



Department of the Treasury
Internal Revenue Service

Publication 531
(Rev. November 1997)
Cat. No. 15059V

Reporting Tip Income



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Introduction

This publication is for employees who receive tips from customers. Waiters, hairdressers, cab drivers, and club performers are some people who get tips. If you are self-employed, see Publication 334, *Tax Guide for Small Business*, for more information.

Reporting your tip income correctly is not difficult. You must do three things:

- 1) Keep a daily tip record,
- 2) Report tips to your employer, and
- 3) Report all tips you receive on your income tax return.

This publication will show you how to do these three things, and what to do on your tax return if you have not done the first two. This publication will also show you how to treat allocated tips.

Keeping a Daily Tip Record

Why keep a daily tip record? You must keep a daily tip record so you can:

- Report your tips accurately to your employer,
- Report your tips accurately on your tax return, and
- Prove your tip income if your return is ever questioned.

How to keep a daily tip record. There are two ways to keep a daily tip record. You can either:

- 1) Write information about your tips in a tip diary, or
- 2) Keep copies of documents that show your tips, such as restaurant bills and credit card charge slips.

You should keep your daily tip record with your personal records.

If you keep a tip diary, you can use **Form 4070A, Employee's Daily Record of Tips**. To get a year's supply of the form, ask the IRS or your employer for **Publication 1244**. Each day, write in the information asked for on the form. A filled-in Form 4070A is shown on page 2.

If you do not use Form 4070A, start your records by writing your name, your employer's name, and the name of the business if it is different from your employer's name. Then, each workday, write the date and the following information:

- Cash tips you get directly from customers or other employees,
- Tips from credit card charge customers that your employer pays you,
- The value of any noncash tips you get, such as tickets, passes, or other items of value,
- The amount of tips you paid out to other employees through tip pools or tip splitting, or other arrange-

ments, and the names of the employees to whom you paid the tips.



Do not write in your tip diary the amount of any service charge that your employer adds to a customer's bill, and then pays to you and treats as wages. This is part of your wages, not a tip.

Reporting Tips to Your Employer

Why report tips to your employer? You must report tips to your employer so that:

- Your employer can withhold federal income tax and social security and railroad retirement tax or Medicare taxes,
- Your employer can report the correct amount of your earnings to the Social Security Administration or Railroad Retirement Board (which affects your benefits when you retire or if you become disabled, or your family's benefits if you die), and
- You can avoid the penalty for not reporting tips to your employer (explained later).

What tips to report. Report only cash, check, or credit card tips you get to your employer. If your total tips for any one month from any one job are less than \$20, do not report them to your employer. Do not report the value of any noncash tips, such as tickets or passes, to your employer. You do not have to pay social security and Medicare taxes or railroad retirement tax on these tips.

How to report. You can use **Form 4070, Employee's Report of Tips to Employer**. To get a year's supply of the form, ask the IRS or your employer for **Publication 1244**. Write in the information asked for on the form, sign and date the form, and give it to your employer. A filled-in Form 4070 is shown later.

If you do not use Form 4070, write the following information in your report:

- Your name, address, and social security number,
- Your employer's name, address, and business name if it is different from the employer's name,
- The month (or the dates of any shorter period) in which you received tips, and
- The total amount of tips you received.

Then, sign and date the report and give it to your employer. You should keep a copy of the report with your personal records.

Sample Filled-in Form 4070A from Publication 1244

Form 4070A (Rev. July 1996) Department of the Treasury Internal Revenue Service		Employee's Daily Record of Tips This is a voluntary form provided for your convenience. See instructions for records you must keep.			OMB No. 1545-0065
Employee's name and address John W. Allen 1117 Maple Ave. Anytown, NY 14202		Employer's name Diamond Restaurant Establishment name (if different)		Month and year Oct. 1997	
Date tips rec'd.	Date of entry	a. Tips received directly from customers and other employees	b. Credit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
1	10/3	- OFF -			
2	10/3	48.80	26.40	15.20	Judy Brown
3	10/3	28.00	21.60	8.00	Carl Jones
4	10/5	42.00	24.00	10.00	Judy Brown
5	10/7	40.80	28.00	12.00	Judy Brown & Brian Smith
Subtotals		159.60	100.00	45.20	

For Paperwork Reduction Act Notice, see Instructions on the back of Form 4070.

