

2026



NO TAX ON TIPS

Your Complete Guide to the New Federal Tip Deduction

What's Inside:

- Complete list of 68 qualifying occupations
- Step-by-step Schedule 1-A walkthrough
- Printable daily tip tracking log
- Phase-out calculator with real examples
- Special rules for self-employed & gig workers
- Common mistakes & how to avoid them

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Quick Reference Overview

What it is

A new federal income tax deduction that lets qualifying tipped workers shield up to **\$25,000** in tip income from federal income tax.

Who qualifies

Workers in one of **68 approved occupations** across 8 categories, with a valid Social Security number and modified adjusted gross income below the phase-out threshold.

How much you can save

A full-time server earning \$40,000 in tips could save **\$3,000–\$4,000** at tax time.

How to claim it

File **Schedule 1-A** with your Form 1040.

When it applies

Tax years **2025 through 2028** (unless Congress extends it).

What it does NOT cover

Payroll taxes (Social Security and Medicare – **7.65%**) still apply to all tips. State and local income taxes may also still apply.



Who This Guide Is For

This guide is for anyone who earns tips as part of their income and wants to understand whether they qualify for the new No Tax on Tips deduction, how much they can save, and how to claim it correctly.

You should use this guide if you are a tipped employee in food service, hospitality, personal care, home services, transportation, recreation, entertainment, or personal services. It also covers special rules for self-employed filers, gig workers, and tip pool participants.

- ❑ If you watched our video on No Tax on Tips, this guide expands on everything we covered – with the complete occupation list, a step-by-step Schedule 1-A walkthrough, a printable tip tracking log, and edge cases we couldn't fit in the video.



Three Requirements You Must Meet

Before checking whether your specific job qualifies, confirm that you meet all three of the following requirements. If you miss any one of them, the deduction is not available to you.

Requirement 1: Approved Occupation

Your occupation must appear on the Treasury Department's published list of **68 qualifying job titles** across 8 categories. The complete list is in the next several sections of this guide. Your job title – not your industry or employer – determines eligibility.

Requirement 2: Voluntary Tips Only

The tips you claim must be **voluntary**. This includes cash tips, credit card tips, digital payments (Venmo, Cash App, Zelle), and shared tip pool distributions.

Tips that do **not** qualify: automatic service charges (such as an 18% gratuity added to large parties), mandatory gratuities, and non-cash tips (event tickets, gift cards, free meals). Non-cash tips are still taxable income – they just cannot be included in this deduction.

Requirement 3: Income Below the Phase-Out Threshold

Your modified adjusted gross income (MAGI) must be below the phase-out limit. For **single filers**, the threshold is \$150,000. For **married filing jointly**, it is \$300,000. Above those amounts, the deduction is reduced by \$100 for every additional \$1,000 you earn.



How the Phase-Out Actually Works

The phase-out reduces your deduction gradually – it does not eliminate it all at once. Here is how to calculate the reduction.

The Formula

01

Start with your **modified adjusted gross income (MAGI)**

03

Divide the result by **\$1,000**

02

Subtract your **filing threshold** (\$150,000 single / \$300,000 joint)

04

Multiply by **\$100** – that is the amount your deduction is reduced

Example: Single Filer Earning \$165,000

- MAGI: \$165,000
- Subtract threshold: $\$165,000 - \$150,000 = \$15,000$ over
- Divide by \$1,000: 15
- Multiply by \$100: \$1,500 reduction
- Maximum deduction: $\$25,000 - \$1,500 =$ **\$23,500 available deduction**

Example: Joint Filers Earning \$340,000

- MAGI: \$340,000
- Subtract threshold: $\$340,000 - \$300,000 =$ \$40,000 over
- Divide by \$1,000: 40
- Multiply by \$100: \$4,000 reduction
- Maximum deduction: $\$25,000 - \$4,000 =$ **\$21,000 available deduction**

When the Deduction Hits Zero: For single filers, the deduction phases out completely at **\$400,000 MAGI**. For joint filers, it phases out at **\$550,000**.

Additional Eligibility Rules

Beyond the three main requirements, two more rules apply.

Social Security Number Required

You must have a valid **Social Security number (SSN)** to claim this deduction. An Individual Taxpayer Identification Number (ITIN) does not qualify. If you currently file with an ITIN and are eligible for an SSN, apply for one before filing your return. If you are not eligible for an SSN, this deduction is not available to you – but your tips are still taxable and must be reported.

