INTERNAL REVENUE
BULLETIN

IRS

HIGHLIGHTS OF THIS ISSUE

Bulletin No. 2026–18
April 27, 2026

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

ADMINISTRATIVE

Announcement 2026-9, page 881.

The Office of Professional Responsibility (OPR) announces recent disciplinary sanctions imposed on attorneys, certified public accountants, enrolled agents, enrolled actuaries, enrolled retirement plan agents, and appraisers. The OPR also announces when certain unenrolled, unlicensed tax return preparers (individuals who are not enrolled to practice before the Internal Revenue Service (IRS)) and are not licensed as attorneys or certified public accountants) have been disciplined. Licensed or enrolled practitioners are subject to the regulations governing practice before the IRS, which are set out in Title 31, Code of Federal Regulations (C.F.R.), Subtitle A, Part 10, and which are released as Treasury Department Circular No. 230. The regulations prescribe the duties and restrictions relating to such practice and prescribe the disciplinary sanctions for violating the regulations. Unenrolled/unlicensed return preparers who choose to participate in the IRS's voluntary Annual Filing Season Program (AFSP) are subject to the guidance in Revenue Procedure 2014-42, which governs a preparer's eligibility to represent taxpayers before the IRS in examinations of tax returns the preparer both prepared for the taxpayer and signed as the preparer. Additionally, unenrolled/unlicensed return preparers who participate in the AFSP agree to be subject to the duties and restrictions in Circular 230, including the restrictions on incompetence or disreputable conduct.

EMPLOYEE PLANS

Notice 2026-26, page 878.

This notice sets forth updates on the corporate bond monthly yield curve, the corresponding spot segment rates for March 2026 used under § 417(e)(3)(D), the 24-month average segment rates applicable for April 2026, and the 30-year Treasury rates, as reflected by the application of § 430(h)(2)(C)(iv).

EMPLOYEE TAX

TD-10044, page 840.

Public Law 119-21, commonly known as the One, Big, Beautiful Bill Act (OBBBA) adds new section 224 to the Internal Revenue Code, which provides a deduction for "qualified tips" that are reported on certain IRS returns and forms. The statute requires that the Secretary of the Treasury publish a list of occupations that customarily and regularly received tips on or before December 31, 2025, and establish other requirements concerning qualified tips. These final regulations identify occupations that customarily and regularly received tips on or before December 31, 2024, define "qualified tips," and provide guidance on other requirements of section 224. TD10044. Published April 13, 2026.

EXCISE TAX

REG-114499-25, page 883.

Section 4475 imposes a one percent tax on remittance transfers made after December 31, 2025, for which the sender provides cash, a money order, a cashier's check, or other similar physical instrument to the remittance transfer provider. This Notice of Proposed Rulemaking contains proposed rules relating to the imposition and calculation of that excise tax.

Finding Lists begin on page ii.

The IRS Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and procedures must be considered, and Service personnel and others concerned are cautioned against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

Part I.—1986 Code.
This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

Part II.—Treaties and Tax Legislation.
This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

Part III.—Administrative, Procedural, and Miscellaneous.
To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

Part IV.—Items of General Interest.
This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

Part I

26 CFR 1.224-1

TD 10044

DEPARTMENT OF THE TREASURY
Internal Revenue Service
26 CFR Part 1

Occupations that Customarily and Regularly Received Tips; Definition of Qualified Tips

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final rule.

SUMMARY: This document contains final regulations that identify occupations that customarily and regularly received tips on or before December 31, 2024, and provide a definition of qualified tips for purposes of the income tax deduction for qualified tips. These regulations affect individuals who receive tips as part of their occupation.

DATES: *Effective date*: These final regulations are effective on June 12, 2026**.**

Applicability date: For date of applicability, *see* § 1.224-1(j).

FOR FURTHER INFORMATION CONTACT: Stephanie Caden or Andrew Holubeck at (202) 317-4774.

SUPPLEMENTARY INFORMATION:

Authority

These final regulations contain amendments to the Income Tax Regulations (26 CFR part 1) under section 224 of the Internal Revenue Code (Code) related to the deduction for qualified tips. These final regulations are issued under the authority conferred by section 70201(h) of Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA), which requires that, not later than 90 days after the date of the enactment of the OBBBA, the Secretary of the Treasury or the Secretary's delegate (Secretary) publish a list of occupations that customarily and regularly received tips on or before December 31, 2024, for purposes of section 224(d)(1) of the Code. The regulations are also issued under the authority in section 224(d)(2)(C), which provides that "qualified tips" do not include any amount received by an individual unless such other requirements as may be established by the Secretary in regulations or other guidance are satisfied, and section 224(g) of the Code, which instructs the Secretary to prescribe such regulations or other guidance as may be necessary to prevent reclassification of income as qualified tips, including regulations or other guidance to prevent abuse of the deduction allowed by section 224. The final regulations are also issued under the authority of section 7805(a) of the Code, which authorizes the Secretary to prescribe all needful rules and regulations for the enforcement of the Code, including all rules and regulations as may be necessary by reason of any alteration of law in relation to Internal Revenue.

Background

This document contains amendments to 26 CFR part 1 under section 224 of the Code relating to the deduction from income for qualified tips.

Under section 61(a) of the Code, amounts received by individuals as tips are included in gross income and subject to income tax. Treasury regulations under section 61 provide that "[w]ages, salaries...[and] tips... are income to the recipients unless excluded by law." *See* § 1.61-2(a).[1]

Section 63(a) of the Code defines taxable income for taxpayers who itemize their deductions as gross income minus allowable deductions (other than the standard deduction). Section 63(b) provides that, in the case of an individual who does not elect to itemize deductions for the taxable year, taxable income means adjusted gross income reduced by the standard deduction and certain other enumerated deductions.

Section 70201(a) of the OBBBA added new section 224 to the Code providing an income tax deduction for "qualified tips" that are received during the taxable year by individuals in an occupation that customarily and regularly received tips on or before December 31, 2024. Section 70201(b) of the OBBBA added the deduction provided by section 224 to the list of deductions used to determine taxable income in section 63(b). Specifically, section 224(a) provides for a deduction in an amount equal to the qualified tips received by an individual in a taxable year that are included on statements[2] furnished to the individual pursuant to section 6041(d)(3), section 6041A(e)(3), section 6050W(f)(2), or section 6051(a)(18) of the Code, or are reported by the taxpayer on Form 4137, *Social Security and Medicare Tax on Unreported Tip Income* (or successor). Section 224(b)(1) limits this deduction to an amount not to exceed $25,000 in a taxable year. Section 224(b)(2) further limits the amount of the deduction based on a taxpayer's modified adjusted gross income, which is a taxpayer's adjusted gross income for the taxable year increased by any amount excluded from gross income under section 911, section 931, or section 933 of the Code. The deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers).

Section 224(c) provides that, in the case of qualified tips received by an individual

[1] Under section 3121(q), tips are also considered wages for Federal Insurance Contributions Act (FICA) purposes. However, the deduction under section 224 does not apply for FICA purposes and is not taken into account in determining wages subject to FICA tax. Similarly, the deduction under section 224 does not apply for Self-Employment Contributions Act (SECA) purposes and is not taken into account for purposes of determining net earnings subject to SECA tax.

[2] The House Budget Committee report on the OBBBA, H. Rept. 119-106, at 1503 (2025), specifies that the qualified tip amounts included on reporting statements (for example, Form 1099) must be separately accounted for on the statements.

during any taxable year in the course of a trade or business (other than the trade or business of performing services as an employee) of such individual, such qualified tips are taken into account under section 224(a) only to the extent that the gross income for the taxpayer from such trade or business for such taxable year (including such qualified tips) exceeds the sum of the deductions allocable to the trade or business in which such qualified tips are received by the individual for such taxable year.

Section 224(d)(1) defines "qualified tips" as cash tips received by an individual in an occupation that customarily and regularly received tips on or before December 31, 2024, as provided by the Secretary. Section 224(d)(2) further requires that qualified tips not include any amount received by an individual unless the amount:

- Is paid voluntarily without any consequence in the event of nonpayment, is not the subject of negotiation, and is determined by the payor;
- Is not received in the course of a trade or business that is a specified service trade or business as defined in section 199A(d)(2) of the Code; and
- Satisfies such other requirements as may be established by the Secretary in regulations or other guidance.

Section 224(d)(2) further provides that, for purposes of determining whether amounts are received in the course of a trade or business that is a specified service trade or business as defined in section 199A(d)(2), in the case of an individual receiving tips in the trade or business of performing services as an employee, such individual is treated as receiving tips in the course of a trade or business which is a specified service trade or business if the trade or business of the employer is a specified service trade or business.

Section 224(d)(3) provides that for purposes of section 224(d)(1), the term "cash tips" includes tips received from customers that are paid in cash or charged and, in the case of an employee, tips received under any tip-sharing arrangement.

Section 224(e) provides that no deduction is allowed under section 224 unless the taxpayer includes on the return of tax for the taxable year such individual's Social Security number (SSN) as defined in section 24(h)(7) of the Code.

Section 224(f) provides that if the taxpayer is a married individual (within the meaning of section 7703 of the Code), section 224 applies only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year. That is, the deduction is not available for a taxpayer who is married and files separately.

Section 224(h) provides that no deduction is allowed under section 224 for any taxable year beginning after December 31, 2028.

Section 70201(h) of the OBBBA instructs the Secretary to publish a list of occupations that customarily and regularly received tips on or before December 31, 2024, ("List of Occupations that Receive Tips") for purposes of section 224(d)(1) no later than 90 days after the date the OBBBA was enacted (July 4, 2025).

The Council of Economic Advisors (CEA) released a report in June 2025, entitled "The One Big Beautiful Bill: Legislation for Historic Prosperity and Deficit Reduction," that estimates the economic effects and fiscal impacts of OBBBA. In this report CEA estimates that the no tax on tips provision of OBBBA will increase average take-home pay for tipped workers by $1,300 per year. CEA also estimates that the provisions for no tax on overtime, no tax on tips, and senior tax relief will boost Gross Domestic Product by 0.3 to 0.4 percent while they are in effect and the growth that they generate will yield $54 to $73 billion in higher revenue to offset the direct revenue losses attributable to these provisions.

A notice of proposed rulemaking and a notice of public hearing (REG-110032-25) were published in the **Federal Register** (90 FR 45340) on September 22, 2025, proposing regulations under section 224 that identify occupations that customarily and regularly received tips on or before December 31, 2024, and that provide a definition of "qualified tips" for purposes of the income tax deduction for qualified tips under section 224. A public hearing was held telephonically on October 23, 2025, and comments responding to the notice of proposed rulemaking were received.

On November 5, 2025, the Treasury Department and the IRS released Notice 2025-62, providing penalty relief for certain 2025 information reporting related to the section 224 deduction for qualified tips. In addition, Notice 2025-69, released on November 21, 2025, provides guidance regarding how individuals satisfy the requirements for the section 224 deduction for qualified tips received in 2025. Notice 2025-69 also provides transition relief for taxpayers regarding the requirement that qualified tips must not be received in the course of a specified service trade or business.

Summary of Comments and Explanation of Revisions

This Summary of Comments and Explanation of Revisions summarizes the proposed regulations, all the substantive comments submitted in response to the proposed regulations, and revisions adopted by these final regulations. The Treasury Department and the IRS received 322 written comments in response to the proposed regulations. The comments are available for public inspection at *https://www.regulations.gov* or upon request. After full consideration of the comments received, these final regulations adopt the proposed regulations with modifications in response to such comments as described in this Summary of Comments and Explanation of Revisions.

Many of the comments received were unrelated to tax law or otherwise outside the scope of the proposed regulations. Comments expressing general approval or disapproval of section 224 or the OBBBA, recommending statutory revisions, and addressing issues that are outside the scope of this rulemaking (such as comments relating to IRS forms, reporting procedures, and enforcement) are generally not addressed in this Summary of Comments and Explanation of Revisions section or adopted in these final regulations. Guidance on claiming the deduction for 2025 was provided in Notice 2025-69, and additional guidance on information reporting and claiming the deduction in subsequent years will also be provided in the instructions to the relevant forms.

Some commenters requested a public hearing or requested to speak at the public hearing, which was held telephonically on October 23, 2025. Other commenters requested that the comment period be extended for at least another 30 days.

To ensure that these final regulations are issued in time to provide guidance to taxpayers filing their 2025 income tax returns, the Treasury Department and the IRS did not extend the comment period, and the comment period for the proposed regulations ended on October 22, 2025; however, the Treasury Department and the IRS considered all comments received, including comments submitted after the close of the comment period that were received up to the point in the rulemaking process at which revisions to the regulatory text could no longer practicably be made. Comments received after that point could not be fully evaluated or incorporated due to the advanced stage of the drafting process. In addition to making modifications in response to the comments received, the final regulations also include non-substantive grammatical or stylistic changes to the proposed regulations.

1. *Comments on the Methodology Used to Construct the List of Occupations that Receive Tips*

Table 1 in § 1.224-1(f) of the proposed regulations contains the proposed list of occupations that customarily and regularly received tips (List of Occupations that Receive Tips) on or before December 31, 2024, that section 70201(h) of the OBBBA instructed the Secretary to provide. The Treasury Department and the IRS compiled the proposed List of Occupations that Receive Tips based on a review of IRS data, legislative history, and survey data regarding tipped occupations and the presence of certain factors demonstrating that those occupations customarily and regularly received tips. Because the Code does not define the phrase "customarily and regularly," the Treasury Department and the IRS looked to dictionary definitions and other statutory provisions, including the provisions of the Fair Labor Standards Act (FLSA), for guidance.

With these parameters in mind, the Treasury Department and the IRS reviewed data collected from 2023 Forms W-2, *Wage and Tax Statement*,[3] that reported tips in box 7 on the form (Social Security tips); Forms 4137 that reported tips on line 4; and corresponding income tax returns (Forms 1040). The Treasury Department and the IRS identified occupations listed on the income tax returns (as reported on page 2 of Form 1040 next to the taxpayer's signature) described in the prior sentence as having customarily and regularly received tips based on the percentage of taxpayers who reported at least $100 in annual tip income within a given occupation as reported on Form 1040.

To account for limitations in this data, including the fact that the data pool consisted only of individuals working as employees and relied on self-reported and non-standardized occupation descriptions, the Treasury Department and the IRS also evaluated occupations identified in the Gaming Industry Tip Compliance Agreement (GITCA) program, a voluntary tip reporting program for the gaming industry run by the IRS, and other similar IRS tip reporting programs. The Treasury Department and the IRS also consulted the House Budget Committee report on the OBBBA, H. Rept. 119-106, at 1502 (2025), for additional information regarding occupations that traditionally and customarily received tips on or before December 31, 2024. Finally, the Treasury Department and the IRS analyzed survey data from the Panel Study of Income Dynamics (PSID) that included information on occupations and tip income of both employees and self-employed individuals. The PSID is a nationally representative survey conducted by the University of Michigan.

In organizing the proposed List of Occupations that Receive Tips, the Treasury Department and the IRS created a new categorization system based on the 2018 Standard Occupation Classification (SOC Code) system, called the Treasury Tipped Occupation Code (TTOC) system. The SOC Code system is a Federal statistical standard used by Federal agencies to classify workers into occupational categories for the purpose of collecting, calculating, or disseminating data. It is published by the Executive Office of the President, Office of Management and Budget (OMB).

Many commenters addressed the methodology used to create the proposed List of Occupations that Receive Tips. One commenter suggested that the IRS review public comments submitted in response to the Bureau of Labor Statistics' Notice of solicitation of comments to revise the SOC for 2028 (BLS-2024-0001), published in the **Federal Register** on June 12, 2024 (89 FR 49911), when considering other occupations to add to the list. Another commenter suggested that the primary source used to create the list, occupations reported on an income tax return, does not reflect any historical or traditional information about tipped occupations. One commenter noted that many of the occupations on the list, especially those that do not have regular interaction with the public like cooks, dishwashers, and prep cooks, are not historically known to receive tips.

One commenter suggested that the Treasury Department and the IRS narrow the list by focusing on the frequency or prevalence of tip income. The commenter noted that the definitions of customarily and regularly discussed in the proposed regulations were a "logical starting point," but questioned whether these definitions were applied in the methodology beyond excluding workers reporting less than $100 in tips per year. The commenter questioned why a $100 annual threshold was selected instead of a $30/month threshold, which is used in the FLSA context. One commenter argued that the proposed standard of "more often than occasionally" conflicted with the $100 annual threshold. Several commenters noted that the proposed regulations do not explain how the additional sources, outside of income tax returns, were used to add occupations to the list and that the addition of certain occupations is not supported by data. Two commenters requested more transparency as to how the list was created, including providing transparent categorization standards, written job descriptions, and stated evidence thresholds for inclusion.

Finally, a few commenters noted that eligibility in a particular occupation should be based on the nature and sub-

[3] Section 224(d)(1) specifies that the occupation must have customarily and regularly received tips *on or before December 31*, 2024. The Treasury Department and the IRS reviewed data for the 2023 tax year because that was the most recent year for which comprehensive income tax return data was available. The Treasury Department and the IRS compared the 2023 tax year data to similar data for 2017-2022. Because 2023 data was similar to prior year data, the Treasury Department and the IRS reviewed preliminary data for the 2024 tax year and anticipated that final 2024 data would be substantially similar to 2023 data.

stance of the services provided in the occupation, rather than the context or industry in which they are provided and that the list should be revised to focus more on the nature of occupations rather than on the industry or type of service or product provided.

One commenter stated that the occupations designated by the Treasury Department and the IRS as eligible for no taxes on tips appropriately captured traditional tipped occupations and requested that none of these occupations be cut from the final rule. Another commenter noted that the proposed List of Occupations that Receive Tips accurately reflects those intended by Congress to receive the tax deduction.

Section 70201(h) of the OBBBA requires the Treasury Department and the IRS to publish a list of occupations that customarily and regularly received tips on or before December 31, 2024. This provision did not dictate a specific process for creating this list. In constructing a methodology for creating the proposed List of Occupations that Receive Tips, the Treasury Department and the IRS used traditional tools of statutory construction, including dictionary definitions, to clarify what it means for an occupation to customarily and regularly receive tips. In compiling the proposed list, the Treasury Department and the IRS needed a source of occupational data from which to select those occupations that customarily and regularly received tips on or before December 31, 2024, to avoid relying solely on anecdotal information. The Treasury Department and the IRS utilized the best comprehensive data source available to them—occupations reported on 2023 Federal income tax returns,[4] the latest tax year for which complete information was available at the time the proposed regulations were published. The many different occupations that taxpayers identified on the "Your occupation" line on their income tax returns were analyzed based on the SOC Code associated with the occupation. The SOC Codes associated with income tax returns with accompanying 2023 Forms W-2, Wage and Tax Statement, and Forms 4137, Social Security and Medicare Tax on Unreported Tip Income, reporting more than $100 per year in tip income were identified and compiled into a preliminary list. For every SOC Code on this list, data on reported tips, including the percentage of individuals within that SOC Code who reported tips (on associated Forms W-2 and 4137), was determined. Thus, occupational data from income tax returns was calculated with respect to the related SOC Code, not necessarily for the occupation listed on the individual income tax return. Next, the Treasury Department and the IRS created the TTOC system for organizing the proposed List of Occupations that Receive Tips. This process sometimes involved combining or dividing certain SOC Codes to describe the occupations in a user-friendly manner and to remove non-tipped occupations that were included under the same SOC Code as tipped occupations. The proposed regulations identified some occupations as distinct categories, while other occupations were embedded in broader categories (for example, eyelash technicians, as discussed later, were included implicitly under TTOC 603 Barbers, Hairdressers, Hairstylists, or Cosmetologists or TTOC 606 Eyebrow Technicians).

As explained in the preamble to the proposed regulations and noted earlier, the proposed List of Occupations that Receive Tips and its related data on reported tips had limitations. Tipped occupations with a large proportion of individuals working in those occupations as independent contractors may have been underrepresented in the list, since the list only included employees reporting tips.[5] In addition, in certain cases, tipped occupations were grouped in the same SOC Code as non-tipped occupations, resulting in a lower percentage of individuals reporting tips for that SOC Code than for the occupation within the SOC Code that was the tipped occupation.

As described earlier, other information sources, including occupations identified in the GITCA program, the House Budget Committee report on the OBBBA, and the PSID, were consulted to help address some of the limitations of the list. However, many of these sources were not exhaustive lists of tipped occupations and others were based on data not as comprehensive and statistically significant as income tax return data.

While the data and information the Treasury Department and the IRS used to develop the proposed List of Occupations that Receive Tips had limitations, it was and continues to be the best data available for this purpose. When compiling the List of Occupations that Receive Tips in the proposed and final regulations, the Treasury Department and the IRS reviewed preliminary data available for tax year 2024. This preliminary data was updated between the issuance of the proposed regulations and these final regulations, but in both cases it is substantially similar to the tax year 2023 data and did not alter the list. None of the commenters provided alternatives for reliable data sources, nor did they provide alternative methodologies for constructing the List of Occupations that Receive Tips. For these reasons, the Treasury Department and the IRS used the same methodology and data from the proposed regulations (including updated preliminary 2024 tax return information) to develop the List of Occupations that Receive Tips in the final regulations.

In response to the comments received regarding occupations not specifically identified in the proposed list, the Treasury Department and the IRS reviewed the same available data at both the SOC Code level and the more granular level of the occupations listed on individual income tax returns.[6] Where the data supported a modification to the list, the Treasury Department and the IRS expanded or refined the list of occupations in the final

[4] The Treasury Department and the IRS reviewed preliminary data for the 2024 tax year and anticipated that final 2024 data would be substantially similar to 2023 data.

[5] Only employees receive Forms W-2, which include separate tip reporting. Similarly, only employees report their tips using Form 4137. Independent contractors do not separately report tips on their income tax returns, and the information returns received by independent contractors prior to 2026, such as Forms 1099-MISC, did not separately report tips. Thus, no tax return information was available concerning tips received by independent contractors. Beginning in tax year 2026, information returns furnished to both independent contractors and employees will separately report certain tips.

[6] The Treasury Department and the IRS reviewed the data at the more granular level of occupations listed on individual income tax returns to verify that the SOC Code grouping did not exclude occupations based on inaccurate data.

regulations to more accurately identify occupations that customarily and regularly received tips on or before December 31, 2024. The specific comments requesting additional occupations and the changes made in response are described later in this preamble.

Concerning comments asking that the occupations on the List of Occupations that Receive Tips be based on the nature and substance of the services provided in the occupation rather than the context or industry in which they are provided, generally the names and descriptions of the occupations on the List of Occupations that Receive Tips are based on the nature of the service provided in that occupation. The groupings of the various occupations under industry-related headings like "Beverage and Food Service" is solely for purposes of organizing the list. However, in a few situations the industry context in which an occupation operates changes the nature of the occupation in comparison to other industrial contexts to such an extent that it becomes a separate occupation. For instance, "desk clerks" in the hospitality industry provide a range of very specific services to hotel, motel, and resort guests such that it is a distinct occupation from desk clerks in other industry contexts.

Some commenters expressed concern that several of the occupations on the list are not considered occupations in which employees "customarily and regularly" receive tips under the FLSA. These commenters were concerned that the inconsistencies might cause confusion. One commenter asked for more clarification as to how the List of Occupations that Receive Tips interacts with FLSA rules.

As the Treasury Department and IRS explained in the preamble to the proposed regulations, the FLSA uses the phrase "customarily and regularly" in relation to the FLSA tip credit.[7] The FLSA defines a "tipped employee" for whom an employer may take a tip credit as "any employee engaged in an occupation in which he customarily and regularly receives more than $30 a month in tips." 29 U.S.C. 203(t). The FLSA further provides that when an employer takes an FLSA tip credit for a tipped employee, the tipped employee must retain all of the tips the employee receives, except that this requirement "shall not be construed to prohibit the pooling of tips among employees who customarily and regularly receive tips." 29 U.S.C. 203(m)(2)(A).[8] United States Department of Labor (DOL) regulations provide, in part, that "[t]he phrase 'customarily and regularly' signifies a frequency which must be greater than occasional, but which may be less than constant." 29 CFR 531.57.[9] DOL guidance also addresses specific occupations in which employees customarily and regularly receive tips within the meaning of the FLSA. For instance, DOL guidance interpreting the FLSA states that servers, counter personnel who serve customers, bellhops, bussers (that is, server helpers), and service bartenders are examples of occupations that "customarily and regularly receive tips" for purposes of the FLSA.[10] The occupations DOL has identified as occupations in which employees customarily and regularly receive tips in its guidance are not meant to be exhaustive and do not control for purposes of section 224 of the Code.

There are many differences between the specific language, purpose, and history of the FLSA tip provisions versus the language, purpose, and history of the deduction for qualified tips under section 224 of the Code. Among other things, while the text of the FLSA is expressly limited to occupations in which an employee receives "more than $30 a month in tips," section 224 contains no such limitation, and the Treasury Department and IRS have not utilized this threshold for purposes of limiting the List of Occupations that Receive Tips.