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Date tips rec'd.	Date of entry	a. Tips received directly from customers and other employees	b. Credit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
6	10/7	- OFF -			
7	10/8	37.20	22.40	8.00	Carl Jones
8	10/9	50.80	17.20	10.00	Judy Brown & Carl Jones
9	10/9	33.60	16.40	8.00	Judy Brown
10	10/11	30.40	22.00	9.20	Judy Brown
11	10/11	42.00	11.60	8.80	Carl Jones
12	10/14	35.60	16.00	7.60	Judy Brown
13	10/14	- OFF -			
14	10/14	48.40	14.40	12.40	Judy Brown & Brian Smith
15	10/16	45.20	32.00	17.20	Brian Smith
Subtotals		323.20	152.00	81.20	

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Date tips rec'd.	Date of entry	a. Tips received directly from customers and other employees	b. Credit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
16	10/16	41.20	18.40	8.80	Judy Brown
17	10/18	39.20	21.20	9.60	Judy Brown
18	10/19	46.80	12.80	8.40	Carl Jones
19	10/21	34.00	19.20	10.00	Judy Brown
20	10/21	- OFF -			
21	10/22	34.80	26.00	12.80	Judy Brown & Brian Smith
22	10/24	42.40	22.80	12.40	Carl Jones
23	10/24	48.80	17.20	13.60	Judy Brown
24	10/25	33.60	19.20	10.80	Brian Smith
25	10/26	37.20	14.80	9.20	Judy Brown
Subtotals		358.00	171.60	95.60	

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Date tips rec'd.	Date of entry	a. Tips received directly from customers and other employees	b. Credit card tips received	c. Tips paid out to other employees	d. Names of employees to whom you paid tips
26	10/26	31.60	11.60	12.40	Judy Brown
27	10/27	- OFF -			
28	10/29	43.20	14.00	12.80	Carl Jones
29	10/30	34.80	22.40	7.20	Carl Jones
30	10/31	46.00	27.20	12.80	Judy Brown & Brian Smith
31	11/2	27.60	20.40	6.40	Judy Brown
Subtotals from pages 1, 2, and 3		159.60	100.00	45.20	
Totals		1,024.00	519.20	273.60	

1. Report total cash tips (col. a) on Form 4070, line 1.
2. Report total credit card tips (col. b) on Form 4070, line 2.
3. Report total tips paid out (col. c) on Form 4070, line 3.

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When to report. Give your report for each month to your employer by the 10th of the next month. If the 10th falls on a Saturday, Sunday, or legal holiday, give your employer the report by the next day that is not a Saturday, Sunday, or legal holiday.

Example 1. You must report your tips received in January 1998 by February 10, 1998.

Example 2. You must report your tips received in April 1998 by May 11, 1998. May 10 is on a Sunday, and the 11th is the next day that is not a Saturday, Sunday, or legal holiday.

Sample Filled-in Form 4070 from Publication 1244

Form 4070 (Rev. July 1996) Department of the Treasury Internal Revenue Service	Employee's Report of Tips to Employer ► For Paperwork Reduction Act Notice, see back of form.	OMB No. 1545-0065												
Employee's name and address John W. Allen 117 Maple Ave. Anytown, NY 14202	Social security number 987: 00 : 4321													
Employer's name and address (include establishment name, if different) Diamond Restaurant 834 Main Street Anytown, NY 14203	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10px;">1</td> <td style="width: 80%;">Cash tips received</td> <td style="width: 10%;">1,024.00</td> </tr> <tr> <td>2</td> <td>Credit card tips received</td> <td>519.20</td> </tr> <tr> <td>3</td> <td>Tips paid out</td> <td>273.60</td> </tr> <tr> <td>4</td> <td>Net tips (lines 1 + 2 - 3)</td> <td>1,269.60</td> </tr> </table>		1	Cash tips received	1,024.00	2	Credit card tips received	519.20	3	Tips paid out	273.60	4	Net tips (lines 1 + 2 - 3)	1,269.60
1	Cash tips received	1,024.00												
2	Credit card tips received	519.20												
3	Tips paid out	273.60												
4	Net tips (lines 1 + 2 - 3)	1,269.60												
Month or shorter period in which tips were received from October 1, 19 97, to October 31, 19 97	Date Nov. 6, 1997													
Signature 														

Penalty for not reporting tips. If you do not report tips to your employer as required, you may be subject to a penalty equal to 50% of the social security and Medicare taxes or railroad retirement tax you owe. (For information about these taxes, see *Reporting social security and Medicare taxes on tips not reported to your employer* under *Reporting Tips on Your Return*, later.) The penalty amount is in addition to the taxes you owe.

