

Best Tax Practices – Tipped Employees

It's not just for waiters, waitresses, & bartenders - oh my!

All people are required to declare ALL tips as income, regardless of one's occupation or profession or the amount of tips received

101 NOVICE:

When you work for someone who reports your wages on a W2, you are an Employee and your income is called Wages. In addition to claiming your tips from the 1st dollar, when your tips are greater than \$20 in one month, you are required to report your tip income to your employer. The amount you report to your employer can be your net - after making your tip-outs however, you must keep records of your tip-outs.

- **Tip-outs can ONLY be declared when you report your tips to your employer**
 - **Tip-outs CANNOT be reported on your tax return**

For people who are self-employed, tips are simply declared as income.

201 INTERMEDIATE:

Use IRS **Form 4070 - Employee's Report of Tips to Employer** to report your tips to your employer and give it to your employer by the 10th of the following month in which you received tips. http://www.irs.gov/pub/irs-access/f4070_accessible.pdf

301 ADVANCED:

Use IRS **Form 4070A - Employee's Daily Record of Tips** to keep track of your tips as you receive them.

BEST PRACTICE: #1 – Keep track of your tips

#2 – If you give tip-outs, keep track of those

#3 - When your tips are more than \$20 in any calendar month, report the amount to your employer

#4 - Claim all of your tips

Postscript: Many tipped employees do not report all of their tips but do deposit their tips into their bank account and then subsequently use their bank account to pay their bills, rent, phone, internet, etc., When the IRS or other taxing agency initiates an examination (audit), they will see those bank deposits and make inquiry as to why the declared income on the tax return is less than the amount deposited into your account.