In addition, while the FLSA contemplates that an employee must have some level of customer interaction to "customarily and regularly" receive tips,[11] section 224(d)(3) provides that for purposes of the deduction for qualified tips under section 224, cash tips include, in the case of an employee, tips received through a tip sharing arrangement. Accordingly, the Treasury Department and IRS included in the proposed List of Occupations that Receive Tips some occupations that may not have extensive, or any, customer interaction, and in which employees have not been considered to customarily and regularly receive tips under the FLSA, including dishwashers and cooks. The final regulations take the same approach.

In addition to the differences discussed above, section 224 and the FLSA serve different purposes. The purpose of section 224 is to provide a deduction for individuals who receive tips, while the FLSA, in relevant part, governs the conditions under which employers may take a credit towards their wage obligations for employees who receive tips. Given that section 224 of the Code and the FLSA tip provisions are entirely different statutory provisions with different histories and purposes, the inclusion of occupations as tipped occupations under section 224 has no bearing or effect on what occupations are considered tipped for purposes of the FLSA and any differences should not be a source of confusion.

Commenters also asked how the IRS will determine whether a particular taxpayer's occupation is on the List of Occupations that Receive Tips in the regulations when it is not listed as an illustrative example. One commenter asked that the IRS provide transparency as to how the

[7] *See* 90 FR at 45344. Under the FLSA, so long as certain criteria are satisfied, employers can take a tip credit to bring a tipped employee's total wages up to the Federal minimum wage amount. See 29 U.S.C. 203(m)(2)(A)(i)-(ii). Currently, the federal minimum wage is $7.25 per hour, and the maximum tip credit amount is $5.12.

[8] The FLSA's tip credit has several components, including that an employee must be in an occupation in which the employee customarily and regularly receives at least a certain amount per month in tips (more than $30), retains all tips (except for a pool limited to employees who customarily and regularly receive tips), receives other direct wages, and receives advance notice to qualify as a "tipped employee" for whom an employer may take a tip credit against its minimum wage obligations. *See* 29 U.S.C. 203(m)(2)(A), (t).

[9] The regulations also provide that "if an employee is in an occupation in which he normally and recurrently receives more than $30 a month in tips, he will be considered a tipped employee even though occasionally because of sickness, vacation, seasonal fluctuations or the like, he fails to receive more than $30 in tips in a particular month." 29 CFR 531.57.

[10] *See* DOL Field Operation Handbook, §30d08. Retrieved December 18, 2025, from https://www.dol.gov/agencies/whd/field-operations-handbook; *see also* WHD Opinion Letter FLSA2025-03 (Sept. 30, 2025); WHD Opinion Letter FLSA2009-12 (Jan. 15, 2009); WHD Opinion Letter FLSA2008-18 (Dec. 19, 2008); and WHD Opinion Letter FLSA-858 (June 28, 1985) (concluding that barbacks, itamae-sushi and teppanyaki chefs, and a "wine-server/captain-host," respectively, could be included in a tip pool with tipped employees for whom the employer took a tip credit).

[11] *See Montano v. Montrose Rest. Assocs.*, 800 F.3d 186, 189-194 (5th Cir. 2015) (holding that a factfinder could determine that an employee did not "customarily and regularly receive tips," despite the fact that the employer included him in a tip pool).

IRS intends to interpret whether an occupation is on the List of Occupations that Receive Tips. Taxpayers wishing to claim the deduction and entities responsible for information reporting are primarily responsible for ensuring their occupation is on the List of Occupations that Receive Tips. The list, in most instances, is sufficiently specific to provide clarity. The IRS intends to interpret the occupations on the list in a fair and impartial manner consistent with their commonly understood meaning.

Several commenters asked that the List of Occupations that Receive Tips be a non-exhaustive one (one commenter stating that an exclusive list was not supported by statute). One commenter suggested instituting a safe harbor provision for claiming deductions for non-listed occupations and setting up a semi-annual review process for adding new occupations to the list. Another commenter suggested listing the occupations in a revenue procedure and updating the revenue procedure with additional occupations based on more current data, if necessary.

Because section 224(d)(1) provides that "[t]he term 'qualified tips' means cash tips received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024, as provided by the Secretary," only tips received in an occupation that is on the List of Occupations that Receive Tips "provided by the Secretary" are qualified tips. In addition, the statutory language does not contemplate an evolving or updated List of Occupations that Receive Tips but rather describes one list of occupations that customarily and regularly received tips at a specific point in time – on or before December 31, 2024. Through the notice of proposed rulemaking notice and comment process, interested parties were provided the opportunity to suggest additions and other edits to the List of Occupations that Receive Tips in the proposed regulations. As discussed later, the Treasury Department and the IRS made several revisions in response to the comments. However, the statute requires that the Secretary provide a comprehensive list as of a fixed point in time. For this reason, the final regulations contain the requirement from the proposed regulations that only qualified tips received in connection with the occupations on the List of Occupations that Receive Tips are eligible for the deduction in section 224(a). However, note that while the List of Occupations that Receive Tips is exhaustive, the illustrative examples of occupations that fit within each TTOC are not. There may be other occupations that fall within a TTOC that are not listed as an illustrative example.

2. *Comments Concerning the List of Occupations that Receive Tips*

Several commenters indicated their support for specific occupations included on the proposed List of Occupations that Receive Tips, including occupations in the beauty industry, app-based delivery drivers, and digital content creators. Many commenters requested that additional occupations be added to the List of Occupations that Receive Tips. Several of the requested additions were for occupations that were already included in the proposed List of Occupations that Receive Tips, either as their own category or specifically mentioned as an illustrative example in an existing category, such as pet groomers, digital content creators, dancers, boat workers, pool cleaners and yoga instructors. Those occupations remain on the final list.

A. *Comments requesting additional details or clarification for occupations already on the List of Occupations that Receive Tips*

Some commenters requested that additional occupations be included as illustrative examples in the categories in which they belong. The illustrative examples were provided to assist taxpayers, but they are not an exhaustive list of every occupation that fits under a TTOC occupation category. For example, under the TTOC for Travel Guides (705), cruise director and river expedition guide are listed as illustrative examples. But other travel guides, such as a hiking guide or urban ghost tour guide, would also be included in this TTOC, even though they are not listed as illustrative examples.

One commenter asked about including "table game supervisors" in casinos on the List of Occupations that Receive Tips. The SOC Code for "First-Line Supervisors of Gambling Service Workers" (39-1013), whose duties can include planning and organizing activities and services for guests in hotels and casinos, was included in the proposed List of Occupations that Receive Tips under TTOC 201, Gambling Dealers, and continues to be included under this category in the final regulations. Thus, table game supervisors are covered by the Gambling Dealers category.

One commenter requested that residential building staff, such as doormen, be added to the list. Most residential building staff are covered by the categories in the proposed List of Occupations that Receive Tips. For example, if a residential building has a concierge, they are already included in the "Concierges" category (TTOC 302). Residential building maintenance workers fit under the "Home Maintenance and Repair Workers" (TTOC 401). And finally, doormen fit as part of the "Baggage Porters and Bellhops" (TTOC 301). However, to clarify that this category can include workers who do not work in a hotel or motel, "doorman" has been added to the list of illustrative examples for this category in the final regulations.

Another commenter asked that eyelash technicians be added to the List of Occupations that Receive Tips. The proposed List of Occupations that Receive Tips included "Eyebrow Threading and Waxing Technicians" (TTOC 606). For clarity, in the final regulations this category is revised to read "Eyebrow and Eyelash Technicians," and additions were made to the description to include eyelash technicians.

One commenter asked that a winery tasting room server be added to the List of Occupations that Receive Tips. The proposed List of Occupations that Receive Tips included "Food Servers, Non-restaurant" (TTOC 103), and a winery tasting room server is covered by this category. The final regulations clarify this by amending the category name to "Food *and Beverage* Servers, Non-restaurant" (newly added language shown in italics).

One commenter asked that the phrase "over established routes or within an established territory" be removed from the description of "Goods Delivery People" (TTOC 804) to clarify that app-based delivery workers (also called gig economy

delivery drivers) are covered by that category. The proposed illustrative examples focused on the service being performed (e.g., pizza delivery, package delivery) rather than the method through which the service was requested. The Treasury Department and the IRS agree that adding "app/platform based delivery person" to the illustrative list would be helpful. The final regulations include this clarification in both "Goods Delivery People" (TTOC 804) and "Taxi and Rideshare Drivers and Chauffeurs" (TTOC 802). In addition, the phrase "over established routes or within an established territory" has been removed from the description of "Goods Delivery People" in the final regulations.

One commenter asked that more detail be provided for the various occupations in the "Recreation and Instruction" grouping to encompass the full range of outdoor recreation guiding and instructional activities, and more specifically that "Tour Guides" and "Travel Guides" expressly include outdoor, wilderness, and expedition guiding services. Although outdoor recreation occupations are addressed in "Travel Guides" (TTOC 705) (river expedition guide is listed as an illustrative example), the Treasury Department and the IRS agree that additional detail would be helpful, and the final regulations include a parenthetical noting that both indoor and outdoor locations are covered.

Another commenter requested that banquet wait staff be added to the List of Occupations that Receive Tips. The proposed regulations included the "Wait Staff" (TTOC 102) category. The Treasury Department and the IRS agree that additional detail would be helpful to confirm that banquet wait staff are covered by this category. The final regulations add "banquet staff" as an illustrative example, and the description is amended to read, "Take orders and serve food and beverages to patrons in dining establishments *or at catered events*" (newly added language shown in italics).

One commenter asked whether people who dress as Santa Claus for parties are in an occupation that customarily and regularly received tips on or before December 31, 2024. Individuals dressed up as Santa Claus, as well as other characters or celebrities, are covered by the "Entertainers and Performers" (TTOC 208) category.

Another commenter asked that self-enrichment and self-improvement instructors, such as intuition coaches, energy practitioners (including Reiki and Energy Psychology practitioners), and meditation instructors be included on the List of Occupations that Receive Tips. Although these specific occupations were not identified in the proposed regulations, depending on the nature of the instruction provided and the facts and circumstances of each particular situation, these instructors could be covered under "Self-Enrichment Teachers" (TTOC 702), if their instruction is for the primary purpose of self-enrichment, rather than for an occupational objective, educational attainment, competition; or fitness; "Sports and Recreation Instructors" (TTOC 706), if they are teaching or instructing individuals or groups for the primary purpose of recreation, rather than for an occupational objective, educational attainment, competition, or fitness; or "Exercise Trainers and Group Fitness Instructors" (TTOC 608), if they are instructing or coaching groups or individuals in exercise activities for the primary purpose of personal fitness.

One commenter requested that senior living and resident care service providers be included in the List of Occupations that Receive Tips. The proposed regulations would have included the category of "Personal Care and Service Workers" (TTOC 501). To clarify that resident care is also included in this occupation category, the description in the final regulations provides that "work is performed in various settings depending on the needs of the care recipient and may include locations such as their home, place of work, out in the community, at a daytime nonresidential facility *or a residential facility*" (newly added language shown in italics).

Another commenter asked that the illustrative examples name all beauty-sector occupations including estheticians and apprentices and assistants. As discussed previously, the illustrative examples are a non-exhaustive list of occupations. In addition, the final regulations clarify that apprentices and assistants qualify under the applicable TTOC occupation category if they perform the same services as those listed in the TTOC occupation description.

Finally, a commenter noted that the proposed category of "Pet Caretaker" (TTOC 506) would exclude individuals who provide care to horses because horses are considered livestock in certain legal contexts. This commenter stated that certain tasks involved in the care of horses, including grooming and exercising, are similar to the tasks included in the description of pet caretakers. In response to this comment, the final regulations include the category of "Pet *and Show Animal* Caretaker" (TTOC 506). In addition, "horse groomer" has been added to the list of illustrative examples for this occupation category.

B. *Comments suggesting new occupations be added to the List of Occupations that Receive Tips*

In evaluating comments suggesting new occupations for inclusion on the List of Occupations that Receive Tips, the Treasury Department and the IRS consulted the same data sources as in preparing the proposed List of Occupations that Receive Tips in the proposed regulations (the 2023 income tax return data, the preliminary data available for tax year 2024, IRS voluntary tip reporting program data, legislative history and survey data regarding tipped occupations), as well as the updated preliminary data available for tax year 2024. The Treasury Department and the IRS examined the data for the suggested new occupations at the more granular level of the occupations listed on individual income tax returns, in addition to looking at the SOC Codes of the suggested new occupations. This examination of the data is the basis for responding to the following comments.[12]

One commenter requested that "florists" be included on the List of Occupations that Receive Tips. The proposed regulations would have included event

[12] Given the wide variation of terms used to characterize occupations on income tax returns, it was not feasible to examine every occupation in this way. For this reason, this examination was conducted only for occupations that commenters suggested were missing from the list of tipped occupations in the proposed regulations.

florist as an illustrative example of "Private Event Planners" (TTOC 502), and the SOC Code for Floral Designers, 27-1023, would have been included as one of the related SOC Code for TTOC 502. Similarly, the proposed regulations would have included floral delivery persons as an illustrative example of "Goods Delivery People" (TTOC 804). In response to this comment, the Treasury Department and the IRS reviewed the available data again, this time examining the data for occupations listed on individual income tax returns that were related to florists, in addition to looking at data for florist-related SOC Codes. The Treasury Department and the IRS determined that the data for florist-related occupations listed on individual income tax returns supports adding a new TTOC for "Floral Designers" (TTOC 510), which encompasses a wider variety of floral workers. "Event florist" was removed as an illustrative example from "Private Event Planners" and added to the new "Floral Designers" category, and the related SOC Code, 27-1023, was also moved from "Private Event Planner" to the new "Floral Designers" category.

Another commenter asked that artists and artisans be added to the List of Occupations that Receive Tips. The proposed regulations did not separately identify artists as an occupation that customarily and regularly received tips on or before December 31, 2024. However, individuals who may be described as artists appeared in multiple occupation classifications, and the proposed regulations would have included certain performing artists on the List of Occupations that Receive Tips. For example, both dancers and musicians would have been included (TTOC 205 and 206). In response to this comment, the Treasury Department and the IRS reviewed the same data sources described in the proposed regulations, examining the data for occupations listed on individual income tax returns that were related to artists, distinct from occupations such as dancers and musicians, in addition to looking at data for artist-related SOC Codes. The Treasury Department and the IRS determined that the data for artist-related occupations listed on individual income tax returns supports the conclusion that a visual artist is also an occupation that customarily and regularly received tips on or before December 31, 2024. The final regulations include the new category of "Visual Artists (TTOC 509)" This category includes individuals who create original visual artwork using any of a wide variety of media and techniques. Examples of this category include ice sculptor and caricature sketch artist. Tip-related income tax return data for the occupation "artisan" did not support adding this occupation category as a separate TTOC. However, the terms "artist" and "artisan" are similar in meaning and it is possible that many individuals who perform services as an artisan might also be considered as performing services as an artist, depending on the particular facts and circumstances.

One commenter suggested that gas station attendants who pump gas for customers where they are required to do so by State law should be included on the List of Occupations that Receive Tips. The Treasury Department and the IRS reviewed tip-related income tax return data for gas pump attendants located in New Jersey and Oregon, the two States that currently prohibit customers from pumping their own gas.[13] This data showed that gas pump attendants in States where full-service gas pumping is mandated customarily and regularly received tips on or before December 31, 2024. Based on this data, the final regulations include a new TTOC for "Gas Pump Attendants," which applies to all individuals who pump gas for customers at a gas station and may also clean the windshield, check the oil level, or check the tire pressure of the customer's car in conjunction with the car being refueled.

Commenters suggested that chiropractors, accountants, tax preparers, clergy members, concert merchandise sellers, and "low bono" legal service providers (legal professionals who provide legal services to clients on a sliding scale based on income) be added to the List of Occupations that Receive Tips. In response to these comments, the Treasury Department and the IRS reviewed the same data sources described in the proposed regulations (as well as the updated preliminary 2024 tax data), examining the data for occupations listed on individual income tax returns that were related to chiropractors, accountants, tax preparers, clergy members, concert merchandise sellers, and "low bono" legal service providers, in addition to looking at the data for the SOC Codes related to these occupations. Except for clergy members acting in certain roles, the Treasury Department and the IRS determined that the data does not support that these occupations were customarily and regularly tipped on or before December 31, 2024. For that reason, these occupations are not included in the List of Occupations that Receive Tips in the final regulations. Concerning clergy, while the data does not support listing clergy members as a separate occupation that customarily and regularly received tips, it does reflect that clergy may receive tips in an event setting such as a wedding or funeral. For this reason, they are included as an illustrative example under "Event officiants" with a TTOC of 505.

Some commenters asked that retail cashiers be included on the List of Occupations that Receive Tips. The Treasury Department and the IRS reviewed the same data sources described in the proposed regulations (as well as the updated preliminary 2024 tax data), examining the data for occupations listed on individual income tax returns that were related to retail cashiers, in addition to looking at the data for the SOC Codes related to this occupation. While tip-related income tax return data does show that some individuals who self-identified as "cashiers" received tips, the data also shows that these cashiers receiving tips mostly worked in an industry that would classify them as an occupation separate from "retail cashier." Specifically, many such cashiers worked in the Hotel and Food Services sectors so that these cashiers would likely be categorized as Fast Food and Counter Workers (TTOC 107) (for those in food establishments) or Hotel, Motel, and Resort Desk Clerks (TTOC 303) (for those in hotel establishments). Thus, the data does not support adding a

[13] Under 2023 Oregon House Bill No. 2426, signed into law on August 4, 2023, the state of Oregon now allows self-service in certain situations, but certain gas stations in the State are still required to provide full service for at least half of the gas pumps at the station. 2023 Oregon House Bill No. 2426, Oregon Eighty-Second Legislative Assembly.

more generalized "cashier" category, and this occupation category is not included in the List of Occupations that Receive Tips in the final regulations.

Another commenter requested that the full range of positions in the gaming industry be included in the List of Occupations that Receive Tips, including poker associates who change out chips in casinos, and online dealers (sometimes known as game presenters) and other workers in the online gaming industry. There is no statutory authority in section 224 for including an occupation based solely on the fact that it is practiced in a certain industry. Only occupations that customarily and regularly received tips on or before December 31, 2024, are included in the List of Occupations that Receive Tips. Occupations in the gaming industry that meet this criterion are included in the list. This includes many of the occupations identified by the commenters, such as poker associates who change out chips in casinos (included in "Gambling Change Persons and Booth Cashiers" (TTOC 202)). For these reasons, no additional occupational categories were added to the List of Occupations that Receive Tips in response to this comment.

One commenter asked that the regulations clarify the tax consequences when managerial staff or owners participate in tip pools. The rules under the FLSA prohibit managers and supervisors from receiving tips from a tip pool. *See* 29 U.S.C. 203(m)(2)(b) and 29 CFR 531.54(c)(3) and (d). Given this prohibition under the FLSA, the final regulations provide that amounts received by a manager or supervisor through a voluntary or mandatory tip-sharing arrangement such as a tip pool are not qualified tips. However, the final regulations also clarify that amounts received *directly* by a supervisor or manager for services they provided in the course of duties performed in an occupation that customarily and regularly received tips on or before December 31, 2024, are qualified tips if all other requirements for qualified tips are met. Two examples that demonstrate this provision concerning managers are included in the final regulations.

Finally, several commenters suggested that there should be a safe harbor for all participants in a GITCA or Tip Rate Determination Agreement (TRDA) providing that they are automatically considered in a qualifying occupation. One commenter suggested that GITCA participants should not be eligible for the deduction. Another commenter asked that GITCA participants be able to claim the deduction based on their designated tip rates. Section 224 provides no basis for automatically considering participants in GITCA and TRDA as working in occupations on the List of Occupations that Receive Tips. An occupation that did not customarily and regularly receive tips on or before December 31, 2024, is not eligible for the section 224 deduction, even if workers in a similar occupation may have customarily and regularly received tips in certain specific contexts (such as in a casino). For these reasons, no safe harbor for GITCA and TRDA participants was added to the final regulations. There also is no basis for excluding an otherwise eligible individual from the section 224 deduction merely because the individual is a participant in GITCA, and no such rule is included in the final regulations. In addition, the proposed regulations would have provided that GITCA participants could claim the deduction based on their designated tip rates, and this provision is included in the final regulations.

Other nonsubstantive edits were made to the chart to correct SOC Code numbering errors. No occupations included on the proposed List of Occupations that Receive Tips in the proposed regulations were removed from the List of Occupations that Receive Tips in the final regulations.

3. *Comments on the Requirement that Qualified Tips must be Voluntary*

Section 224(d)(2)(A) expressly requires that qualified tips are paid "voluntarily without any consequence in the event of nonpayment" and not "the subject of negotiation." The proposed regulations would have provided that amounts are qualified tips only if they are paid voluntarily and without any consequence in the event of nonpayment, are not the subject of negotiation, and are determined by the payor. Concerning automatic gratuities, the proposed regulations would have provided that qualified tips must be paid without compulsion and therefore service charges, automatic gratuities and any other mandatory amounts automatically added to a customer's bill by the vendor or establishment are not qualified tips, even if the amounts are subsequently distributed to employees. However, if a customer is expressly provided an option to disregard or modify amounts added to a bill, such amounts are not mandatory amounts.

Several commenters supported the exclusion of automatic gratuities from the definition of qualified tips in the proposed regulations. These commenters agreed that an automatic gratuity is not voluntary as required by section 224. Other commenters argued that automatic gratuities and service charges serve the same purpose as other tips and should be considered qualified tips. These commenters contended that many employers already treat these amounts as tips and that automatic gratuities are an important source of income for certain employees, such as cooks and dishwashers, who do not typically receive tips through tip-sharing arrangements due to FLSA tipping rules.[14] Several of these commenters maintained that automatic gratuities are an important source of tips in large group and banquet situations. Several commenters requested a transition rule, allowing individuals to treat service charges as tips for 2025. Some commenters argued that an automatic gratuity is voluntary in the sense that the customer takes the automatic gratuity into account when deciding whether to patronize an establishment.

Automatic gratuities added to a bill with no explicit option for the customer to decline or adjust the gratuity are mandatory because the customer must pay the gratuity to receive the service. The customer's "option" to reject the automatic gratuity by opting not to patronize the business is not an option to pay or not pay a gratuity (which is a choice a customer ordinarily makes based on the customer's

[14] The FLSA provides that when an employer takes an FLSA tip credit for a tipped employee, the tipped employee must retain all of the tips the employee receives, and the employer cannot require the employee to pool tips except with other "employees who customarily and regularly receive tips." 29 U.S.C. 203(m)(2)(A).

opinion of the service after the service is provided), but is instead the option to patronize or not patronize the business (which is a choice the customer makes based on, among other things, the cost of the service, including the automatic gratuity, and the type and quality of services offered by the business, before the customer receives any service). In addition, the business determines the tip percentage of an automatic gratuity, not the customer (i.e., the payor). For these reasons, automatic gratuities do not comply with the requirements for qualified tips provided by section 224(d)(2)(A). To the extent that the customer freely decides to provide an additional gratuity, this additional amount constitutes a qualified tip if all factors are met with respect to that portion.

In addition, the IRS has long maintained that service charges do not qualify as tips. Revenue Ruling 2012-18 provides that the absence of any of the following factors creates a doubt as to whether a payment is a tip and indicates that the payment may be a service charge: (1) the payment must be made free from compulsion, (2) the customer must have the unrestricted right to determine the amount, (3) the payment should not be the subject of negotiation or dictated by employer policy, and (4) generally, the customer has the right to determine who receives the payment. See also Ann. 2012-25, 2012-26 I.R.B. 1058; Rev. Rul. 59-252, 1059-2 C.B. 215. Example A in Revenue Ruling 2012-18 concludes that an 18% charge automatically added to a bill for a large party is a service charge and not a tip because it was dictated by the employer and was not paid free from compulsion.

Because the proposed regulations are consistent with section 224 and the IRS's longstanding position that service charges are not tips, the final regulations maintain the position in the proposed regulations that automatic gratuities, such as service charges, are not qualified tips for purposes of the deduction. In addition, because the statute is clear on this point and the IRS's position that automatic gratuities are not tips has been publicly available since at least 2012, a transition rule for 2025 concerning automatic gratuities is not warranted.

One commenter noted that while Revenue Ruling 2012-18 used similar rules to section 224(d)(2)(A) to distinguish between tips and service charges for FICA and income tax withholding purposes, the revenue ruling, unlike the proposed regulations, did not include examples with respect to "suggested gratuities". The commenter suggested that the revenue ruling be updated to include examples of "suggested gratuities" that mirror those in the proposed regulations to provide further clarification of the revenue ruling's application in these situations. The Treasury Department and the IRS agree that the revenue ruling contains rules for distinguishing tips from service charges that are similar to the rule provided in section 224(d)(2)(A) and that "suggested gratuities," as described in the proposed regulations, comply with these rules such that they would be considered tips under the revenue ruling. Updates to Revenue Ruling 2012-18 are outside the scope of these final regulations, but the Treasury Department and the IRS will consider updating Revenue Ruling 2012-18 or providing additional guidance containing examples involving suggested gratuities and the employment tax consequences of those payments.