You can avoid this penalty if you can show reasonable cause for not reporting the tips to your employer. To do so, attach a statement to your return explaining why you did not report them.

Giving your employer money for taxes. Your regular pay may not be enough for your employer to withhold all the taxes you owe on your regular pay plus your reported tips. If this happens, you can give your employer money to pay the rest of the taxes, up to the close of the calendar year.

If you do not give your employer enough money, your employer will apply your regular pay and any money you give to the taxes, in the following order:

- 1) All taxes on your regular pay,
- 2) Social security and Medicare taxes or railroad retirement tax on your reported tips, and
- 3) Federal, state, and local income taxes on your reported tips.

Any taxes that remain unpaid may be collected by your employer from your next paycheck. If withholding taxes remain uncollected at the end of the year, you may need to make an estimated tax payment. Use **Form 1040-ES**, *Estimated Tax for Individuals*. See Publication 505, *Tax Withholding and Estimated Tax*, for more information.



You must report on your tax return any social security and Medicare taxes or railroad retirement tax that remained uncollected at the end

of 1997. See Reporting uncollected social security and Medicare taxes on tips under Reporting Tips on Your Tax Return, later. These uncollected taxes will be shown in box 13 of your Form W-2 (codes A and B).

Reporting Tips on Your Tax Return

How to report tips. Report your tips with your wages on line 1, Form 1040EZ, or line 7, Form 1040A or Form 1040.

What tips to report. You must report all tips you received in 1997, including both cash tips and noncash tips, on your tax return. Any tips you reported to your employer for 1997 are included in the wages shown in box 1 of your Form W-2. Add to the amount in box 1 only the tips you did not report to your employer.



If you received \$20 or more in cash and charge tips in a month and did not report all of those tips to your employer, see Reporting social security and Medicare taxes on tips not reported to your employer, later.



If you did not keep a daily tip record as required and an amount is shown in box 8 of your Form W-2, see Allocated Tips, later.

If you kept a daily tip record and reported tips to your employer as required under the rules explained earlier, add the following tips to the amount in box 1 of your Form W-2:

- Cash and charge tips you received that totaled less than \$20 for any month, and
- The value of noncash tips, such as tickets, passes, or other items of value.

Example. John Allen began working at the Diamond Restaurant (his only employer in 1997) on June 30 and received \$10,000 in wages during the year. John kept a daily tip record showing that his tips for June were \$18 and his tips for the rest of the year totaled \$7,000. He was not required to report his June tips to his employer, but he reported all of the rest of his tips to his employer as required. His daily tip record (Form 4070A) and his report to his employer (Form 4070) for October were illustrated earlier.

John's Form W-2 from Diamond Restaurant shows \$17,000 (\$10,000 wages plus \$7,000 reported tips) in box 1. He adds the \$18 unreported tips to that amount and reports \$17,018 as wages on line 1 of his Form 1040EZ.

Reporting social security and Medicare taxes on tips not reported to your employer. If you received \$20 or more in cash and charge tips in a month while working for one employer, you must report the social security and Medicare taxes on the unreported tips as additional tax on your return. To report these taxes, you must file a return even if you would not otherwise have to file. You must use Form 1040. (You cannot file Form 1040EZ or Form 1040A.)

Use **Form 4137**, *Social Security and Medicare Tax on Unreported Tip Income*, to figure these taxes. Enter the amount from line 12 of the form on line 49, Form 1040, and attach the form to your return.

Reporting uncollected social security and Medicare taxes on tips. If your employer could not collect all the social security and Medicare taxes or railroad retirement tax you owe on tips reported to your employer, the uncollected taxes will be shown in box 13 of your Form W-2 (codes A and B). You must report these amounts as additional tax on your return. You may have uncollected taxes if your regular pay was not enough for your employer to withhold all the taxes you owe and you did not give your employer enough money to pay the rest of the taxes.

