

"No Tax On Tips"

The “**no tax on tips**” deduction would be more accurately titled as the “**reduced tax on tips**”. The deduction is limited to **\$25,000**, any amount over the limit will be fully taxable. All tip income is subject to social security and medicare tax. For employees with W2’s, the social security and medicare tax has been withheld from your tip income throughout the year, providing you report tip income to your employer. If you are self-employed, your social security and medicare tax will be calculated on your tax return. **All tip income will be taxable on 2025 Michigan tax returns**, with the “no tax on tips” deduction going into effect on state returns for tax years 2026-2028.

For Eligibility: You must be engaged in an eligible occupation or business recognized by the IRS as those that "customarily and regularly" received tips before 2025. The IRS has published a list of eligible occupations by category, this information can be found on the IRS website, [irs.gov](https://www.irs.gov). Your tax preparer will determine if your occupation/business is qualified based on this information.

How Much Will You Save? The value of this deduction will vary depending upon your overall (effective) tax rate in addition to the amount of eligible tips you may deduct. For example: A person with an effective tax rate of 12% would save \$3,000 (12% of 25,000) of federal tax by deducting \$25,000 in tips. The higher the tax rate an individual is subject to, the more valuable the deduction will be.

Income Limits: The deduction phases out if your modified adjusted gross income (MAGI) exceeds **\$150,000** for single filers or **\$300,000** for married couples filing jointly. Married individuals filing separately are ineligible for this deduction.