The proposed regulations would have provided several examples demonstrating voluntary tipping practices involving Point-of-Sale (POS) system. Some commenters requested that the final regulations clarify that other POS systems are considered voluntary as long as they provide the customer with the option of selecting a zero value. Specifically, several commenters mentioned "tip sliders" that allow the customer to designate a tip using a sliding bar on a POS screen, which the customer "slides" to the desired tip amount. Other commenters asked about POS systems that only allow the customer to either choose a percentage or choose "other" and input zero manually.

The proposed regulations would have provided that if a customer is expressly provided an option to disregard or modify amounts added to a bill, such amounts are not mandatory amounts. The language in the final regulations has been modified slightly to make clear that the customer must have the option to reduce the tip amount to zero. Under this provision, tip selection methods such as POS systems with a tip slider that goes to zero or an option for the customer to select "other" and input zero are voluntary. The examples in the final regulations have been modified to clarify that these methods are considered voluntary tipping practices.

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 that 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 to not pay the tip then the scope or cost of the service would not have been affected.

Several commenters requested clarification regarding the voluntary nature of payments to digital content creators. One commenter noted that creators often perform multiple activities in a single session, and payments could be intended for different activities. The commenters asked for guidance on when payments are tips versus compensation for performance or content. One commenter asked that the final regulations clarify that audience engagement mechanisms such as "super chats," and "super stickers," which provide superficial digital rewards to con-

sumers of digital content, are qualified tips. Other commenters asked that the final regulations address situations where the platform hosting a digital content creator's content receives a portion of the tip amount.

In response to the comments regarding the activities of digital content creators, the final regulations include two new examples to help clarify when payments to digital content creators are tips and when they are compensation. One example involves customer payments to a digital content creator that enable customers to gain access to the creator's content. These payments are not tips, but rather compensation to the creator for services provided (i.e., the content). The other example involves voluntary customer payments to a digital content creator after the customer has already gained access to the creator's content, which is a tip to the content provider because the payment was not required to access content and was voluntary and determined by the customer.

The final regulations also clarify that tipping digital content creators through audience engagement mechanisms that result in superficial digital rewards, such as highlighted messages or other digital tokens of appreciation from the tip recipient that are negligible in value, do not disqualify an otherwise qualified tip. The final regulations also provide an example involving digital content creators and audience engagement mechanisms.

Concerning platforms that retain a portion of amounts provided as tips to content creators, platform hosting is not the equivalent of content creation and is not on the List of Occupations that Receive Tips. Section 224(d)(1) provides that the term "qualified tips" means cash tips *received by an individual*. For purposes of the statute, the term "individual" refers to the person performing the services and receiving tips in connection with those services and does not include an entity that facilitates payment or transmits amounts between customers and service providers. In the context of digital content creation, amounts provided by users as tips are received only to the extent such amounts are paid to the content creator. Any portion of a user's payment that is retained by a host platform, which is not an occupation on the List of Occupations that Receive Tips, is not received by the individual content creator and is not a qualified tip for purposes of the section 224 deduction. No changes were made to the final regulations in response to this comment.

4. *Other Comments Regarding the Definition of "Qualified Tips"*

Several commenters asked that the final regulations clarify whether tips that are not reported on an information return because, for instance, the tip is provided in cash to an independent contractor or is below the required reporting threshold for certain information returns, are qualified tips. Other commenters asked that the IRS provide a mechanism similar to Form 4137 for independent contractors to report tips that are not included on an information return.

The text of section 224(a) allows a deduction only for amounts of qualified tips that are "included on statements furnished to the individual pursuant to section 6041(d)(3), section 6041A(e)(3), section 6050W(f)(2), or section 6051(a)(18), or reported by the taxpayer on Form 4137 (or successor)." The proposed regulations would have included similar language in § 1.224-1(a). In response to these comments, the final regulations further clarify that amounts received as a tip that are not separately reported to an individual on a statement furnished to the individual pursuant to section 6041(d)(3), section 6041A(e)(3), section 6050W(f)(2), or section 6051(a)(18), or reported by the taxpayer on Form 4137 (or successor) are not eligible for the deduction under section 224. *But see* Notice 2025-69 for transition rules related to 2025. Issues related to reporting requirements, such as providing a means by which independent contractors can report tips that are not included on an information return, are beyond the scope of these regulations. The requirement that tip amounts be reported to independent contractors on an information return is statutory and serves as an anti-abuse measure to prevent independent contractors from recharacterizing income as tips.

Another commenter asked that the final regulations provide a mechanism for partners to claim the deduction. The amount of a tip received by a partner in a partnership in the individual's capacity as a partner would be reported on an information return provided to the partnership, not to the individual partner, even if the individual partner ultimately receives the tip. Section 224(a) is clear that only qualified tips included in a statement furnished to an "individual" can be allowed as a deduction under section 224. Because the statement reporting the tip is provided to the partnership, not the individual, the partner cannot claim this amount as a deduction under section 224.

Finally, one commenter requested that the final regulations clarify eligibility for the deduction for an employee who works in two different occupations for the same employer, one occupation that is on the List of Occupations that Receive Tips and one that is not. If all other section 224 statutory and regulatory requirements are met, any tip amount received in an occupation that is on the List of Occupations that Receive Tips in § 1.224-1(i) may be claimed as a deduction under section 224. Tip amounts received in an occupation that is not on the List of Occupations that Receive Tips are not eligible for the deduction. If an individual works in two occupations, one that is on the List of Occupations that Receive Tips and one that is not, the individual may claim the qualified tip amounts received in the occupation that is on the List of Occupations that Receive Tips as a deduction under section 224 (assuming all other statutory and regulatory requirements are met), but may not claim as a section 224 deduction any tip amounts received in the occupation that is not on this list. If an employee works in two occupations that are both on the List of Occupations that Receive Tips, the individual may claim the qualified tip deduction with respect to amounts received in both occupations under section 224. Since this result is a function of existing rules in the proposed regulations, no change was made in the final regulations to address this question.

5. *Cash Tips Definition*

The proposed regulations would have defined cash tips as tips received from customers or, in the case of an employee, through a mandatory or voluntary tip-sharing arrangement, such as a tip pool, that are paid in a cash medium of exchange,

including by cash, check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash (such as casino chips), and any other form of electronic settlement or mobile payment application that is denominated in cash. The proposed regulations would have excluded from this definition items paid in any medium other than cash, such as event tickets, meals, services, or other assets that are not exchangeable for a fixed amount in cash (such as most digital assets). The proposed regulations would have defined "tips" as "amounts paid by customers for services that are in excess of the amount agreed to, required, charged, or otherwise reasonably expected to have to be paid for the services in an arm's-length transaction.

Several commenters asked for more clarification on the definition of cash tips. One commenter suggested that "cash tips" be defined as any medium denominated in U.S. cash, so as not to imply a preference for physical currency. Some commenters asked that the final regulations affirm that the use of certain specific methods of payment, including digital tipping systems (such as mobile apps), ticket-out/ticket-in systems (used in casinos), and digital assets such as stablecoins, bitcoin and ether (referred to as Ethereum in the comment), qualify as cash tips for purposes of the deduction. One commenter asked that the final regulations allow for future guidance to define cash tips in the event other dollar-pegged methods become available. A few commenters requested the final regulations address foreign-sourced tip amounts and domestic-sourced tip amounts that are paid in foreign currency, specifically, whether these amounts qualify for the deduction and the reporting obligations for foreign-sourced income.

Commenters also asked whether voluntary amounts that are added to e-commerce purchases and donations made to community websites are qualified tips.

The Treasury Department and the IRS have determined that the cash tips definition in the proposed regulations generally provides a comprehensive definition that already addresses the various methods of payment about which commenters inquired. For this reason, the definition of cash tips in the final regulations remains largely unchanged from the proposed regulations with the exception that the final regulations clarify that for purposes of section 224, cash tips also include amounts paid in foreign currency. Concerning digital tipping systems, if the tips provided through the system are denominated in cash (i.e., paid as a fixed amount of currency); are in excess of the amount agreed to, required, charged, or otherwise reasonably expected to have to be paid for the services; and are provided to an independent contractor or, if provided to an employee, are provided to the employee directly or through a tip-sharing arrangement, then the tips are considered cash tips for purposes of the deduction. In order for the amount to be eligible for the section 224 deduction in the case of an employee, the amount must also be reported to the employer as required by section 6053(a)[15] or reported by the employee on Form 4137. Similarly, if tips provided using a casino ticket-out, ticket-in system comply with the requirements for cash tips provided in these final regulations, then the tips are cash tips.

The proposed regulations did not directly address the treatment of stablecoins pegged to the value of the U.S. dollar. Some commenters noted that the intended treatment of stablecoins under the proposed regulations was unclear and requested clarification. These requests, and other developments, have led the Treasury Department and the IRS to reconsider whether any digital assets, including stablecoins, should be considered cash tips for purposes of section 224. Most notably, in July 18, 2025, Congress enacted the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act (Public Law 119-27), which provides a framework for regulating certain stablecoins, referred to as "payment stablecoins."[16] The GENIUS Act makes clear that payment stablecoins are distinct from national currencies and provides that payment stablecoins may not be marketed as legal tender or as issued by the United States. On September 19, 2025, the Treasury Department published an Advance Notice of Proposed Rulemaking (ANPRM) soliciting public comments on questions relating to the implementation of the GENIUS Act (90 FR 45159). Though the GENIUS Act does not address the Federal income tax treatment of payment stablecoins, the ANPRM solicited comments on the extent to which guidance on their tax treatment would be necessary or helpful to taxpayers. The Treasury Department is reviewing the comments it received on the ANPRM and considering potential guidance on these topics, including whether payment stablecoins should be treated as cash or cash equivalents for certain U.S. Federal income tax purposes. In addition, legislative proposals have been advanced that would address various tax issues relating to digital assets, including the treatment of stablecoins.

In light of the foregoing, the final regulations provide that all digital assets (as that term is defined in section 6045(g)(3)(D) of the Code and § 1.6045-1(a)(19)) are excluded from the definition of cash tips. The Treasury Department and the IRS will consider the tax treatment of payment stablecoins in connection with implementation of the GENIUS ACT, including whether these final regulations should be revised if payment stablecoins are treated as cash or cash equivalents for other U.S. Federal income tax purposes. Additionally, if legislation is enacted that modifies the characterization of digital assets or of particular digital assets such as payment stablecoins such that they may be more appropriately characterized as "cash tips," the Treasury Department and the IRS will take that legislation into account in considering whether to revise the rules governing the treatment of digital assets provided in these final regulations.

Concerning future guidance for other methods of payment, if the need arises to address other methods of payments, the Treasury Department and the IRS will

[15] With respect to employees, the existing rules under section 6053(a) require employees to report tips received in the course of their employment to their employers, and employers to take those reported amounts into account for wage reporting purposes. This reporting requirement does not apply to independent contractors.

[16] The GENIUS Act becomes effective on the earlier of January 18, 2027, or 120 days after final implementing regulations are issued. The term "payment stablecoin" is defined in section 2(22) of the GENIUS Act.

consider issuing additional guidance at that time.

Regarding comments on e-commerce voluntary surcharges, whether or not a voluntary surcharge added to an e-commerce purchase is a qualified tip depends on the occupation of the tip recipient. If the service provided through the e-commerce transaction is from a person providing that service in an occupation that is on the List of Occupations that Receive Tips, and all other requirements for qualified tips are met, then the tip is a qualified tip. For example, if a customer commissions an artist on an e-commerce site to create a piece of art, and the customer includes a cash tip when providing payment, the cash tip is a qualified tip if all other requirements for qualified tips are met because "artist" is an occupation included in the List of Occupations that Receive Tips.

Finally, concerning voluntary charitable donations, including donations to community websites for the benefit of an individual or group of individuals, such amounts are not qualified tips because they are not amounts paid to an individual in excess of an expected or agreed-upon amount for a service provided in an arm's length transaction.

6. *Specified Service Trade or Business Exclusion*

The proposed regulations would have provided that an amount received by an individual in the course of a specified service trade or business (as defined in section 199A(d)(2) and § 1.199A-5(b)) is not a qualified tip. Tips received by an employee performing services for the employee's employer in the course of a specified service trade or business operated by the employer are not qualified tips, and the proposed regulations would have clarified that this rule would have applied without regard to whether an owner of the trade or business is able to claim a section 199A deduction. The proposed regulations would have also clarified that this rule applies even if the employee receiving tips in the course of working for a specified service trade or business employer is working in an occupation that customarily and regularly received tips on or before December 31, 2024, and is listed on the proposed List of Occupations that Receive Tips. The Treasury Department and IRS requested comments on the application of the existing rules under § 1.199A-5(b) to the specified service trade or business definition in section 224.

One commenter expressed concern that using the definition of a specified service trade or business from section 199A(d)(2) may exclude occupations that have historically received tips. Another commenter noted that Treasury and IRS lack the authority to expand the tips deduction by deviating from section 199A(d)(2)'s definition of a specified service trade or business. Several commenters suggested that additional guidance be issued to explain how the specified service trade or business rules apply in determining the qualified tips deduction, including adding examples of how the specified service trade or business rules apply in different employment and self-employment scenarios and the recordkeeping requirements that must be met. One commenter requested specific guidance regarding the interplay of the hotel and lodging industry and qualified tips for those engaged in a specified service trade or business. Another requested that the act of providing personal appearance services, such as barbering, not be considered a specified service trade or business for purposes of the deduction. Another commenter noted that the exclusion for tips received in a specified service trade or business creates uncertainties and administrative complexities for employers and tipped workers, and that certain employers that did not previously have to determine whether they were specified service trade or businesses will now have to make such determinations. One commenter supported a clarification in the final regulations that roles that do not pertain to the principal trade or business at an establishment may still receive the deduction from tips paid in the course of employment at a specified service trade or business.

One commenter suggested that the specified service trade or business exclusion be applied when taxpayers file their personal income tax returns, rather than by requiring Form W-2 and Form 1099-series reporting. Another commenter requested that the final regulations refine the definition of specified service trade or business in § 1.199A-5 for section 224 purposes by providing objective criteria for the term, "reputation or skill," defining the terms "appearance at an event" and "well known," and adopting a de minimis safe harbor so that occasional demonstrations or media moments while working for a non-specified service trade or business employer do not trigger specified service trade or business classification. The commenter also recommended that the final regulations clarify whether a person who is not "well-known" and working for a non-specified service trade or business employer at an event may nevertheless trigger tip disqualification if they make an incidental specified service trade or business "appearance."

The deduction for qualified tips is a newly enacted provision and taxpayers receiving tips in 2025 are determining their eligibility for the deduction for the first time. As stated in Notice 2025-69, the Treasury Department and the IRS understand that it may be difficult for taxpayers to determine whether their tips were received in the course of a specified service trade or business. This may be particularly difficult for employees, since section 224(d)(2) provides that this determination turns on whether the trade or business of their employer in the course of which they receive tips is a specified service trade or business. In light of these considerations, Notice 2025-69 provided transition relief for taxpayers regarding the requirement that qualified tips must not be received in the course of a specified service trade or business. In the interest of sound tax administration, Notice 2025-69 provided a transition period for purposes of IRS enforcement and administration with regard to the specified service trade or business requirement. Specifically, the Notice stated that, until January 1 of the first calendar year following the issuance of final regulations regarding the determination of whether a trade or business is a specified service trade or business for purposes of section 224 and associated employer information reporting, the IRS will treat taxpayers (both employees and self-employed individuals) as having received tips in the course of a trade or business that is not a specified service trade or business if the taxpayer is in an occupation that customarily and regularly received tips on or before December 31,

2024, as provided by the Secretary. The Notice further provided that the Treasury Department and the IRS intend to issue proposed regulations and solicit public comment on these issues before publishing final regulations. The final regulations do not address the specified service trade or business exclusion under section 224, but subsection (g) of § 1.224-1 is reserved for guidance on this exclusion.

7. *Comments Concerning Amounts Received for Illegal Activities, Pornography, and Prostitution*

The proposed regulations would have provided that any amount received for a service the performance of which is a felony or misdemeanor under applicable law is not a qualified tip. The proposed regulations would have further excluded from the definition of qualified tips, any amount received for prostitution services and any amount received for pornographic activity.

Some commenters supported these exclusions, and one commenter requested that this exclusion be expanded to include amounts paid to strippers, exotic dancers, or other sexually suggestive performers who dance solely for the purposes of provocation. Several other commenters objected to the exclusions, arguing that the Treasury Department and the IRS lack authority to impose these restrictions. In addition to noting that certain pornography is legal, some commenters stated that pornography is protected First Amendment speech, that these businesses pay taxes, and that in fairness these businesses and their employees should have access to the deduction for qualified tips. One commenter suggested the prohibition be limited to activity that is unlawful under State or Federal law. Several commenters requested that the regulations define pornographic activity.

Section 224(d)(2)(C) provides an amount received by an individual is not a qualified tip unless "such other requirements as may be established by the Secretary in regulations or other guidance are satisfied." The exclusion from qualified tips for illegal activities, prostitution services, and pornographic activities falls under the authority granted to the Treasury Department and the IRS in section 224(d)(2)(C) and (g), and these provisions remain unchanged in the final regulations. This exclusion is intended to address the potential for greater noncompliance and abuse with respect to these activities and services. The Treasury Department and the IRS will consider whether to provide additional guidance regarding these exclusions.

One commenter noted that State-legal cannabis industry workers operate in regulated, State-compliant industries and should not be excluded merely because their employers engage in commerce that involves a federally classified controlled substance. Workers in the cannabis industry must meet statutory and regulatory requirements like any other employee to be eligible for the deduction for qualified tips. Tips received by these workers must be received in an occupation that is included on the List of Occupations that Receive Tips and must not be received for a service the performance of which is a felony or misdemeanor under applicable law, including under Federal law, to be qualified tips eligible for the deduction under section 224. Currently, Federal law and many State laws generally make it unlawful to manufacture, distribute, dispense, or possess marijuana. If Federal law changes, making certain marijuana-related transactions legal, and those same transactions are legal under State law, then tip amounts received in such transactions may be qualified tips if all other requirements for qualified tips are met. No change was made in the final regulations in response to this comment.

8. *Anti-Abuse Rules*

Section 224(g) provides that, "[t]he Secretary shall prescribe such regulations or other guidance as may be necessary to prevent reclassification of income as qualified tips, including regulations or other guidance to prevent abuse of the deduction allowed by this section." Under this authority and to prevent reclassification of income as qualified tips and other abuses, the proposed regulations would have provided that a payment is not a qualified tip if the tip recipient has an ownership interest in or is employed by the payor of the tip. Further, section 224(d)(2)(A) defines "qualified tips" as amounts that are, among other things, "determined by the payor." The proposed regulations would have reiterated this rule as part of the requirement that qualified tips be voluntary.

Several commenters suggested providing additional rules to prevent recharacterization of non-tip income to tip income. One commenter noted that the regulations contain no bright-line anti-abuse tests, specific prohibitions, or illustrative examples that delineate permissible versus impermissible practices and suggested there should be a bright line test that triggers disallowance. Another commenter suggested broadening the definition of qualified tips under the proposed regulations to include an anti-recharacterization provision that states that an amount is not a "qualified tip" if, based on all the facts and circumstances, it represents an arrangement to replace or suppress wages, or attempts to reclassify service charges or wages as tips for the purpose of obtaining the deduction. Another commenter asked that "tips" or gratuities be very specifically defined so that performance bonuses for professional services are not included. One commenter recommended concrete standards, evidentiary benchmarks, or examples that would deter artificial recharacterization, guide audit selection procedures, and state what indicators auditors would look for and what type of documentation would be required.

Other commenters suggested modifications to the rule prohibiting qualified tips from being paid to individuals with an ownership interest in the payor and to employees of the payor. One commenter suggested that an example of a non-abusive situation in which an employee's employer is the payor of a tip would be when an employee is employed by two unrelated employers, one for a tipped occupation and one for a non-tipped occupation, and the employer for the non-tipped occupation tips the employee for services provided by the employee in the tipped occupation. The commenter suggested that the final regulations limit the rule by providing a narrow definition of "ownership interest" that excludes de minimis or incidental holdings, and by limiting the application of the rule to situations where the tipped worker knows, or reasonably should know, that the ultimate source of funds is their employer.

The Treasury Department and the IRS agree that additional clarity on the prohibition against reclassification of income as qualified tips would be helpful. To that end, the final regulations replace the provision prohibiting ownership in or employment by a payor with a provision stating that an amount is not a qualified tip, and thus not eligible for the deduction if, based on all relevant facts and circumstances, the amount represents a recharacterization of wages or payments for goods or services for purposes of claiming the deduction. The final regulations further provide that facts and circumstances that may indicate a recharacterization of wages, payment for services, or other income as tips include:

- A charge for services provided in an invoice is less than the payment from the payor shown on a related receipt or information return, and the cash tip reported on the receipt or information return is in an amount that approximates the difference between the charge amount on the invoice and payment amount on the receipt or information return; and
- A significant shift in historical tipping or payment practices between the payor and the tip recipient.

In addition, the final regulations provide that if the following facts and circumstances are present, there is an irrebuttable presumption that the amount paid reflects a recharacterization of wages, payment for services, or other income as tips, and therefore cannot be a qualified tip:

- The employer of an employee is the payor, as defined in § 1.224-1(c)(5) of the final regulations, of a cash tip received by the employee.
- The tip recipient has a direct ownership interest in the payor, as defined in § 1.224-1(c)(5) of the regulations, of a cash tip.

The final regulations define ownership interest to mean, in the case of a corporation, ownership (by vote or value) of five percent or more of the stock in such corporation; in the case of a partnership, ownership of five percent of the profits interest or capital interest in such partnership, or in any other case, ownership of more than five percent of the beneficial interests in the entity. An ownership interest is tested as of the date the tip is received. The final regulations also provide that an ownership interest is a direct ownership interest if it is an ownership interest held directly by the tip recipient or if it is an ownership interest held through an entity disregarded as separate from its owner for Federal income tax purposes; an ownership interest held through a qualified subchapter S subsidiary as defined in section 1361(b)(3) of the Code; an ownership interest held through a grantor trust (under subpart E of part 1 of subchapter J of charter 1 of the Code); or an ownership interest held through a custodian, broker, nominee, agent, or other similar intermediary.

Because of its potential for abuse, the final regulations provide no specific exceptions for the situation in which an employee has more than one employer, and the employer unrelated to the tipped occupation provides a tip to the employee.

Per the suggestion that "tips" be very specifically defined, the final regulations adopt the definition of tips from the proposed regulations. Under this definition, tips are amounts paid by customers for services that are in excess of the amount agreed to, required, charged, or otherwise reasonably expected to have to be paid for the services in an arm's-length transaction. An amount that meets this definition (whether labeled as a performance bonus for services or otherwise) is a tip for purposes of the deduction under section 224. Whether the tip is a qualified tip depends on whether the other requirements under section 224 and these final regulations are satisfied. Concerning the audit selection procedure suggestions, as noted earlier, audit selection and other IRS enforcement procedures are beyond the scope of these regulations.

One commenter requested confirmation that a tip received directly from a customer by a single-member limited liability company (LLC) or sole proprietor will not be disallowed merely because the entity could be viewed as making the payment to the individual owner. In response to this comment, and to provide clarity concerning who is considered the payor of a tip, the final regulations define the term "payor" as the ultimate recipient of the services which, in most cases, is the customer, client, or other service recipient. The final regulations further clarify that an entity, such as an employer, a third party settlement organization, or a sole proprietorship or single-member LLC through which a tip recipient is doing business, that acts merely as conduit to remit a tip initially paid by a customer, client, or service recipient to the tip recipient, is not a payor of the tip for purposes of these regulations. Finally, the final regulations clarify that statements furnished to a sole proprietorship or a single-member LLC that does not elect to be treated as a corporation for income tax purposes owned by a tip recipient are considered to be furnished to the tip recipient owner of the sole proprietorship or single-member LLC to which the statement was issued, regardless of whether the name of the sole proprietorship or single-member LLC appears as the recipient on the statement.[17]

9. *Tip-Sharing Arrangements*

Section 224(d)(3) defines cash tips to include "tips received under any tip-sharing arrangement." Consistent with this definition, the proposed regulations would have defined cash tips to include "tips received from customers or, in the case of an employee, through a mandatory or voluntary tip-sharing arrangement, such as a tip pool."

