

How to Handle Unreported Tips

Reference: Pub 4012, page D-5

All cash and non-cash tips an employee receives are income and are subject to Federal income taxes. If the taxpayer answers “yes” to tip income, find out if the tips are included on the W-2. If they are, stop there. **If the tips are not reported on the W-2, the return is Advanced.**

Check appropriate box for each question in each section

Yes	No	Unsure	Part III – Income – Last Year, Did You (or Your Spouse) Receive?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how much?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)

To enter unreported tips: Navigate to the W-2 screen and enter all information from the W-2 as usual. Then enter the amount of the tips in the “Unreported Tips” box on the same screen. This will add Form 4137 (Social Security and Medicare Tax on Unreported Tip Income) to the return. No further action is needed.

Note: If the taxpayer received tips that weren’t reported to the employer and they were less than \$20 a month, enter the total in the “Unreported Tips” box. Then go to other taxes and select Form 4137. You will also enter the amount of tips on this form.

Explanation: All cash tips received by an employee in any calendar month are subject to social security and Medicare taxes and must be reported to the employer, unless the tips received by the employee during a single calendar month while working for the employer total less than \$20.