



Complete Guide to Tip Reporting for Salons

Why Tip Reporting Matters

As a salon employee, all tips you receive are considered taxable income—whether they come in through the salon’s system or directly from clients via cash, Venmo, PayPal, Tippy, point-of-sales system, or other apps. Reporting your tips correctly helps you stay compliant with the IRS and ensures your earnings are accurately reflected for benefits like Social Security. Starting in 2025, there are 2 new tax laws relating to tips that do allow you to receive a deduction or credit for tax paid on tips but compliance is still necessary and even more important. The new tax laws are the following:

No Tax on Tips

Starting in 2025 there is an income tax deduction available to individuals who meet the income threshold. This tax deduction is for the individual employee, it’s limited to \$25,000 per year, but it has no direct impact on the salon operations, the salon tax situation, or the reporting of tips. The tip deduction is based on the tips reported in Box 7, so the salon and employees should focus on the reporting of tips being as accurate as possible.

Tip Credit

Starting in 2025 there is an income tax credit available to the salon industry called the tip credit. The tip credit is filed with the business return, but it flows through to the individual owner’s return. The tip is 7.65% of the tips reported in Box 7. Similar to the no tax on tips provisions, the tip credit has no direct impact on the salon operations, the salon tax situation, or the reporting of tips. The tip credit is based on the tips reported in Box 7, so the salon should focus on the reporting of tips being as accurate as possible.



What You Need to Do

1. Track Your Tips Daily

Use IRS Form 4070A (Employee's Daily Record of Tips) to keep a daily log of all tips you receive. This includes:

- Cash tips
- Credit/debit card tips
- Tips received through Venmo, PayPal, Cash App, etc.
- Tips from tip pools or sharing arrangements

You can find Form 4070A at the end of this guide.

2. Report Your Tips Monthly

By the 10th of each month, you must report the total tips you received in the previous month to the salon using IRS Form 4070. This form includes:

- Your name, address, and Social Security number
- The salon's name and address
- The month (or shorter time) the tips were received
- The total amount of tips
- Your signature
- The date of the report

You can find the Form 4070 at the end of this guide.

3. Include All Tips—Even Outside the System

If you receive tips directly from clients (e.g., cash, Venmo, PayPal), you must still report them. These tips need to be:

- Included in your monthly Form 4070
- Added to your paycheck so that proper taxes can be withheld

What Happens If You Don't Report Tips?

- This affects your W-2, tax return, and even future benefits like Social Security.
- You are putting yourself at risk of having your tax return audited
- You could owe back taxes along with interest and penalties on top of that

Pro Tip

Set a reminder on your phone for the 10th of each month to submit your tip report. Staying consistent protects you and the salon!



Why Should I Report My Tips? Aren't They Tax-Free Now?

Great question — and the answer is: Yes, they can be tax-free — but only if you report them. Let's break it down in a way that makes sense for your life and your money.

Meet You: A Stylist Making Bank

You're a talented stylist earning:

- \$50,000 in Commission
- \$25,000 in Tips

You're crushing it. But how you handle those tips can make a huge difference in your taxes, your future, and your peace of mind.

Old Law (Before 2025): Tips Not Reported

- You didn't report your \$25,000 in tips.
- Your W-2 shows \$50,000.
- You paid tax on \$50,000.
- You saved a little on taxes, but:
 - You were not compliant with IRS rules.
 - You risked penalties and audits.
 - You couldn't use that tip income to qualify for loans, Social Security, or unemployment.

New Law (2025): "No Tax on Tips" — If You Report Them

- You report your \$25,000 in tips to your employer.
- Your W-2 now shows \$75,000.
- But here's the magic: You get a \$25,000 deduction on your tax return.
- So you still only pay tax on \$50,000 — just like before.

Same tax bill. But now you're legal, protected, and building your future.

Real Tax Comparison

Scenario	W-2 Income	Taxable Income	Federal Tax Owed (Est.)	Risk Level
Old Law (Unreported Tips)	\$50,000	\$50,000	~\$6,000	High (Non Compliant)
New Law (Reported Tips)	\$75,000	\$50,000 (After \$25,000 Deduction)	~\$6,000	Low (Fully Compliant)

Note: You still pay Social Security & Medicare (FICA) taxes on tips, but that helps you qualify for future benefits like retirement and disability.



Want to Buy a House or Car?

Banks look at your W-2 income to decide how much to lend you.

- With a \$50K W-2 → You might qualify for a \$200K home.*
- With a \$75K W-2 → You could qualify for a \$300K home.*

That's the power of reporting your tips.

**These aren't actual figures but are approximate estimates. Results can vary*

Bottom Line

Reporting your tips = no extra tax + more financial power.

It's not just about taxes — it's about:

- Getting approved for loans
- Buying your dream home
- Building retirement benefits
- Sleeping better at night

Employee's Daily Record of Tips

This is a voluntary form provided for your convenience.
See instructions for records you must keep.

OMB No. 1545-0074

Employee's name and address

Employer's name

Month and year

Establishment name (if different)

Date tips rec'd	Date of entry	a. Tips received directly from customers and other employees	b. Credit and debit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
1					
2					
3					
4					
5					
Subtotals					

Date tips rec'd	Date of entry	a. Tips received directly from customers and other employees	b. Credit and debit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
Subtotals					

Date tips rec'd	Date of entry	a. Tips received directly from customers and other employees	b. Credit and debit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
Subtotals					

Date tips rec'd	Date of entry	a. Tips received directly from customers and other employees	b. Credit and debit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
26					
27					
28					
29					
30					
31					
Subtotals from pages 1, 2, and 3					
Totals					

1. Report total cash tips (col. **a**) on Form 4070, line **1**.
2. Report total credit and debit card tips (col. **b**) on Form 4070, line **2**.
3. Report total tips paid out (col. **c**) on Form 4070, line **3**.

Employee's Report of Tips to Employer

OMB No. 1545-0074

Employee's name and address

Social security number

⋮ ⋮

Employer's name and address (include establishment name, if different)

1 Cash tips received

2 Credit and debit card tips received

3 Tips paid out

Month or shorter period in which tips were received

4 Net tips (lines **1 + 2 - 3**)

from , , to ,

Signature

Date

Purpose. Use this form to report tips you receive to your employer. This includes cash tips, tips you receive from other employees, and debit and credit card tips. You must report tips every month regardless of your total wages and tips for the year. However, you do not have to report tips to your employer for any month you received less than \$20 in tips while working for that employer.

Report tips by the 10th day of the month following the month that you receive them. If the 10th day is a Saturday, Sunday, or legal holiday, report tips by the next day that is not a Saturday, Sunday, or legal holiday.

See Pub. 531, Reporting Tip Income, for more details.

You can get additional copies of Pub. 1244, Employee's Daily Record of Tips and Report to Employer, which contains both Forms 4070A and 4070, by calling 1-800-TAX-FORM (1-800-829-3676) or by downloading the pub from the IRS website at www.irs.gov.

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The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.