Married Filers Must File Jointly

If you are married, you must file jointly (**Married Filing Jointly**) to claim the tip deduction. Married Filing Separately does not qualify. The \$25,000 cap is **per return, not per person** – so if both spouses earn tips and file jointly, they share the \$25,000 cap between them.



Complete List of Qualifying Occupations: Food and Beverage Service

CATEGORY 1

Food and Beverage Service

This is the largest category of qualifying occupations. If you work in a restaurant, bar, café, catering company, or similar establishment and receive tips, your job title likely falls here.

Job Title
Servers / Waitstaff
Bartenders
Sommeliers
Bussers
Barbacks
Cooks (who receive tips)
Hosts / Hostesses
Room Service Attendants
Beer Cart Attendants

- Important:** Restaurant managers who do not personally receive tips are not eligible, even if they work in the same establishment as eligible servers.

Qualifying Occupations: Hospitality, Personal Care, and Home Services

CATEGORY 2

Hospitality and Guest Services

- Bellhops
- Concierges
- Hotel Desk Clerks
- Housekeeping Staff

CATEGORY 3

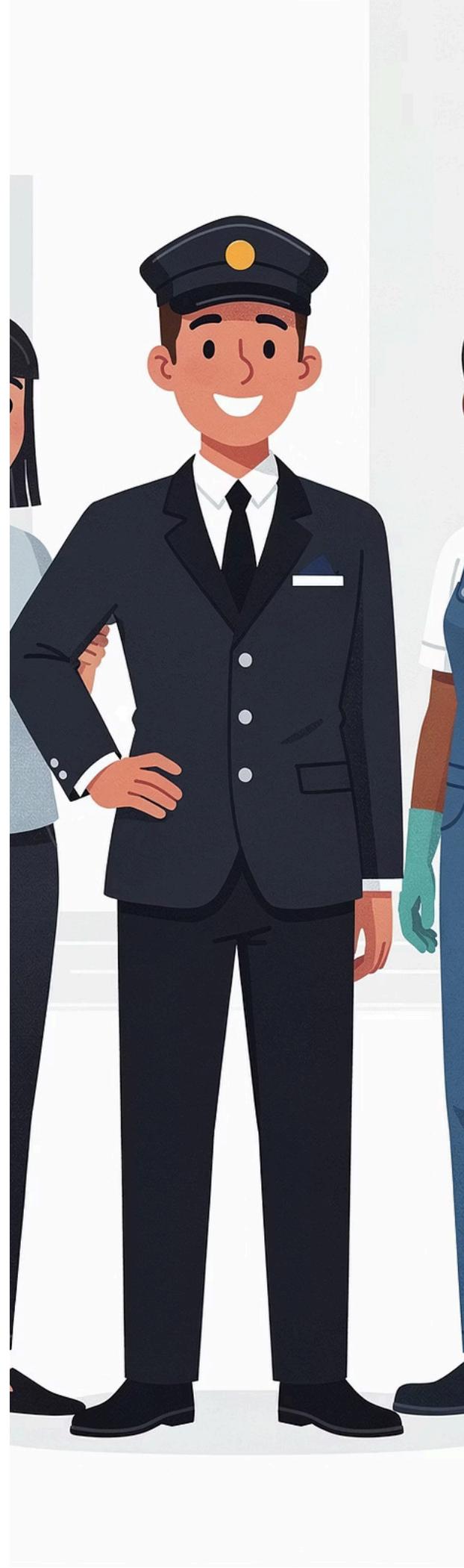
Personal Care and Appearance

- Barbers
- Hairstylists
- Nail Technicians
- Massage Therapists
- Spa Attendants

CATEGORY 4

Home Services

- House Cleaners
- Landscapers
- Plumbers
- Electricians
- HVAC Technicians
- Pool Cleaners
- Locksmiths
- Window Washers



Qualifying Occupations: Transportation, Recreation, Entertainment, and Personal Services

CATEGORY 5

Transportation and Delivery

- Taxi Drivers
- Rideshare Drivers (Uber, Lyft)
- Valets
- Shuttle Drivers
- Pizza Delivery Workers
- Grocery Delivery Workers
- Package Delivery Workers
- Car Wash Attendants

CATEGORY 6

Recreation

- Tour Guides
- Golf Caddies
- Ski Instructors
- Fishing Charter Workers

CATEGORY 7

Entertainment

- Gambling Dealers
- DJs
- Lounge Singers
- Digital Content Creators (who receive tips/donations from viewers)

CATEGORY 8

Additional Personal Services

- Nannies
- Tutors
- Pet Caretakers
- Portrait Photographers
- Tattoo Artists
- Moving Company Workers

Who Does NOT Qualify

The following workers are specifically excluded from the No Tax on Tips deduction, regardless of whether they receive tips.

