



K&K RESOURCE CENTER

Tips & Overtime *Deduction Guide*

Who qualifies, how much you can deduct,
and the records you need for 2026.

TAX YEAR 2026

Filing season 2027 edition

K&K Tax Services LLC | Detroit, Michigan | Serving all 50 states
(313) 751-3358 | support@kktaxservicesllc.com | kktaxservicesllc.com

New deductions for workers

2026 Tips & Overtime Deduction Guide

Two newer federal deductions can lower the income tax on tips and overtime pay for 2025 through 2028. You can claim them whether or not you itemize, but the rules are specific. Here is what you need to know for your 2026 return.

AT A GLANCE

How the two deductions compare

	Tips deduction	Overtime deduction
Maximum deduction	\$25,000 per return	\$12,500 (\$25,000 married filing jointly)
What counts	Cash and card tips in a job the IRS lists as customarily tipped	Only the premium part of overtime required by the Fair Labor Standards Act (the "half" in time-and-a-half)
Income limit	Begins phasing out above \$150,000 of modified AGI (\$300,000 joint)	Same phase-out as tips
Where it shows on your W-2	Box 12, code TP, plus an occupation code in Box 14b	Box 12, code TT
Still taxed for	Social Security, Medicare, and possibly state tax	Social Security, Medicare, and possibly state tax

Married?

You generally must file a joint return to claim these deductions, and you need a valid Social Security number.

TIPS

Who qualifies for the tips deduction

- ☐ You work in an occupation on the IRS list of tipped jobs (servers, bartenders, hair stylists, delivery drivers, and many more)
- ☐ Tips were given voluntarily. Mandatory service charges and automatic gratuities do not count
- ☐ Tips were reported to your employer or on your return
- ☐ Self-employed tipped workers may qualify too, with extra rules

OVERTIME

Who qualifies for the overtime deduction

- ☐ You are a non-exempt (usually hourly) employee under federal wage law
- ☐ You worked more than 40 hours in a workweek and were paid overtime
- ☐ Only the extra half counts. Example: \$20 an hour base, \$30 overtime rate, so \$10 per overtime hour is deductible
- ☐ Overtime paid only because of a union contract or state law may not count

RECORDS

What to keep and bring to K&K;

- ☐ Your 2026 W-2 (check Box 12 for codes TP and TT, and Box 14b)
- ☐ Your last pay stub of the year showing overtime totals
- ☐ Daily tip logs or tip reports if you work for tips
- ☐ Payment app records for tips paid to you directly
- ☐ Your job title and a short description of what you do

Check your state

Some states do not follow these federal deductions, so your tips and overtime may still be fully taxed on your state return. Your K&K preparer will check.

Ready to file with K&K?

Start your secure intake at kktaxservicesllc.com, or call (313) 751-3358. Every return is reviewed by our compliance team before it is filed.

General information for the 2026 tax year (returns filed in 2027), based on IRS guidance available as of September 2026. It is not individual tax advice. Rules and amounts can change, so talk with your K&K preparer about your situation.