Some commenters requested more guidance on tip-sharing arrangements. One commenter asked that the final regulations distinguish between a voluntary customer tip received by an employee, a mandatory service charge imposed by the employer, and an employer-mandated tip pool that redistributes tips. The definition of cash tips in the proposed regulations would have included both tips received

[17] Form W-9, *Request for Taxpayer Identification Number and Certification*, instructs both sole proprietorships and single-member LLCs (not treated as a corporation) to include the individual name of the owner on line 1. Therefore, if the payee completes Form W-9 correctly, and the payor correctly uses the info on Form W-9 to complete the appropriate Form 1099, then the individual's name should appear on the Form 1099. However, this rule is intended to clarify that if the instructions change or if the form is incorrectly filled out and includes only the business name, the reporting statement is still considered to be issued to the owner of the sole proprietorship or single-member LLC.

through "a mandatory or voluntary tip-sharing arrangement," and this is consistent with the broad statutory language that defines cash tips to include tips received under any tip-sharing arrangement. The final regulations contain similar language with nonsubstantive revisions.

One commenter asked for more guidance concerning staff who participate in tip-sharing arrangements but who may not be listed specifically in the List of Occupations that Receive Tips. The Treasury Department and the IRS considered the language in section 224(d)(3) to indicate that, for purposes of the deduction for qualified tips under section 224, there is no distinction between employees in occupations receiving tips directly from customers and employees in occupations receiving tips through tip-sharing arrangements with other employees. However, the employee must still receive the tips in an occupation that customarily and regularly received tips on or before December 31, 2024. Participation in a tip-sharing arrangement by itself is not sufficient. The employee must also be in an occupation on the List of Occupations that Receive Tips, and all other statutory and regulatory requirements must be met. No additional language was added to the final regulations to address this comment.

A few commenters were concerned about State laws on tip-sharing arrangements such as tip pooling. One commenter wanted the regulations to clarify that employees on the List of Occupations that Receive Tips are eligible for the deduction, even if they work in a State that prohibits or restricts tip pooling. Another commenter requested that the regulations provide that they preempt State laws concerning tip pooling. Nothing in section 224 prohibits an individual from claiming the deduction because of State law involving tip-sharing arrangements such as tip pooling. However, section 224 is a Federal income tax deduction. It does not impact Federal or State laws concerning tip-sharing arrangements. Since these rules are a function of existing laws and outside the scope of these regulations, no language was added to the final regulations concerning this comment.

10. *Married Individuals and Social Security Numbers*

Section 224(b)(1) limits the deduction for qualified tips to an amount not to exceed $25,000 in a taxable year. Section 224(b)(2) further limits the amount of the deduction based on a taxpayer's modified adjusted gross income, with the deduction phasing out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers). Section 224(f) provides that if the taxpayer is a married individual within the meaning of section 7703, section 224 applies only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

Reflecting these statutory provisions, the proposed regulations would have provided that the total amount of qualified tips that can be deducted on a return per calendar year is $25,000, regardless of filing status. After applying the $25,000 limitation, the proposed regulations would have provided that the amount is subject to the phase-out based on the taxpayers' modified adjusted gross income described in section 224(b)(2). Finally, the proposed regulations would have provided that taxpayers who are married must file a joint return to claim the deduction allowed by section 224.

Several commenters asserted that the $25,000 maximum annual deduction should apply per spouse on a joint return. They argued that limiting the deduction to $25,000 in this instance penalizes married individuals and unfairly disadvantages joint filers when both spouses work in tipped occupations. These commenters also noted that households with two tipped workers face higher work-related costs and should have a higher cap. At least one commenter agreed with the position in the proposed regulations that the maximum deduction should be limited to $25,000 per return, regardless of filing status.

Section 224(b)(1) limits the amount of the deduction to $25,000 for any taxable year, without reference to filing status. Consistent with this statutory language, the final regulations maintain the position of the proposed regulations that the maximum annual deduction for an individual or a joint return is $25,000.

One commenter asked that the IRS consider indexing this threshold to updated cost-of-living and inflation factors or increasing the threshold outright to $200,000/$300,000 to ensure the deduction effectively benefits the intended middle-class earners and families. Because such indexing is not provided for in section 224, the final regulations do not include this suggestion.

One commenter opposed requiring married individuals to file jointly in order to be eligible for the deduction. Because section 224(f) requires married individuals to file jointly in order to be eligible for the deduction, the final regulations retain this rule.

In accordance with section 224(e), the proposed regulations would have provided that to claim a deduction under section 224, a taxpayer must include on the taxpayer's tax return a valid for work SSN (valid SSN) that was issued before the due date of the return (including extensions). The proposed regulations would have further provided that married taxpayers are required to include the valid SSN of the taxpayer who has received the tips to claim the deduction, and a valid SSN is required of both taxpayers only when both have qualified tips for which the deduction is being claimed.

One commenter stated that the SSN requirement risks disproportionate exclusion of immigrant and informal workers and could incentivize underreporting or off-the-books arrangements and suggested providing an Individual Taxpayer Identification number (ITIN) safe harbor illustration. Another commenter said that the IRS should not impose a requirement that both spouses use SSNs. Finally, one commenter asked that the regulations include easy examples showing what to do when only one spouse receives tips and what to keep on file if someone moves from ITIN to SSN during the year, so they do not lose the deduction.

The valid SSN requirements are statutory. Consistent with these statutory provisions, the final regulations contain the same requirements as the proposed regulations. Income tax return instructions will include information and examples for how to claim the deduction, including how married taxpayers filing jointly claim the deduction if just one spouse has

tip income. If a taxpayer is issued a valid SSN for the calendar year in which the taxpayer is claiming the deduction under section 224, the taxpayer may use all qualified tips received in that calendar year in determining the deduction, as long as the taxpayer includes the valid SSN on the taxpayer's return for that year. The final regulations reflect this clarification.

Another commenter suggested that the regulations explicitly bar noncitizens from being eligible for the section 224 deduction. Section 224(e) prohibits the deduction unless the taxpayer's valid SSN is listed on the return claiming the deduction. As the proposed regulations would have done, the final regulations include this prohibition. However, certain noncitizens are eligible to obtain valid SSNs and therefore would be eligible for the section 224 deduction.

11. *Self-Employed Individuals*

In accordance with 224(c), the proposed regulations provide that generally for self-employed taxpayers, the deduction under section 224 for a trade or business is limited to the individual's net income (without regard to the section 224 deduction) from that trade or business.

Several commenters had questions concerning how to determine net income for purposes of section 224(c). One commenter asked that the regulations confirm that the deduction cannot create or increase a loss. Another commenter requested that the regulations explicitly state whether the self-employed health insurance deduction, the one-half of self-employment tax deduction, and the self-employed retirement deduction are allocable to the trade or businesses for purposes of section 224(c). Another commenter requested precise guidance, with illustrative examples, on how "net income" should be calculated for a sole proprietor filing Schedule C, specifically clarifying whether this figure is before or after the deduction of ordinary and necessary business expenses (like booth rent, supplies, and self-employment tax).

Consistent with section 224(c), the proposed regulations would have provided that the section 224 deduction cannot create or increase a loss. Whether any particular deduction, such as the self-employed health insurance deduction, the one-half of self-employment tax deduction, and the self-employed retirement deduction, is allocable to a trade or business for purposes of section 224(c) is a question that is beyond the scope of these regulations. However, section 224(c) is clear that the qualified tip deduction is not allocable to a trade or business for purposes of this section. For any individual performing services in a trade or business (other than as an employee), such as a sole proprietor filing a Schedule C, the deduction for qualified tips under section 224 for that trade or business is limited to the amount remaining after gross income from the trade or business, including the qualified tips received in the course of the trade or business, is reduced by the deductions allocable to the trade or business in which the tips are received, which, in the case of a sole proprietor filing a Schedule C, would include the expenses deducted on the Schedule C for that trade or business.

Some commenters had general questions about independent contractors. One commenter stated that gig workers who are considered independent contractors should qualify for this deduction as the tips are a part of the job. Another commenter asked that the regulations provide a short example involving an independent contractor with more than one occupation (for example, at a salon and a separate makeup service) to demonstrate how to allocate tips and apply the $25,000 deduction maximum. One commenter asked that the regulations provide formal transition relief for self-employed individuals allowing for a "reasonable estimate" of qualified tips received between January 1, 2025, and the publication date of the final rule.

Gig workers can qualify for this deduction if their occupation is on the List of Occupations that Receive Tips and the other statutory and regulatory requirements of section 224 are met. The $25,000 maximum deduction is applied per tax return and is not applied separately to different occupations for a taxpayer, or spouses in the case of spouses filing jointly, with multiple occupations. Instructions for how to apply the $25,000 maximum deduction limitation when claiming the deduction are beyond the scope of these regulations but will be provided in instructions to income tax returns. Transition relief for individuals claiming the deduction under section 224 in tax year 2025 is provided in Notice 2025-69. Because these comments are addressed elsewhere in the final regulations, as well as in other guidance, no additional changes were made to the final regulations to address these comments.

12. *Other Comments*

A few commenters asked that the final regulations address certain situations where children receive tips. One commenter suggested that the regulations address child digital content creators and the deduction's applicability as it relates to parents claiming the income of their social media influencer children. Another commenter suggested rules that exclude parents who "tip" their child's business with large amounts to effectively increase gift tax (and similar tax) exemption limits. These comments are beyond the scope of these regulations. Nothing in section 224 nor these regulations change the rules governing the reporting and treatment of income received by children or the rules regarding gift taxes.

13. *Severability*

If any provision in this rulemaking is held to be invalid or unenforceable facially, or as applied to any person or circumstance, it shall be severable from the remainder of this rulemaking, and shall not affect the remainder thereof, or the application of the provision to other persons not similarly situated or to other dissimilar circumstances.

Applicability Dates

These regulations apply for taxable years beginning after December 31, 2024. As stated in the NPRM, taxpayers may rely on the proposed regulations for taxable years beginning after December 31, 2024, and on or before the date these regulations are published as final regulations in the **Federal Register**, provided that taxpayers follow the proposed regulations in their entirety and in a consistent manner.

Special Analyses

I. *Regulatory Planning and Review—Economic Analysis*

Executive Orders 12866 and 13563 direct agencies to assess costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying both costs and benefits, reducing costs, harmonizing rules, and promoting flexibility.

The final regulations have been designated by the Office of Management and Budget's (OMB's) Office of Information and Regulatory Affairs (OIRA) as subject to review under Executive Order 12866 pursuant to the Memorandum of Agreement (MOA, July 4, 2025) between the Treasury Department and the Office of Management and Budget regarding review of tax regulations. OIRA has determined that the final rulemaking is economically significant under section 3(f)(1) of Executive Order 12866 and subject to review under Executive Order 12866 and section 1(c) of the Memorandum of Agreement. Accordingly, the final regulations have been reviewed by OMB.

Need for Regulation

Section 70201 of Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as the One Big Beautiful Bill Act (OBBBA), adds new section 224 to the Internal Revenue Code,[18] which provides an income tax deduction for "qualified tips" that are reported on Internal Revenue Service (IRS) returns and various forms. The statute requires, under section 70201(h) of the OBBBA, that not later than 90 days after the date of enactment of OBBBA, the Secretary of the Treasury or the Secretary's delegate (Secretary) publish a list of occupations that customarily and regularly received tips on or before December 31, 2024, for purposes of defining the term "qualified tips" under section 224(d)(1).

The final regulations clarify the definition of "qualified tips" for purposes of the income tax deduction under section 224. As required by section 70201(h) of the OBBBA, the final regulations also provide the list of occupations that customarily and regularly received tips on or before December 31, 2024 (List of Occupations that Receive Tips). The purpose of these final regulations is to provide guidance on requirements of section 224 to claim the deduction, including the definition of "cash tips;" the requirement for the taxpayer to include on the tax return for the taxable year such individual's Social Security number (SSN); and the requirement that if the taxpayer is married (within the meaning of section 7703), that section 224 shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year. The final regulations also clarify that the deduction is limited to $25,000, regardless of the taxpayer's filing status, and that the deduction is reduced based on the taxpayer's modified adjusted gross income for that taxable year after applying the $25,000 limitation.

I. The Statute and Final Regulations

For taxable years beginning after December 31, 2024, and before January 1, 2029, employees and self-employed individuals may deduct qualified tips from their gross income when calculating their federal income tax liability. Section 224(d)(1) defines the term "qualified tips" to mean cash tips received by an individual in an occupation that customarily and regularly received tips on or before December 31, 2024, as provided by the Secretary.

Section 224(d)(3) defines the term "cash tips" for the purposes of section 224(d)(1) to include tips received from customers that are paid in cash or charged and, in the case of an employee, tips received under any tip-sharing arrangement. The final regulations clarify that "cash tips" are amounts received, directly or indirectly, from customers, including in the case of an employee, tips received through a mandatory or voluntary tip-sharing arrangement, that are paid in a cash medium of exchange, including by check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash (such as casino chips), and any other form of electronic settlement or mobile payment application that is denominated in cash. The final regulations also clarify that, for the purposes of section 224, cash tips also include amounts paid in foreign currency. Cash tips do not include items paid in any medium other than cash or charge, such as event tickets, meals, services, or other assets that are not exchangeable for a fixed amount in cash. For purposes of section 224, cash tips also do not include digital assets as defined in section 6045(g)(3)(D) and § 1.6045-1(a)(19).

Section 224(a) allows qualified tips to be deducted if they are included on Form W-2, "Wage and Tax Statement;" Form 1099-NEC, "Nonemployee Compensation;" Form 1099-K, "Payment Card and Third Party Network Transactions;" Form 1099-MISC, "Miscellaneous Information;" or Form 4137, "Social Security and Medicare Tax on Unreported Tip Income." The final regulations clarify that statements furnished to a sole proprietorship or a single-member LLC owned by a tip recipient are considered furnished to the tip recipient owner of the sole proprietorship or a single-member LLC to which the statement was issued, regardless of whether the name of the sole proprietorship or single-member LLC appears as the recipient on the statement.

In addition, employees that enter a Tipped Employee Participation Agreement as part of the IRS Tip Rate Determination Agreement (TRDA) program or a Model Gaming Employee Tip Reporting Agreement as part of the IRS Gaming Industry Tip Compliance Agreement (GITCA) program report their tips according to tip rates established under their agreement (and these tips are included on Form W-2). The final regulations clarify that the term "qualified tips" for employees participating in the TRDA or GITCA program includes tips reported using the tip rates established under their agreement and additional tips reported on Form 4137.

The final regulations clarify that the section 224(d)(2)(A) term "qualified tips" only includes amounts that are paid by the

[18] References to a "section" are to a section of the Internal Revenue Code of 1986, as amended (Code), unless otherwise indicated.

customer voluntarily without any impact on the scope or cost of service or any other consequence in the event of nonpayment, are not the subject of negotiation, and are determined by the customer. The final regulations also clarify that the term "qualified tips" does not include tips that were received while performing a service that is a felony or misdemeanor under applicable law. (However, "qualified tips" may include tips received for a service that is legal but while working for an establishment that violates applicable law in other respects.) In addition, the final regulations provide that amounts received for prostitution services and pornographic activity are not included in the definition of "qualified tips." The final regulations provide that amounts received by a manager or supervisor through a voluntary or mandatory tip-sharing arrangement such as a tip pool are not qualified tips, but amounts received directly by a supervisor or manager for services provided in the course of duties performed in an occupation included on the List of Occupations that Receive Tips are qualified tips if all other regulatory requirements are met. The final regulations also clarify that a payment is not considered a "qualified tip" if, based on all relevant facts and circumstances, the payments represent a recharacterization of wages or payments for services as tips for purposes of claiming the deduction under section 224. Furthermore, the final regulations provide that if the following facts and circumstances are present, there is an irrebuttable presumption that the amount paid is a recharacterization of wages, payment for services, or other income as tips, and therefore cannot be a qualified tip: (A) the employer of an employee is the payor of a cash tip received by the employee; or (B) the tip recipient has a direct ownership interest in the payor of a cash tip.

Section 224(c) limits the deduction for qualified tips received by a self-employed individual to the gross income (including the qualified tips) from their trade or business minus the sum of their deductions (other than the deduction for qualified tips) that are allocable to that trade or business. The final regulations clarify that the deduction for qualified tips is not included when calculating this limit because it is not a trade or business deduction.

The final regulations clarify the requirement in section 224(e) that taxpayers must include their SSN (as defined in section 24(h)(7)) on their tax return to claim the deduction for qualified tips. Taxpayers with an Individual Taxpayer Identification Number (ITIN) rather than an SSN will not be able to use their tips to claim the deduction under section 224. The final regulations also clarify that a taxpayer must be issued an SSN, as defined in section 24(h)(7) of the Code, before the due date of the income tax return (including extensions) for the calendar year in which the taxpayer is claiming the deduction under section 224. Married taxpayers must include the SSN of the taxpayer who earned the qualified tips that are being used to claim the deduction; if both spouses earned qualified tips for the deduction, then they must include the SSNs of both spouses on their tax return. The final regulations clarify section 224(f), which requires married individuals (within the meaning of section 7703) to file a joint tax return for the taxable year to claim the deduction for qualified tips.

Section 224(b)(1) limits the deduction for qualified tips for any taxable year to $25,000. The final regulations clarify that this limitation applies regardless of the taxpayer's filing status for that taxable year. Under section 224(b)(2)(A), the deduction for qualified tips is reduced (but not below zero) by $100 for each $1,000 by which the taxpayer's modified adjusted gross income (MAGI) exceeds $150,000 ($300,000 in the case of a joint return). Section 224(b)(2)(B) defines "modified adjusted gross income" for the purposes of this phaseout as adjusted gross income of the taxpayer for the taxable year plus any amount excluded from gross income under section 911, section 931, or section 933. The final regulations clarify that the phaseout based on MAGI is applied after applying the $25,000 limit to the deduction.

The final regulations implement the statutory requirement from section 70201(h) of the OBBBA that the Secretary publish a list of occupations that customarily and regularly received tips on or before December 31, 2024. For each occupation, the list provides a numeric Treasury Tipped Occupation Code (TTOC), an occupation title, a description of the types of services performed by individuals working in the occupation, illustrative examples of specific occupations that would be included, and the Standard Occupation Classification (SOC Code) that is related to the occupation. The final regulations also clarify that these occupations include individuals acting as assistants or apprentices to the listed occupations to the extent they perform the described services.

II. Baseline

The Treasury Department and the IRS have assessed the benefits and costs of the final regulations relative to a no-action baseline reflecting anticipated Federal income tax-related behavior in the absence of these final regulations.

III. Affected Entities and Taxpayers

By providing clarity to the statutory definition of "qualified tips" and publishing the statutorily required list of occupations that customarily and regularly received tips on or before December 31, 2024, the final regulations affect taxpayers who wish to claim the deduction for qualified tips on their individual income tax returns beginning in taxable year 2025. Using confidential tax return data, the Treasury Department and the IRS estimate that, in 2026, more than 10 million returns will have tips reported on Form W-2, Form 1099-NEC, Form 1099-K, Form 1099-MISC, or Form 4137.

IV. Economic Effects of the Final Regulations

The Treasury Department and the IRS analyzed the economic effects of the final regulations in enumerating the list of occupations that customarily and regularly received tips on or before December 31, 2024, the clarification that "qualified tips" excludes tips received while performing services that are misdemeanors or felonies under applicable law, and the clarification that "qualified tips" for employees under tip agreements through the TRDA or GITCA programs include tips reported using the tip rates established under their agreement and additional tips reported on Form 4137. The projected economic costs and benefits of these final regulations are small.

i. *List of Occupations that Receive Tips*

The final regulations enumerate the List of Occupations that Receive Tips, as described in section 70201(h) of the OBBBA. Providing this list will provide clarity for taxpayers who are expected to receive qualified tips. While these clarifications will reduce uncertainty, the Treasury Department and the IRS project that the magnitude of the efficiency gains from publishing these final regulations would be small.

a. Methodology

To create the List of Occupations that Receive Tips, the Treasury Department and the IRS examined confidential income tax return data from tax year 2023; data from the GITCA and related programs; the House Budget Committee report on the OBBBA, H.R. Rept. No. 119-106, at 1502 (2025); guidance and caselaw related to the U.S. Department of Labor (DOL) Fair Labor Standards Act (FLSA); and survey data from the Panel Study of Income Dynamics (PSID) for years 2017, 2019, and 2023 (which asks about the occupation of and tip income received by individuals in 2016, 2018, and 2022, respectively). Based on prior guidance under the FLSA, the Treasury Department and the IRS determined that individuals must have received cash tips more often than occasionally (for example, not only on annual holidays or other celebrations) during a calendar year ending on or before December 31, 2024, in order for their occupation to be considered as having customarily and regularly received tips on or before December 31, 2024.

While reviewing the data, the Treasury Department and the IRS recognized that the occupations identified as having customarily and regularly received tips on or before December 31, 2024, were in the service industry, and the individuals working in the occupations either interacted with the customers for whom they were providing a service or commonly participated in tip-sharing arrangements with individuals who interacted with customers.

The List of Occupations that Receive Tips includes some occupations, such as cooks and dishwashers, in which individuals may not interact with customers but reported receiving tip income, presumably from tip-sharing arrangements with individuals who do interact with customers. Employees in these occupations have not been considered to customarily and regularly receive tips under the FLSA. As discussed above, there are many differences between the specific language, purpose, and history of the FLSA tip provisions and the language, purpose, and history of the deduction for qualified tips under section 224 of the Code.[19] For instance, while the FLSA contemplates that an employee must have some level of customer interaction to "customarily and regularly" receive tips,[20] section 224(d)(3) provides that for purposes of the deduction for qualified tips under section 224, "cash tips" includes both tips received from customers and, in the case of an employee, tips received under any tip-sharing arrangement. As a result, occupations in which employees receive tips from tip-sharing arrangements are considered as having "customarily and regularly" received tips for purposes of the deduction for qualified tips under section 224.

After identifying the occupations that customarily and regularly received tips on or before December 31, 2024, the Treasury Department and the IRS created a categorization system to organize and define the occupations for purposes of the deduction for qualified tips. Each occupation was assigned a TTOC, an occupation title, a short description of the types of services performed by individuals working in the occupation, illustrative examples of specific occupations that would be included under the occupation code, and the related SOC Code(s).

b. Alternative Methods Considered

In addition to the method described above, the Treasury Department and the IRS considered two alternative methods for creating the List of Occupations that Receive Tips. These alternative methods were (1) using the SOC Code system to define occupations and (2) using only the confidential income tax return data to identify occupations that reported tips. These alternative methods both excluded some occupations that did customarily and regularly receive tips on or before December 31, 2024, and also included some occupations that did not in reality customarily and regularly receive tips on or before December 31, 2024. Therefore, the approach to produce the List of Occupations that Receive Tips included in these final regulations was selected over the alternatives described below.

One of the alternative methods that the Treasury Department and the IRS considered to construct the List of Occupations that Receive Tips was to use the occupation definitions from the SOC Code system.[21] However, the Treasury Department and the IRS determined that several of the detailed SOC occupations were not sufficiently detailed to separate occupations that should be included on the List of Occupations that Receive Tips, from those that should not. For example, the SOC Code for "Animal Caretakers" is described in the 2018 SOC Code system as an occupation in which individuals "provide care to promote and maintain the well-being of pets and other animals that are not raised for consumption." The specific occupations that are provided as illustrative examples for this SOC Code include both pet caretakers and zookeepers. Pet caretakers provide a service to individual customers, personally interact with customers, and commonly receive tips on a frequent basis. Therefore, they would be considered an occupation that customarily and regularly receives tips. Zookeepers, on the other hand, provide a service to animals but not directly to customers. Many, if not most, zookeepers do not interact with zoo customers, and zookeepers do not receive tips on a frequent basis. Zookeeper is therefore not an

[19] *See supra, "Comments on the Methodology Used to Construct the List of Occupations that Receive Tips."*

[20] *See Montano v. Montrose Rest. Assocs.*, 800 F.3d 186, 189-194 (5th Cir. 2015) (holding that a factfinder could determine that an employee did not "customarily and regularly receive tips," despite the fact that the employer included him in a tip pool).

[21] The SOC Code system is published by the Executive Office of the President, Office of Management and Budget. The SOC Code system is a federal statistical standard used by Federal agencies to classify workers into occupational categories for the purposes of collecting, calculating, or disseminating data. *See* Office of Management and Budget. (2018). Standard Occupational Classification Manual. U.S. Government Publishing Office. This manual and other related SOC Code documents can be found at https://www.bls.gov/soc.

occupation that customarily and regularly receives tips. Thus, if the "Animal Caretakers" SOC Code were included in the list of occupations that customarily and regularly receive tips, then zookeepers would become part of the list via their corresponding SOC Code, even though they do not customarily and regularly receive tips. Thus, using the SOC Code system alone was not sufficient for creating the List of Occupations that Receive Tips.

For the method that was selected instead of using the SOC Code system, the Treasury Department and the IRS created a new categorization system. The descriptions and illustrative examples for the occupation codes in this new system often mirror their SOC Code counterparts, and it includes the SOC Code(s) that are related to each TTOC occupation. Of the 867 detailed SOC Codes in the 2018 SOC Code system, 77 are related to at least one TTOC occupation.

