



NO TAX ON TIPS

IRS Final Rule on Tipped Occupations and the Treatment of Chauffeur Gratuities

Purpose

As part of the One, Big, Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, Congress introduced a temporary, significant tax break for tipped workers. It allows employees in designated service occupations to deduct up to \$25,000 of qualified tips per year from their federal income tax, effective for the 2025 through 2028 tax year. To be eligible, the recipient of tips must be in an occupation that "customarily and regularly" receives tips, including servers, bartenders, hairdressers, and gig workers and of course chauffeured drivers. The deduction phases out for taxpayers with a modified adjusted gross income over \$150,000 (\$300,000 for joint filers). Up to \$12,500 annually in tip income can be deducted and the provision covers VOLUNTARY cash or charged tips. The law also includes a \$12,500 deduction for overtime pay and is designed to boost take-home pay for lower-wage, tipped workers.

This memo summarizes the NLA's efforts to ensure that VOLUNTARY or SUGGESTED tips are eligible for the new deduction. The April 13, 2026 final rule issued by the Department of the Treasury and the Internal Revenue Service (IRS) on Occupations That Customarily and Regularly Received Tips; Definition of Qualified Tips responded to the National Limousine Association (NLA) engagement with Treasury and the IRS through advocacy and the rulemaking process to provide clarifying guidance regarding gratuities received by professional chauffeurs. The memo outlines the benefits of NLA advocating for this outcome as it relates to the chauffeured and private bus industry.

Overview of the Final Rule

On April 13, 2026, Treasury and the IRS published final regulations implementing section 224 of the Internal Revenue Code, enacted as part of Public Law 119-21. The regulations:

- Identified occupations which regularly received tips on or before December 31, 2024, including occupations within the Transportation and Delivery category.
- Defined "qualified tips" for purposes of the federal income tax deduction for tips; and
- Established conditions that must be satisfied for a payment to be treated as a qualified tip under federal tax law.

The final regulations take effect on June 12, 2026.



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Definition of “Qualified Tips”

Under the final rule, an amount received by a worker may be treated as a “qualified tip” only if it meets several requirements established by Treasury and the IRS. As explained in the rule and related guidance, qualified tips must be:

- Paid voluntarily by the customer,
- Not required as a condition of service,
- Not subject to negotiation, and
- Determined by the customer (including when the customer directs the transportation company to add a specific tip percentage to all trips paid for by the customer.)

Mandatory service charges, automatic gratuities, or required fees DO NOT meet this definition.

Relevance to Chauffeured Transportation and NLA’s request for clarity

While the initial rulemaking that Treasury promulgated include transportation occupations among those that regularly received tips, it did not provide occupation-specific explanatory guidance addressing how the “voluntary” standard applies across different transportation service models.

In particular, the rule did not expressly address:

- Pre-arranged chauffeured transportation services,
- Situations where base fares are established in advance of service, or
- Optional gratuities selected or adjusted by customers at or after the conclusion of the trip.

The rule did not clarify how chauffeur tips are managed in typical industry practices, even when gratuities are optional and customer driven.



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NLA Engagement with Treasury and the IRS

Because of the lack of clarity above, the NLA DC team submitted comments to Treasury and urged the agency to issue clarifying regulations that allow for voluntary or suggested gratuities to be eligible for the deduction. NLA explained that it was customary for NLA members to suggest voluntary gratuity that could be raised, lowered, or not paid at all without consequence to the ultimate level of service provided by the NLA member.

Treasury responded with clarity in its Federal Register posting and even referenced the NLA comments in their response. The response stated: "A few commenters asked if contractual arrangements that include suggested tips for services before they are provided are voluntary tips. One commenter asked for clarification as to what "without consequence" means. In §1.224-1(c)(3) (Example 8) of the proposed regulations described a contract with varying prices depending on whether a tip was included. The failure to agree to a specific tip amount resulted in a higher price for the service. Accordingly, nonpayment of the tip was not "without consequence" in this situation (because nonpayment resulted in a higher price). If the contract terms merely added the discretionary tip as a "convenience" for the customer, subject to the customer's agreement, the tip would be voluntary. The Treasury Department and the IRS agree in the rule that in future, additional guidance would be helpful on this issue. Although whether the failure to pay a tip is made "without consequence" will depend on the facts and circumstances of a particular situation, the final regulations clarify that situations where nonpayment of a tip is without consequence include situations where nonpayment of the tip does not have any impact on the scope or cost of the service. The final regulations also contain a new example where the tip is part of the contract that is entered into before the services are provided. The example concludes that the tip is a qualified tip because it is paid without consequence. If the customer had chosen not to pay the tip, then the scope or cost of the service would not have been affected. "

The National Limousine Association is grateful to Treasury and the IRS for listening to the industry and for their clarification in the Federal Register notice. NLA is also thankful for the Cornerstone team in DC for their efforts on NLA's behalf. NLA strongly advises NLA members to consult with their tax advisors on administration of this tax provision.