No Tax on Tips—But What About Overtime and Social Security?

Article
Amundsen Davis Tax Alert
June 20, 2025

RELATED SERVICES

Tax

Earlier this year, many low-income taxpayers were elated to learn about the possibility that tipped wages could receive federal income tax relief under the No Tax On Tips Act. Under President Trump's "One, Big Beautiful Bill," low-income taxpayers may have more to cheer for—or, more possibly, reasons for caution.

The Latest on the No Tax on Tips Act

Recently, the Ways and Means Committee released a draft version of the tax bill, followed by supplemental amendments. In this bill, the Committee outlined the proposed No Tax On Tips Act. As it stands, tip income would be temporarily deductible for tax years 2025 – 2028 for taxpayers working in "traditionally and customarily tipped industries" and also for rideshare drivers. The Treasury has been directed to draft an exhaustive list of industries that qualify and anti-abuse regulations to "prevent reclassification of income as qualified tips."

As drafted, taxpayers would receive a deduction, *not* an exclusion. This would mean income would still be still be reportable; involve the administrative upkeep; and be subject to payroll taxes, Social Security, and Medicare.

In the current version of the tax bill, employers are also eligible for a tax break in the form of a tip credit. Known as the "45B Credit," it allows for a rebate on the entire employer-side of FICA taxes on tips. It was originally designed in 1993 for restaurants, and in its current state, is available only for employers who are "involved in providing, delivering, or serving food or beverages for consumption." The recent version of the tax bill proposes extending this credit to the beauty industry, including barbers, hair care, nail salons, estheticians, and spas.

Eligible employers and employees should prepare to take full-advantage and avoid administrative complications. As discussed in the previous articles, there are many proactive steps employers and employees can take to prepare for these changes to be phased in.

No Tax on Overtime

Prior to Trump's promise to remove taxes on tips, he also promised to remove taxes on overtime pay. The provision was not included in the original draft of the bill, however, it was later added in a supplemental amendment.

As currently proposed, taxpayers would not be taxed on overtime compensation. The bill defined overtime compensation as the amount of pay in excess of the employee's regular rate. The deduction would also run from 2025 to 2028 and be subject to payroll taxes. Importantly, it would require itemizing deductions, which could be problematic for taxpayers whose expenses do not rise above the standard deduction.

If the bill is signed into law, it will be crucial for taxpayers who may want to rely on the deduction to appropriately plan for taking the itemized deduction and have appropriate, legitimate expenses.

No Tax on Social Security

Trump also promised to remove taxes on Social Security income. The questions surrounding a tax break on Social Security income are similar to those pointed to in the proposed tax break on tip income. The large majority of people who get Social Security do not pay federal income tax on that income. Even in the event that a taxpayer receives additional income, their Social Security benefits would not be taxed unless the combined income exceeds the base amount of the taxpayer's filing status.

Similar to the two aforementioned tax breaks, the deduction would be $4,000 and run from 2025 to 2028. An important distinction about this deduction is that its benefits would essentially phase out after a certain income threshold. This is because the deduction would be non-refundable if a taxpayer has no taxable income, the credit cannot be applied and, furthermore, any unused amount cannot not be refunded to the taxpayer. As stated earlier, most taxpayers who receive Social Security do not have taxable income, thus, the deduction would not help the majority of recipients.

How Can Taxpayers Prepare?

In the midst of uncertainty, it will be important for individuals to ensure they have a history of accurate filing and, in the case of taking any of the deductions, have appropriate record-keeping of their income and expenses. For businesses, it will be crucial to begin reviewing their filing history, bookkeeping, and ensure their administrative systems are up to date to capture the Sec. 45B credit or similar changes. Businesses should consult a tax professional to review their accounting practices and applied tax methodologies for any changes in the coming months.