A second alternative method that the Treasury Department and the IRS considered was to use only confidential income tax return data to identify occupations that customarily and regularly received tips on or before December 31, 2024. This data includes reported tips from Form W-2 and Form 4137 and the occupation that the taxpayer (the primary filer and, if married filing jointly, the spouse) self-reports next to their signature on Form 1040. Individuals in some occupations, such as rideshare drivers, often operate as independent contractors rather than employees and do not receive Form W-2 or file Form 4137. Thus, using only the income tax return data would have omitted these occupations, even though individuals in such occupations did in fact regularly and customarily receive tips on or before December 31, 2024. In addition, the analysis of the income tax return data may have incomplete information on certain occupations due to variations in how taxpayers choose to self-report their occupation on Form 1040. For example, the self-reported occupation may have typos or abbreviations, or taxpayers may write multiple occupations separated by a comma or a slash mark, like "Occupation 1/Occupation 2."[22] These variations in how taxpayers reported their occupation on Form 1040 made it difficult for the data analysis to capture all taxpayers with a given occupation (in the sense of what job they actually performed, rather than what they wrote on the Form 1040) together. This was particularly problematic for certain occupations that have more variations in how they were reported.

Due to these limitations, the Treasury Department and the IRS rejected the method of only using the tax return data to create the List of Occupations that Receive Tips. Instead, the tax return data was supplemented with data from the GITCA and related programs; the House Budget Committee report on the OBBBA, H.R. Rept. No. 119-106, at 1502 (2025); guidance and caselaw related to the DOL FLSA; and survey data from the PSID.

c. Statistics on Reported Tip Income in Tax Return Data

Table A below contains the List of Occupations that Receive Tips and statistics on their reported tip income. The table is organized by Treasury Tipped Occupation Code (TTOC) and contains the TTOC Occupation Title and the Related Standard Occupation Classification (SOC) Code(s) (Related SOC Code(s)). (As previously described, the List of Occupations that Receive Tips in Table 1 of the final regulations also includes descriptions and illustrative examples of each TTOC occupation.) Table A summarizes taxpayer information from Tax Year 2023 on employees who have a single job, meaning they received only one Form W-2; did not file Schedule C, "Profit or Loss from Business (Sole Proprietorship)," or Schedule F, "Profit or Loss From Farming;" and did not have non-passive income from a partnership or an S-corporation on Schedule E, "Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, real estate mortgage investment conduits, etc.)."[23]

Table A shows the percentage of individuals within the Related SOC Code(s)[24] who have at least $100 of tips reported on Form W-2 or Form 4137. For example, 82.8 percent of individuals who had the SOC Code related to the TTOC Occupation Title of "Bartenders" had at least $100 of tips reported on Form W-2 or Form 4137.

The table shows the amount of reported tips of individuals in the Related SOC Code(s) as a percentage of all reported tips. The numerator of the percentage is the amount of reported tips of individuals in the Related SOC Code(s) who had any tips reported on Form W-2 or Form 4137. The denominator is the amount of reported tips of all individuals, regardless of whether their occupation could be mapped to a SOC Code or if their SOC Code is related to a TTOC. For example, 34.3 percent of all reported tips are from individuals who had the SOC Code related to the TTOC Occupation Title of "Wait Staff."

Lastly, Table A shows reported tips as a percent of wage compensation for individuals in Related SOC Code(s) who had reported tips. Wage compensation is the sum of wages, tips, and other compensation reported in Box 1 of Form W-2 and unreported tips from line 4 of Form 4137. For example, among individuals with SOC Codes related to the TTOC Occupation Title of "Gambling Dealers" who had reported tips on Form W-2 or Form 4137, reported tips were 70.7 percent of wage compensation.

[22] Taxpayers have a single line to report their occupation on the Form 1040. If they have multiple occupations, they may write the occupation for only one of their jobs or they may write multiple occupations. However, when analyzing the tax return data, it would be difficult to determine to which job any reported tips should be assigned when a taxpayer has multiple jobs. Therefore, the Treasury Department and the IRS limited the main analysis of the tax return data to taxpayers with only one job. However, even among this sample, some taxpayers may write both the occupation from their job and a title for a role where they may not receive income, such as "Student/Occupation."

[23] Since tips are reported separately from other compensation for employees but not for the self-employed in the current tax return data, these screening criteria that limit the sample to employees with a single job were utilized to better illuminate the link between the self-reported occupations and reported tips.

[24] Table A shows statistics based on the Related SOC Code(s), not on the TTOC, which may differ from the Related SOC Code(s). For example, the statistics listed under TTOC 506 (Pet and Show Animal Caretakers) shows the statistics for all taxpayers in the Related SOC Code 39-2021 (Animal Caretakers), including taxpayers whose occupations are not included in TTOC 506, such as zookeepers. As described in the preamble to the proposed regulations, some SOC Codes were narrowed in the creation of the TTOC occupation. Certain occupations grouped in the same SOC Code with non-tipped occupations were segregated from these non-tipped occupations and provided their own TTOC occupation category. Therefore, the lower percentages for certain TTOC occupation categories may be because the data on the percentage of individuals reporting tips is for the wider related SOC Code, not for the narrower TTOC occupation. In addition, that data included in Table A reflects only data for employees and does not provide tipping data for independent contractors. The lack of representation for tipped independent contractors may skew the percentage of individuals reporting tips lower in certain occupations.

Table A: Reported Tips of Single-Job Holders, Tax Year 2023

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	Percent with Reported Tips[1]	Percent of All Reported Tips[2]	Reported Tips as Percent of Wages of Tipped Workers[3]	Related Standard Occupational Classification Code (Related SOC Code)
Beverage & Food Service					
101	Bartenders	82.8	9.8	63.4	35-3011
102	Wait Staff	74.5	34.3	63.5	35-3031
103	Food or Beverage Servers, Nonrestaurant	30.4	0.1	33.0	35-3041
104	Dining Room and Cafeteria Attendants and Bartender Helpers	38.9	1.0	44.8	35-9011
105	Chefs and Cooks	12.8	2.0	17.1	35-1011, 35-2011, 35-2013, 35-2014, 35-2019
106	Food Preparation Workers	21.4	3.3	33.5	35-1012, 35-2021, 35-9099
107	Fast Food and Counter Workers	40.1	1.4	17.9	35-3023
108	Dishwashers	11.0	0.1	15.8	35-9021
109	Host Staff, Restaurant, Lounge, and Coffee Shop	46.3	0.8	35.3	35-9031
110	Bakers	12.0	0.1	14.7	51-3011
Entertainment & Events					
201	Gambling Dealers	70.9	4.3	70.7	39-3011, 39-1013
202	Gambling Change Persons and Booth Cashiers	78.0	0.4	64.8	41-2012
203	Gambling Cage Workers	37.6	0.2	57.7	43-3041
204	Gambling and Sports Book Writers and Runners	30.0	*	43.3	39-3012
205	Dancers	8.8	*	54.3	27-2031
206	Musicians and Singers	2.9	*	36.8	27-2042
207	Disc Jockeys, Except Radio	15.7	*	44.9	27-2091
208	Entertainers and Performers	7.9	*	52.0	27-2099
209	Digital Content Creators	7.9	*	52.0	27-2099
210	Ushers, Lobby Attendants, and Ticket Takers	3.1	*	11.6	39-3031
211	Locker Room, Coatroom, and Dressing Room Attendants	12.0	*	19.1	39-3093
Hospitality & Guest Services					
301	Baggage Porters and Bellhops	7.0	0.1	18.6	39-6011
302	Concierges	3.7	*	11.7	39-6012
303	Hotel, Motel, and Resort Desk Clerks	11.7	0.7	42.8	43-4081
304	Maids and Housekeeping Cleaners	2.7	0.1	10.6	37-2012

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	Percent with Reported Tips[1]	Percent of All Reported Tips[2]	Reported Tips as Percent of Wages of Tipped Workers[3]	Related Standard Occupational Classification Code (Related SOC Code)
Home Services					
401	Home Maintenance and Repair Workers	0.5	0.1	16.1	49-9071, 49-9098, 49-9099, 49-9063, 49-2097, 51-7021
402	Home Landscaping and Groundskeeping Workers	0.5	*	14.0	37-3011
403	Home Electricians	0.1	*	10.6	47-2111
404	Home Plumbers	0.2	*	5.1	47-2152
405	Home Heating and Air Conditioning Mechanics and Installers	0.2	*	4.0	49-9021
406	Home Appliance Installers and Repairers	1.8	*	1.9	49-9031
407	Home Cleaning Service Workers	2.7	0.1	10.6	37-2012
408	Locksmiths	2.0	*	3.1	49-9094
409	Roadside Assistance Workers	0.2	*	10.8	49-3023, 53-3032
Personal Services					
501	Personal Care and Service Workers	0.6	0.1	31.1	31-1122, 39-9099
502	Private Event Planners	6.6	0.1	18.0	13-1121
503	Private Event and Portrait Photographers	2.3	*	22.0	27-4021
504	Private Event Videographers	*	*	*	27-4031
505	Event Officiants	0.2	*	16.8	21-2011
506	Pet and Show Animal Caretakers	19.1	0.3	16.2	39-2021
507	Tutors	0.5	*	34.5	25-3041
508	Nannies and Babysitters	0.7	*	28.8	39-9011
509	Visual Artists	3.3	*	28.4	27-1013
510	Floral Designers	4.3	*	7.4	27-1023
Personal Appearance & Wellness					
601	Skincare Specialists	54.7	0.5	24.4	39-5094
602	Massage Therapists	55.8	0.6	25.7	31-9011
603	Barbers, Hairdressers, Hairstylists, and Cosmetologists	52.4	3.2	22.7	39-5012, 39-5011
604	Shampooers	*	*	*	39-5093
605	Manicurists and Pedicurists	36.2	0.3	14.9	39-5092
606	Eyebrow and Eyelash Technicians	53.2	3.0	22.6	39-5012
607	Makeup Artists	13.1	*	14.8	39-5091
608	Exercise Trainers and Group Fitness Instructors	1.0	*	25.8	39-9031
609	Tattoo Artists and Piercers	11.1	*	15.8	27-1019
610	Tailors	0.8	*	15.9	51-6052
611	Shoe and Leather Workers and Repairers	*	*	*	51-6041

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	Percent with Reported Tips[1]	Percent of All Reported Tips[2]	Reported Tips as Percent of Wages of Tipped Workers[3]	Related Standard Occupational Classification Code (Related SOC Code)
Recreation & Instruction					
701	Golf Caddies	8.0	*	27.9	39-3091
702	Self-Enrichment Teachers	1.9	*	7.5	25-3021
703	Recreational and Tour Pilots	*	*	*	53-2012
704	Tour Guides	14.2	*	17.1	39-7011
705	Travel Guides	13.3	*	16.2	39-7012
706	Sports and Recreation Instructors	1.9	*	7.5	25-3021
Transportation & Delivery					
801	Parking and Valet Attendants	17.4	0.1	21.5	53-6021
802	Taxi and Rideshare Drivers and Chauffeurs	24.9	*	21.2	53-3054
803	Shuttle Drivers	16.7	0.1	28.0	53-3053
804	Goods Delivery People	3.7	0.5	30.0	53-3031
805	Personal Vehicle and Equipment Cleaners	4.8	*	12.4	53-7061
806	Private and Charter Bus Drivers	0.7	*	9.9	53-3052
807	Water Taxi Operators and Charter Boat Workers	*	*	*	53-5022
808	Rickshaw, Pedicab, and Carriage Drivers	0.8	*	21.4	53-6099
809	Home Movers	2.5	2.8	32.8	53-7062
810	Gas Pump Attendant	0.7	*	15.4	53-6031
Total			67.5[4]	44.6	

Notes: Data are for Tax Year 2023. An * indicates a share of less than 0.1% or a small cell size.
[1] Percentage of individuals within the Related SOC Code(s) who have at least $100 of tips reported on a Form W-2 or Form 4137 ("reported tips").
[2] Reported tips of individuals in Related SOC Code(s) as a percentage of all reported tips. The denominator includes all individuals regardless of whether their occupation could be mapped to a SOC Code or if their SOC Code is related to a TTOC code.
[3] Reported tips of individuals in Related SOC Code(s) as a percentage of wages of individuals with tips in Related SOC Code(s). The denominator includes wages of individuals in Related SOC Code(s) only if they report tips.
[4] Occupation codes are matched to SOC Codes, which are then related to TTOC Occupation Titles, using the self-reported character strings in the "Your occupation" box next to the signature box on the Form 1040. The occupation box does not affect a taxpayer's tax liability, and taxpayers with a single Form W-2 sometimes enter an occupation (character string) that does not correspond to the Form W-2. For example, a student who was also a bartender might have entered "Student" in the occupation box, or they may have misspelled "bartender" as "batrender". In either case, we would not be able to match the "Student" or "batrender" who received tips to a TTOC code. These data shortcomings are the primary reason that the percentage of all reported tips for occupations listed in the table sum to only 67.4%.
Source: Office of Tax Analysis, December 18, 2025

d. *Economic Effects*

In general, OBBBA granted taxpayers the deduction for income earned in the form of qualified tips. In the absence of the list enumerated by these final regulations, two taxpayers with otherwise similar tax situations would face uncertainty as to whether this tax deduction applies to their situation. In the absence of this guidance, these taxpayers might make different choices as to whether their tips qualify for the deduction, and, therefore, face different tax liability. By enumerating the List of Occupations that Receive Tips, these final regulations ensure that these two taxpayers face the same tax treatment.

Consider an example, where Employee A is a hairstylist and Employee B is a makeup artist, both working at Beauty Salon 1. Employee A and Employee B each receive $10,000 in tips from customers at Beauty Salon 1. The House Budget Committee report on the OBBBA, H. Rept. 119-106, at 1502 (2025) included hairstylists but not makeup artists in its examples of occupations that traditionally and customarily[25] received tips on or before December 31, 2024. Thus, prior to reading the guidance in these final regulations, Employee B might have been unsure whether their occupation as a makeup artist makes them eligible to claim the deduction for their qualified tips. By enumerating this list, Employee A and Employee B have clarity that they are both eligible to use the $10,000 in tips that they receive while working at Beauty Salon 1 for purposes of the deduction in section 224 (assuming that all other requirements to claim the deduction are satisfied).

Some taxpayers may reclassify their occupation as described on their Form 1040 to fall under a category that appears on the List of Occupations that Receive Tips. This reclassification would merely be a relabeling of their reported occupation and does not constitute a meaningful economic change. Due to the tax preference granted by the statute, some taxpayers may genuinely change occupations to one which appears on the List of Occupations that Receive Tips. This effect is ascribed to the statute.

ii. *Illegal Activity*

The final regulations clarify that the term "qualified tips" does not include tips that were received while performing a service that is a felony or misdemeanor under applicable law. For example, tips received while performing services in human trafficking, exotic pet smuggling, counterfeiting or fencing stolen goods, drug trafficking, drug dealing, and unlicensed sales that violate the applicable law would not be eligible for the deduction for qualified tips. The Treasury Department and the IRS do not have sufficient data to determine the behavioral effects of the clarification that the tips are excluded from the definition of "qualified tips" if they were earned while performing illegal activities. The Treasury Department and the IRS also do not have readily available data and models to assess the economic costs and benefits of excluding these tips from the definition of "qualified tips," but the economic impact is expected to be low.

For example, consider Employee C who works as a bartender but does not have the license or certification that is required based on the applicable laws, and these laws specify that serving alcohol without a license is a misdemeanor. They receive $10,000 in tips during the year while serving alcohol at a bar. "Bartender" is on the List of Occupations that Receive Tips, but serving alcohol as a bartender without the proper license violates the applicable law. Because the final regulations clarify that the definition of "qualified tips" excludes tips received while performing services that violate the applicable law, Employee C is aware that their $10,000 in tips received while serving alcohol without a license are not qualified tips, and so they cannot claim the deduction for these tips.

Alternatively, consider a different example where Restaurant 2 includes a bar that serves alcohol but does not have the liquor license required by the applicable laws. Employee D works on the wait staff at Restaurant 2 and does not serve alcohol, which the applicable laws allow. Employee D receives $10,000 in tips while waiting tables at Restaurant 2. They satisfy all other requirements to claim the deduction under section 224. Because the final regulations clarify that "qualified tips" exclude tips received while performing services that are illegal under applicable law, and the services that Employee D provided as a wait person were legal, Employee D understands that their $10,000 in tips are considered "qualified tips" and they can claim the deduction accordingly.

The clarification in the final regulations, that tips are not considered "qualified tips" if they were received while performing services that are illegal under applicable law, provides clarity for taxpayers about whether their tips qualify for the tax deduction under section 224, as instituted by the OBBBA.

iii. *Employees Participating in Voluntary Tip Reporting Programs with Tip Rates*

The final regulations clarify that employees who enter into a tip agreement through the TRDA or GITCA program may determine the amount of their qualified tips using applicable tip rates in their agreement (as these tips are reported on Form W-2), as well as amounts reported to the IRS on Form 4137. This would not affect the behavior of employees in agreements under the TRDA or GITCA programs as they are required to report their tips (regardless of whether they are eligible for the deduction under section 224) using average tip rates for their occupational category that their employer and the IRS have established.

For example, suppose Employee E and Employee F both work as gambling dealers at Casino 3, and they both have a tip agreement as part of the GITCA program. Employee E receives $11,000 in tips for the year, and Employee F receives $12,000 in tips. The tip rate established by the IRS and their employer for their occupation in the tip agreement requires them to report $10,000 in tips. The Forms W-2 for Employee E and Employee F from Casino 3 each report $10,000 in tips. Due to the clarification in the final regulations

[25] Initial drafts of the OBBBA legislation contemplated a deduction for tips received by individuals in occupations that traditionally and customarily receive tips, but this language was later revised to refer to occupations that customarily and regularly receive tips.

about the definition of "qualified tips" for employees under a tip agreement through the TRDA or GITCA program, Employee E and Employee F each understand that they may claim a deduction for $10,000 in qualified tips (if the other requirements of section 224 are met) as those tips were reported to the IRS and Casino 3 in accordance with the tip rate established in their tip agreement.

Some employees under a tip agreement through the TRDA or GITCA programs may decide to report the full amount of their tips (in excess of the tip rate established in their tip agreement) to the IRS on Form 4137 or to their employer. These employees would use that full amount as qualified tips for the deduction under section 224. Any change in the reporting of tip income in excess of the established tip rates is ascribed to the statute, which creates the deduction for qualified tips that are reported on Form W-2 or Form 4137 (as well as Form 1099-NEC, Form 1099-K, and Form 1099-MISC).

iv. *Summary*

Based on the available models and data, the Treasury Department and the IRS estimate that the economic costs and benefits of the final regulations would be small.

II. *Paperwork Reduction Act*

This final regulation does not create new collection requirements, as defined under the Paperwork Reduction Act (44 U.S.C. 3501-3520), and does not alter any previously approved OMB information collection requirements and their associated burden.

III. *Regulatory Flexibility Act*

The Secretary of the Treasury certifies that these final regulations will not have a significant economic impact on a substantial number of small entities pursuant to the Regulatory Flexibility Act (5 U.S.C. chapter 6). This certification is based on the fact that these regulations do not impose any new requirements on small entities but rather provide to individuals rules for claiming the deduction under section 224 of the Code by specifying the scope of affected occupations as those contained in the proposed regulations and providing clarity on the definition of qualified tips. Because the regulation does not directly impact small entities a Regulatory Flexibility Act (5 U.S.C. chapter 6) analysis is not required.

One commenter asked that the final regulations take special account of the needs of small businesses and that the final regulations not certify that the rule will not have a significant impact on a substantial number of small entities if the final regulations provide details concerning recordkeeping or other obligations of employers. These final regulations do not provide information or instructions concerning the recordkeeping and other obligations of employers and for this reason they have been certified not to have a significant impact on a substantial number of small entities.

IV. *Section 7805(f)*

Pursuant to section 7805(f) of the Code, the proposed regulations were submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business. No comments were received.

V. *Unfunded Mandates Reform Act*

Section 202 of the Unfunded Mandates Reform Act of 1995 requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of $100 million in 1995 dollars, updated annually for inflation. These final regulations do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector, in excess of that threshold.

VI. *Executive Order 13132: Federalism*

Executive Order 13132 (Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. These final regulations do not have federalism implications,

VII. *Congressional Review Act*

Pursuant to the Congressional Review Act (5 U.S.C. 801 et seq.), the Office of Information and Regulatory Affairs designated this rule as a major rule, as defined by 5 U.S.C. 804(2).

Drafting Information

The principal author of these final regulations is the Office of Associate Chief Counsel (Employee Benefits, Exempt Organizations and Employment Taxes). However, other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, the Treasury Department and the IRS amend 26 CFR part 1 as follows:

PART 1-INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding an entry for § 1.224-1 in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805* * *

* * * * *

§ 1.224-1 also issued under 26 U.S.C. 224(d)(2)(C) and (g) and sec. 70201(h) of Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act.

* * * * *

Par. 2. Add § 1.224-1 under the undesignated center headings "Additional Itemized Deductions for Individuals" to read as follows:

Section 1.224-1 is added to read as follows:

§ 1.224-1 Qualified tips.

(a) *In general.* Under section 224(a) of the Internal Revenue Code (Code), there shall be allowed a deduction under section 63(b) of the Code for an amount equal to the qualified tips received by an individual during the taxable year that are included separately on statements furnished to the individual pursuant to section 6041(d)(3), section 6041A(e)(3), section 6050W(f)(2), or section 6051(a)(18) of the Code, or reported by the taxpayer on Form 4137, *Social Security and Medicare Tax on Unreported Tip Income* (or successor).

(b) *Deduction limitations*—(1) *In general*. The amount allowed as a deduction under section 224(a) and paragraph (a) of this section for any taxable year shall not exceed $25,000, regardless of filing status.

(2) *Limitation based on adjusted gross income*. After the application of the limitation in paragraph (b)(1) of this section, the amount allowable as a deduction under section 224(a) and paragraph (a) of this section shall be further reduced (but not below zero) by $100 for each $1,000 by which the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 in the case of a joint return). For purposes of this paragraph (b)(2), *modified adjusted gross income* means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, section 931, or section 933 of the Code.

(3) *Examples*. The following examples illustrate the rules of paragraphs (b)(1) and (2) of this section.

(i) *Example 1.* Employee A satisfies all the requirements under section 224 and Employee A's filing status for 2025 is single. A received $26,000 in qualified tips in 2025. Since this is greater than the $25,000 limitation in paragraph (b)(1) of this section, the $26,000 qualified tip amount is first reduced from $26,000 to $25,000. A's modified adjusted gross income for 2025 is $200,000. The qualified tip amount is further reduced (but not below zero) by $100 for each $1,000 by which A's modified adjusted gross income exceeds $150,000 (the threshold for a single filer). A's modified adjusted gross income exceeds $150,000 by $50,000. To calculate the deduction, A first divides $50,000 by $1,000 to get 50. Thus, A's deduction is further reduced under section 224(b)(2) by $5,000 ($100 x 50), from $25,000 to $20,000.

(ii) *Example 2.* Employee B satisfies all the requirements under section 224 and Employee B's filing status for 2025 is single. B received $10,000 in qualified tips in 2025. Since this amount is less than $25,000, the limitation in paragraph (b)(1) of this section does not apply. B's modified adjusted gross income for 2025 is $180,000. B's deduction is reduced (but not below zero) by $100 for each $1,000 by which B's modified adjusted gross income exceeds $150,000 (the threshold for a single filer). B's modified adjusted gross income exceeds $150,000 by $30,000. To calculate the deduction, B first divides $30,000 by $1,000 to get 30. Thus, B's deduction under section 224(b)(2) is reduced by $3,000 ($100 x 30), from $10,000 to $7,000.

(iii) *Example 3.* Taxpayers C and D are married, as defined in section 7703 of the Code, and they file a joint income tax return. They both work in occupations that customarily and regularly received tips on or before December 31, 2024, and satisfy all other requirements under section 224. C receives $15,000 in qualified tips in 2025, and D receives $20,000 in qualified tips in 2025. Since the combined amount of their qualified tips is greater than the $25,000 limitation in paragraph (b)(1) of this section, the total qualified tip amount is first reduced from $35,000 to $25,000. C and D's modified adjusted gross income for 2025 is $200,000. Since this amount is less than the $300,000 modified joint adjusted gross income threshold for joint filers, the limitation in paragraph (b)(2) of this section does not apply and no further reduction in the qualified tip amount is necessary.

(c) *Qualified tips defined*—(1) *In general.* Subject to the requirements in this paragraph (c), *qualified tips* are amounts received as cash tips (as defined in paragraph (c)(2) of this section) by an individual in an occupation that customarily and regularly received tips on or before December 31, 2024, as provided in paragraph (h) of this section.

