



New Tax Rules on Tips:

What Employers and Employees Should Know

- ✓ Workers may be eligible for new deductions for **tax years 2025-2028** if they received qualified tips.
- ✓ The maximum amount of tip income that can be deducted on a return is **limited to \$25,000** regardless of filing status.
- ✓ The tips must have been received in a business that **customarily and regularly received tips** on or before 12/31/2024.

FOR EMPLOYERS

New Tip Reporting Requirements

Starting in 2026, the IRS will require a separate accounting for tip income on Forms:

- W-2
- 1099-MISC
- 1099-NEC
- 1099-K

No penalties will be incurred for failing to report tips and overtime compensation for 2025.

What to Do Now

For 2025, the IRS encourages employers to **share tip information with employees now** through online portals, written statements, or other secure methods.

Early compliance will help employees file accurate tax returns and prepare employers for next year.

Details: [IRS Notice 2025-62](#)

FOR EMPLOYEES

New Tax Law Deductions

The new tax law allows individuals to **deduct up to \$25,000 of qualified tip income** received during the year and properly reported. This means no tax on tip income up to \$25,000.

To qualify, the tips must be reported as income on one of the following forms:

- W-2
- 1099-MISC
- 1099-NEC
- 1099-K
- Form 4137 (for tips not reported to an employer)

“Cash tips” include tips paid in cash or charged by customers and tips received under any tip-sharing arrangement.

What's Not Allowed

The deduction is **not allowed** if:

- The taxpayer is married but filing separately
- The tips were earned from illegal activities, prostitution, or pornography

Details: [IRS Notice 2025-69](#)

Pisgah Legal offers free tax help for qualifying individuals

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