For Employees: 2025 Tip Deduction Checklist

Understanding the new 2025 tip deduction can help you make the most of the income you earn throughout the year. These updated federal rules outline who qualifies, what counts, and how much you may be able to deduct when you file your tax return. This overview breaks everything down so you know what applies to you, what to track, and how to claim these benefits when tax season arrives.

Tip Deduction

☐ **Who Qualifies:** Employees and self-employed individuals who receive tips in an occupation that the IRS has identified as "customarily and regularly" receiving tips as of December 31, 2024. The IRS has published a detailed list of eligible occupations (e.g., wait staff, bartenders, taxi/rideshare drivers, hairdressers, hotel bellhops, casino dealers, and many more). https://tinyurl.com/2kksdzjd

☐ **What Counts:** Only voluntary cash or charged tips (including those received through tip-sharing arrangements) qualify. Mandatory service charges or automatic gratuities do not qualify.

☐ **How Much:** You may deduct up to $25,000 of qualified tips per year from your federal taxable income.

☐ **Income Limits:** The deduction is reduced by $100 for every $1,000 your modified adjusted gross income (MAGI) exceeds $150,000 ($300,000 for joint filers). If your MAGI is high enough, the deduction may be fully phased out.

☐ **How to Claim:** The deduction is taken on new Schedule 1-A as part of your individual tax return (Form 1040), whether or not you itemize deductions. You must include your Social Security Number on the return, and if married, you must file jointly to claim the deduction.

☐ **Reporting:** Only tips reported on a Form W-2, Form 1099, or directly on Form 4137 (for unreported tips) are eligible.

☐ **Payroll Taxes:** Tips are still subject to Social Security and Medicare taxes and must be reported to your employer as usual. Your withholdings will not be reduced or adjusted for this for 2025. Also, your W-2 will not reflect the tips; you must obtain that information from your employer.

☐ **Timeframe:** The deduction applies for tax years 2025 through 2028.

Note: The deduction is for federal income tax only; state and local tax treatment may differ. You will still see withholding for income and payroll taxes on your paychecks, but you can claim the deduction when you file your annual tax return, potentially reducing your tax bill or increasing your refund.