

ST13-13 – Reporting Tip Income

References

IRS Pub 4012 page D-7

IRS Pub 531

Tax Law

Employees are supposed to report tips they collected, other than months with less than \$20, to the employer. The employer reports those on the W-2 as Social Security tips in Box 7 and takes out Social Security and Medicare taxes (Boxes 4 & 6) for the reported tips. The employer is then required by law to calculate the difference between the reported tips and a percentage of their food & drink sales. Theoretically, that is to account for the tips that should have been reported but weren't. That difference then has to be allocated between all employees, and each employee's share is reported on the W-2 as allocated tips in Box 8. If the employee has documentation in the form of a tip log that shows a different amount than the reported allocated tips, the allocated tip amount can be adjusted.

Tips that are less than \$20 per month do not need to be reported to the employer. However, the employee has to report them as income.

Reporting Tips in TaxWise

Social Security Tips – W-2 Box 7

Enter the Social Security tips from Box 7 of the W-2 into box 7 of the TaxWise W-2. The amounts in boxes 3 & 4 will automatically be adjusted and the tip income will be carried over to form 4137 and line 7 of the 1040.

Allocated Tips – W-2 Box 8

Allocated tips entered in box 8 of the TaxWise W-2 will carry over to line 4 of Form 4137 and then to line 7 of the form 1040. If the taxpayer has a tip log that shows a different amount than their allocated tips, add a scratch pad to line 4 to adjust the amount on line 4.

Unreported Tips

If there are no Allocated Tips, unreported tips including the tips that were less than \$20 in any month are to be entered on line 4 of the form 4137. Add form 4137 to the tree and enter the unreported tips directly on line 4 of the 4137.

Any portion of the unreported tips entered on line 4 that are tips that were less than \$20 in a month are also entered on line 5 of the 4137. The tips that were less than \$20 in any month are not subject to Social Security or Medicare tax and they will be subtracted from the amount in box 4 so that they are not included in the Social Security/ Medicare calculation. Use override to enter the employer's name if it is not included on line 1 of the 4137.

Unreported tips will be displayed on line 7 of Form 1040. Form 4137 calculates the employee's portion of Social Security and Medicare taxes and that will be displayed as other taxes on Form 1040 line 57. Also TaxWise will automatically check the 4137 box on line 57.