

HOSPITALITY AND TOURISM LAW

INFORMATION MEMO

MARCH 17, 2026

No Income Taxes on Qualified Tips

On July 4, 2025, President Trump signed into law the legislation commonly referred to as the “One Big Beautiful Bill Act” (the OBBBA). This information memorandum addresses the OBBBA’s enacted deduction for qualified tips and outlines the related requirements and guidance issued to date.

Overview of the Qualified Tips Deduction

For calendar years 2025 through 2028, individuals receiving “qualified tips” may be eligible to deduct their qualified tips. The deduction applies for federal income tax purposes, but not for FICA (i.e., social security and Medicare taxes). Qualified tips means cash tips (including credit card and tip sharing arrangements) received by an individual working in an occupation that is classified as one that customarily and regularly receives tips, using the classifications that were in effect on or before Dec. 31, 2024. Qualified tips do not include any amount received by an individual unless: (i) such amount is paid voluntarily meaning it is not included as a mandatory service charge on a bill, there is no consequence if the payor chooses not to pay it, the amount is not subject to negotiation and the payor alone determines the amount; (ii) the trade or business in the course of which the individual receives such amount is not a specified service trade or business, as defined in IRC § 199A(D)(2) as “any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees”; or (iii) such other requirements as may be established in Treasury regulations or by the IRS.

Reporting Requirements and Maximum Deduction Amount

A separate accounting of any amounts reasonably designated as cash tips, along with the occupation of the person receiving those tips, must be reported by the employer or service recipient (i.e., any individual or entity that hires or retains an individual as an independent contractor) on IRS Form W-2, 1099-K, or 1099-NEC furnished to the individual, as applicable. In addition, the maximum deductible amount is \$25,000 per individual, and this deduction begins to phase out for taxpayers with modified adjusted gross income exceeding \$150,000 (or \$300,000 for joint filers). The deduction is claimed on Schedule 1-A of IRS Form 1040 and then entered on Form 1040, line 13(b).

The phase-out is not a cliff but a continuum: the deduction is reduced by \$100 for each \$1,000 by which the taxpayer’s modified adjusted gross income surpasses \$150,000 (or \$300,000 for joint filers). The deduction is available to both itemizing and non-itemizing taxpayers.

Expansion of the FICA Tip Tax Credit

The FICA tip tax credit under IRC § 45B, which allows employers to claim a credit for a portion of the employer paid social security taxes on employee cash tips, was expanded under the OBBBA to include beauty service establishments. This expansion is important because it extended a tax benefit previously available almost exclusively to the restaurant industry. In September 2025, the IRS released Proposed Regulations that include a list of occupations that customarily and regularly received tips on or before Dec. 31, 2024, providing guidance on which workers may qualify for the deduction and related credits.

Additional Eligibility Requirements Under IRC § 224

No deduction is allowed for qualified tips under IRC § 224 unless the taxpayer includes his or her Social Security number on their return. If the taxpayer is a married individual, the deduction is available only if the taxpayer and their spouse file a joint return. For tax years 2026 through 2028, the IRS is required to issue updated income tax withholding requirements to address the potential availability of this deduction to individual taxpayers.

Updated IRS Forms Relating to Qualified Tips

The IRS recently released updated forms for tax year 2026 that incorporate several changes related to qualified tips.

Form W-4 — Employee's Withholding Certificate

The 2026 Form W-4 includes revisions that address, among other items, the treatment of qualified tips for withholding purposes.

Form W-2 — Wage and Tax Statement

The 2026 Form W-2 includes two notable additions:

1. Box 12 – Code TP (Total Cash Tips Reported).

A new code TP in box 12 for the total amount of cash tips reported to the employer. This amount may be used in determining the deduction for qualified tips on Schedule 1-A (Form 1040), subject to eligibility rules such as whether the employee's occupation is on Treasury's tipped-occupation list. Eligibility is indicated separately (e.g., via box 14b Treasury Tipped Occupation Code), not by the box 12 code itself.

2. Box 14b – Treasury Tipped Occupation Code.

A new box 14b, which employers should use to report the Treasury Tipped Occupation Code for the employee's tipped occupation. If the occupation code 000 is used, the employee's cash tips are not qualified tips, and should not be used to deduct the amount reported in box 12 (code TP) for qualified tips.

Form 1099-NEC — Nonemployee Compensation

The 2026 Form 1099-NEC adds a new box 1b to report cash tips; and a new box 1c, Treasury tipped occupation code.

Form 1099-K — Payment Card and Third-Party Network Transactions

The 2026 Form 1099-K adds a new box 1c, cash tips; and a new box 1d Treasury tipped occupation code.

If you have any questions or concerns related to the foregoing, please contact [Frank C. Mayer](#), chair of Bond's [tax law practice](#), [Jennifer L. Tsyn](#), co-chair of Bond's [hospitality and tourism practice](#), [Lyndon E. Hall](#) or the attorney at the firm with whom you are regularly in contact.

