



# Anneken, Huey & Moser<sup>PLLC</sup>

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Here's the Tax Beat broadcast for September 24

Subject Line: From Campaign Slogan to Fine Print

Remember “no tax on tips”? The IRS just issued new guidance spelling out which jobs actually qualify for the shiny new break under the Big Beautiful Bill. It's a list that reads like a Friday night seating chart — bartenders, waiters, nail techs, taxi drivers — and then a few head-scratchers, like cooks and dishwashers. Apparently, someone in Washington thinks customers are slipping twenties to the guy spraying down plates in the back. The whole exercise is an attempt to answer the burning question: who's “customarily and regularly” tipped, and therefore entitled to the deduction?

The story of how we got here is almost too on the nose. Donald Trump says it started with a Nevada waitress who complained that the IRS was basically her worst customer — always hovering, always taking a cut. Trump asked if she'd be happy if tips weren't taxed, she said yes, and boom: campaign slogan. Then Kamala Harris walked in, grabbed the same idea off the specials board, and suddenly both campaigns were fighting to be the servers' best friend. A rare bipartisan applause line, served hot!

Of course, when the campaigning stopped, the bean counters started hyperventilating. Wiping all tip income off the federal tax rolls would have blown a hole in the budget big enough to drive a food truck through. So Congress, doing what Congress does, sprinkled on some fine print. When the Big Beautiful Bill passed this summer, the no-tax-on-tips promise showed up with strings attached. Workers can exclude up to \$25,000 of tip income per year. But the break starts phasing out once income hits \$150,000 for singles or twice that for married couples. (There won't be a lot of single servers worried about that cap, but a server married to a high-income spouse might need to pay attention.) And the whole thing vanishes after 2028. Like most campaign candy, it comes with an expiration date.

Also worth noting: this isn't a total tax-free buffet. Tips still get hit with payroll taxes, so Social Security and Medicare keep their hands in the jar. The break matters most to folks who earn enough in tips to bump up against that \$25,000 cap. For lower earners, especially those who don't owe much income tax in the first place, it's more like a free breadstick than a steak dinner.

Then there's the messy business of figuring out who counts as a tipped worker. The details can get pretty hairy. According to the IRS, a bartender employed by a bar gets to exclude tips, but a bartender employed by a theater doesn't. (That's because a theater is considered a “specified service trade or business.”) And the rules bar deductions for tips connected to pornography — but they don't define exactly what that means.

So what does this all mean? For starters, “no tax on tips” works better as a campaign chant than as a long-term planning strategy. Employers and employees alike will need to pay attention as the IRS finalizes the rules and decides how to handle mixed jobs or unusual tip situations. And planners like us have to decide whether it’s worth baking into multi-year strategies when the law could disappear faster than a happy hour half-price margarita.

For now, yes, the IRS isn’t standing at your table demanding a cut of your server’s tips. But don’t be fooled, the Treasury hasn’t lost its appetite entirely. This break is a nice appetizer, not a main course. The real question is whether Congress will order another round when it all expires in 2028. Until then, we’ll be here to help you make the most of the menu!

Kevin

