



MEMO: NO TAX ON TIPS

Campaign Slogan Turned Tax Law

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2025 is the first year that employees receiving tips and overtime are eligible to deduct said income from their taxable wages. This tax exemption continues until end of the 2028 tax year.

For anyone filing taxes with overtime or tips to claim, information below should help you understand how to deduct this income and what this tax law means for you.

FOR TIPPED EMPLOYEES

Tipped workers can deduct qualified tips from their gross income. The deduction is capped at \$25,000 for an individual filer or \$50,000 for joint filers.

FOR OVERTIME EMPLOYEES

Similar to tipped workers, employees who work overtime can deduct overtime pay from their gross income. This only applies to the extra half time pay from overtime, not the full time and a half. The overtime deduction is capped at \$12,500 for an individual filer and \$25,000 for joint filers.

FOR ALL EMPLOYEES CLAIMING THIS DEDUCTION

Income covered by the no tax on tips or overtime provisions still provide coverage for FICA taxes (used later in life for Social Security and Medicare) as well as Unemployment compensation. Both tax deductions should not impact how your income is considered for loans.

WHO QUALIFIES?

The IRS published a list of ten occupations from the hospitality sector which will have their tips qualify for the tax exemption. That list can be found [here](#). Most occupations, both front and back of house, appear on the list. Individual filers who earn more than \$150,000 and joint filers who earn more than \$300,000 are not eligible to deduct tips and overtime from their federal taxes.

HOW DO I CLAIM MY DEDUCTION?

Deductions for tips and overtime should be as simple as reporting those amounts to the IRS once it comes time to file taxes. Regardless of whether you itemize your deduction or take the standard deduction, you will be allowed to deduct up to \$25,000 of tips and \$12,500 in overtime pay. These will be deducted from your gross pay, basically changing what the IRS considers your gross income.

To claim the deduction, you will need to fill out the Schedule 1-A. This deduction works the same as deductions for student loan interest or other income deductions.

The chart below shows the impact that tips being exempt from taxes have for an employee.

No Tax on Tips Is in Full Effect

Detail	Current Law	NEW LAW – backdating to January 2025
Duration		Four Years (2025 – 2028)
Annual earnings	\$50,000 (\$40K tips, \$10K cash wages)	\$50,000 (\$40K in tips, \$10K in wages)
Income Subject to Federal Income Tax	\$50,000	\$25,000 (\$15K in taxable tips + \$10K in wages) <i>First \$25K is tax-free</i>
Effective Rate	11.3%	10%
Federal Income Tax Liability	\$4,016	\$1,040
Server Tax Savings		\$2,976 (\$4,016 - \$1,040)

