Bill Summary

H.F. 3525

As introduced

MN HOUSE RESEARCH

Subject	Subtraction for tip income established
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Summary

Public Law 119-21, also known as the "One Big Beautiful Bill Act," established a temporary federal deduction for a portion of a taxpayer's "qualified tips." The law defines qualified tips as "cash tips received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024." To qualify, the tips must be made voluntarily and not subject to negotiation and must not be in a business for which the taxpayer received the qualified business income deduction. IRS regulations have identified 70 occupations which qualify for the deductions. The regulations group these occupations into eight categories:

- Beverage and food service
- Entertainment and events
- Hospitality and guest services
- Home services
- Personal services
- Personal appearance and wellness
- Recreation and instruction
- Transportation and delivery

The deduction is limited to $25,000 for all filing statuses. For married joint returns, the deduction is phased out beginning at $300,000, and the phaseout is complete at $550,000. For taxpayers with other filing statuses, the deduction is phased out beginning at $150,000 and is fully phased out at $400,000. The federal deduction expires after tax year 2028.

H.F. 3525 would establish a Minnesota income tax subtraction that matches the structure of the federal tip deduction, except the subtraction would continue past 2028, even if the federal deduction expires as currently scheduled.

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