

# Taxpayers Must Report Tip Money As Income On Their Tax Return

For those working in the service industry, tips are often a vital part of their income. Like most forms of income, tips are taxable. Therefore, it's also vital that people understand the tax obligations that come with tip income. Here's some information to help taxpayers report tip income so they don't receive a surprise tax bill.

Taxpayers must include all tips they receive in their gross income. This includes:

- Tips directly from customers.
- Tips added using credit, debit or gift cards.
- Tips from a tip-splitting arrangement with other employees.

The value of non-cash tips, such as tickets, passes or other items of value is also income and subject to tax.

Three things can help taxpayers to correctly report their tip income.

- Keep a daily tip record.
- Report tips to their employer.
- Report all tips on their income tax return.

## **Use the Interactive Tax Assistant**

This online tool provides answers to tax law questions. Taxpayers can use the [Interactive Tax Assistant](#) on IRS.gov to find out if their tip income is taxable.

## **What employers need to know**

If an employee receives \$20 or more in any month, they must report their tips for that month to their employer by the 10th day of the next month. The employer must withhold federal income, Social Security and Medicare taxes on the reported tips.