



# 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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