Excluded Industries

Health Care Workers

Nurses, doctors, physical therapists, dental hygienists, and all other medical professionals.

Performing Arts Workers

Actors, musicians (except lounge singers and DJs listed in Category 7), dancers, and stage crew.

Athletes

Professional and amateur athletes who receive tips or bonuses.

Specified Service Trades or Businesses (SSTB)

The IRS excludes all workers in what it classifies as specified service trades or businesses. This category includes lawyers, accountants, consultants, financial advisors, investment brokers, insurance agents, and similar professional service providers.

- ❑ Even if someone in an SSTB role receives tips (for example, a financial advisor who receives holiday gifts from clients), those tips do **not** qualify for this deduction.

Step-by-Step Schedule 1-A Walkthrough (Tax Year 2025)

This is the return you are filing now. Schedule 1-A is a new form attached to your Form 1040. Here is exactly how to complete it.

1 Gather Your Tip Records

Pull your tip amounts from one or more of these sources:

- **W-2, Box 7** – Allocated tips reported by your employer
- **W-2, Box 8** – Social Security tips
- **1099-NEC or 1099-K** – If you received tips as an independent contractor or through payment platforms
- **Form 4137** – If you have unreported tips (see the section on Form 4137 below)
- **Personal tip log** – Your own daily records

3 Apply the Phase-Out (If Applicable)

If your MAGI exceeds the threshold (\$150,000 single / \$300,000 joint), the form includes a worksheet that calculates the reduction. Enter your MAGI and follow the instructions to determine your adjusted deduction amount.

2 Complete Schedule 1-A, Part Two

Enter your total qualifying tip income on the designated line. The form will calculate your deduction based on the lesser of your actual qualifying tips or the \$25,000 cap.

4 Transfer to Form 1040

The final deduction amount transfers from Schedule 1-A to Schedule 1 of your Form 1040, where it reduces your adjusted gross income.

What Changes for the 2026 Tax Year

Starting with the 2026 tax year (the return you will file in early 2027), employer reporting requirements get stricter. Here is what to expect and how to prepare.

New W-2 Reporting Fields

Your employer's W-2 will include two new items:

Box 12, Code TP

Separately reports your qualified tip amount.

Box 14-b

Contains your **Treasury Tipped Occupation Code (TTOC)** – a code that identifies your specific qualifying occupation. Without it, the IRS may not be able to verify your eligibility for the deduction.

What to Do Now

Have a conversation with your employer before the end of 2026. Confirm that they are aware of the new reporting requirements and that they will include the TTOC on your W-2. If your employer uses a payroll service, the payroll provider should be updating their systems – but it is worth confirming.

What If Your Employer Gets It Wrong

If your W-2 is missing the TTOC or Code TP, contact your employer immediately and request a corrected W-2 (Form W-2c). If they refuse or cannot correct it, you may still be able to claim the deduction using your own tip records and occupation documentation – but expect additional IRS scrutiny. Keep copies of your job description, employment contract, and any correspondence with your employer about the correction.

Understanding Form 4137: Unreported Tips

If you received cash tips that were not reported to your employer, you use **Form 4137** (Social Security and Medicare Tax on Unreported Tip Income) to report them.

