

# Tips Paid to Self-Employed Individuals Must be Reported on a 1099 to Claim a Deduction for Qualified Tips

## Cross References

- Notice 2025-69

On page 5-41 of *TheTaxBook What's New Tax Season Edition*, we said in an Author's Comment that cash tips received by a sole proprietor from customers when no 1099 is issued are not qualified tips for purposes of the qualified tip deduction under IRC section 224. Apparently some tax seminar speakers have taken the position that if the sole proprietor has records to account for tips received, those records could meet the record keeping requirements under IRC section 224. It is our position that this is not true.

IRC section 224(a) states: "There shall be allowed as a deduction an amount equal to the qualified tips received during the taxable year **that are included on statements** furnished to the individual pursuant to section 6041(d)(3), 6041A(e)(3), 6050W(f)(2), or 6051(a)(18), or reported by the taxpayer on Form 4137 (or successor)."

Notice 2025-69, page 3, footnote 4 states: "The House Budget Committee report on the OBBBA, H. Rept. 119-106, at 1503 (2025), specifies that the tip amounts included on reporting statements (for example, Form 1099) must be separately accounted for on the statements in order to take the deduction."

Thus, unless a self-employed individual receives a reporting statement that includes tips received (for example, Form 1099-NEC, Form 1099-MISC, or Form 1099-K), the self-employed individual cannot claim a deduction for tips received from customers.