEL

➤ Enter self-employment tips here even if **Form-1099** was not issued (for example, because total wages didn't meet the requirement for issuance).

Example: Rideshare drivers may have tips listed on their annual driver dashboard that are not reported on a **Form 1099**. These are entered here.

7. Click on **Continue**. The deduction amount is calculated on **Schedule 1-A** based on tip income, income limits for eligibility, and maximum deductible amounts.