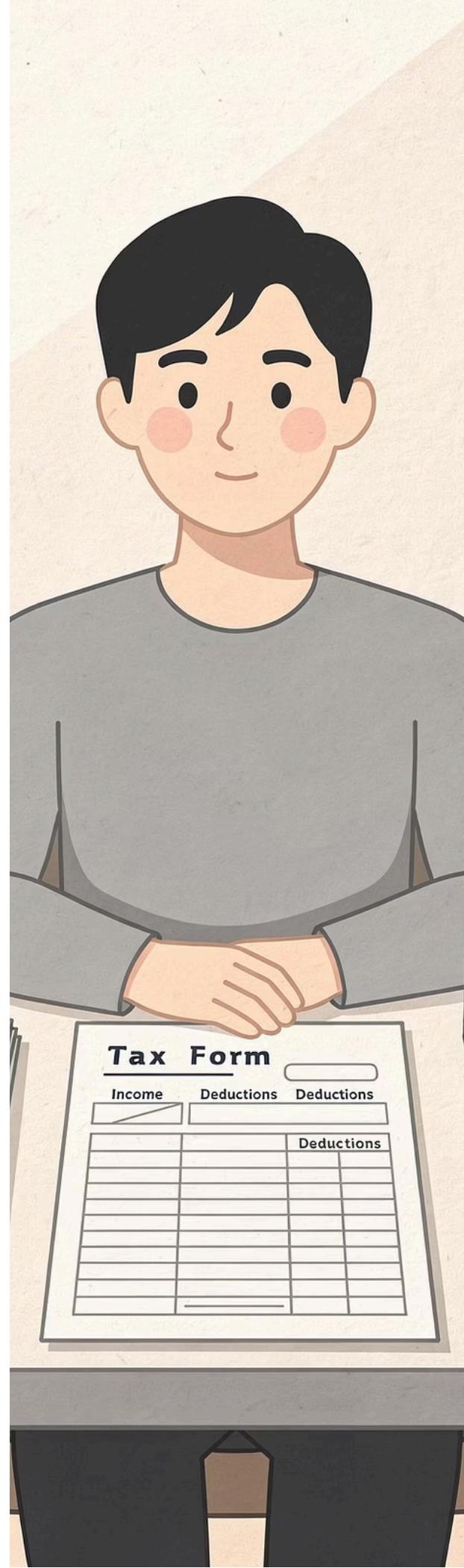
When You Need Form 4137

- You received \$20 or more in cash tips in any calendar month and did not report them to your employer
- You are self-employed and received tips directly from clients

How It Connects to the Tip Deduction

Tips reported on Form 4137 can qualify for the No Tax on Tips deduction – but only if they meet the other requirements (voluntary, qualifying occupation, income under the phase-out). Reporting these tips on Form 4137 also subjects them to Social Security and Medicare taxes.

- ❏ **Important Warning:** Not reporting tips is a separate violation from not claiming the deduction. If the IRS discovers unreported tips, you face penalties for underreporting income in addition to the unpaid taxes. Always report all tips first, then claim the deduction.



Tip Pooling Rules and Your Deduction

Many workplaces use tip pools or tip sharing arrangements. Here is how those affect your deduction.

What Counts as a Qualifying Tip From a Pool

Tips distributed to you from a tip pool count as qualifying tips – as long as the original tips were voluntary (not mandatory service charges). Your share of the pool is your qualifying amount.

Mandatory Service Charges in Tip Pools

If your employer adds automatic gratuities to large-party checks and includes that money in the tip pool, the portion that came from mandatory service charges **does not qualify** for the deduction. Only the voluntary tip portion counts.

How to Track Pool Tips

Ask your employer for a breakdown of your tip pool distributions. Ideally, your pay stub or tip report should separate voluntary tips from mandatory service charges. If it does not, request that your employer begin tracking this separately.



Special Rules for Self-Employed Filers

If you are self-employed and receive tips – for example, a freelance hairstylist, independent rideshare driver, or self-employed tutor – additional rules apply.

