

Four Tax Tips about Tip Income

If you work in an occupation where tips are part of your total compensation, you need to be aware of several facts relating to your federal income taxes. Here are four things the IRS wants you to know about tip income:

* *Tips are taxable.* Tips are subject to federal income, Social Security and Medicare taxes. The value of non-cash tips, such as tickets, passes or other items of value, is also income and subject to tax.

* *Include tips on your tax return.* You must include in gross income all cash tips you receive directly from customers, tips added to credit cards, and your share of any tips you receive under a tip-splitting arrangement with fellow employees.

* *Report tips to your employer.* If you receive \$20 or more in tips in any one month, you should report all of your tips to your employer. Your employer is required to withhold federal income, Social Security and Medicare taxes.

* *Keep a running daily log of your tip income.* You can use IRS Publication 1244, Employee's Daily Record of Tips and Report to Employer, to record your tip income.