

# NO TAX ON TIPS

## EMPLOYER COMPLIANCE GUIDE (2025-2028)



### CRITICAL COMPLIANCE OVERVIEW

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- **2025:** No penalties, no W-2 changes required — transition year
- **2026+:** Must report qualified tips in Box 12 Code TP and occupation codes in Box 14b
- **Maximum deduction:** \$25,000 annually per employee
- **Applies to ~68 IRS-designated tipped occupations**
- **Payroll taxes (Social Security/Medicare) still apply to all tips**

#### GOOD NEWS FOR 2025

The IRS will NOT penalize employers for failing to separately report qualified tips or occupation codes on 2025 Forms W-2, provided all other reporting requirements are met. However, you're encouraged to provide this information via Box 14, online portals, or supplemental statements.

### YEAR-BY-YEAR REQUIREMENTS

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#### 2025 (Transition)

- **No mandatory reporting changes** to Forms W-2 or 1099-NEC
- **No penalties** for not tracking qualified tips separately
- **Encouraged:** Provide qualified tip amounts and occupation codes via Box 14, online portals, or supplemental statements
- **Begin preparing:** Map job codes to Treasury Tipped Occupation Codes (TTOC)
- **Employees calculate their own deductions using pay records**

#### 2026 & Beyond (Full Compliance)

- **Form W-2 REQUIRED:** Box 12 Code TP (qualified tips) + Box 14b (TTOC)
- **Form 1099-NEC REQUIRED:** Box 1b (qualified tips) + Box 1c (TTOC)
- **REQUIRED:** Track qualified vs. non-qualified tips separately
- **REQUIRED:** Process employee W-4 updates for withholding adjustments
- **Payroll systems must distinguish tip types and map to TTOCs**

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**2026 FORM W-2 REPORTING REQUIREMENTS**

- **New W-2 Boxes for Tips**
  - **Box 12, Code TP:** Total amount of qualified tips
  - **Box 14b:** Treasury Tipped Occupation Code (TTOC)
- **Form 1099-NEC** (Independent Contractors)
  - **Box 1b:** Qualified tips amount
  - **Box 1c:** Treasury Tipped Occupation Code (TTOC)

**WHAT QUALIFIES AS TIPS?**

QUALIFIES	DOES NOT QUALIFY
Cash tips paid directly by customers	Mandatory service charges or auto-gratuities
Credit card and electronic payment tips	Service charges customers cannot disregard
Tips from gift cards, debit cards, tokens (e.g., casino chips)	Tips received in Specified Service Trade or Businesses (SSTBs: health, law, consulting, athletics, performing arts)
Tips distributed through valid tip-sharing arrangements	Tips from illegal activities
Voluntarily paid by customers without negotiation	Tips subject to negotiation or agreement

### **SSTB EXCLUSION IMPORTANT!**

Tips NOT eligible if received by employees in Specified Service Trade or Businesses (SSTBs): Health care, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or businesses where principal asset is reputation/skill of employees. This excludes many professional service tips from the deduction.

### **TREASURY TIPPED OCCUPATION CODES (TTOC)**

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The IRS has designated approximately 68 tipped occupations eligible for this deduction. You must map your job codes to the appropriate TTOC for 2026 reporting.

#### **Common Eligible Occupations Include:**

- Waiters and Waitresses
- Bartenders
- Food Servers (Counter/Cafeteria/Restaurant)
- Bellhops and Concierges
- Hairdressers, Hairstylists, Cosmetologists, Barbers
- Baggage Porters and Bellhops
- Gaming Dealers and Service Workers
- Parking Attendants and Valets
- Tour Guides and Escorts
- Taxi Drivers and Chauffeurs

Complete TTOC list available on [IRS.gov](https://www.irs.gov)

### **EMPLOYEE W-4 WITHHOLDING ADJUSTMENTS**

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Starting in 2026, employees can adjust their Form W-4 to reduce federal income tax withholding based on expected tip deductions. **When employees submit updated W-4 forms:**

