THE BOTTOM LINE

What No Tax on Tips Means for Tipped Restaurant Workers

Servers, bartenders, counter workers at coffee shops, and even some back of house staff who earn tip income will be eligible for up to a $25,000 tax deduction from 2025-2028.

HOW IT WORKS:

NO TAX ON TIPS

A tipped restaurant worker already reports their tips to their employer each shift. To file their taxes every year, the server's employer gives them a W-2 that itemizes all of their annual income into cash wages and tips, and calculates their total taxes paid.

In 2026, when a tipped employee is filing their 2025 tax return, they will input all their income information (tips and cash wage) as they do now. They should be prompted to deduct up to $25,000 of their tip income before other deductions like mortgage interest.

So, for instance, a server with an annual income of $50,000 ($10,000 in cash wages paid by their employer, $40,000 in tips) currently pays taxes on the full $50,000. From 2025-2028, the server will only be responsible for taxes on $25,000 ($10,000 + $15,000).

WHAT TO EXPECT FROM NO TAX ON TIPS

	FY2024 Taxes	FY2025-2028 Taxes
Annual Earnings	$50,000 ($10K cash wage, $40K tips)	$50,000 ($10K cash wage, $40K tips)
Income Subject to Federal Income Tax	$50,000	$25,000 ($10K cash wage + $15K taxable tips)
Effective Rate	11.3%	10%
Federal Income Tax Owed	$4,016	$1,040
Server Tax Savings		$2,976 ($4,016-$1,040)

Eligible Jobs

The U.S. Treasury has determined employees in 10 foodservice jobs categories can use this tax deduction including: bartenders, wait staff, food servers (non-restaurant), dining room and cafeteria attendants and bartender helpers, chefs and cooks, food prep workers, fast food counter workers, dishwashers, host staff, and bakers. For a complete explanation of the jobs included, go to restaurant.org/tax-policy.

NATIONAL RESTAURANT ASSOCIATION

GET MORE INFORMATION RESTAURANT.ORG/TAX-POLICY

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RESTAURANT EMPLOYEES

WHAT THEY SHOULD KNOW

Eligible tipped workers can deduct up to $25,000 of tip income from their federal tax return.
All tips over $25,000 will be taxed as normal. For tipped workers making more than $150,000/year (or $300,000 if filing jointly), the deduction cap is reduced $100 for every $1,000 over $150,000 of income.

Workers receiving tips will continue to report their tips each shift. That information is already captured in income documents like a W-2 they use to file their taxes.

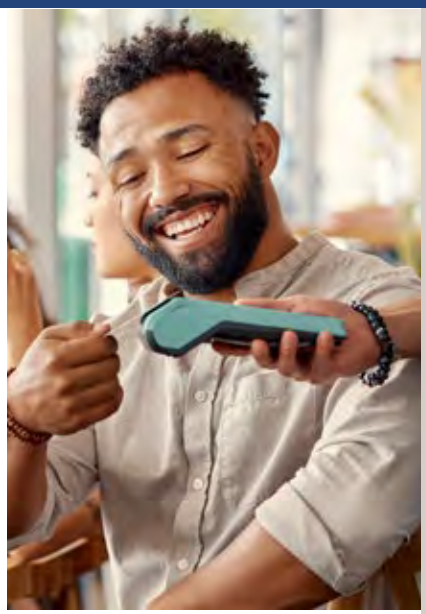
There are still some taxes workers will be responsible to pay. FICA taxes toward Medicare and Social Security will still be deducted from their paycheck.

States control the taxes they collect.
Some states automatically conform to federal tax law, while others do not. We'll have to wait and see what the individual states choose to do.

Tips must be paid voluntarily to be counted toward the tax deduction. Automatic gratuities, service charges, and other charges that cannot be varied by the customer are not considered tips. Tips received as part of a mandatory or voluntary tip sharing arrangement are eligible for the tax deduction.

Total Savings

National Restaurant Association economists project that for FY2025, No Tax on Tips could put up to $6.4 billion back in the pockets of the industry workforce.



TIPPED RESTAURANT WORKER SAVINGS BY STATE

State	Tax Savings ($M)	State	Tax Savings ($M)
Alabama	$68	Montana	$25
Alaska	$12	Nebraska	$38
Arizona	$135	Nevada	$112
Arkansas	$40	New Hampshire	$29
California	$616	New Jersey	$146
Colorado	$121	New Mexico	$33
Connecticut	$59	New York	$361
Delaware	$21	North Carolina	$184
District of Columbia	$30	North Dakota	$18
Florida	$519	Ohio	$204
Georgia	$171	Oklahoma	$63
Hawaii	$34	Oregon	$69
Idaho	$31	Pennsylvania	$231
Illinois	$246	Rhode Island	$29
Indiana	$112	South Carolina	$109
Iowa	$59	South Dakota	$21
Kansas	$51	Tennessee	$125
Kentucky	$67	Texas	$528
Louisiana	$83	Utah	$42
Maine	$23	Vermont	$12
Maryland	$101	Virginia	$152
Massachusetts	$140	Washington	$124
Michigan	$166	West Virginia	$24
Minnesota	$118	Wisconsin	$135
Mississippi	$37	Wyoming	$13
Missouri	$114		

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