

THE ROUND TABLE

Understanding the “No Tax on Tips” Deduction



If you're one of the estimated six million taxpayers working in a job where you receive tips, you may be interested in learning more about the new "no tax on tips" deduction.¹

In 2025, the One Big Beautiful Bill Act established a temporary federal tax deduction to help reduce the tax liability of certain tipped workers for tax years 2025-2028. Employees and self-employed taxpayers may deduct up to \$25,000 annually in qualified tips as long as they work in an occupation the IRS views as "customarily and regularly" receiving tips. Qualified tips include voluntary cash tips and amounts paid by credit or debit card, including amounts received through tip-sharing arrangements. Automatic gratuities and mandatory service charges do not qualify.

The deduction is available whether the taxpayer claims the standard deduction or itemizes deductions. Self-employed individuals cannot claim a deduction exceeding the net income from the business in which the tips were earned.

Taxpayers who have a valid Social Security number and work in an eligible occupation, such as bartenders, waitstaff, casino dealers, hairdressers, valet attendants, taxi/rideshare drivers, baggage porters, and food delivery personnel, qualify for the deduction. Married couples must file a joint return, while couples filing separately are not eligible. Employers must report all their employees' tip income to the IRS or Social Security Administration. A complete list of the 68 occupations across eight industries that qualify for the deduction is available at [irs.gov](https://www.irs.gov).

The deduction begins to phase out for single filers with modified adjusted gross income (MAGI) over \$150,000 or over \$300,000 for married couples filing jointly. The deduction is reduced by \$100 for every \$1,000 above these thresholds.

In 2025, the IRS permitted taxpayers to use Form W-2 (Box 7), employer tip reports, Form 4137, and personal tip logs to report qualified tips. In 2026, taxpayers claiming the deduction will use Schedule 1-A, while employers will be required to separately report qualified tips on Forms W-2 and certain 1099s.

Each state will decide whether to adopt, modify, or reject the provision, so taxpayers should check with their state tax agency to determine the tax treatment of tip income.

Phased Retirement Can Help Smooth the Transition

Two-thirds of Gen X and 56% of millennials would prefer to gradually decrease their hours or work a more flexible schedule as they transition to retirement. About half of baby boomers and Gen Z have similar preferences.¹

The federal government has offered a formal phased retirement program since 2014, allowing eligible full-time employees to collect half their pensions while working half time. Typically, at least 20% of their remaining work hours must be spent mentoring younger workers. And their pensions continue to grow based on part-time work.²

Private industry has been slower to adopt formal programs. Only 16% of employers, mostly larger companies, have regular phased retirement programs. However, 61% of companies have some experience with phased retirement, and with strong employee interest, it's likely that more will adopt formal programs.³

Win-win-win solution

A phased retirement program can be a positive experience for employees, employers, and customers.

For older employees, a reduced schedule offers a more gradual financial transition, maintaining a steady, if reduced, income that can help delay taking Social Security benefits and/or tapping retirement savings. Trying to live on 80% of salary, for example, might also be good practice for retirement budget management. And staying engaged in the workplace can offer mental and psychological benefits.

For employers, older workers provide experience and institutional knowledge that can help maintain and improve current quality while mentoring younger workers to help ensure a smoother transition.

For customers, older workers can provide dependability and continuity. In some cases, customers are also older, and long-time relationships can help maintain customer comfort levels.

Build your own program

If your company does not offer such a program, you might suggest an arrangement. Emphasize what you can continue to contribute and how it could help the company in the present and the future. Be sure that the program will work for you. Here are some ideas to keep in mind.

- Make sure you understand the effect of reduced hours on your benefits, such as health insurance and employer

pension or retirement plan contributions.

- If you cannot live on your reduced wages, you may have to use other sources of income, but you probably would not have to tap them as much as if you retired completely.
- One of the greatest benefits of phased retirement is that you could delay claiming Social Security, with your benefit increasing 8% annually after full retirement age (FRA), up to age 70. However, if you do claim Social Security before FRA and continue to work, you will receive a permanently reduced benefit for claiming early and be subject to the retirement earnings test, which may temporarily reduce your benefit payments until you reach FRA. Once you have reached FRA, the lost benefits from the earnings test will be added to your benefit amount.

If you phase out of your current job, make sure you don't end up trying to do all of your former work in fewer hours. This could be especially problematic for salaried workers in project-oriented positions. Be sure you and your supervisor are clear on the requirements of your reduced workload.

77% Older employees' company knowledge is crucial to our business's success.

