One, Big, Beautiful Bill for Tipped Employees

President Trump is actively advancing his various campaign promises through his proposed tax bill which include cutting taxes, slashing spending, raising the debt limit and “No Tax on Tips”.

While many restaurant workers assumed that this campaign promise would put more money in their daily take home income, in reality, it has not played out that way.

There is no change in the method of how employers currently handle and record tip income. All tip income should be processed though payroll on the normal cycle and have the appropriate Federal, State and Local payroll taxes applied. Tip income should be designated separately from wages on employees pay stubs, W-2s and all other payroll reports.

As the legislation cleared the House and currently under review in the Senate, it is highly likely that the tax break on tips will be successfully adopted and become part of tax guidelines.

It is a simple function for tipped employees to receive this tax duction and it comes with some restrictions. Tipped employees must receive a W-2 which clearly designates the amount of tipped, taxed income they received. They will be able to lower their income (Adjusted Gross Income) by the amount of taxes they paid on tipped income. These are Federal taxes, many states still require other taxes on tips.

Service Charges (Auto-Gratuity) are not considered tips and therefore not deductible. Service Charge income for employees is considered an additional wage.

There are requirements/restrictions to claiming the tax deduction:

1) Employees must make less than $160k per year.
2) Employees must have a verified Social Security number.
3) Employee is a citizen of the United States or has a permit to work in the country.
4) If filing a joint return, the employee’s spouse meets the same requirements above.
5) The employee claiming the deduction is engaged in an occupation that “traditionally and customarily” has received tips. The Trump administration will release a list 90 days after passage of those occupations.
6) The deduction cap is $25k.

The current House proposal allows for this deduction through 2028.

The bill will primarily benefit high-income employees. It is estimated that about one-third of tipped workers do not make enough income to owe federal taxes and would not benefit from the deduction.

The bill does not affect or change the employer FICA (Federal Insurance Contributions Act) tip credit. This credit allows employers to reduce their federal taxable income by the amount they have paid for taxes on Social Security and Medicare associated with tips.

If you have questions or concerns about how you are currently recording/processing tips, please feel free to reach out and we can assist.
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