(2) *Cash tips defined.* For purposes of paragraph (c)(1) of this section, *cash tips* are tips received, directly or indirectly, from payors, as defined in paragraph (c)(5) of this section, including, in the case of an employee, tips received through a mandatory or voluntary tip-sharing arrangement, such as a tip pool, that are paid in a cash medium of exchange, including by cash, check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash (such as casino chips), and any other form of electronic settlement or mobile payment application that is denominated in cash. For purposes of this paragraph (c)(2), cash tips also include amounts paid in foreign currency. Cash tips do not include items paid in any medium other than cash, such as event tickets, meals, services, or other assets that are not exchangeable for a fixed amount in cash. For purposes of this paragraph (c)(2), cash tips also do not include digital assets as defined in section 6045(g)(3)(D) of the Code and § 1.6045-1(a)(19).

(3) *Tips defined.* For purposes of paragraph (c)(2) of this section, tips are amounts paid by payors, as defined in paragraph (c)(5) of this section, for services that are in excess of the amount agreed to, required, charged, or otherwise reasonably expected to have to be paid for the services in an arm's-length transaction. Superficial or nominal tokens of appreciation from the tip recipient that are negligible in value, such as a written message of thanks sent to the recipient or publicly displayed, do not alter the nature of the contribution as a qualified tip.

(4) *Amounts must be paid voluntarily.* Amounts are qualified tips only to the extent they are paid voluntarily and without any consequence in the event of nonpayment (including any impact on the scope or cost of service), are not the subject of negotiation, and are determined by the payor. Qualified tips must be paid without compulsion. Thus, service charges, automatic gratuities and any other mandatory amounts automatically added to a customer's (i.e., the payor's) bill by the vendor or establishment are not qualified tips, even if the amounts are subsequently distributed to employees. Any amount voluntarily paid in excess of such mandatory amounts is a qualified tip if all other requirements for a qualified tip under this section are met. If a customer is expressly provided an option to disregard or modify amounts (including to zero) added to a bill, such amounts are not mandatory amounts.

(5) *Payor defined.* For purposes of this section, "payor" means the ultimate recipient of the services. In most cases, this is the customer, client, or other service recipient. An entity, such as an employer, a third party settlement organization, or a sole proprietorship or single-member limited liability company through which a tip recipient is doing business, that acts as conduit to remit a tip initially paid by a customer, client, or service recipient to the tip recipient, is not a payor of the tip for purposes of this section.

(6) *Employees participating in voluntary tip reporting programs with tip rates*. Employees who enter into a Tipped Employee Participation Agreement as part of the Tip Reporting Determination

Agreement (TRDA) program or a Model Gaming Employee Tip Reporting Agreement as part of the Gaming Industry Tip Compliance Agreement (GITCA) program may determine the amount of qualified tips using the applicable tip rate in their agreement (and amounts reported on Form 4137 (or successor)) in lieu of reporting actual tips received. The use of the TRDA or GITCA program to determine qualified tips for purposes of this section will not affect the tip audit protection otherwise applicable to the employee's agreement. Employees participating in the TRDA or GITCA program remain subject to all remaining requirements in section 224 and this section regarding eligibility for the deduction.

(7) *Illegal activity.* Any amount received for a service the performance of which is a felony or misdemeanor under applicable law is not a qualified tip.

(8) *Prostitution.* Any amount received for prostitution services is not a qualified tip.

(9) *Pornography.* Any amount received for pornographic activity is not a qualified tip.

(10) *Managers and Supervisors*. Amounts received by a manager or supervisor through a voluntary or mandatory tip-sharing arrangement such as a tip pool are not qualified tips. However, amounts received directly by a supervisor or manager for services they provided in the course of duties performed in an occupation that customarily and regularly received tips on or before December 31, 2024, as provided in paragraph (h) of this section, are qualified tips if all other requirements of this section are met.

(11) *Anti-abuse.* An amount is not a qualified tip if, based on all relevant facts and circumstances, such amount represents a recharacterization of wages or payments for goods or services as tips for purposes of claiming the deduction.

(i) Facts and circumstances that may indicate a recharacterization of wages, payment for services, or other income as tips include the following:

(A) A charge for services shown on an invoice is less than the payment from the payor shown on a related receipt or information return, and the cash tip reported on the receipt or information return is in an amount that approximates the difference between the charge amount shown on the invoice and payment amount on the receipt or information return; or

(B) A significant shift in historical tipping or payment practices between the payor and the tip recipient.

(ii) When the following facts and circumstances are present, there is an irrebuttable presumption that the amount paid is a recharacterization of wages, payment for services, or other income as tips, and therefore cannot be a qualified tip:

(A) The employer of an employee is the payor, as defined in paragraph (c)(5) of this section, of a cash tip received by the employee; or

(B) The tip recipient has a direct ownership interest in the payor, as defined in paragraph (c)(5) of this section, of a cash tip. For purposes of this paragraph (c)(11)(ii)(B), an ownership interest means in the case of a corporation, ownership (by vote or value) of five percent or more of the stock in such corporation; in the case of a partnership, ownership of five percent of the profits interest or capital interest in such partnership, or in any other case, ownership of more than five percent of the beneficial interests in the entity. An ownership interest is tested as of the date the tip is received. For purposes of this paragraph (c)(11)(ii)(B), an ownership interest is a direct ownership interest if it is an ownership interest held directly by the tip recipient or if it is an ownership interest held through an entity disregarded as separate from its owner for Federal income tax purposes; an ownership interest held through a qualified subchapter S subsidiary as defined in section 1361(b)(3) of the Code; an ownership interest held through a grantor trust (under subpart E of part 1 of subchapter J of charter 1 of the Code); or an ownership interest held through a custodian, broker, nominee, agent, or other similar intermediary.

(12) *Examples.* The following examples illustrate the rules of this paragraph (c). Unless otherwise indicated, each example assumes that other requirements for claiming the deduction under section 224 are satisfied and that references to a customer are references to a payor, as defined in paragraph (c)(5) of this section.

(i) *Example 1.* Restaurant W's menu specifies that an automatic 18% charge will be added to all bills for parties of six or more customers. Customer D's bill for food and beverages for her party of six includes the 18% charge on the "tip line" and the total bill includes this amount. Restaurant W distributes this amount to the waitstaff and bussers. Customer D did not determine the amount of the additional charge, nor was Customer D expressly provided an option to disregard or modify the amount. Customer D did not make the payment free from compulsion. Under these circumstances, the 18% charge is not a qualified tip for purposes of the deduction under section 224.

(ii) *Example 2.* The facts are the same as in paragraph (c)(12)(i) of this section (*Example 1*) except the bill has a line labeled "additional tip amount." In this case, Customer D adds on the "additional tip line" an amount equal to 2% of the price for food and beverages. As in paragraph (c)(12)(i) of this section (*Example 1),* the 18% charge is not a qualified tip for the purposes of the deduction under section 224. However, the 2% additional amount is a qualified tip for the purposes of the deduction under section 224, because Customer D voluntarily paid the 2% additional amount without compulsion.

(iii) *Example 3.* Customer E dines at Restaurant X with a party of eight people. E's bill for food and beverages for the party of eight includes a "recommended tip" equal to 18% of the price for food and beverages. However, there is a line for the customer to subtract (including to zero) or add to the recommended tip amount before paying the bill. Customer E subtracts 3% from the recommended tip amount resulting in a tip of 15% of the price for food and beverages. Customer E had a right to determine the additional amount, and he was expressly provided the option to disregard or modify the "recommended tip" amount. Under these circumstances, the recommended 18% amount is not a service charge. Rather, the 15% amount that the customer voluntarily paid without compulsion is a qualified tip for purposes of the deduction under section 224.

(iv) *Example 4*. Customer F has a meal at Restaurant Y. The server presents the bill for the meal to Customer F on an electronic handheld point of sale (POS) device. The POS device includes the charges for each food and beverage item and the applicable tax. The POS device also prompts Customer F to leave a tip and provides the following options for Customer F: 15%, 18%, 20%, other, and no tip. Customer F selects 18% and pays the total balance via credit card through the POS device. Customer F had a right to determine the additional amount, and Customer F was expressly provided the option to leave no tip. Under these circumstances, the 18% amount is a qualified tip. The result would be the same if Customer F were instead prompted with a tip slider that could reduce the tip down to zero; if the tip slider was subject to a minimum floor amount, only amounts above that floor could constitute a qualified tip.

(v) *Example 5*. The facts are the same as in paragraph (c)(12)(iv) of this section (*Example 4*), but the only choices on the POS device are 15%, 18%, and 20%. Customer F must select a "tip amount" before paying the bill. Customer F selects 15% and pays the total balance via credit card through the POS device. Customer F did not voluntarily determine the amount of the additional charge because Customer F was forced to select an amount greater than zero. Customer F was not expressly provided an option

to disregard or modify the amounts presented. Customer F did not make the payment free from compulsion. Under these circumstances, the 15% charge is not a qualified tip for purposes of the deduction under section 224.

(vi) *Example 6.* The facts are the same as in paragraph (c)(12)(v) of this section (*Example 5*), but Customer F selects 18% and pays the total balance via credit card through the POS device. Customer F did not voluntarily determine the lowest required amount (15%) of the additional charge because Customer F was forced to select an amount greater than zero. Customer F was not expressly provided an option to disregard or modify the amounts presented. Customer F did not make the payment of 15% free from compulsion. Under these circumstances, 15% of the charge is not a qualified tip for purposes of the deduction under section 224. However, the 3% additional amount is a qualified tip for the purposes of the deduction under section 224, because Customer F voluntarily, without compulsion, paid the 3% additional amount.

(vii) *Example 7.* Self-employed Painter G is hired by Customer Z to paint Customer Z's house. Included in the service contract between Painter G and Customer Z is a provision adding a 15% service charge to the total cost of the final bill. After the service contract is signed by both Painter G and Customer Z, Painter G completes the painting services. After the painting services are completed, Customer Z pays the amount agreed upon in the service contract, including the 15% service charge. In addition, Customer Z pays Painter G a cash tip amount, not provided for in the service agreement, equal to 10% of the final bill. The 15% service charge is not a qualified tip because it was included in the service contract before the painting services were provided and Painter G's performance of the painting services was conditioned on the agreement to pay the 15% service charge. However, because the 10% cash tip amount was not included in the service agreement, and because Customer Z voluntarily paid the 10% cash tip amount without compulsion, the 10% cash tip amount is a qualified tip for purposes of the deduction under section 224. Self-employed Painter G can only deduct the 10% cash tip, however, to the extent the other requirements of the statute are met, including that the 10% cash tip is included on a Form 1099 that Painter G receives.

(viii) *Example 8.* Shuttle Driver S enters into a contract with Customer Q. Under the terms of the contract, Shuttle Driver S will drive Customer Q to the airport for either $60 (consisting of a $50 charge and a 20% gratuity) or $65 (consisting of just the charge for the service with no gratuity). The contract states that an additional tip based on the service provided is welcome. Customer Q selects the first option and pays Shuttle Driver S $60. After arriving at the airport, Customer Q pays Shuttle Driver S an additional $5. The 20% gratuity is not a qualified tip because it was not paid voluntarily, and not providing the 20% gratuity would have resulted in Customer Q paying a higher amount. However, the additional $5 amount added after the service was completed is made without compulsion and is a qualified tip for purposes of this section. Shuttle Driver S can deduct the tip, however, only to the extent the other requirements of the statute are met, including that the tip is included on an information return furnished to Shuttle Driver S, or properly reported by Shuttle Driver S on Form 4137.

(ix) *Example 9.* The facts are the same as in paragraph (c)(12)(viii) of this section (*Example 8*) except the terms of the contract state that Shuttle Driver S will drive Customer Q to the airport for $60 and that a recommended 15% tip will be added to the total cost on the bill for convenience. The contract further states that the payment of this recommended tip is subject to the complete discretion of Customer Q and may be increased, decreased or eliminated entirely by Customer Q. After arriving at the airport, Customer Q pays Shuttle Driver S the $60 and decides to include the recommended 15% tip. The 15% gratuity is a qualified tip because Customer Q had the option to change the tip amount and the option to leave no tip amount at all, with no consequence to the services provided or the cost of the service.

(x) *Example 10.* Landscaper L is self-employed and enters into a contract to install a new patio for Customer O for $5,000. When the services are complete, Customer O pays Landscaper L $5,100, and tells Landscaper L that the additional $100 is a tip for L's services. Landscaper L records the payment on the business's books as a charge for $4,500 for installation of the patio and $600 as a tip. The amount of the qualified tip is $100 because this is the amount that was determined by the payor (the customer). The additional $500 is not a qualified tip because it was not paid voluntarily and was not designated by the payor (the customer). Amounts reclassified by the service provider from the agreed contract price are not qualified tips but are instead part of the charge for services. The additional $500 also is not a tip because it is not in excess of the amount that was agreed to be paid for L's services.

(xi) *Example 11.* Digital Content Creator H is self-employed and provides training videos on crafting artificial intelligence-created image prompts. These videos are housed on a digital platform accessible through web browsers and a mobile app. H's longer and more complex training videos are locked from public viewing, and users of the digital platform can gain access to these training videos only after paying a $5 contribution to H's digital platform account, the full amount of which is passed on by the digital platform to H. Because the $5 contribution is required to access H's content, this amount is not a qualified tip but rather a payment for services provided, which in this case is the training video. Customer J pays the required $5 contribution and watches the training video. Customer J is so satisfied with the content of the training video that Customer J sends an additional $2 contribution to H's account as a token of appreciation. Because J's $2 contribution was not required to access H's content, the $2 contribution is a qualified tip for purposes of the deduction under section 224.

(xii) *Example 12.* Digital Content Creator K is self-employed and live streams cooking videos on a digital platform. K's live streams are available for free to all users of the digital platform. Viewers of the live stream can send comments to K during the live stream, which are displayed in a "chat" window during the live stream. In addition, viewers of K's live streams have the option to contribute a tip, along with a comment of appreciation, to K's digital platform account during a live stream. Viewers that contribute a tip will have their contribution and comment displayed prominently in the chat window. In addition, K occasionally thanks contributors personally during the live stream. Because these contributions are not required to access K's content and because the contributions are voluntarily provided, these contributions are qualified tips for purposes of the deduction under section 224. Superficial or nominal digital tokens of appreciation from the tip recipient that are negligible in value, such as highlighting a contribution and comment in a chat window or personally thanking the contributor, do not alter the nature of the contribution as a qualified tip.

(xiii) *Example 13.* Manager M is a restaurant manager at a restaurant. Customer N dines at the restaurant and is dissatisfied with the quality of the meal provided. Manager M listens to Customer N's complaint about the meal quality and provides resolution in the form of a discounted meal and a gift card. Customer N is very satisfied with Manager M's handling of the situation and leaves a $5 tip specifically for Manager M. Because Manager M received the tip while performing the duties of a restaurant manager when providing service to Customer N, and because restaurant manager is not an occupation that is included in the table of Occupations that Customarily and Regularly Received Tips on or Before December 31, 2024, provided in paragraph (h) of this section, the $5 tip paid by Customer N to Manager M is not a qualified tip.

(xiv) *Example 14.* The facts are the same as in paragraph (c)(12)(xiii) of this section (*Example 13*). Manager M occasionally performs duties as wait staff for the restaurant when the restaurant is crowded. Customer P dines at the restaurant and is waited on by Manager M. When Customer P pays the bill, Customer P pays Manager M a $5 tip. Tips are not pooled at this restaurant. Because Customer P's tip was paid directly to Manager M while Manager M was performing the duties of wait staff, and because wait staff is an occupation that is included in the table of Occupations that Customarily and Regularly Received Tips on or Before December 31, 2024, provided in paragraph (h) of this section, the $5 tip paid by Customer P to Manager M is a qualified tip.

(d) *Qualified tips must be reported on an information return*—(1) *In general.* Except as provided in paragraph (d)(2) of this section, in order to be eligible for the deduction under section 224, qualified tips must be included in the amount of cash tips that are separately reported on a statement furnished to the taxpayer pursuant to section 6041(d)(3), section 6041A(e)(3), section 6050W(f)(2), or section 6051(a)(18), or reported by the taxpayer on Form 4137 (or successor).

(2) *Transition rule for tax year 2025.* In order to be eligible for the deduction under section 224 for taxable years beginning before January 1, 2026, qualified tips must be included in the aggregate amount reported on a statement furnished to the

taxpayer pursuant to section 6041(d)(3), section 6041A(e)(3), section 6050W(f)(2), or section 6051(a)(18), or reported by the taxpayer on Form 4137 (or successor), but cash tips do not need to be separately reported on the statement.

(3) *Statements furnished to certain entities.* Statements furnished to a sole proprietorship or a single-member LLC that does not elect to be treated as a corporation for income tax purposes owned by a tip recipient are considered to be furnished to the tip recipient owner of the sole proprietorship or single-member LLC to which the statement was issued, regardless of whether the name of the sole proprietorship or single-member LLC appears as the recipient on the statement.

(e) *Trade or business limitations for tips received in course of trade or business*—(1) *In general.* In the case of qualified tips received by an individual during any taxable year in the course of a trade or business (other than a trade or business of performing services as an employee) of such individual, such qualified tips shall be deducted only to the extent that the gross income for the taxpayer from such trade or business for such taxable year (including such qualified tips) exceeds the sum of the deductions (other than the deduction allowed for qualified tips) allocable to the trade or business in which such qualified tips are received by the individual for the taxable year. The deduction allowed for qualified tips is not taken into account for this purpose because it is not a trade or business deduction. Thus, generally, for self-employed taxpayers, the deduction under section 224 for a trade or business is limited to the individual's net income (without regard to the section 224 deduction) from that trade or business.

(2) *Examples*. The following examples illustrate the rule of paragraph (e)(1) of this section.

(i) *Example 1*. Manicurist M is self-employed and owns a nail salon. Manicurist M has no other employment. For the taxable year, Manicurist M has gross income of $100,000 that consists of $70,000 of fees for services at the nail salon and $30,000 of qualified tips. Manicurist M's total deductible expenses (other than the deduction for qualified tips) are $40,000. Manicurist M's gross income of $100,000 from the trade or business exceeds the sum of the deductions for that trade or business (other than qualified tips) by $60,000 ($100,000 - $40,000 = $60,000). Because the maximum deduction under section 224 and paragraph (b)(1) of this section is $25,000, Manicurist M is permitted to deduct $25,000.

(ii) *Example 2.* Manicurist O is self-employed and owns a nail salon. Manicurist O has no other employment. For the taxable year, Manicurist O has gross income of $75,000 that consists of $55,000 of fees for services at the nail salon and $20,000 of qualified tips. Manicurist O's total deductible expenses (other than the deduction for qualified tips) are $60,000. Manicurists O's gross income of $75,000 from the trade or business exceeds the sum of the deductions from that trade or business by $15,000 ($75,000 - $60,000 = $15,000). Although Manicurist O received $20,000 in qualified tips, Manicurist O is allowed a qualified tip deduction of only $15,000, which is the extent to which Manicurist O's gross income from the trade or business ($75,000) exceeds the total deductible expenses (other than qualified tips) ($60,000) from that trade or business.

(f) *Social Security numbers and married individuals*—(1) *In general.* To claim a deduction under section 224, a taxpayer must include on the taxpayer's tax return the Social Security number (SSN), as defined in section 24(h)(7) of the Code, of the individual who has received the qualified tips. The SSN, as defined in section 24(h)(7) of the Code, must have been issued before the due date of the income tax return (including extensions) for the calendar year in which the taxpayer is claiming the deduction under section 224.

(2) *Married taxpayers.* Taxpayers who are married, as defined by section 7703, must file a joint return to claim the deduction allowed by section 224. However, to claim the deduction allowed by section 224, married taxpayers are required to include only the SSN of the taxpayer who has received the tips to claim the deduction, and an SSN is required of both taxpayers only when both have qualified tips for which the deduction is being claimed.

(g) [Reserved]

(h) *Occupations that customarily and regularly received tips on or before December 31, 2024.* The occupations in table 1 to this paragraph (h) customarily and regularly received tips on or before December 31, 2024. Individuals serving as assistants or apprentices in an occupation are included in that occupation category if they perform the same services as those listed in the occupation description. Subject to the requirements in section 224 and this section, only qualified tips received in connection with the occupations listed in table 1 to this paragraph (h) are eligible for the deduction in section 224(a).

Table 1 to paragraph (h)
Occupations that Customarily and Regularly Received Tips on or Before December 31, 2024

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification Code (Related SOC Code)[1]
Beverage and Food Service				
101	Bartenders	Mix and serve drinks or other refreshments to patrons, directly or through waitstaff.	Barkeep, mixologist, taproom attendant, sommelier	35-3011
102	Wait Staff	Take orders and serve food and beverages to patrons at tables in dining establishments or at catered events.	Cocktail waitress, dining car server, banquet staff	35-3031
103	Food or Beverage Servers, Non-restaurant	Serve food or beverages to individuals outside of a restaurant environment, such as in hotel rooms, residential care facilities, or cars.	Room service food server, boat hop, beer cart server	35-3041
104	Dining Room and Cafeteria Attendants and Bartender Helpers	Facilitate food service. Clean tables; remove dirty dishes; replace soiled table linens; set tables; replenish supply of clean linens, silverware, glassware, and dishes; supply service bar with food; and serve items such as water, condiments, and coffee to patrons.	Bar back, bar helper, busser	35-9011
105	Chefs and Cooks	Direct and may participate in the preparation, seasoning, and cooking of salads, soups, fish, meats, vegetables, desserts, or other foods.	Executive chef, pastry chef, sous chef, fast food cook, private chef, restaurant cook, saucier, food truck cook, banquet cook, caterer, chocolatier, confectioner	35-1011, 35-2011, 35-2013, 35-2014, 35-2019
106	Food Preparation Workers	Perform a variety of food preparation duties other than cooking, such as preparing cold foods and shellfish, slicing meat, and brewing coffee or tea.	Salad maker, sandwich maker, fruit and vegetable parer, kitchen steward	35-1012, 35-2021, 35-9099
107	Fast Food and Counter Workers	Serve customers at counter or from a steam table. Perform duties such as taking orders and serving food and beverages. May take payment. May prepare food and beverages.	Barista, ice cream server, cafeteria server	35-3023
108	Dishwashers	Clean dishes, kitchen, food preparation equipment, or utensils.	Dish room worker, silverware cleaner	35-9021
109	Host Staff, Restaurant, Lounge, and Coffee Shop	Welcome patrons, seat them at tables or in lounge, and help ensure quality of facilities and service.	Maître d'hôtel, dining room host	35-9031
110	Bakers	Mix and bake ingredients to produce breads, rolls, cookies, cakes, pies, pastries, or other baked goods.	Bread baker, cake baker, bagel baker, pastry finisher	51-3011

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification Code (Related SOC Code)[1]
Entertainment and Events				
201	Gambling Dealers	Operate gambling games. Stand or sit behind table and operate games of chance by dispensing the appropriate number of cards or blocks to players or operating other gambling equipment. Distribute winnings or collect players' money or chips. May compare the house's hand against players' hands.	Blackjack dealer, craps dealer, poker dealer, roulette dealer, pit clerk	39-3011, 39-1013
202	Gambling Change Persons and Booth Cashiers	Exchange coins, tokens, and chips for patrons' money. May issue payoffs and obtain customer's signature on receipt. May operate a booth in the slot machine area and furnish change persons with money bank at the start of the shift, or count and audit money in drawers.	Slot attendant, mutuel teller	41-2012
203	Gambling Cage Workers	In a gambling establishment, conduct financial transactions for patrons. Accept patron's credit application and verify credit references to provide check-cashing authorization or to establish house credit accounts. May reconcile daily summaries of transactions to balance books. May sell gambling chips, tokens, or tickets to patrons, or to other workers for resale to patrons. May convert gambling chips, tokens, or tickets to currency upon patron's request. May use a cash register or computer to record transaction.	Casino cashier, cage cashier	43-3041
204	Gambling and Sports Book Writers and Runners	Post information enabling patrons to wager on various races and sporting events. Assist in the operation of games such as keno and bingo. May operate random number-generating equipment and announce the numbers for patrons. Receive, verify, and record patrons' wagers. Scan and process winning tickets presented by patrons and pay out winnings for those wagers.	Betting runner, bingo worker, keno runner, race book writer	39-3012
205	Dancers	Perform dances.	Club dancer, dance artist	27-2031
206	Musicians and Singers	Play one or more musical instruments or sing.	Instrumentalist, accompanist, lounge singer	27-2042

