

NO TAX ON TIPS



What employers need to know
about the new federal income tax
deduction for tipped employees.



Key Policy Facts for Employers

- ◆ Employees may be able to claim up to a \$25,000 federal income tax deduction for tax years 2025-2028
- ◆ Only applies to qualified tips that appear on Form W-2
- ◆ Employers continue normal withholding and payroll tax obligations
- ◆ New W-2 reporting requirements will be implemented to help employees claim this benefit
- ◆ Social Security and Medicare taxes still apply to all tip income

What Changed

This new law allows employees to claim an above-the-line deduction for qualified tips they receive during the year.



What Jobs Qualify?

The deduction applies to workers in qualified tip-earning occupations, including but not limited to restaurant servers, bartenders, salon workers, hotel staff, delivery drivers, baristas, and valet drivers.

Employees should seek guidance from a tax professional regarding this deduction.



Restaurant Servers



Bartenders



Salon Workers



Hotel Staff



Delivery Drivers



Baristas



Valet Drivers

Qualified tip-earning occupations are assigned a 3-digit code organized by the IRS's Treasury Tipped Occupation Code (TTOC).

CATEGORY	TTOC
Beverage + Food Service	100s
Entertainment + Events	200s
Hospitality + Guest Services	300s
Home Services	400s
Personal Services	500s
Personal Appearance + Wellness	600s
Recreation + Instruction	700s
Transportation + Delivery	800s

WHAT TIPS QUALIFY?

This new law allows employees to claim an above-the-line deduction for Qualified Tips they receive during the year

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Qualifying Tips

Voluntary Cash Tips.....	Qualify
Charged Tips.....	Qualify
Pooled Tips.....	Qualify
Shared Tips.....	Qualify

Non-Qualifying Tips

Automatic Gratuities.....	Non-Qualifying
Service Charges.....	Non-Qualifying
Unreported Tips.....	Non-Qualifying

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OBBA 2025-2028



EMPLOYER RESPONSIBILITIES

Continue Normal Operations

Keep withholding federal income tax on all tip income. This deduction does not change your payroll tax obligations. Social Security and Medicare still applies and there are no changes to state or local taxes.

Report Qualified Earnings

There is no change to W-2 format for 2025, however, employers must use a “reasonable method” to report qualified tips separate from other withholdings.

RECOMMENDATIONS

- ◆ Verify the accuracy of payroll and timekeeping data, particularly for voluntary tips.
- ◆ Verify that payroll and timekeeping systems are equipped to identify and report on voluntary tips, and isolate them from non-deductible service charges.
- ◆ Establish clear channels for sharing year-end summaries or periodic reports with employees



How BBSI Can Help

BBSI provides guidance to clients on tax reporting, processes payroll batches to record qualified earnings, and provides Payroll Check Allocation (PCA) reports that show qualified tip earnings via the myBBSI Portal.

RESOURCES

For more info, visit www.irs.gov.

For the 2025 tax year, the IRS is providing a Transition Relief period.

This means employers will not face penalties for failing to provide estimates or for providing incorrect estimates related to qualified overtime. They also allow “any reasonable method” to report qualified tip premiums on W-2s or to provide to the employee.

FAQ - OBBBA's No Tax On Tips

What is the Big Beautiful Bill?

A federal law allowing deductions for qualified tips and qualified overtime premium for tax years 2025–2028.

Who qualifies for the tip deduction?

Workers in occupations that customarily receive tips.

How much can be deducted for tips?

Up to \$25,000 in qualified tips per year, per IRS guidance.

Is there a penalty for incorrect reporting?

During a Transition Relief period, employers will not face penalties for failing to provide estimates or for providing incorrect estimates related to qualified tips.

What tips qualify?

Qualified tips include voluntary cash tips, charged tips, pooled tips, and shared tips.

What should employers do for the 2025 tax year?

Use reasonable methods to share tip/OT premium information (e.g., summaries, Box 14).

Are there new forms for 2025?

No; 2025 is a transition year. 2026 forms are expected to update.



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