

## NO TAX ON TIPS

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**TOPLINE:** The One Big Beautiful Bill (OBBB) added a new tax deduction for qualified tipped income, colloquially known as “No Tax on Tips.”

**BACKGROUND:** The federal income tax code [applies](#) to all income “from whatever source derived” unless otherwise stipulated. That includes personal business income, interest income, rents, royalties, dividends, and paid compensation. Prior to OBBB, tipped income was included in the federal income tax base, just like any other paid compensation—at least in theory.

Tip income is more informal than wage income and is more likely to go unreported. Unlike with wage and salary income (where employers are responsible for tracking and reporting to the IRS the compensation they pay to employees), with tipped income the primary IRS reporting requirement falls on workers. The IRS has devoted significant resources to ensuring tip income reporting compliance. Tipped income is subject to federal payroll tax, in addition to federal income tax.

### What OBBB Did:

- [Created](#) an *above-the-line deduction* (meaning it can be claimed by taxpayers who take the standard deduction) for up to \$25,000 of qualified tips for tax years 2025 through 2028, which effectively eliminates income tax on most tips.
- [Set up](#) the tax deduction to begin phasing out for taxpayers with modified adjusted gross income of \$150,000/\$300,000 (single/married joint filers).
- [Required](#) that qualified tips must be received from work in an occupation that traditionally receives tips, (as [defined](#) by the IRS).
- Left intact payroll taxes on tipped income.

### Why It Matters?

- About [4 million](#) Americans worked in occupations that could allow them to benefit from “No Tax on Tips,” though many don’t earn enough to owe any income tax.
- “No Tax on Tips” is a **\$32 billion** tax cut over four years, according to [JCT](#) estimates.
- It shifts incentives for employers, workers, and customers in favor of more tipping.

**Where Can I Find the Changes?** OBBB Section [70201](#); [26 U.S.C. § 224](#).

**BOTTOMLINE:** Ideally, the tax code shouldn’t favor tipped income over wage and salary income. Fortunately, by capping the tips deduction, limiting qualifying occupations, and adding a phaseout, Congress put guardrails in place to make it harder for people to exploit the deduction for unintended purposes.