69% We want to keep good employees as long as possible but struggle to find ways to continually advance their career path.

67% We have plans for how employees nearing retirement can transfer knowledge to our business before they leave.

62% We are concerned with our employees' career development.

55% We have hired people who had previously retired from another company.

55% We have asked employees who want to retire from full-time work to stay on part time.

47% We have asked employees who have retired from our business to come back for a specific need (temporary work).

44% We have asked employees who have retired to come back on a full- or part-time basis for the long term.

Source: The Principal Financial Well-Being Index, 2024 (most recent data)

1) Kiplinger, January 7, 2026

2) U.S. Office of Personnel Management, August 7, 2014

3) *Fortune*, March 22, 2024 (most recent data)

Midyear Checkup: Can You Contribute More to Your Retirement Plan?



With traditional pensions in decline, other work-based plans that are driven primarily by employee contributions — such as 401(k), 403(b), and 457(b) plans — are the bedrock of the U.S. retirement system. This means it's up to you to build retirement savings.

The good news is that the contribution limits for these plans are generous, much higher than the limits for IRAs. However, unlike IRAs — which allow contributions up to the April tax deadline of the following year — you generally must make annual contributions to an employer-sponsored plan by December 31.

The middle of the year is a good time to make sure you are on track to meet your annual contribution goal. Employers will typically allow you to change your contribution levels at any time during the year.

Beyond the match

If your employer offers matching contributions, make sure you are at least contributing enough to receive the full employer match. If not, you are leaving money on the table.

However, employers typically match contributions only up to a small percentage of your salary. Increasing your contributions could make a big difference in boosting your retirement savings. Keep in mind that traditional contributions to an employer plan are usually made with pre-tax dollars, so the decrease in your take-home pay will generally be less than the increase in your contributions.

The earlier you start contributing, the longer your savings have to pursue potential growth. But any time is a good time to increase your contributions — and special catch-up contributions provide an extra opportunity for older employees to boost their savings.

Contribution limits

The standard 2026 contribution limit for 401(k), 403(b), and 457(b) plans is \$24,500.

Employees who are age 50 to 59 or 64 and older can contribute an additional \$8,000 in catch-up contributions for a total of \$32,500. Employees who reach age 60 to 63 in 2026 can contribute an additional \$11,250 for a total of \$35,750.

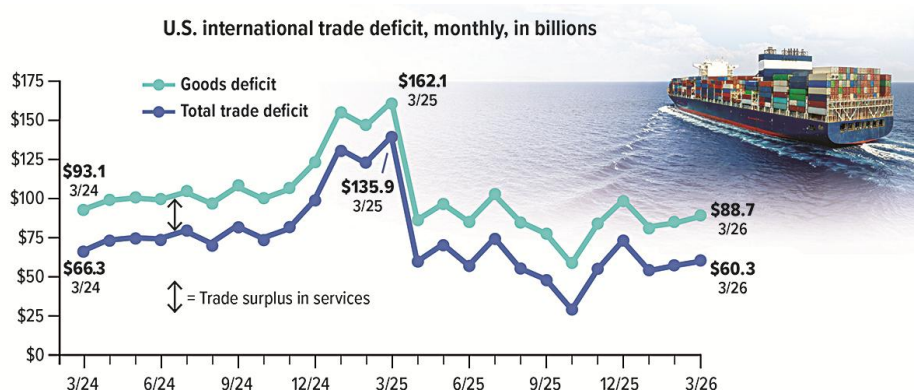
Beginning in 2026, an employee who earned more than \$150,000 in Social Security wages the previous year must make age-based catch-up contributions as Roth contributions. You can find your Social Security wages in box 3 of your W-2 form. Not all employers offer the option to make Roth contributions.

Some 403(b) and 457(b) plans may offer an additional catch-up opportunity that is not subject to the new Roth provision for high earners. These apply to 403(b) participants with 15 or more years of service or 457(b) participants within three years of the plan's normal retirement age. Ask your employer for more information.

Tariffs Helped Drive Decline in Trade Deficit

The U.S. trade deficit in goods — the target of tariffs — increased by about 2% in 2025. However, the annual data was skewed by heavy import activity in late 2024 and early 2025 as businesses stockpiled foreign goods in anticipation of increased tariffs.

The monthly goods deficit began to decline with new tariffs in April 2025 and was 4.7% lower in March 2026 than in March 2024. Over the same period, the monthly total trade deficit dropped by 9.0% due to the declining goods deficit and a growing U.S. surplus in services.



Source: U.S. Bureau of Economic Analysis, 2026