

No Tax On Tips

Quick Guide:

**How Stylists &
Owners Can
Keep *More* of
Their Income**

FREE DOWNLOAD!

PAGE 1: Why This Matters Right Now

Starting in 2025, new federal tax rules allow qualifying tipped workers to reduce how much **federal income tax** they pay on tip income.

For some stylists, this could mean **thousands of dollars** back each year.

For some salon owners, it could mean meaningful **business-level tax savings** — but this is not automatic.

It's also important to note that even though this new bill was titled "No Tax on Tips," all tips still must be reported. Don't let the name mislead you.

Stylists, renters, and salon owners all earn money differently, and the tax outcome depends heavily on **how you're paid, how tips are handled, and how clean your setup is.**

This guide is designed to help you:

- Understand what the new rules **actually** do
- See where the **biggest savings opportunities** live
- Avoid the most common mistakes that quietly kill the benefit

This is not legal or tax advice.

It's a practical overview so you know where to focus and when you need more specific guidance.

PAGE 2: What Changed and Who It Affects

These new rules apply **federally** and currently cover tax years **2025–2028**.

They affect:

- **Commission & hourly stylists (W-2 employees)**
- **Suite renters and independent stylists (1099)**
- **Salon owners**, especially those who:
 - Personally perform services, and/or
 - Employ W-2 tipped staff

Each role has its own rules. Which means:

The same \$5,000 in tips can produce very different tax results depending on who earned it and how.

That's where both the opportunity — and the risk — live.

PAGE 3: The Big Picture How This Saves You Money

Under the new federal rules:

For stylists:

- Up to **\$25,000 of tips per year** may qualify to **reduce federal income** tax, based on your taxable income
- **This is a cap on deductible tip income, not a guaranteed tax credit**
- The benefit phases out at higher incomes:
 - \$150,000 (single)
 - \$300,000 (married filing jointly)

What does *not* change:

- Payroll taxes still apply to W-2 tips
- Self-employment tax still applies to 1099 tips
- State taxes still apply in most states

For salon owners:

There may be two **separate savings opportunities**:

1. A personal benefit on tips you earn from services you perform
2. A business-level tax credit tied to payroll taxes on employee tips

Each has different eligibility, reporting, and compliance rules.

However, if you follow IRS reporting and documentation rules (see next page), you may be able to reduce your federal income tax on qualified tip income.

PAGE 4: The One Rule That Matters Most

Everything starts with this question:

Is the money you collect from clients treated as a true tip – or not?

The IRS doesn't care what a payment is called.

It looks at how it works in real life.

For the IRS, a tip only works when the client is truly in control of **whether to give it and how much to give.**

So if the tip payment:

- Feels required
- Is fixed
- Or is built into an “all-inclusive” price...

...the IRS usually treats it as **service income**, not a tip.

Why this matters:

- If it's not a tip, **the tax benefit disappears**
- This affects stylists *and* salon owners
- Many businesses accidentally break this rule without realizing it

PAGE 5: What This Could Mean for Your Wallet

This is where the opportunity becomes real.

For Commission/Hourly W-2 Stylists

A stylist earns \$5,000 in qualifying tips and has taxable income that reaches the 22% federal tax bracket

If those tips qualify:

Potential federal income-tax savings: **\$1,100**

- Payroll taxes still apply.
- State taxes still apply.

But that's real money back, if the rules are met.

For Independent Stylists / Renters

The same concept applies, but results vary more based on profitability and expenses. If your business shows little or no taxable income, the deduction may provide little or no benefit. Self-employment taxes still apply to tip income, even if income tax is reduced.

For Salon Owners

For owners who personally perform tipped services:

- Personal tips may reduce the owner's federal income tax. (See commission and hourly example above for a sample breakdown.)
- Employee tips may generate a **separate business tax credit** tied to payroll taxes. This is the new 45B FICA Tip Credit, **and can be the biggest benefit for owners.**

Handled correctly, this can materially reduce the salon's tax bill.

PAGE 6: Federal vs State: One Last Reality Check

These rules are **federal only**.

Many states still tax tips as income, even if federal law allows a deduction.

Always:

- Assume your state still taxes tips
- Check your state Department of Revenue

(We provide a full state-by-state breakdown inside the complete guides.)

The Bottom Line

This law can save **stylists and salon owners a lot of money**, but only if it's handled correctly.

Most people don't lose this benefit on purpose.

They lose it by:

- Making tips feel expected
- Letting tipping practices drift without realizing the tax impact

When money stops being optional, it usually stops being a tip.

And once it's not a tip:

- The deduction disappears
- Business-level benefits disappear

PAGE 7: A Tax Law You Can't Afford to Guess On

This overview is meant to show you what's possible.

The biggest mistakes with the **No Tax On Tips law** happen when:

- Stylists follow advice meant for owners
- Renters follow advice meant for employees
- Owners assume all tips are treated the same

That's why we created **three separate No Tax On Tips guides**:

- [No Tax on Tips Guide for Suite Renters & Independent Contractors](#)
- [No Tax on Tips Guide for Commission & Hourly Stylists](#)
- [No Tax on Tips Guide for Salon Owners](#)

When you join **BTC University for \$99/year**, you get:

- A guide built specifically for **your** situation
- Clear explanations of how to avoid losing the benefit
- A path to maximizing savings without increasing audit risk
- Immediate access to **250+ technical videos and downloads** from the biggest names in professional hair education

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