

# No Tax on Tips: A Guide for Stylists & Barbers

How to report, track, and deduct your tips on your federal tax return (2025–2028)

## START HERE

**What this actually is:** a new federal tax deduction of up to **\$25,000** per year on the tips you report. It is not a tax exemption — Social Security and Medicare (FICA) are still taken out of your tips. Only your federal **income** tax is reduced. You claim it yourself when you file using a new IRS form called **Schedule 1-A**.

## STEP 1

### Confirm Your Job Qualifies

Your occupation has to be on the IRS list of tipped occupations. The list uses a three-digit code called a Treasury Tipped Occupation Code (TTOC). For our industry, qualifying roles include:

- Hairdresser / Hairstylist / Cosmetologist
- Barber
- Shampooer
- Manicurist / Pedicurist / Nail Technician
- Skincare Specialist / Esthetician
- Massage Therapist

Ask your salon what TTOC they have on file for you. Starting with the 2026 tax year, this code will be printed in **Box 14b** on your W-2.

## STEP 2

### Know What Counts as a Tip

#### Qualifies for the deduction:

- Cash tips a client voluntarily gives you
- Tips added on a credit card or electronic payment
- Your share of pooled tips from coworkers

#### Does NOT qualify:

- Mandatory service charges or auto-gratuities the client can't remove
- 'Service fees' baked into the price of the service
- Tips paid in cryptocurrency or digital assets
- Tips received in a year you owned the salon and worked on yourself as a client (special rules apply to owners)

## STEP 3

### Track Tips Every Single Day

You can't claim the deduction on tips you don't report. Build a habit now.

### At the end of each shift, write down:

- Total card / electronic tips (from your POS end-of-day)
- Total cash tips (count them, write the number)
- The date

Use one place — a notes app, a paper log, or whatever your salon provides. The IRS specifically recognizes Form 4070A as a daily tip log if you want a formal version.

#### STEP 4

## Report Tips to Your Salon Every Month

By the 10th of each month, give your salon a total of last month's tips (card + cash). Most salons have a Monthly Tip Report form. The IRS version is **Form 4070**.

### Why this matters:

- Reported tips show up correctly on your year-end W-2.
- Unreported cash tips can't be deducted — and can trigger penalties.
- Reported tips also count toward Social Security credits and income proof for loans, apartments, and credit.

#### STEP 5

## Understand Your Paycheck and W-2

On every paycheck, FICA (7.65%) is taken out of your tips just like your wages. This is normal and doesn't change under the new law. Federal income tax may also be withheld depending on your W-4.

### On your year-end W-2, look at:

- **Box 1** — Total wages plus reported tips (this is your taxable income)
- **Box 7** — Social Security tips (your reported tip amount)
- **Box 14** — For 2025: salon may optionally show your qualified tips here
- **Box 12, code 'TP'** — For 2026 and later: required; this is your qualified tip amount
- **Box 14b** — For 2026 and later: your TTOC occupation code

If your salon doesn't break out qualified tips on the 2025 W-2, you can still claim the deduction — you'll just use your own monthly tip logs to calculate the qualified amount.

#### STEP 6

## File Using Schedule 1-A

Schedule 1-A is a brand-new form for the 2025 tax year. It bundles all four new OBBBA deductions (tips, overtime, car loan interest, senior deduction). You attach it to your Form 1040.

### How Part II (the tips section) works:

- **Line 4a** — Enter your qualified tips received as an employee.
- **Line 4b** — Enter qualified tips from self-employment (if applicable).

- Cap at \$25,000 total.
- Phase-out math: if your MAGI is above \$150,000 single (\$300,000 joint), subtract \$100 for every \$1,000 of income over the threshold.
- The final number is your deduction — it reduces your taxable income.

#### Requirements to claim:

- You (and spouse, if married) must have a valid Social Security number.
- If married, you must file **jointly**. Married Filing Separately is disqualified.
- Your tips must be reported on a W-2, 1099-NEC, 1099-MISC, 1099-K, or Form 4137.
- Works whether you take the standard deduction or itemize.

#### EXAMPLE

**Worked example:** You're single, earn \$48,000 in wages, and reported \$14,000 in tips for the year. Your MAGI is well under \$150,000, so no phase-out applies. Your qualified tip deduction = **\$14,000**. Your taxable income drops by \$14,000, saving you roughly \$1,700–\$3,000 in federal income tax depending on your bracket. FICA on those tips (\$1,071) is still withheld and unchanged.

#### STEP 7

### Watch Out for Two Catches

#### If you worked at more than one salon:

Special rule — if you received qualified tips as an employee from more than one employer in the same year, you enter zero on the standard lines and have to use a different worksheet in the Schedule 1-A instructions. Talk to a tax preparer or use software that handles this.

#### If you already filed your 2025 return:

The IRS posted guidance in May 2026 saying some early filers who claimed (or should have claimed) the deduction may need to file **Form 1040-X** to amend. If you filed before late March 2026, check with a tax preparer to see if amending makes sense for you.

#### STEP 8

### Don't Forget State Income Tax

The deduction is **federal only**. Most states have not yet decided whether they'll match the federal treatment. In states with income tax, you may still owe full state tax on your tips even though your federal tax drops.

Check your state Department of Revenue website or ask your preparer how your state is handling OBBBA tip income for 2025.

#### STEP 9

### If You're a Booth Renter or Self-Employed

If you rent a booth or operate as an independent contractor (1099, not W-2), you still qualify for the deduction, but with two changes:

- Your tips are reported on your Schedule C as gross receipts — keep records separating service revenue from tip revenue.
- Your tip deduction can't exceed your net business income (after expenses).
- You're responsible for self-employment tax (15.3%) on all your income, including tips. The new deduction does not reduce self-employment tax — only income tax.

#### STEP 10

## Keep Your Records for at Least 4 Years

### Hold onto:

- Your daily tip logs
- Your monthly tip reports submitted to the salon
- All W-2s and 1099s
- A copy of your filed Form 1040 and Schedule 1-A
- Any worksheet you used to calculate your qualified tip amount

If the IRS ever questions your deduction, these records are how you defend it.

#### WHAT TO HAVE READY

##### Quick reference — your filing checklist:

- W-2 from each salon you worked at
- 1099 forms (if you had any independent income)
- Your own monthly tip logs (in case the W-2 doesn't separately list qualified tips)
- Form 1040
- **Schedule 1-A** — Part II is where you claim the tip deduction
- Schedule C (only if you're self-employed / booth renter)
- Your Social Security number and, if married, your spouse's — and a joint return if filing as married

This guide reflects federal rules under the One Big Beautiful Bill Act and final IRS regulations issued April 2026. The deduction applies to qualified tips earned from January 1, 2025 through December 31, 2028 and is currently scheduled to expire after that unless Congress extends it. State income tax treatment varies. This document is informational and not a substitute for advice from a tax professional.