

## Determining Taxability of Earned Tips

Usually, tips earned are taxable. The following are tips to assist you in reporting tip income correctly.

- **Including all your tips on your tax return** – Use the **FORM 4137**, *Social Security and Medicare Tax on Unreported Tip Income*, to report the amount of any unreported tip income as additional income. This includes the value of non-cash tips such as tickets, passes or other items.
- **Using the Interactive Tax Assistant Tool** – This tool is a tax-law resource that can be used like a worksheet for determining taxability of tips. It directs you to answer questions that prompt a response about taxability. Consult your tax preparer about this tool.
- **Paying Tax on all tips** – Tips that are taxable include those paid directly from customers, tips added to credit cards, and tips received from a tip-splitting agreement with other employees. Consult your tax preparer about the details on these categories of tips.
- **Reporting tips to your employer** – If you receive \$20 or more in tips in any month, you must report your tips for that month to your employer by the 10<sup>th</sup> day of the next month. Your employer must withhold federal income, Social Security and Medicare taxes on your reported tips.
- **Keeping a log of your tips** – You can use Publication 1244, *Employee's Daily Record of Tips and Report to Employer*, to record tips. This will assist you in filing your tax return.
- **Keep a copy of your tax return** – Your tax preparer should keep a copy of your tax return on the computer or in paper files. You need to keep a copy of your tax return as well. For further information, contact your tax preparer.