- You must process the updated W-4 form promptly
- Use Publication 15-T procedures for withholding calculations
- Reduce federal income tax withholding (NOT FICA taxes)
- The 2026 Form W-4 includes expanded deductions worksheet (Step 4b) for qualified tips

## CRITICAL REMINDER ABOUT PAYROLL TAXES

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**All tips remain subject to FICA taxes:** Qualified tips are still subject to Social Security and Medicare taxes. The deduction only affects federal income tax liability when employees file their returns. Continue withholding all payroll taxes as normal on all tip income.

## ACTION PLAN FOR EMPLOYERS

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### NOW (Late 2025)

- Review tip reporting systems
- Map job titles to TTOCs
- Identify SSTB employees (excluded)
- Look for an additional page to the W-2
- Communicate with employees

### Ongoing (2026+)

- Track qualified tips separately
- Apply correct TTOCs to employees
- Process employee W-4 updates
- Maintain documentation

### Before January 2026

- Update 1099-NEC systems (Box 1b/1c)
- Train payroll staff on requirements
- Prepare W-4 processing procedures

## FREQUENTLY ASKED QUESTIONS

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### Q: Do I need to change anything for 2025 W-2s?

No. The IRS won't penalize you for not reporting qualified tips or TTOCs separately on 2025 forms. However, providing this info helps employees and demonstrates good faith compliance.

### Q: What if I don't know the TTOC for each employee?

Start mapping now. The IRS provides a list of approximately 68 eligible tipped occupations with corresponding codes. Match your job titles to the nearest TTOC.

### Q: Do mandatory service charges count as qualified tips?

No. Mandatory service charges, automatic gratuities, or any service charge that customers cannot disregard or modify do NOT qualify as tips for this deduction.

### Q: What about tip pooling or tip sharing?

Tips distributed through valid tip-sharing arrangements qualify. Track the amounts each employee receives from the pool after distribution.

### Q: How do I handle employees who work multiple positions?

If an employee works in both tipped and non-tipped roles, only report tips earned in eligible tipped occupations (those with TTOCs). You may need to track hours or tips by position.

### Q: What if an employee is in an SSTB?

Employees in Specified Service Trade or Businesses (health care, law, consulting, athletics, performing arts, etc.) are NOT eligible. Their tips do not qualify for the deduction, and you should not report them as qualified tips.

### Q: Do contractors get this benefit?

Yes. Self-employed individuals and independent contractors can claim the deduction. For 2026+, report their qualified tips and TTOC on Form 1099-NEC in Boxes 1b and 1c.

### Q: What records should I maintain?

Keep detailed records of: tip amounts by type (cash, credit card, pooled), employee occupation codes mapped to TTOCs, W-4 forms, tip reporting logs, and SSTB classification determinations.

## KEY RESOURCES

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- **IRS.gov:** Latest guidance on IRC Section 224 and TTOC list
- **Publication 15-T:** Federal income tax withholding methods
- **Form W-2 Instructions:** Box 12 Code TP and Box 14b requirements (2026+)
- **Form 1099-NEC Instructions:** Box 1b and 1c reporting for contractors
- **Notice 2025-XX:** IRS guidance on TTOC mapping (forthcoming)

## EFFECTIVE FOR TAX YEARS 2025-2028

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Monitor [IRS.gov](https://www.irs.gov) for TTOC list updates and additional guidance. Consult with payroll professionals or tax advisors for specific situations.

### TAX DISCLAIMER

The information provided here is for general informational purposes only and should not be considered tax, legal, or financial advice. Tax laws are complex and subject to change, and individual circumstances vary significantly. We strongly recommend consulting with a qualified tax professional, certified public accountant (CPA), or tax attorney who can provide personalized guidance based on your specific situation. Reliance on any information provided here is solely at your own risk.