How to Report Self-Employment Tips

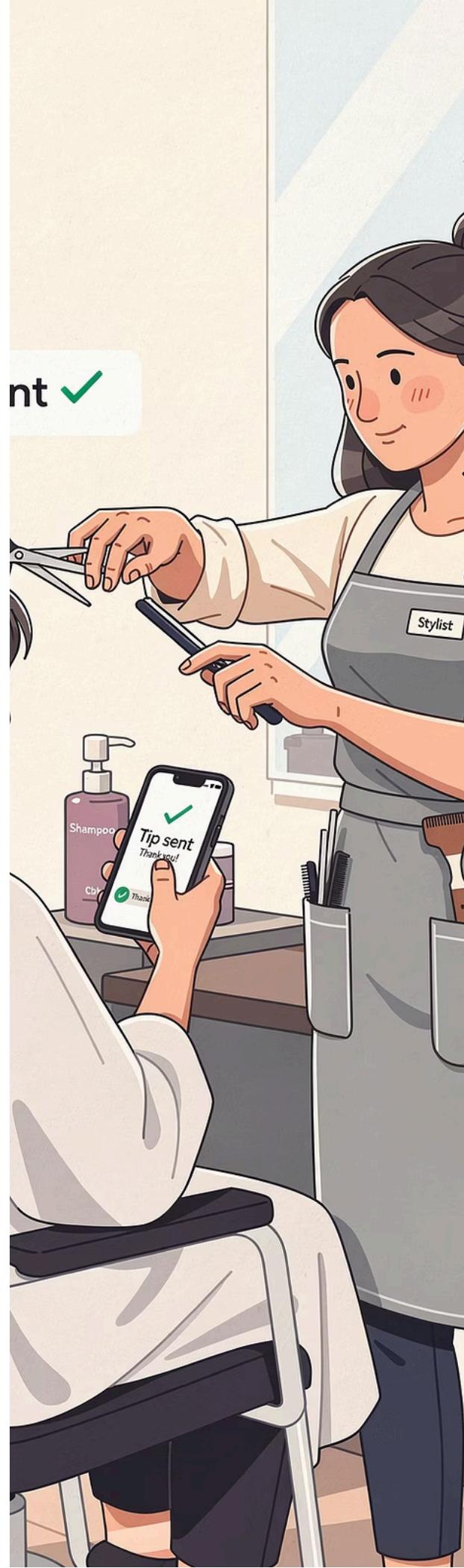
Self-employed tips are reported on **Schedule C** (Profit or Loss From Business) as part of your gross income. They are also subject to **self-employment tax (15.3%)** – covering both the employer and employee portions of Social Security and Medicare.

Claiming the Deduction as Self-Employed

You can still claim the No Tax on Tips deduction on Schedule 1-A. The deduction reduces your federal income tax, but it does **not** reduce your self-employment tax. You will still owe the full 15.3% self-employment tax on your tip income.

Record-Keeping Is Critical

Without an employer generating a W-2, the burden of proof falls entirely on you. Maintain a daily tip log, keep payment platform records (Venmo, Cash App, Zelle transaction history), and save all 1099 forms.



Special Rules for Gig Workers

Gig workers – including rideshare drivers, food delivery workers, and freelance personal service providers – have unique considerations.

Platform Tips vs. Cash Tips

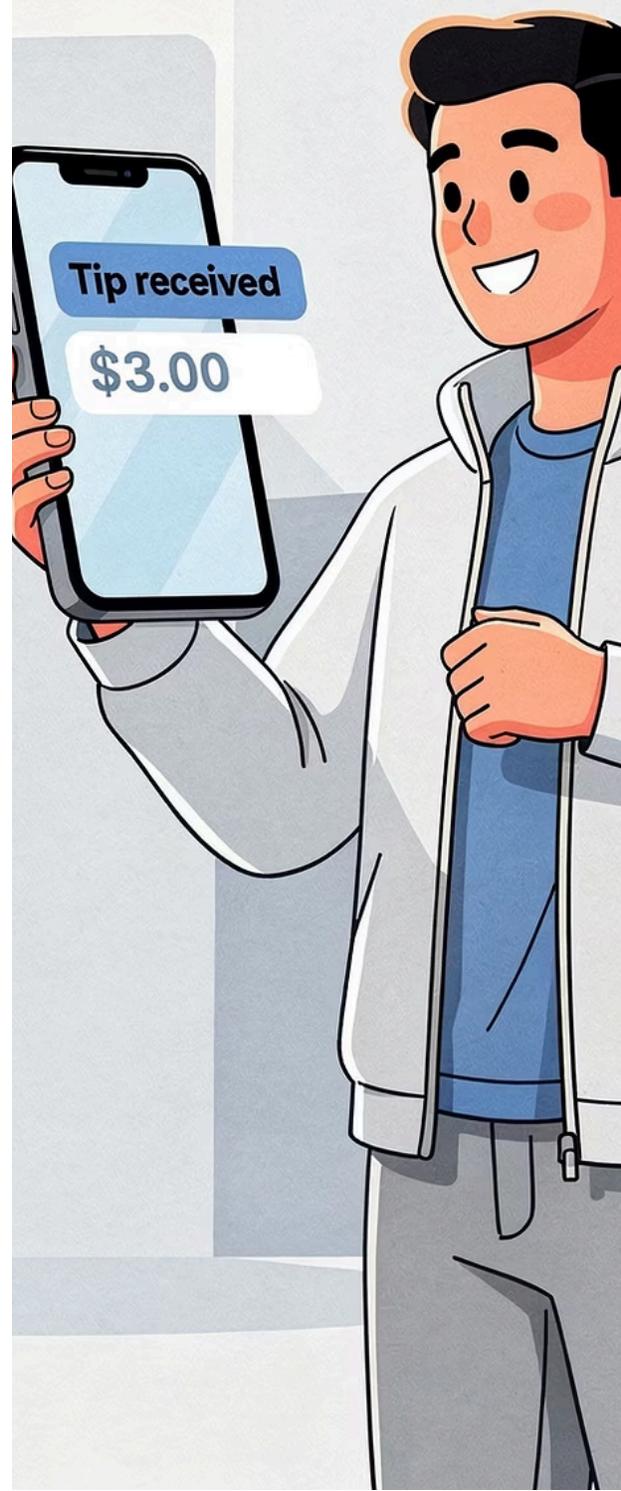
Tips received through a gig platform (Uber, Lyft, DoorDash, Instacart) are typically reported on a **1099-K** if they exceed the reporting threshold. Cash tips received directly from customers are not reported by anyone except you.

