

IRS TAX TIP 2001-26

TIPS AND TAXES

WASHINGTON -- Do you work at a hair salon, barber shop, casino, golf course, hotel, restaurant or drive a taxi cab? The tip income you receive as an employee from those services is taxable income, according to the IRS.

As taxable income, these tips are subject to federal income tax, Social Security and Medicare taxes, and may be subject to state income tax as well.

You must keep a running daily log of all your tip income. You can use Publication 1244, "Employee's Daily Record of Tips and Report of Tips to Employer," to record your tip income. For a free copy of Publication 1244, call the IRS at 1-800-826-3676.

If you receive \$20 or more in tips in any one month, you should report all your tips to your employer. Your employer is required to withhold federal income taxes, Social Security and Medicare taxes and report the correct amount of your earnings to the Social Security Administration (which affects your benefits when you retire or if you become disabled, or your family's benefits if you die).

For more information, check out IRS Publication 531, "Reporting Tip Income," or Publication 3148, "Tips on Tips." They are available by calling 1-800-829-3676 or by going to the IRS Web site at www.irs.gov. For recorded tax information on tips, call 1-800-829-4477 and select topic 402.

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