To report these uncollected taxes, you must file a return even if you would not otherwise have to file. You must use Form 1040. (You cannot file Form 1040EZ or Form 1040A.) Include the taxes in your total tax amount on line 53, and write "UT" and the total of the uncollected taxes on the dotted line next to line 53.

Allocated Tips

What are allocated tips? These are tips that your employer assigned to you in addition to the tips you reported to your employer for the year. Your employer will have done this only if you worked in a restaurant, cocktail lounge, or similar business that must allocate tips to employees and your reported tips were less than your share of 8% of food and drink sales.

If your employer allocated tips to you, they are shown separately in box 8 of your Form W-2. They are not included in box 1 with your wages and reported tips. If box 8 is blank, this discussion does not apply to you.

How were your allocated tips figured? The tips allocated to you are your share of an amount figured by subtracting the reported tips of all employees from 8% (or an approved lower rate) of food and drink sales (other than carryout sales and sales with a service charge of 10% or more). Your share of that amount was figured using either a method provided by an employer-employee agreement or a method provided by IRS regulations based on employees' sales or hours worked. For information about the exact allocation method used, ask your employer.

Must you report your allocated tips on your return? You must report allocated tips on your return unless either of the following exceptions applies:

- 1) You kept a daily tip record as required under rules explained earlier, or
- 2) Your tip record is incomplete, but it shows that your actual tips were more than the tips you reported to your employer plus the allocated tips.

If either exception applies, do not report allocated tips on your return. Report your actual tips. See *What tips to report* under *Reporting Tips on Your Tax Return*, earlier.

How to report allocated tips. If you must report allocated tips on your return, add the amount in box 8 of your Form W-2 to the amount in box 1. Report the total as wages on line 7 of Form 1040. (You cannot file Form 1040EZ or Form 1040A.)

Because social security and Medicare taxes were not withheld from the allocated tips, you must report those taxes as additional tax on your return. Complete **Form 4137**, *Social Security and Medicare Tax on Unreported Tip Income*, and include the allocated tips on line 1 of the form. See *Reporting social security and Medicare taxes on tips not reported to your employer* under *Reporting Tips on Your Return*, earlier.

How to request an approved lower rate. Your employer can use a tip rate lower than 8% (but not lower than 2%) to figure allocated tips only if the Internal Revenue Service approves the lower rate. Either the employer or the employees can request approval of a lower rate by filing a petition with the district director for the IRS district in which the business is located. The petition must include specific information about the business that will justify the lower rate. A user fee must be paid with the petition.

An employee petition can be filed only with the consent of a majority of the directly-tipped employees (waiters, bartenders, and others who receive tips directly from customers). The petition must state the total number of directly-tipped employees and the number of employees consenting to the petition. Employees filing the petition must promptly notify the employer, and the employer must promptly give the district director a copy of any **Form 8027**, *Employer's Annual Information Return of Tip Income and Allocated Tips*, filed by the employer for the previous 3 years.

For more information about how to file a petition and what information to include, see the instructions for Form 8027.

How To Get More Information



Free tax publications and forms. To order free publications and forms, call 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications

electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1-800-829-1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

Social security earnings statement. Your future social security benefits can be figured correctly only if the Social Security Administration (SSA) has correct information about your tips and other pay. To make sure that you have received credit for all your earnings, you should request a statement of your earnings from SSA at least every other year. You can get information on how to receive a statement of your earnings by calling 1-800-SSA-1213 or, for someone with access to TDD/TTY equipment, 1-800-325-0778. When you get the statement from SSA, you should check it to be sure it includes all of your earnings.