Multiple Gig Platforms

If you work across multiple platforms, combine all qualifying tips from all platforms when calculating your deduction. The **\$25,000 cap applies to your total tip income**, not per platform.

Gig Workers and the TTOC

For the 2025 tax year, gig platforms are not required to issue TTOCs. Starting in 2026, platforms may issue 1099s with occupation coding. Check with each platform you use to understand their reporting timeline.



Common Mistakes — Expanded With Prevention Strategies

1 Not Reporting Tips Because They Are "Tax Free"

The mistake: Hearing "no tax on tips" and assuming you no longer need to report tip income.

Why it is dangerous: The deduction only works if your tips appear on your tax forms. Unreported tips do not get the deduction — and they trigger penalties for underreporting income. The IRS can impose a 50% penalty on the Social Security and Medicare tax owed on unreported tips, plus accuracy-related penalties on your income tax.

Prevention: Report every dollar of tip income. The deduction handles the tax savings automatically.

3 Assuming Industry Equals Eligibility

The mistake: Believing you qualify because you work in a restaurant, hotel, or salon — without checking your specific job title.

Why it matters: A restaurant manager who does not personally receive tips is not eligible. A hotel front desk clerk who receives tips is eligible, but an administrative assistant at the same hotel is not. Eligibility is based on your occupation, not your workplace.

Prevention: Check your exact job title against the 68 qualifying occupations in this guide.

2 Forgetting Payroll Taxes Still Apply

The mistake: Assuming the deduction eliminates all taxes on tips.

Why it costs you money: The No Tax on Tips deduction only covers federal income tax. Social Security tax (6.2%) and Medicare tax (1.45%) — totaling 7.65% — still apply to every dollar of tips. On \$25,000 in tips, that is \$1,912.50 in payroll taxes regardless of the deduction.

Prevention: Budget for payroll taxes on your tip income. If you are self-employed, the rate is 15.3% (both employer and employee shares).

4 No Tip Log

The mistake: Not keeping records of your daily tips.

What happens: If the IRS requests documentation, you have nothing to show. Without a log, you cannot substantiate your deduction, and the IRS can disallow it entirely.

Prevention: Use the printable tip tracking log on the next page, or use IRS Form 4070-A (Employee's Daily Record of Tips). Record your tips every day — date, amount, cash vs. card, and employer.

Printable Daily Tip Tracking Log

Use this log to record your tips every day. Keep it with your tax records.

Date	Cash Tips	Credit Card Tips	Digital Tips (Venmo, etc.)	Tip Pool Share	Total Tips	Notes

Monthly Total: \$_____

- Instructions:** Fill out this log daily. At the end of each month, total each column. Keep monthly totals for your annual tax filing. If you participate in a tip pool, record only your share. Do not include mandatory service charges.

You can also use IRS Form 4070-A (Employee's Daily Record of Tips), available at [irs.gov](https://www.irs.gov).

State and Local Tax Considerations

The No Tax on Tips deduction is a **federal deduction only**. Your state and local tax obligations may differ.

States With No Income Tax

If you live in **Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, or Wyoming**, you already pay no state income tax on tips. The federal deduction provides additional savings on top of this.

