



No Tax On Tips: What Salon Employees Need to Know (2025 - 2028)

What is it?

The 'No Tax on Tips' deduction allows eligible workers to deduct up to \$25,000 in reported tip income from their federal taxable income—a major tax break for those in tip-based industries like personal care services. It is important to note this is a tax deduction and not a tax credit. It reduces the amount of your income that is taxed and does not offset the taxes you owe.

Do I Qualify?

- Employees in occupations that customarily received tips as of December 31, 2024 (salons are expected to be included).
- Self-employed individuals but the deduction may not exceed their net income from the salon in which the tips were earned
- Must report tips to employers or on IRS Form 4137.
- The IRS will publish a list of qualifying occupations.

What Kinds of Tips Count?

- Cash or charged tips from clients
- Shared tips (e.g., pooled among stylists or assistants)
- Reported tips only—unreported tips don't qualify.

How Much Can I Deduct?

- Up to \$25,000 per year or the amount of tips you received
- Above-the-line deduction: You don't need to itemize
- Still subject to FICA (Social Security & Medicare)

Is There an Income Limit?

Yes, but it's pretty high:

If you make under \$150,000 (single) or \$300,000 (married, filing joint), you get the full deduction. It phases out completely at \$400,000 (single) or \$550,000 (married filing joint). So most stylists will qualify for the full benefit.

How Does This Impact My Paycheck

- There will be no change to your normal paycheck if tips have been regularly reported.



Can Salon Owners Benefit?

- Yes! S Corp owners can claim the deduction if tips are reported on their W-2.

What Should My Boss Know?

- Must report employee tips to the IRS
- Third-party platforms (e.g., Venmo, Square) will also report tip income

When Does It Start?

- Effective: January 1, 2025
- Ends: December 31, 2028

Action Steps

- Educate your team using this handout
- Ensure accurate tip reporting on payroll
- Watch for the IRS occupation list
- Consult a tax professional for W-2 setup