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Do you receive tips or earn overtime pay at work?

Under the [One, Big, Beautiful Bill](#), some taxpayers that receive tips and overtime pay may be eligible for new deductions for tax years 2025 through 2028.

| No tax on tips deduction | No tax on overtime deduction |
|---|---|
| Who qualifies | |
| <p>Eligible tipped workers who:</p> <ul style="list-style-type: none"> » Receive tips in an occupation that customarily and regularly received tips on or before December 31, 2024 » Have a Social Security number (SSN) valid for employment » If married, file a joint return | <p>Taxpayers who:</p> <ul style="list-style-type: none"> » Have a Social Security number (SSN) valid for employment » If married, file a joint return |
| What can be deducted | |
| <p>Generally, qualified tips are cash or charged tips, including shared tips, that are paid voluntarily, not subject to negotiation, and determined by the customer. Tips received while performing services that are felonies or misdemeanors, or for prostitution or pornographic activity are not qualified tips. There are other restrictions that may apply to your situation. For more information see https://www.govinfo.gov/content/pkg/FR-2025-09-22/pdf/2025-18278.pdf.</p> | <p>Individuals may deduct the overtime paid to them as required under section 7 of the Fair Labor Standards Act of 1938 that is more than their regular rate of pay (generally, the “half” portion of “time-and-a-half”). Amounts that are not required by section 7 of the FLSA (e.g., due to state law or union contract) are not deductible.</p> |
| Maximum annual deduction | |
| <p>\$25,000 (Additional limits may apply for tips received by self-employed individuals.)</p> | <p>\$12,500 (\$25,000 for joint filers.)</p> |
| Phaseout amounts | |
| <p>Phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers.)</p> | <p>Phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers.)</p> |
| How amounts are reported to taxpayers | |
| <p>Qualified tips must be reported on a Form W-2, Form 1099-NEC, Form 1099-MISC, or Form 1099-K or on Form 4137 if the individual directly reports the tips as an employee. However, a transition rule applies for tax year 2025 and these amounts may not be separately stated. See Notice 2025-69 or the Instructions for Form 1040 for guidance on how to determine the amount for tax year 2025.</p> | <p>Qualified overtime must be reported on Form W-2, Form 1099-NEC, or Form 1099-MISC. However, a transition rule applies for tax year 2025 and these amounts may not be separately stated. See Notice 2025-69 and the Instructions for Form 1040 for guidance on how to determine the amount for tax year 2025.</p> |
| How taxpayers can claim the deduction | |
| <p>On Form 1040, Schedule 1-A, Additional Deductions, Part II</p> | <p>On Form 1040, Schedule 1-A, Additional Deductions, Part III</p> |
| When the deduction can be claimed | |
| <p>Only for tax years 2025 through 2028</p> | <p>Only for tax years 2025 through 2028</p> |

For more information and additional details on eligibility requirements, refer to the [One, Big, Beautiful Bill provisions](#) page on IRS.gov and the Instructions for Form 1040.