States That Conform to Federal Deductions

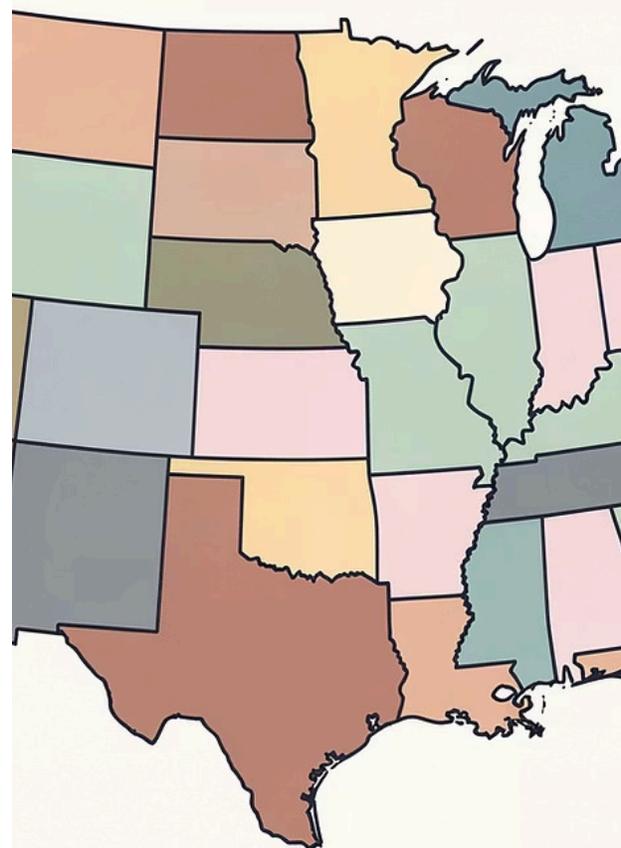
Some states automatically adopt federal tax deductions. If your state conforms, the tip deduction may reduce your state income tax as well. Check with your state's department of revenue or a tax professional.

States That Do NOT Conform

Other states set their own deduction rules and may not recognize the federal tip deduction. In these states, your tips may still be fully taxable at the state level even though they are partially or fully deducted at the federal level.

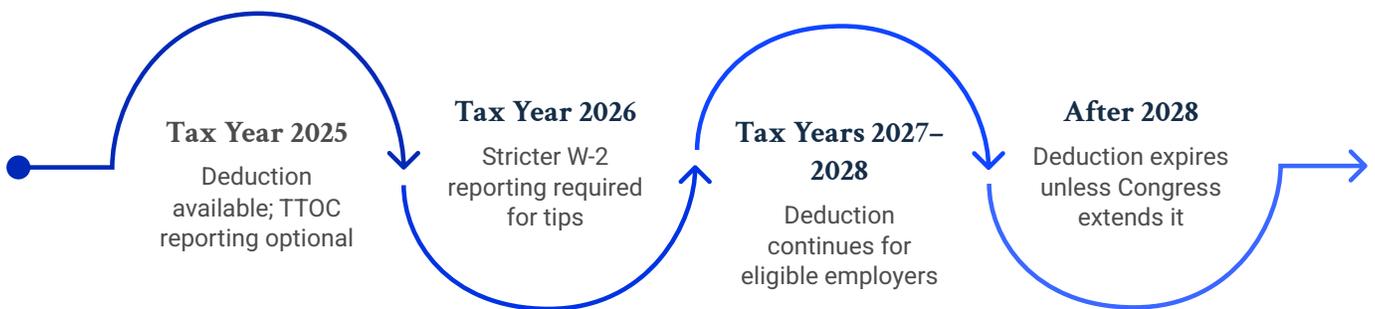
Local Taxes

Cities and counties with local income taxes (such as New York City, Philadelphia, and others) may also tax your tip income regardless of the federal deduction. Check your local tax authority.



Key Dates and Deadlines

Date	What Happens
Tax Year 2025 (filing now)	First year the deduction is available. Employer TTOC reporting is optional. IRS waived penalties for employers who did not separately report tip amounts on W-2s.
Tax Year 2026	Employer reporting gets stricter. W-2 must include Box 12 Code TP and Box 14-b TTOC. Employer penalties begin for missing tip reporting.
Tax Years 2027–2028	Deduction continues under current law.
After 2028	Deduction expires unless Congress extends it.



