

Dissecting House And Senate's Differing No-Tax-On-Tips Bills

By **Nikki Dobay, Marvin Kirsner and Riley Lagesen** (June 11, 2025)

Both the House of Representatives and the Senate passed their own versions of a no-tax-on-tips bill last month. Employers should be aware of the similarities and differences between the bills, as this can help them communicate effectively with their tipped employees, some of whom may have specific expectations around a no-tax-on-tips policy that differs from what is ultimately implemented.

The House no-tax-on-tips bill was passed as part of its One Big Beautiful Bill Act on May 22. The act is the House's budget reconciliation bill that includes numerous tax items, and many expected it to contain a no-tax-on-tips provision.

The Senate's No Tax on Tips Act, on the other hand, is a stand-alone bill — S. 129 — that was introduced by Sen. Ted Cruz, R-Texas, in January. The Senate passed S. 129 by unanimous consent on May 20 after a brief debate.

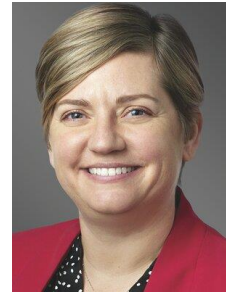
With the Senate attempting to pass a final package by the end of June, the Senate Finance Committee is currently developing its version of the budget bill, which may produce an alternative version of the no-tax-on-tips legislation. Assuming the Senate version is different, the two would need to be reconciled for final passage.

Below, we briefly compare the two bills and highlight other considerations.

Commonalities Between the Bills

First, the similarities in the House and Senate no-tax-on-tips bills include the following.

- Eligible employees would be able to deduct qualified tips to determine taxable income. Qualified tips are cash tips — whether paid by cash, credit card or debit card — in an occupation that traditionally and customarily receives tips. Tips received in other property, for example, tickets to a sporting event, would not be eligible.
- The secretary of the treasury would be required to publish a list of traditional tip-receiving occupations within 90 days of the president signing the act.
- The recipient of the tips must not have income that would classify them as a highly compensated employee, which for 2025 is an employee who earns \$160,000 or more.



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- The deduction for qualified tips would be allowed for nonitemizers.
- Because no tax on tips would be structured as an employee deduction, tips would continue to be included in the base for Federal Insurance Contributions Act taxes — Social Security and Medicare tax.
- The Internal Revenue Service will revise withholding tables to reduce withholding to account for the deduction for tips.
- Both bills would be effective for the 2025 tax year.

Where the Bills Differ

There are also several differences between the House and Senate bills that need to be resolved by Congress.

Cap on Deduction

The House bill sets no cap on the deduction for tips received, except for taxpayers who receive enough compensation to make them highly compensated employees, earning \$160,000 or more for 2025.

The Senate bill sets a \$25,000 cap on the amount of deductible tips.

Expiration Date

The House bill that allows the deduction would expire after the 2028 tax year, so tips would be fully taxable beginning in 2029.

Although the Senate bill proposes a \$25,000 tip deduction cap, the Senate bill does not expire after four years as the House bill would.

The Joint Committee on Taxation estimates that the House-passed proposal would increase the budget deficit by \$39.7 billion over 10 years.[1] The four-year expiration provision was likely included in the House bill to limit the cost of this tax cut.

The Senate bill does not yet have an estimate of the cost of its tax cuts. If, when the estimate is released, the estimated cost is materially greater than the House version, it might result in changes to the Senate's version.

Provision for Independent Contractors

The House bill would allow independent contractors to deduct qualified tips, to the extent

tips exceed the contractors' costs — for example, food delivery drivers would be able to deduct their tips to the extent they exceed the cost of operating their vehicles.

The Senate bill is limited to employees only; independent contractors would not be eligible for this tax benefit.

Voluntary Payment

The House bill requires that tips must be paid voluntarily without any consequence in the event of nonpayment, may not be subject to negotiation and must be determined by the payor.

The Senate bill does not contain this condition.

Certain Professional Businesses Excluded

The House bill states that taxpayers involved in certain professional service businesses are not eligible for this tax benefit, including the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services and brokerage services. It is not clear why this express exclusion is in the bill, since it is uncommon for workers in such businesses to receive tips.

Information Reporting Requirements

The House bill requires the amount of tips to be reported on a Form W-2 issued to tipped employees, and requires the taxpayer to provide their Social Security number and their spouse's Social Security number. Furthermore, third-party settlement organizations — payment cards and third-party network transactions — are required to report the tips paid.

These information reporting requirements would give the IRS an enforcement tool after the tip deduction ends after 2028, since workers who may not have previously reported all of their tips to their employers would need to do so to legally deduct their tips. This would give the IRS insight into the actual amount of tips they received from 2025 to 2028. As a result, if a worker reports a material drop-off in reported tips in 2029 after the deduction expires, it might result in an audit.

The Senate bill contains no specific information reporting requirements for tips.

Other Issues and Industry-Specific Considerations

In addition to uncertainty about how the differences between these two bills will be resolved, the IRS has yet to publish a list of eligible occupations to clarify which workers will be granted this tax benefit.

For example, it is fairly certain that restaurant servers will be included, but whether the list will cover back-of-house workers who might share tips received by servers is up in the air.

Regardless of how any no-tax-on-tips initiative takes shape, any change in tip taxation will affect reporting. The IRS estimates that tips are underreported to the tune of tens of billions of dollars every year.[2] Enacting such a policy may provide an incentive to broaden the understanding of gratuities as much as possible. This may lead to reporting inconsistencies regarding the proper wage and tip classifications.

The no-tax-on-tips promise might also create disparities among the different classifications of employees in a very industry-specific manner. In the restaurant industry, for example, highly tipped employees, such as front-of-house restaurant workers, bar workers or employees who participate in a tip pool in a restaurant with significant tips, would seem to be the most significant beneficiaries of the legislation.

Lightly tipped employees, such as tipped quick service and fast casual restaurant workers, may receive modest or no benefits. In addition, nontipped employees and restaurant managers, who may be legally precluded from receiving tips due to laws and regulations that prohibit tip sharing with management-level personnel, would receive no benefits from the legislation.

Restaurant employers may be faced with requests for compensation increases or a declining interest from restaurant workers in working their way up into management-level roles if the compensation and income boost from tax-free tips is more attractive than the management compensation.

Conclusion

The implementation of a no-tax-on-tips policy — whether at the federal or state level — should be of interest to restaurant employers of tipped employees.

Although the policy may benefit some restaurant workers, the legislation may present challenges to restaurant owners and operators who have experienced significant price and wage inflation — including historic increases in wages and benefits in many parts of the country over the past several years — while operating expenses and pressures also increased considerably.

In addition, tip credits, which allow employers in most U.S. states to pay tipped employees a reduced hourly wage based on the tips they receive, have been challenged in parts of the country through local legislation.[3]

While the no-tax-on-tips policy may provide significant tax savings to select tipped workers, the legislation may create challenges for restaurant owners and other businesses with workers designated by the treasury secretary to be in a traditional tip-receiving occupation. As this policy begins to unfold, restaurant owners should be aware of these issues and engage with their representatives — at both the federal and state level — to try and shape these policies to address these concerns.

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[1] <https://www.jct.gov/publications/2025/jcx-26-25/>.

[2] <https://crsreports.congress.gov/product/pdf/IF/IF12728>.

[3] DC Council pauses next step in Initiative 82 minimum wage increase.