

Check Your Knowledge

1. Rebekah owns a small business taking photographs at weddings. Does this work qualify as an occupation that regularly and customarily receives tips according to the IRS listing?

- A. Yes
- B. No

2. Sebastien works as a barber in a shop, for which he receives a W-2. He is not an independent contractor. His W-2 shows tips in Box 7 of \$8,500. He has no unreported tips that would require him to file Form 4137. Sebastien is divorced and is providing all the cost of keeping up a home for himself and his father. His adjusted gross income for the year is \$33,600. What is the amount of tip income Sebastien can deduct on Schedule 1-A?

- A. \$0
- B. \$8,500
- C. \$25,100
- D. \$33,600

3. Tanya is single with no dependents. She has a valid Social Security number, and earns tips that qualify for the deduction. Her MAGI for the year is \$83,000. Of this amount, \$45,000 comes from qualified tips. How much is Tanya's tip deduction?

- A. \$45,000
- B. \$25,000
- C. \$24,200
- D. Tanya's income is too high to qualify for a deduction.

Scenario:

- Ursula and Van are married and file a joint return each year. Ursula is a resident alien with an ITIN, and Van is a U.S. citizen with a valid Social Security number.
- Ursula and Van are both self-employed rideshare drivers.
- Ursula's schedule C includes income of \$35,000 of which \$20,000 comes from tips. With her mileage and expenses, the net profit on her Schedule C is \$5,200.

- Van's Schedule C includes income of \$42,000, of which \$26,000 comes from tips. After his mileage and expenses, his net profit is \$5,800.

Assume that both Ursula and Van have a tax summary document from the rideshare company reporting their tips as described.

Questions:

4. Ursula's qualified tip deduction is:

- A. \$20,000
- B. \$14,800
- C. \$5,200
- D. \$0

5. Van's qualified tip deduction is:

- A. \$26,000
- B. \$25,000
- C. \$5,800
- D. \$0

6. The tip deduction can help Ursula and Van lower their self-employment tax.

- A. True
- B. False

7. The tip deduction affects the adjusted gross income for Ursula and Van, which could affect their ability to qualify for certain credits.

- A. True
- B. False

Scenario: Wendy is married to Xavier, but they have not lived together since October of 2024 and they will not file a joint return. They have two children who live with Wendy, who provides more than half the cost of keeping up the home for them. Xavier lives alone.

- Wendy is a school music teacher, but she delivers meals for Feed Me on the weekends. She has a valid social security number, and her income is \$60,000 for the year. It consists of \$50,000 from her teaching job, and \$10,000 net profit after expenses from delivering meals, of which \$2,500 is tips as reported on the tax summary provided by Feed Me.
- Xavier is a bartender at a restaurant, for which he receives a W-2. The Social Security Tips reported in Box 7 of his W-2 are \$24,500. He also has a valid social security number, and his income is \$57,500 for the year.

Questions:

8. Who is eligible to claim a tip deduction?

- A. Only Wendy
- B. Only Xavier
- C. Both Wendy and Xavier
- D. Neither Wendy nor Xavier

9. If Wendy and Xavier agreed to file jointly, how much of their tip income could they deduct?

- A. \$27,000
- B. \$25,000
- C. \$24,500
- D. \$2,500

10. If a taxpayer has qualified tips and is receiving health insurance through the Marketplace, the tip deduction could affect the premium tax credit.

- A. True
- B. False

11. Teddy is single and works as a casino dealer. His W-2 shows that his Social Security Tips in Box 7 total \$21,500. Teddy is sure he made more than that in tips, estimating that he takes home close to a thousand dollars a week in tips alone. Teddy has no detailed information supporting his tip deduction. What are your options for reporting Teddy's tips for purposes of the deduction for tips?

- A. Report \$50,000 based on Teddy's estimate.

- B. Report \$25,000 because that's the maximum allowed deduction, and Teddy is sure his tips were more than that.
- C. Report \$21,500 because that's the amount he can substantiate.
- D. Report no tip deduction because Teddy's occupation is not one that qualifies for the deduction.

12. Wilfred is a comedian who performs at clubs around the city. He is considered self-employed and has thirteen forms 1099-NEC from the various clubs where he performs. Assume that Wilfred kept a daily log of the tips he receives each night that he performs. Can he claim the deduction for tips?

A. yes

B. no

Check your answers on the next page.