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Tax Publications for Individual Taxpayers

General Guides

- 1 Your Rights as a Taxpayer
- 17 Your Federal Income Tax (For Individuals)
- 225 Farmer's Tax Guide
- 334 Tax Guide for Small Business
- 509 Tax Calendars for 1998
- 553 Highlights of 1997 Tax Changes
- 595 Tax Highlights for Commercial Fishermen
- 910 Guide to Free Tax Services

Specialized Publications

- 3 Armed Forces' Tax Guide
- 378 Fuel Tax Credits and Refunds
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 508 Educational Expenses
- 514 Foreign Tax Credit for Individuals
- 516 U.S. Government Civilian Employees Stationed Abroad
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 519 U.S. Tax Guide for Aliens
- 520 Scholarships and Fellowships
- 521 Moving Expenses
- 523 Selling Your Home
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions

- 530 Tax Information for First-Time Homeowners
- 531 Reporting Tip Income
- 533 Self-Employment Tax
- 534 Depreciating Property Placed in Service Before 1987
- 537 Installment Sales
- 541 Partnerships
- 544 Sales and Other Dispositions of Assets
- 547 Casualties, Disasters, and Thefts (Business and Nonbusiness)
- 550 Investment Income and Expenses
- 551 Basis of Assets
- 552 Recordkeeping for Individuals
- 554 Older Americans' Tax Guide
- 555 Federal Tax Information on Community Property
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 559 Survivors, Executors, and Administrators
- 561 Determining the Value of Donated Property
- 564 Mutual Fund Distributions
- 570 Tax Guide for Individuals With Income From U.S. Possessions
- 575 Pension and Annuity Income
- 584 Nonbusiness Disaster, Casualty, and Theft Loss Workbook
- 587 Business Use of Your Home (Including Use by Day-Care Providers)
- 590 Individual Retirement Arrangements (IRAs) (Including SEP-IRAs and SIMPLE IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 Understanding the Collection Process
- 596 Earned Income Credit
- 721 Tax Guide to U.S. Civil Service Retirement Benefits

- 901 U.S. Tax Treaties
- 907 Tax Highlights for Persons with Disabilities
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 915 Social Security and Equivalent Railroad Retirement Benefits
- 919 Is My Withholding Correct for 1998?
- 925 Passive Activity and At-Risk Rules
- 926 Household Employer's Tax Guide
- 929 Tax Rules for Children and Dependents
- 936 Home Mortgage Interest Deduction
- 946 How To Depreciate Property
- 947 Practice Before the IRS and Power of Attorney
- 950 Introduction to Estate and Gift Taxes
- 967 IRS Will Figure Your Tax
- 968 Tax Benefits for Adoption
- 1542 Per Diem Rates
- 1544 Reporting Cash Payments of Over \$10,000
- 1546 The Problem Resolution Program of the Internal Revenue Service

Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 596SP Crédito por Ingreso del Trabajo
- 850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544SP Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

- 1040 U.S. Individual Income Tax Return
 - Sch A Itemized Deductions
 - Sch B Interest and Dividend Income
 - Sch C Profit or Loss From Business
 - Sch C-EZ Net Profit From Business
 - Sch D Capital Gains and Losses
 - Sch E Supplemental Income and Loss
 - Sch EIC Earned Income Credit
 - Sch F Profit or Loss From Farming
 - Sch H Household Employment Taxes
 - Sch R Credit for the Elderly or the Disabled
 - Sch SE Self-Employment Tax
- 1040EZ Income Tax Return for Single and Joint Filers With No Dependents
- 1040A U.S. Individual Income Tax Return
 - Sch 1 Interest and Dividend Income for Form 1040A Filers

- Sch 2 Child and Dependent Care Expenses for Form 1040A Filers
- Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers
- 1040-ES Estimated Tax for Individuals
- 1040X Amended U.S. Individual Income Tax Return
- 2106 Employee Business Expenses
- 2106-EZ Unreimbursed Employee Business Expenses
- 2119 Sale of Your Home
- 2210 Underpayment of Estimated Tax by Individuals, Estates and Trusts
- 2441 Child and Dependent Care Expenses
- 2848 Power of Attorney and Declaration of Representative
- 3903 Moving Expenses
- 4562 Depreciation and Amortization

- 4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
- 4952 Investment Interest Expense Deduction
- 5329 Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts
- 6251 Alternative Minimum Tax—Individuals
- 8283 Noncash Charitable Contributions
- 8582 Passive Activity Loss Limitations
- 8606 Nondeductible IRAs (Contributions, Distributions, and Basis)
- 8822 Change of Address
- 8829 Expenses for Business Use of Your Home