

No Tax on Tips

2026 W2 and 1099 NEC Reporting Guide

Tips still belong in reported income. The new fields identify the tip portion; eligible workers claim the tax break on their own federal tax returns.

What the tax break means

The One Big Beautiful Bill Act allows eligible workers to deduct up to \$25,000 in qualified tips per return for 2025 through 2028. Married couples share that limit. The deduction reduces taxable income, not taxes dollar for dollar. Social Security, Medicare and self-employment taxes generally still apply; state rules vary.

The deduction shrinks by \$100 for each \$1,000 that modified adjusted gross income exceeds \$150,000 (\$300,000 for joint filers). Workers need a valid-for-employment Social Security number, and married workers must file jointly. Self-employed workers are also limited to net income from the tipped business. Workers can claim it with either the standard deduction or itemized deductions.

Qualifying tips are voluntary customer payments in an IRS-listed tipped occupation. Cash, card and qualifying electronic tips, plus employee tip-pool shares, can count. Required service charges do not qualify. Certain service businesses face additional rules, currently subject to IRS transition relief.

How to report employee tips on Form W2

Boxes 1 and 5: Include reported tips in wages and Medicare wages, as applicable. Box 7: Report Social Security tips, subject to the combined Social Security wage limit. Do not also put Box 7 tips in Box 3.

Box 12: Enter total cash tips reported to you using code TP. Box 14b: Add the applicable Treasury Tipped Occupation Code or codes.

How to report contractor tips on Form 1099 NEC

Box 1a: Include tips in total nonemployee compensation. Box 1b: Enter the cash-tip portion already included in Box 1a. Box 1c: Add the applicable Treasury Tipped Occupation Code or codes.

Example: You paid a contractor \$5,000 total, including \$500 in tips. Enter \$5,000 in Box 1a and \$500 in Box 1b. Box 1b identifies the tips; it does not add another \$500 of income.

Before you file

Report the full tip amount required, even if it exceeds the \$25,000 deduction limit. Keep tip records and use IRS occupation codes. These new fields are for 2026 forms; 2025 had separate transition rules. Workers claim any eligible deduction on Schedule 1-A with Form 1040.

Official sources: [Tax law](#) | [W-2 instructions](#) | [1099-NEC instructions](#) | [IRS tip guidance](#) | [Occupation codes](#)

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