

New deduction: Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations listed by the IRS as customarily and regularly receiving tips on or before December 31, 2024, and that are reported on a [Form W-2](#), Form 1099, or other specified statement furnished to the individual or reported directly by the individual on [Form 4137](#).

- “Qualified tips” are voluntary cash or charged tips received from customers or through tip sharing
- Maximum annual deduction is \$25,000; for self-employed, deduction may not exceed individual’s net income (without regard to this deduction) from the trade or business in which the tips were earned.
- Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers)

Taxpayer eligibility: Deduction is available for both itemizing and non-itemizing taxpayers. Self-employed individuals in a Specified Service Trade or Business (SSTB) under section 199A are not eligible. Employees whose employer is in an SSTB also are not eligible. Taxpayers must:

- Include their Social Security number on the return
- File jointly if married, to claim the deduction

Reporting: Employers and other payors must file information returns with the IRS (or SSA) and furnish statements to taxpayers showing certain cash tips received and the occupation of the tip recipient. See [IRS announces no changes to individual information returns or withholding tables for 2025 under the One, Big, Beautiful Bill](#).

Guidance: By Oct. 2, 2025, the [IRS must publish a list of occupations that “customarily and regularly” received tips on or before Dec. 31, 2024](#).

- The IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and payors subject to the new reporting requirements.