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification Code (Related SOC Code)[1]
207	Disc Jockeys, Except Radio	Play prerecorded music for live audiences at venues or events such as clubs, parties, or wedding receptions. May use techniques such as mixing, cutting, or sampling to manipulate recordings. May also perform as emcee (master of ceremonies).	Deejay, club DJ	27-2091
208	Entertainers and Performers	Entertain audiences with artistic expression.	Comedian, clown, magician, street performer	27-2099
209	Digital Content Creators	Produce and publish on digital platforms original entertainment and personality-driven content, such as live streams, short-form videos, or podcasts.	Streamer, online video creator, social media influencer, podcaster	27-2099
210	Ushers, Lobby Attendants, and Ticket Takers	Assist patrons at entertainment events by performing duties, such as collecting admission tickets and passes from patrons, assisting in finding seats, searching for lost articles, and helping patrons locate such facilities as restrooms and telephones.	Ticket collector, theater usher	39-3031
211	Locker Room, Coatroom, and Dressing Room Attendants	Provide personal items to patrons or customers in locker rooms, dressing rooms, or coatrooms.	Coat checker, washroom attendant, bathhouse attendant	39-3093
Hospitality and Guest Services				
301	Baggage Porters and Bellhops	Handle baggage for travelers at transportation terminals or for guests at hotels or similar establishments.	Hotel baggage handler, curbside airport check-in assistant, doorman	39-6011
302	Concierges	Assist patrons at hotels or apartment buildings with personal services. May take messages; arrange or give advice on transportation, business services, or entertainment; or monitor guest requests for housekeeping and maintenance.	Hotel guest service agent, activities concierge	39-6012
303	Hotel, Motel, and Resort Desk Clerks	Accommodate hotel, motel, and resort patrons by registering and assigning rooms to guests, issuing room keys or cards, transmitting and receiving messages, keeping records of occupied rooms and guests' accounts, making and confirming reservations, and presenting statements to and collecting payments from departing guests.	Front desk clerk, registration clerk	43-4081
304	Maids and Housekeeping Cleaners	Perform any combination of light cleaning duties to maintain commercial establishments, such as hotels, in a clean and orderly manner. Duties may include making beds, replenishing linens, cleaning rooms and halls, and vacuuming.	Hotel maid, housekeeping staff	37-2012

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification Code (Related SOC Code)[1]
		Home Services		
401	Home Maintenance and Repair Workers	Perform work to keep machines, mechanical equipment, or the structure of a building in repair. May maintain and repair musical instruments, furniture, antiques, and non-fixtures.	Handyman, roofer, window repairer, house painter (interior or exterior), flooring installer, piano tuner, furniture restorer, antique repairer	49-9071, 49-9098, 49-9099, 49-9063, 49-2097, 51-7021
402	Home Landscaping and Groundskeeping Workers	Landscape or maintain grounds of property using hand or power tools or equipment. Workers typically perform a variety of tasks, which may include any combination of the following: sod laying, mowing, trimming, planting, watering, fertilizing, digging, raking, sprinkler installation, and installation of mortarless segmental concrete masonry wall units.	Lawn mower, gardener, tree trimmer, weed sprayer	37-3011
403	Home Electricians	Install, maintain, and repair electrical wiring, equipment, and fixtures. Ensure that work is in accordance with relevant codes. May install or service exterior lights, intercom systems, or electrical control systems.	Electrician	47-2111
404	Home Plumbers	Assemble, install, alter, and repair pipelines or pipe systems that carry water, steam, air, or other liquids or gases. May install heating and cooling equipment and mechanical control systems.	Plumber, pipefitter, steamfitter, sprinkler installer	47-2152
405	Home Heating and Air Conditioning Mechanics and Installers	Install or repair heating, central air conditioning, HVAC, or refrigeration systems, including oil burners, hot-air furnaces, and heating stoves.	Air conditioning repairer, heating system installer, chimney sweep	49-9021
406	Home Appliance Installers and Repairers	Repair, adjust, or install all types of electric or gas household appliances, such as refrigerators, washers, dryers, and ovens.	Washing machine installer, dishwasher repairer	49-9031
407	Home Cleaning Service Workers	Perform any combination of light cleaning duties to maintain private households in a clean and orderly manner. Duties may include making beds, replenishing linens, cleaning rooms and halls, and vacuuming.	House cleaner, pool cleaner, carpet cleaner, window washer	37-2012
408	Locksmiths	Repair and open locks, make keys, change locks and safe combinations, and install and repair safes.	Safe installer, key maker	49-9094
409	Roadside Assistance Workers	Provide on-road assistance to drivers whose vehicles have broken down.	Tow truck driver, car battery technician, tire repairer, tire changer, car fuel deliverer	49-3023, 53-3032

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification Code (Related SOC Code)[1]
Personal Services				
501	Personal Care and Service Workers	Provide personalized assistance to individuals with disabilities or illness who require help with personal care and activities of daily living support (for example, feeding, bathing, dressing, grooming, toileting, and ambulation). May also provide help with tasks such as preparing meals, doing light housekeeping, and doing laundry. Work is performed in various settings depending on the needs of the care recipient and may include locations such as their home, place of work, out in the community, at a daytime nonresidential facility, or a residential facility.	Elderly companion, personal care aide, butler, house sitter, personal valet	31-1122, 39-9099
502	Private Event Planners	Coordinate activities of staff or clients to make arrangements for private events. May provide creative design for décor and invitations.	Wedding planner, party planner	13-1121
503	Private Event and Portrait Photographers	Photograph people, landscapes, or other subjects. May use lighting equipment to enhance a subject's appearance. May use editing software to produce finished images and prints.	Wedding photographer, headshot photographer	27-4021
504	Private Event Videographers	Operate video or film camera to record images or scenes of private events.	Wedding videographer	27-4031
505	Event Officiants	Lead and facilitate the ceremony for life events such as weddings or funerals. Ceremonies may be religious or civil services.	Wedding officiant, funeral celebrant, clergy, vow renewal officiant	21-2011
506	Pet and Show Animal Caretakers	Feed, water, groom, bathe, exercise, or otherwise provide care to promote and maintain the well-being of pets or show animals.	Pet groomer, pet sitter, pet walker, kennel worker, pet trainer, horse groomer	39-2021
507	Tutors	Instruct individual students or small groups of students in academic subjects to supplement formal class instruction or to prepare students for standardized or admissions tests. May provide instruction in person or remotely.	Reading tutor, math tutor, language tutor	25-3041
508	Nannies and Babysitters	Attend to children at businesses and private households. Perform a variety of tasks, such as dressing, feeding, bathing, and overseeing play.	Au pair, child sitter at hotels and gyms	39-9011
509	Visual Artists	Create original visual artwork using any of a wide variety of media and techniques.	Ice sculptor, caricature sketch artist	27-1013

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification Code (Related SOC Code)[1]
510	Floral Designers	Design, cut, and arrange live, dried, or artificial flowers and foliage.	Corsage maker, florist, flower arranger, event florist	27-1023
Personal Appearance and Wellness				
601	Skincare Specialists	Provide skincare treatments to face and body to enhance an individual's appearance.	Facialist, electrologist, spa esthetician	39-5094
602	Massage Therapists	Perform therapeutic massages of soft tissues and joints. May assist in the assessment of range of motion and muscle strength or propose client therapy plans.	Masseuse, deep tissue massage therapist, sports massage therapist	31-9011
603	Barbers, Hairdressers, Hairstylists, and Cosmetologists	Provide beauty or barbering services, such as cutting, coloring, and styling hair, massaging and treating scalps, trimming beards or giving shaves.	Wig stylist, beautician, hair colorist, hair cutter	39-5012, 39-5011
604	Shampooers	Shampoo and rinse customers' hair.	Scalp treatment specialist, shampoo assistant	39-5093
605	Manicurists and Pedicurists	Clean and shape customers' fingernails and toenails. May polish or decorate nails.	Nail technician, fingernail sculptor, nail painter	39-5092
606	Eyebrow and Eyelash Technicians	Enhance and maintain clients' eyebrows using techniques such as threading, waxing, or tweezing. Enhance clients' eyelashes using techniques such as tinting or applying extensions.	Eyebrow waxer	39-5012
607	Makeup Artists	Design and apply makeup looks.	Wedding makeup artist, party makeup artist	39-5091
608	Exercise Trainers and Group Fitness Instructors	Instruct or coach groups or individuals in exercise activities for the primary purpose of personal fitness. Demonstrate techniques and form, observe participants, and explain to them corrective measures necessary to improve their skills. Develop and implement individualized approaches to exercise.	Aerobics trainer, yoga instructor, personal trainer	39-9031
609	Tattoo Artists and Piercers	Design and execute tattoos on a client's skin, often using a needle and ink. Create openings in the human body for the insertion of jewelry. May consult clients on aftercare to promote healing and prevent infection.	Tattoo artist, ear piercer, nose piercer	27-1019
610	Tailors	Design, make, alter, repair, or fit garments.	Tailor, seamstress, clothing alterations worker	51-6052
611	Shoe and Leather Workers and Repairers	Construct, decorate, or repair leather and leather-like products, such as luggage, shoes, and saddles. May use hand tools.	Cobbler, shoe shiner	51-6041

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification Code (Related SOC Code)[1]
Recreation and Instruction				
701	Golf Caddies	Assist a golfer during a round of golf by providing practical support and strategic advice. May carry the golfer's bag, manage their clubs, offer guidance on club selection or course strategy.	Golf caddie, golf cart attendant	39-3091
702	Self-Enrichment Teachers	Teach or instruct individuals or groups for the primary purpose of self-enrichment, rather than for an occupational objective, educational attainment, competition, or fitness.	Knitting instructor, piano teacher, art instructor, dance teacher	25-3021
703	Recreational and Tour Pilots	Pilot and navigate the flight of fixed-wing aircraft, helicopters, or other airborne vehicle for recreational or touring purposes. Excludes regional national, and international airline pilots, and emergency services pilots.	Helicopter tour pilot, hot air balloon aeronaut, skydiving pilot	53-2012
704	Tour Guides	Guide individuals or groups on sightseeing tours or through places of interest, such as industrial establishments, public buildings, and art galleries.	Museum guide, sightseeing guide	39-7011
705	Travel Guides	Plan, organize, and conduct long-distance travel, tours, and expeditions for individuals and groups (covering both indoor and outdoor locations).	Cruise director, river expedition guide	39-7012
706	Sports and Recreation Instructors	Teach or instruct individuals or groups for the primary purpose of recreation, rather than for an occupational objective, educational attainment, competition, or fitness.	Diving instructor, ski instructor, tennis teacher, surfing instructor	25-3021
Transportation and Delivery				
801	Parking and Valet Attendants	Park vehicles or issue tickets for customers in a parking lot or garage. May park or tend vehicles in environments such as a hotel or restaurant. May collect fee.	Parking garage attendant, valet parker	53-6021
802	Taxi and Rideshare Drivers and Chauffeurs	Drive a motor vehicle to transport passengers on a planned or unplanned basis.	Cab driver, personal driver, platform/app-based rideshare driver	53-3054
803	Shuttle Drivers	Drive a motor vehicle to transport passengers on a planned route and scheduled basis. May collect a fare. Excludes taxi and rideshare drivers, chauffeurs, municipal bus drivers, and school bus drivers.	Airport shuttle driver, hotel shuttle driver, rental car shuttle driver	53-3053

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification Code (Related SOC Code)[1]
804	Goods Delivery People	Drive truck or other vehicle to deliver goods, such as food products, appliances, or furniture, or pick up or deliver packages. May also take orders or collect payment at point of delivery.	Pizza delivery driver, grocery delivery driver, floral delivery, bicycle courier, package delivery person, appliance delivery driver, furniture delivery person, app/platform-based delivery person	53-3031
805	Personal Vehicle and Equipment Cleaners	Wash or otherwise clean personal vehicles, machinery, and other equipment. Use such materials as water, cleaning agents, brushes, cloths, and hoses.	Car wash attendant, auto detailer, boat waxer	53-7061
806	Private and Charter Bus Drivers	Drive bus or motor coach for charters or private carriage. May assist passengers with baggage.	Motor coach bus driver, tour bus driver	53-3052
807	Water Taxi Operators and Charter Boat Workers	Operate water taxi boats or provide services to passengers on private charter boats. May assist in navigational activities.	Water taxi captain, air boat operator, charter boat deckhand, charter boat steward	53-5022
808	Rickshaw, Pedicab, and Carriage Drivers	Operate rickshaw, pedicab, or carriage to transport passengers.	Horse drawn carriage driver, bike taxi driver	53-6099
809	Home Movers	Manually move furniture, music instruments, art, antiques, boxes, luggage, or other materials to or from a home or dwelling.	Furniture mover, packer, piano mover, art mover	53-7062
810	Gas Pump Attendant	Pump gas for customers at a gas station. May also clean the windshield, check the oil level, or check the tire pressure of the customer's car in conjunction with the car being refueled	Gas pumper	53-6031

1. The "Related Standard Occupational Classification Code (Related SOC Code)" is the code from the 2018 Standard Occupational Classification System, as published by the Executive Office of the President, Office of Management and Budget, that most closely correlate(s) to the Treasury Tipped Occupation Code (TTOC).

(i) *Termination.* No deduction shall be allowed under this section for any taxable year beginning after December 31, 2028.

(j) *Applicability date.* This section applies to taxable years beginning after December 31, 2024.

Frank J. Bisignano,
Chief Executive Officer.

Approved: February 17, 2026

Kenneth J. Kies,
Assistant Secretary of the Treasury (Tax Policy).

(Filed by the Office of the Federal Register April 10, 2026, 8:45 a.m., and published in the issue of the Federal Register for April 13, 2026, 91 FR 19026)

Part III

Administrative, Miscellaneous, and Procedural

Update for Weighted Average Interest Rates, Yield Curves, and Segment Rates

Notice 2026-26

This notice provides guidance on the corporate bond monthly yield curve, the corresponding spot segment rates used under § 417(e)(3), and the 24-month average segment rates under § 430(h)(2) of the Internal Revenue Code. In addition, this notice provides guidance as to the interest rate on 30-year Treasury securities under § 417(e)(3)(A)(ii)(II) as in effect for plan years beginning before 2008 and the 30-year Treasury weighted average rate under § 431(c)(6)(E)(ii)(I).

YIELD CURVE AND SEGMENT RATES

Section 430 specifies the minimum funding requirements that apply to single-employer plans (except for CSEC plans under § 414(y)) pursuant to § 412. Section 430(h)(2) specifies the interest rates that must be used to determine a plan's target normal cost and funding target. Under this provision, present value is generally determined using three 24-month average interest rates ("segment rates"), each of which applies to cash flows during specified periods. To the extent provided under § 430(h)(2)(C)(iv), these segment rates are adjusted by the applicable percentage of the 25-year average segment rates for the period ending September 30 of the year preceding the calendar year in which the plan year begins.[1] However, an election may be made under § 430(h)(2)(D)(ii) to use the monthly yield curve in place of the segment rates.

Section 1.430(h)(2)-1(d) provides rules for determining the monthly corporate bond yield curve, and § 1.430(h)(2)-1(c) provides rules for determining the 24-month average corporate bond segment rates used to compute the target normal cost and the funding target. Consistent with the methodology specified in § 1.430(h)(2)-1(d), the monthly corporate bond yield curve derived from March 2026 data is in Table 2026-3 at the end of this notice. The spot first, second, and third segment rates for the month of March 2026 are, respectively, 4.24, 5.35, and 6.25.

The 24-month average segment rates determined under § 430(h)(2)(C)(i) through (iii) must be adjusted pursuant to § 430(h)(2)(C)(iv) to be within the applicable minimum and maximum percentages of the corresponding 25-year average segment rates. Those percentages are 95% and 105% for plan years beginning in 2025 and 2026. For this purpose, any 25-year average segment rate that is less than 5% is deemed to be 5%. The 25-year average segment rates for plan years beginning in 2025 and 2026 were published in Notice 2024-67, 2024-41 I.R.B. 726 and Notice 2025-47, 2025-40 I.R.B. 441, respectively.

24-MONTH AVERAGE CORPORATE BOND SEGMENT RATES

The three 24-month average corporate bond segment rates applicable for April 2026 without adjustment for the 25-year average segment rate limits are as follows:

24-Month Average Segment Rates Without 25-Year Average Adjustment			
Applicable Month	**First Segment**	**Second Segment**	**Third Segment**
April 2026	4.46	5.27	5.84

The adjusted 24-month average segment rates set forth in the chart below reflect § 430(h)(2)(C)(iv) of the Code. The 24-month averages applicable for April 2026, adjusted to be within the applicable minimum and maximum percentages of the corresponding 25-year average segment rates in accordance with § 430(h)(2)(C)(iv), are as follows:

Adjusted 24-Month Average Segment Rates				
For Plan Years Beginning In	**Applicable Month**	**First Segment**	**Second Segment**	**Third Segment**
2025	April 2026	4.75	5.27	5.84
2026	April 2026	4.75	5.25	5.84

[1] Pursuant to § 433(h)(3)(A), the third segment rate determined under § 430(h)(2)(C) is used to determine the current liability of a CSEC plan (which is used to calculate the minimum amount of the full funding limitation under § 433(c)(7)(C)).

30-YEAR TREASURY SECURITIES INTEREST RATES

Section 431 specifies the minimum funding requirements that apply to multiemployer plans pursuant to § 412. Section 431(c)(6)(B) specifies a minimum amount for the full-funding limitation described in § 431(c)(6)(A), based on the plan's current liability. Section 431(c)(6)(E)(ii)(I) provides that the interest rate used to calculate current liability for this purpose must be no more than 5 percent above and no more than 10 percent below the weighted average of the rates of interest on 30-year Treasury securities during the four-year period ending on the last day before the beginning of the plan year. Notice 88-73, 1988-2 C.B. 383, provides guidelines for determining the weighted average interest rate. The rate of interest on 30-year Treasury securities for March 2026 is 4.85 percent. The Service determined this rate as the average of the daily determinations of yield on the 30-year Treasury bond maturing in February 2056. For plan years beginning in April 2026, the weighted average of the rates of interest on 30-year Treasury securities and the permissible range of rates used to calculate current liability are as follows:

Treasury Weighted Average Rates

For Plan Years Beginning In	30-Year Treasury Weighted Average	Permissible Range 90% to 105%
April 2026	4.47	4.02 to 4.69

MINIMUM PRESENT VALUE SEGMENT RATES

In general, the applicable interest rates under § 417(e)(3)(D) are segment rates computed without regard to a 24-month average. Section 1.417(e)-1(d)(3) provides guidelines for determining the minimum present value segment rates. Pursuant to that section, the minimum present value segment rates determined for March 2026 are as follows:

Minimum Present Value Segment Rates

Month	First Segment	Second Segment	Third Segment
March 2026	4.24	5.35	6.25

DRAFTING INFORMATION

The principal author of this notice is Tom Morgan of the Office of Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). However, other personnel from the IRS participated in the development of this guidance. For further information regarding this notice, contact Mr. Morgan at 202-317-6700 or Tony Montanaro at 626-927-1475 (not toll-free calls).

Table 2026-3
Monthly Yield Curve for March 2026
Derived from March 2026 Data

Maturity	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*
0.5	3.98	20.5	5.92	40.5	6.29	60.5	6.42	80.5	6.49
1.0	4.06	21.0	5.94	41.0	6.29	61.0	6.42	81.0	6.49
1.5	4.13	21.5	5.96	41.5	6.30	61.5	6.43	81.5	6.49
2.0	4.19	22.0	5.97	42.0	6.30	62.0	6.43	82.0	6.49
2.5	4.23	22.5	5.99	42.5	6.31	62.5	6.43	82.5	6.50
3.0	4.28	23.0	6.00	43.0	6.31	63.0	6.43	83.0	6.50
3.5	4.32	23.5	6.01	43.5	6.32	63.5	6.44	83.5	6.50
4.0	4.36	24.0	6.03	44.0	6.32	64.0	6.44	84.0	6.50
4.5	4.41	24.5	6.04	44.5	6.32	64.5	6.44	84.5	6.50
5.0	4.47	25.0	6.05	45.0	6.33	65.0	6.44	85.0	6.50
5.5	4.53	25.5	6.06	45.5	6.33	65.5	6.44	85.5	6.50
6.0	4.59	26.0	6.07	46.0	6.34	66.0	6.45	86.0	6.50
6.5	4.66	26.5	6.08	46.5	6.34	66.5	6.45	86.5	6.51
7.0	4.73	27.0	6.09	47.0	6.34	67.0	6.45	87.0	6.51
7.5	4.80	27.5	6.10	47.5	6.35	67.5	6.45	87.5	6.51
8.0	4.87	28.0	6.11	48.0	6.35	68.0	6.45	88.0	6.51
8.5	4.94	28.5	6.12	48.5	6.35	68.5	6.45	88.5	6.51
9.0	5.01	29.0	6.13	49.0	6.36	69.0	6.46	89.0	6.51
9.5	5.07	29.5	6.13	49.5	6.36	69.5	6.46	89.5	6.51
10.0	5.14	30.0	6.14	50.0	6.37	70.0	6.46	90.0	6.51
10.5	5.20	30.5	6.15	50.5	6.37	70.5	6.46	90.5	6.51
11.0	5.25	31.0	6.16	51.0	6.37	71.0	6.46	91.0	6.51
11.5	5.31	31.5	6.17	51.5	6.37	71.5	6.46	91.5	6.52
12.0	5.36	32.0	6.18	52.0	6.38	72.0	6.47	92.0	6.52
12.5	5.41	32.5	6.19	52.5	6.38	72.5	6.47	92.5	6.52
13.0	5.46	33.0	6.19	53.0	6.38	73.0	6.47	93.0	6.52
13.5	5.50	33.5	6.20	53.5	6.39	73.5	6.47	93.5	6.52
14.0	5.55	34.0	6.21	54.0	6.39	74.0	6.47	94.0	6.52
14.5	5.59	34.5	6.22	54.5	6.39	74.5	6.47	94.5	6.52
15.0	5.62	35.0	6.22	55.0	6.40	75.0	6.48	95.0	6.52
15.5	5.66	35.5	6.23	55.5	6.40	75.5	6.48	95.5	6.52
16.0	5.69	36.0	6.24	56.0	6.40	76.0	6.48	96.0	6.52
16.5	5.72	36.5	6.24	56.5	6.40	76.5	6.48	96.5	6.53
17.0	5.75	37.0	6.25	57.0	6.41	77.0	6.48	97.0	6.53
17.5	5.78	37.5	6.25	57.5	6.41	77.5	6.48	97.5	6.53
18.0	5.81	38.0	6.26	58.0	6.41	78.0	6.48	98.0	6.53
18.5	5.83	38.5	6.27	58.5	6.41	78.5	6.49	98.5	6.53
19.0	5.86	39.0	6.27	59.0	6.42	79.0	6.49	99.0	6.53
19.5	5.88	39.5	6.28	59.5	6.42	79.5	6.49	99.5	6.53
20.0	5.90	40.0	6.28	60.0	6.42	80.0	6.49	100.0	6.53

Part IV

Announcement of Disciplinary Sanctions from the Office of Professional Responsibility

Announcement 2026-9

The Office of Professional Responsibility (OPR) announces recent disciplinary sanctions imposed on attorneys, certified public accountants, enrolled agents, enrolled actuaries, enrolled retirement plan agents, and appraisers. The OPR also announces when certain unenrolled, unlicensed tax return preparers (individuals who are not enrolled to practice before the Internal Revenue Service (IRS)) and are not licensed as attorneys or certified public accountants) have been disciplined. Licensed or enrolled practitioners are subject to the regulations governing practice before the IRS, which are set out in Title 31, Code of Federal Regulations (C.F.R.), Subtitle A, Part 10, and which are released as Treasury Department Circular No. 230. The regulations prescribe the duties and restrictions relating to such practice and prescribe the disciplinary sanctions for violating the regulations. Unenrolled/unlicensed return preparers who choose to participate in the IRS's voluntary Annual Filing Season Program (AFSP) are subject to the guidance in Revenue Procedure 2014-42, which governs a preparer's eligibility to represent taxpayers before the IRS in examinations of tax returns the preparer both prepared for the taxpayer and signed as the preparer. Additionally, unenrolled/unlicensed return preparers who participate in the AFSP agree to be subject to the duties and restrictions in Circular 230, including the restrictions on incompetence or disreputable conduct.

The disciplinary sanctions imposed for violation of the applicable standards are:

Disbarred from practice before the IRS—An individual who is disbarred is not eligible to practice before the IRS as defined at 31 C.F.R. (Circular 230) § 10.2(a)(4) for a minimum period of five (5) years and until reinstated to practice.

Suspended from practice before the IRS—An individual who is suspended is not eligible to practice before the IRS as defined at 31 C.F.R. (Circular 230) § 10.2(a)(4) during the term of the suspension and until reinstated to practice.

Censured—Censure is a public reprimand. Unlike disbarment or suspension, censure does not affect an individual's eligibility to practice before the IRS, but the OPR may subject the individual's future practice rights to conditions designed to promote high standards of conduct.

Payment of monetary penalty—A monetary penalty may be imposed on an individual who engages in conduct subject to sanction, or on an employer, firm, or other entity if the individual was acting on its behalf and it knew, or reasonably should have known, of the individual's conduct.

Disqualification of appraiser—An appraiser who is disqualified is barred from presenting evidence or testimony in any administrative proceeding before the Department of the Treasury or the IRS. Additionally, any appraisal made by the disqualified appraiser after the effective date of disqualification will not have any probative effect in any administrative proceeding before the Treasury Department or the IRS.