Official Resources and Contact Information

IRS Resources

- [IRS.gov](https://www.irs.gov) – Search "No Tax on Tips" or "Schedule 1-A" for the latest forms and instructions
- **IRS Free File** – Free tax filing software for taxpayers earning under \$84,000: irs.gov/freefile
- **IRS Taxpayer Assistance Centers** – In-person help: irs.gov/help/contact-your-local-irs-office
- **IRS Phone Line** – 1-800-829-1040 (Monday–Friday, 7 AM–7 PM local time)
- **Form 4070-A** – Employee's Daily Record of Tips (downloadable at [irs.gov](https://www.irs.gov))
- **Form 4137** – Social Security and Medicare Tax on Unreported Tip Income
- **Schedule 1-A** – Qualified Tip Income Deduction (new for tax year 2025)

Free Tax Preparation Help

VITA — Volunteer Income Tax Assistance

Free tax preparation for taxpayers earning under \$67,000, persons with disabilities, and limited-English speakers. Find a site: irs.gov/vita

TCE — Tax Counseling for the Elderly

Free tax help for taxpayers age 60+. Find a site: irs.gov/tce



Frequently Asked Questions

Can I claim the deduction if I started a tipped job partway through the year?

Yes. The deduction applies to qualifying tips earned during the portion of the year you worked in a qualifying occupation. There is no minimum employment period.

What if I work two jobs — one qualifying and one not?

Only tips from the qualifying job are eligible. Tips from the non-qualifying job cannot be included.

Do holiday bonuses from customers count as tips?

Cash gifts from customers are generally treated as tips and may qualify – but gift cards, event tickets, and non-cash items do not qualify for the deduction (though they are still taxable income).

Can I amend a prior year return to claim this deduction?

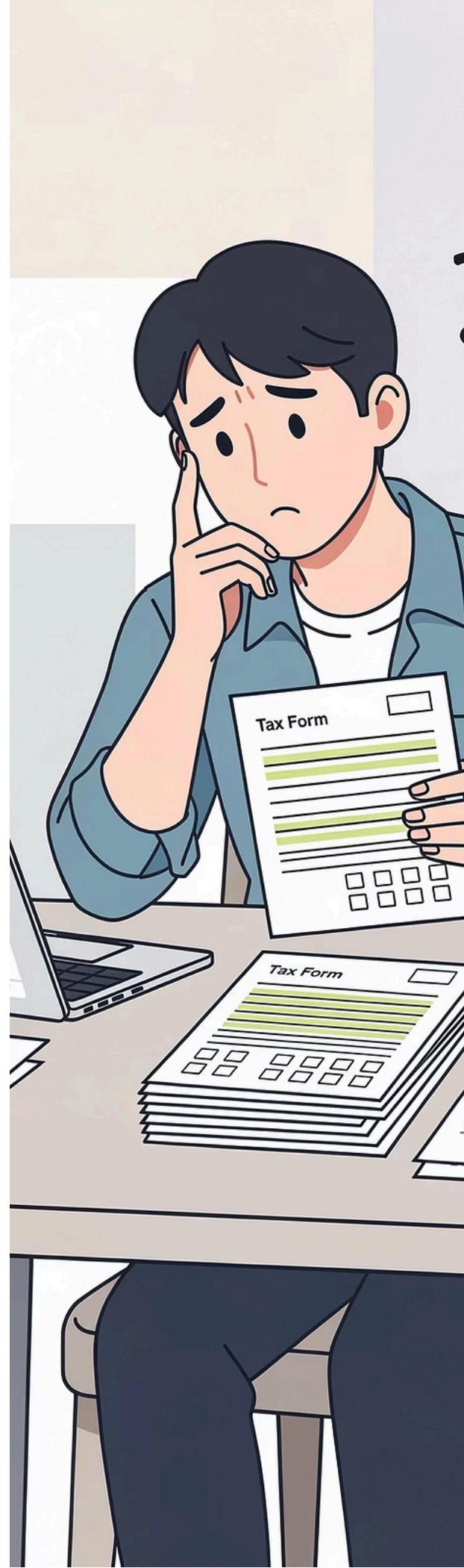
No. The deduction is only available for tax years 2025–2028. It cannot be applied retroactively to earlier years.

What if my employer adds a mandatory 20% service charge but calls it a "tip"?

Mandatory service charges are not tips under IRS rules, regardless of what the employer labels them. Only voluntary payments from customers qualify.

I am a freelancer who receives tips on Venmo. Do I qualify?

If your occupation is on the qualifying list and you meet the income and SSN requirements, yes. Report the tips on Schedule C and claim the deduction on Schedule 1-A.



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