Ineligible for limited practice—An unenrolled/unlicensed tax return preparer who participates in the AFSP and who fails to comply with Circular 230 as required by Revenue Procedure 2014-42 may have their AFSP credential revoked and may be determined ineligible to engage in future limited practice under the program as a representative of a taxpayer.

Under the regulations, individuals subject to Circular 230 may not assist, or accept assistance from, suspended or disbarred individuals with respect to matters constituting practice (*i.e.*, representation) before the IRS, and they may not aid or abet suspended or disbarred individuals to practice before the IRS.

Disciplinary sanctions announced below are described in these terms:

Disbarred by decision, Suspended by decision, Censured by decision, Monetary penalty imposed by decision, and Disqualified by decision (including after a hearing)—An administrative law judge (ALJ), upon the OPR's complaint alleging violation of the regulations, issued a decision imposing one of these sanctions after the ALJ either (1) granted the OPR's motion for summary adjudication or (2) after conducting an evidentiary hearing. After 30 days from the issuance of the decision, in the absence of an appeal, the ALJ's decision becomes the final agency decision.

Disbarred by default decision, Suspended by default decision, Censured by default decision, Monetary penalty imposed by default decision, and Disqualified by default decision—An ALJ, after finding that no answer to the OPR's complaint was filed or timely filed, granted the OPR's motion for a default judgment and issued a decision imposing one of these sanctions.

Disbarred by decision on appeal, Suspended by decision on appeal, Censured by decision on appeal, Monetary penalty imposed by decision on appeal, and Disqualified by decision on appeal—The decision of the ALJ was appealed to the agency's appellate authority, acting as the delegate of the Secretary of the Treasury, and the appellate authority issued a decision imposing one of these sanctions.

Disbarred by consent, Suspended by consent, Censured by consent, Monetary penalty imposed by consent, and Disqualified by consent—In lieu of a disciplinary proceeding being instituted or continued, an individual offered their consent to one of these sanctions (or a firm or other entity offered to consent to a monetary penalty) and the OPR accepted the offer and the parties entered into a consent agreement. Typically, an offer of consent will provide for: suspension for an indefinite term; conditions that the individual must observe during the suspension; and the individual's opportunity, after a stated number of months, to file with the OPR a petition for reinstatement affirming compliance with the terms of the consent agreement and affirming current fitness and eligibility to practice (*i.e.*, an active professional license or active enrollment

status, with no intervening violations of the regulations).

Suspended indefinitely by decision in expedited proceeding, Suspended indefinitely by default decision in expedited proceeding—The OPR instituted an expedited proceeding for suspension (based on certain limited grounds, including loss of a professional license for cause, and criminal convictions) that resulted in suspension.

Determined ineligible for limited practice—There has been a final determination under Revenue Procedure 2014-42 that an unenrolled/unlicensed tax return preparer is not eligible for continued limited representation of taxpayers because the preparer violated standards of conduct prescribed in Circular 230 or failed to comply with any of the requirements described in the revenue procedure.

A practitioner who has been disbarred or suspended under 31 C.F.R. Part 10's (Circular 230's) § 10.60, ("Initiation of proceeding" (before an ALJ)) or suspended under § 10.82 ("Expedited suspension"), or a disqualified appraiser may petition for reinstatement before the IRS after the expiration of 5 years following such disbarment, suspension, or disqualification (or immediately following the expiration of the suspension or disqualification period if shorter than 5 years). Reinstatement will not be granted unless the IRS is satisfied that the petitioner is not likely to engage thereafter in conduct contrary to Circular 230, and that granting such reinstatement would not be contrary to the public interest.

Reinstatement decisions are published at the individual's request, and described in these terms:

Reinstated to practice before the IRS—The OPR granted the individual's petition for reinstatement. The individual is eligible to practice before the IRS, or in the case of an appraiser, the individual is no longer disqualified.

Reinstated to engage in limited practice before the IRS—The OPR granted the individual's petition for reinstatement. The individual is eligible to engage in limited practice before the IRS as an unenrolled/unlicensed return preparer through participation in the AFSP.

The OPR has authority to disclose the grounds for disciplinary sanctions in these situations: (1) an ALJ or the Secretary's delegate on appeal has issued a final decision imposing a sanction; (2) the individual has settled a disciplinary case by signing the OPR's consent-to-sanction agreement admitting to one or more violations of the regulations and consenting to the disclosure of the admitted violations (for example, willful failure to file Federal income tax returns, lack of due diligence, conflict of interest, etc.); (3) the OPR has issued a decision in an expedited proceeding for indefinite suspension; or (4) upon a final determination (including any decision on appeal) that an unenrolled/unlicensed return preparer is no longer eligible to represent taxpayers before the IRS as an AFSP participant under Revenue Procedure .

Announcements of disciplinary sanctions appear in the Internal Revenue Bulletin at the earliest practicable date. The sanctions announced below are alphabetized first by state and second by the last names of the sanctioned individuals (or firms).

City & State	Name	Professional Designation	Disciplinary Sanction	Effective Date(s)
California				
Agoura Hills	Fulton, William E.	Enrolled Agent		Reinstated to practice before the IRS, effective February 11, 2026
New Jersey				
Englewood	Kronegold, Joshua H.	Attorney		Reinstated to practice before the IRS, effective February 24, 2026
Hawthorne	Malqui, Ceasar B.	Enrolled Agent	Suspended by consent for admitted violations of 31 C.F.R. § 10.51(a)(6)	Indefinite from February 20, 2026
New York				
Saratoga Springs	Taylor, Mae-Mae R.	Enrolled Agent	Suspended by default decision in expedited proceeding under 31 C.F.R. § 10.82(b)	Indefinite from March 13, 2026
Missouri				
Springfield	Marple, Ray L.	CPA	Suspended by default decision in expedited proceeding under 31 C.F.R. § 10.82(b)	Indefinite from February 12, 2026

Notice of Proposed Rulemaking

Excise Tax on Remittance Transfers

REG-114499-25

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document contains proposed regulations that would provide rules and definitions related to the excise tax imposed on certain remittance transfers that occur after December 31, 2025. The proposed regulations would affect certain remittance transfer providers and certain individuals sending remittance transfers.

DATES: Electronic or written comments and requests for a public hearing must be received by June 12, 2026.

ADDRESSES: Commenters are strongly encouraged to submit public comments electronically. Submit electronic submissions via the Federal eRulemaking Portal at https://www.regulations.gov (indicate IRS and REG-114499-25) by following the online instructions for submitting comments. Requests for a public hearing must be submitted as prescribed in the "Comments and Requests for a Public Hearing" section. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any comment submitted to the IRS's public docket. Send paper submissions to: CC:PA:01:PR (REG-114499-25), Room 5503, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Julia Barlow of the Office of the Associate Chief Counsel (Energy, Credits, and Excise Tax), (202) 317-6855 (not a toll-free number); concerning submission of comments or request for a public hearing, Publications and Regulations Section at (202) 317-6901 (not a toll-free number) or by email at *publichearings@irs.gov* (preferred).

SUPPLEMENTARY INFORMATION:

Authority

This notice of proposed rulemaking contains proposed amendments that would revise the Excise Tax Procedural Regulations (26 CFR part 40) and add new amendments to the Facilities and Services Excise Tax Regulations (26 CFR part 49) under section 4475 of the Internal Revenue Code (Code), as enacted by Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA). These proposed amendments are issued under the authority granted by section 4475(b) and (c) of the Code, which authorize the Secretary of the Treasury or the Secretary's delegate (Secretary) to provide the time and manner of collection of the tax imposed by section 4475(a) (remittance transfer tax) and to determine the instruments that constitute "similar physical instrument[s]" for purposes of the tax.

Additionally, these proposed regulations are issued pursuant to section 7805(a) of the Code, which authorizes the Secretary to "prescribe all needful rules and regulations for the enforcement of [the Code], including all rules and regulations as may be necessary by reason of any alteration of law in relation to internal revenue."

Background

Section 4475 was added to chapter 36 of the Code by section 70604 of the OBBBA. The remittance transfer tax imposed by section 4475(a) is a 1 percent tax on the amount of certain remittance transfers that occur after December 31, 2025. Section 4475(b)(1) and (2) provide that the remittance transfer tax is paid by the sender, and that the remittance transfer provider collects and remits the remittance transfer tax quarterly to the Secretary at the time and in the manner provided by the Secretary. Section 4475(b)(3) provides that, if the remittance transfer tax is not collected at the time the remittance transfer is made, the tax must be paid by the remittance transfer provider.

Section 4475(c) provides that the remittance transfer tax applies only to remittance transfers for which the sender provides cash, a money order, a cashier's check, or any other similar physical instrument (as determined by the Secretary) to the remittance transfer provider.

Section 4475(d) provides that the remittance transfer tax does not apply to any remittance transfer for which the funds being transferred are (1) withdrawn from an account held in or by a financial institution described in subparagraphs (A) through (H) of section 5312(a)(2) of title 31 of the U.S. Code (title 31), and subject to the requirements under subchapter II of chapter 53 of title 31, or (2) funded with a debit card or a credit card issued in the United States.

Section 4475(e) defines several terms fundamental to the remittance transfer tax by cross-reference to the Electronic Fund Transfer Act (EFTA) (15 U.S.C. 1693–1693r).

Section 4475(f) provides that, for purposes of section 7701(l) of the Code, with respect to any multiple-party arrangements involving the sender, a remittance transfer is treated as a financing transaction.

Because section 4475 was added to chapter 36 of the Code, and because quarterly remittances of the remittance transfer tax are explicitly required by section 4475(b)(2), the remittance transfer tax will be reported on Form 720, *Quarterly Federal Excise Tax Return*, by the remittance transfer provider as the collector. *See* 26 CFR 40.0-1(a) and 40.6011(a)-1(a)(1). Section 6302 of the Code authorizes the Secretary to establish the mode and time for collecting certain taxes, including the taxes imposed by chapter 36. Section 40.6302(c)-1(a)(1), which constitutes an exercise of authority under section 6302(a), requires each person that is required to file Form 720 to make deposits of tax. Accordingly, collectors of the remittance transfer tax are also required to make semimonthly deposits of tax pursuant to § 40.6302(c)-1(a)(1). Those deposits are payments toward an amount that is not fully determined until filing,

and are distinguishable from the quarterly remittances of tax required by section 4475(b)(2). Pursuant to § 40.0-1(c), a semimonthly period is the first 15 days of a calendar month or the portion of a calendar month following the 15th day of the month.

In Notice 2025-55, 2025-43 I.R.B. 625 (October 20, 2025), the Treasury Department and the IRS provided relief from failure to deposit penalties under section 6656 of the Code in connection with the remittance transfer tax for the first three calendar quarters of 2026. Notice 2025-55 also provides that a remittance transfer provider's ability to use the deposit safe harbor under § 40.6302(c)-1(b)(2) will not be affected by a failure during the first three calendar quarters of 2026 to make deposits of the remittance transfer tax as required under part 40, provided the remittance transfer provider satisfies the reasonable cause exception under section 6656(a).

Explanation of Provisions

I. Proposed Amendments to 26 CFR Part 40

Section 40.0-1(a) provides generally that the regulations in part 40 set forth administrative provisions relating to the excise taxes imposed by chapters 31 through 34, 36, 38, 39, 49, and 50A of the Code. Proposed § 40.0-1(a) would amend that paragraph by referencing the remittance transfer tax imposed by section 4475 as a tax imposed under chapter 36. Proposed § 40.0-1(e) would amend the applicability dates to reflect the proposed change to § 40.0-1(a).

II. Proposed Amendments to 26 CFR Part 49

A. Definitions

Section 4475(e) defines several terms by cross-reference to definitions in the EFTA. Specifically, section 4475(e)(1) provides that the terms "remittance transfer," "remittance transfer provider," and "sender" have the meanings provided in section 919(g) of the EFTA. The cross-referenced definitions incorporate other terms defined in the EFTA: specifically, "State," "consumer," and "designated recipient." Section 4475(e)(2) defines the term "credit card" by reference to section 920(c)(3) of the EFTA, which in turn references section 1602 of title 15 of the U.S. Code. Section 4475(e)(3) defines the term "debit card" by reference to section 920(c)(2) of the EFTA, without regard to section 920(c)(2)(B) of the EFTA (which provides that the term "debit card" includes a general-use prepaid card, as that term is defined in section 915(a)(2)(A) of the EFTA). To effectuate section 4475(e) and reduce compliance burdens on remittance transfer providers, the proposed regulations would generally draw on the EFTA definitions of the terms cross-referenced in 4475(e) in a manner that is consistent with the interpretation of such terms in regulations issued by the Consumer Financial Protection Bureau, *see* 12 CFR part 1005 (Regulation E), to the extent such interpretations are consistent with the statutory provisions governing the remittance transfer tax and principles of sound tax administration.

Proposed § 49.4475-1(b)(1) would define the term "cash" as United States dollars or any foreign currency in physical form that is issued by a government or a central bank.

Proposed § 49.4475-1(b)(2) would define the term "consumer" as a natural person, which is consistent with the EFTA. *See* section 903(6) of the EFTA and 12 CFR 1005.2(e). While the EFTA definition of the term "consumer" is not explicitly cross-referenced in section 4475(e), it is implicated by the cross-referenced definition of the term "sender" in section 4475(e)(1).

Proposed § 49.4475-1(b)(3) would define the term "designated recipient" as any person specified by the sender as the authorized recipient of a remittance transfer to be received at a location in a foreign country. *See* section 919(g)(1) of the EFTA; 12 CFR 1005.30(c). A remittance transfer is received at a location in a foreign country if funds are to be received at a location physically outside of any State. *See* 12 CFR part 1005, supp. I (comment to 30(c), "designated recipient"). This proposed definition would ensure alignment with the EFTA and would clarify the determination of the location of a recipient and, thus, the determination of the taxability of the transaction.

Consistent with section 4475(e)(1), proposed § 49.4475-1(b)(4)(i) would define the term "remittance transfer" as the electronic transfer of funds requested by a sender to a designated recipient that is sent by a remittance transfer provider. The term applies regardless of whether the sender holds an account with the remittance transfer provider. *See* section 919(g)(2)(A) of the EFTA; 12 CFR 1005.30(e).

Proposed § 49.4475-1(b)(4)(ii)(A) and (B) would incorporate two exclusions found in the EFTA and Regulation E: one for small-value transactions, and one for transfers that fund the purchase of certain securities and commodities. *See* section 919(g)(2)(B) of the EFTA; 12 CFR 1005.30(e)(2). These exclusions would serve to align the scope of remittance transfers subject to the EFTA with those potentially subject to the remittance transfer tax.

Proposed § 49.4475-1(b)(5)(i) would define the term "remittance transfer provider," consistent with section 4475(e)(1), the EFTA, and Regulation E, as any person that provides remittance transfers for a consumer in the normal course of its business, regardless of whether the consumer holds an account with such person. *See* section 919(g)(3) of the EFTA; 12 CFR 1005.30(f). A person is not a remittance transfer provider merely because it performs activities as an agent on behalf of a remittance transfer provider. *See* 12 CFR part 1005, supp. I (comment to 30(f), "remittance transfer provider"). For example, a grocery store would not be a remittance transfer provider merely because it acts as an agent of a remittance transfer provider to offer consumers remittance transfer services.

The Treasury Department and the IRS are aware that Regulation E provides a safe harbor in 12 CFR 1005.30(f)(2) under which a person is deemed not to be providing remittance transfers for a consumer in the normal course of its business if the person provided 500 or fewer remittance transfers in the previous calendar year and provided 500 or fewer remittance transfers in the current calendar year. Proposed § 49.4475-1(c)(5)(ii) would depart from Regulation E in this regard by providing that this normal course of business safe

harbor does not apply to section 4475(a). This departure is necessary because otherwise the rule would have the potential to create inconsistent tax results for senders in otherwise identical remittance transfer transactions.

Consistent with section 4475(e)(1), the EFTA, and Regulation E, proposed § 49.4475-1(b)(6) would define the term "sender" as a consumer in a State who primarily for personal, family, or household purposes requests a remittance transfer provider to send a remittance transfer to a designated recipient. *See* section 919(g)(4) of the EFTA; 12 CFR 1005.30(g). The Treasury Department and the IRS understand that many remittance transfer providers may already structure their businesses to distinguish consumer and business services for purposes of compliance with the EFTA and possibly other applicable regulatory regimes. For consistency and to minimize costs to remittance transfer providers, a remittance transfer provider's classification of a remittance transfer's purpose (for personal, family, household, or other purpose) should be the same under the EFTA and the remittance transfer tax.

Proposed § 49.4475-1(b)(7) would define the term "State" as any State or territory of the United States, or the District of Columbia. While the EFTA definition of the term "State" is not explicitly cross-referenced in section 4475(e), it is implicated by the cross-referenced definition of the term "remittance transfer" in section 4475(e)(1). For this reason, the proposed regulations would reflect the EFTA definition of "State," found in section 903(11) of the EFTA, rather than the definition provided in section 7701(a)(10). Although otherwise identical to the definition of the term "State" provided in 12 CFR 1005.2(l), proposed § 49.4475-1(b)(7) would omit from that definition the words "possession" and "Commonwealth of Puerto Rico." These terms would be redundant in the context of Federal law in which the term "possession" is synonymous with "territory,"[1] and, pursuant to section 7701(d), the Commonwealth of Puerto Rico is a territory of the United States. The proposed definition would also omit the reference to "political subdivision[s]" in Regulation E because that concept is irrelevant to the remittance transfer tax.

B. Imposition of the Tax

1. Attachment of the tax

Proposed § 49.4475-1(c)(1) would provide that the remittance transfer tax attaches at the time a remittance transfer is made, *see* section 4475(b)(3), clarifying that this occurs at the earlier of the time the remittance transfer is initiated by the remittance transfer provider or the time the sender pays the remittance transfer provider (or its agent). The proposed rule would include an example illustrating that the fact that funds may not be disbursed to the designated recipient until a later date does not affect the time a remittance transfer is made for purposes of determining the calendar quarter in which the tax attaches and the transfer is reportable.

Consistent with this proposed rule, proposed § 49.4475-1(c)(2) would clarify that the remittance transfer tax attaches to remittance transfers regardless of whether the transferred amount is disbursed to the designated recipient. The proposed rule would also clarify that, in cases in which a remittance transfer is canceled or expires and the remittance transfer provider refunds the amount of the remittance transfer to the sender, the sender may file a claim for refund of the remittance transfer tax with the IRS. Neither section 4475 nor any other section of the Code entitles the collector (unlike the sender) to refunds of the remittance transfer tax.

2. Taxable remittance transfers

Section 4475(c) and (d) provide the scope of the remittance transfers to which the remittance transfer tax applies. Section 4475(c) provides that the remittance transfer tax applies only to remittance transfers for which the sender provides cash, a money order, a cashier's check, or any other similar physical instrument (as determined by the Secretary) to the remittance transfer provider. Pursuant to the grant of authority provided in section 4475(c), proposed § 49.4475-1(d)(1) would add traveler's checks to the list of taxable instruments. As a method of payment, traveler's checks are virtually indistinguishable from money orders and cashier's checks and are, therefore, a "similar physical instrument."

Section 4475(d) provides that the remittance transfer tax does not apply to any remittance transfer for which the funds being transferred are (1) withdrawn from an account held in or by a financial institution described in section 5312(a)(2)(A) through (H) of title 31 and subject to the requirements under chapter 53, subchapter II of title 31, or (2) funded with a debit card or credit card issued in the United States. Proposed § 49.4475-1(d)(1) would provide that settlement of a payment obligation under a money order, cashier's check, or traveler's check by the issuing entity to the remittance transfer provider does not constitute a "withdrawal" for purposes of section 4475(d)(1). Such funds satisfy the issuing entity's payment obligation under the instrument, rather than being withdrawn from an account of the sender with a financial institution described above. Proposed § 49.4475-1(d)(1) would not separately address the applicability of section 4475(d)(1) to personal or business checks made out to a remittance transfer provider or general-use prepaid cards, because a sender's provision of such instruments would not trigger the remittance transfer tax under proposed § 49.4475-1(d)(1) in the first instance.

Similarly, proposed § 49.4475-1(d)(1) would not separately address section 4475(d)(2), which renders remittance transfers funded with a debit card or a credit card issued in the United States nontaxable, because a sender's use of such a card to pay for a remittance transfer would not trigger the tax under proposed § 49.4475-1(d)(1) in the first instance. As a result, any remittance transfer funded with a debit card or credit card would be nontaxable, regardless of the country in which such debit card or credit card was issued.

Proposed § 49.4475-1(d)(2) would provide that in a case in which a remittance transfer provider (or its agent) cashes a

[1] U.S. Department of the Interior, Definitions of Insular Area Political Organizations, at https://www.doi.gov/oia/islands/politicatypes#.

personal or business check payable to the sender and the funds are used to fund a remittance transfer, such transaction will be treated for purposes of proposed § 49.4475-1(d)(1) as a remittance transfer for which the sender provides cash to the remittance transfer provider. The proposed regulations would treat this scenario as involving two separate transactions: a check-cashing transaction followed by a remittance transfer for which the sender provided cash to the remittance transfer provider under proposed § 49.4475-1(d)(1), regardless of the steps involved and regardless of whether the sender ever has actual possession of any resulting cash. Any remittance transfer funded as described in proposed § 49.4475-1(d)(2) would, therefore, be subject to taxation under section 4475(a) as a remittance transfer for which the sender provided cash to a remittance transfer provider.

Proposed § 49.4475-1(d)(3) would define the amount subject to the remittance transfer tax, with respect to any taxable remittance transfer, as the amount that will ultimately be transferred to the designated recipient; amounts that will not be transferred to the designated recipient are not included. Thus, promotional "bonuses" that are included in the amount ultimately transferred to the designated recipient but not directly paid for by the sender would be part of the remittance transfer amount under the proposed rule. Service fees, State taxes, and charges for other goods and services that are not ultimately transferred to the designated recipient would not be part of the remittance transfer amount under the proposed rule. The remittance transfer provider's characterization of an amount would not be determinative under the proposed rule if, in fact, such amount will ultimately be transferred to the designated recipient. This proposed rule is consistent with the ordinary meaning of the term "remittance transfer," the reference, in section 4475(d), to "the funds being transferred," and the EFTA disclosure requirements under 12 CFR 1005.31(b)(1)(i).

Proposed § 49.4475-1(d)(4) would provide that transactions engaged in for a principal purpose of avoiding the remittance transfer tax may be disregarded or recharacterized to reflect the substance of those transactions. The determination of whether a sender and remittance transfer provider or third party have engaged in a transaction or series of transactions with a principal purpose of avoiding the tax would be based on all facts and circumstances, including facts and circumstances relevant to a remittance transfer provider's or third party's pattern of conduct. The proposed rule would also provide two examples of the application of this rule in which a remittance transfer provider or their agent issues general-use prepaid cards to customers paying with cash for purposes of avoiding the remittance transfer tax.

Proposed § 49.4475-1(e) would provide examples illustrating the application of these proposed definitions and rules.

Proposed Applicability Date

These regulations are proposed to apply to remittance transfers made in calendar quarters beginning on or after the date these regulations are published as final regulations in the **Federal Register**. Collectors and taxpayers may rely on these proposed regulations for remittance transfers made after December 31, 2025, and before the first calendar quarter beginning on or after the date these regulations are published as final regulations in the **Federal Register**, provided that collectors and taxpayers follow these proposed regulations in their entirety and in a consistent manner.

Special Analyses

I. Regulatory Planning and Review—Economic Analysis

Executive Orders 12866 and 13563 direct agencies to assess costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying both costs and benefits, reducing costs, harmonizing rules, and promoting flexibility.

The proposed regulations have been designated by the Office of Management and Budget's (OMB's) Office of Information and Regulatory Affairs (OIRA) as subject to review under Executive Order 12866 pursuant to the Memorandum of Agreement (MOA, July 4, 2025) between the Treasury Department and the Office of Management and Budget regarding review of tax regulations. OIRA has determined that the proposed rulemaking is significant and subject to review under section 3(f) of Executive Order 12866 and section 1(c) of the Memorandum of Agreement. Accordingly, the proposed regulations have been reviewed by OMB. This rule is expected to be an Executive Order 14192 regulatory action.

A. Need for Regulation

Section 70604 of Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA), added a new section 4475 to the Internal Revenue Code (Code). Section 4475 imposes an excise tax equal to one percent of the amount of any taxable remittance transfer. The proposed regulations are needed to clarify the scope and application of the tax. Following statutory requirements, the proposed regulations clarify that the tax would be triggered only when the sender funds the transfer with specified funding instruments. The proposed regulations also provide that the tax base would be the amount transferred to the designated recipient (rather than, say, the amount spent by the sender), and that the tax would attach at the time when a remittance transfer is made.

B. The Statute and the Proposed Regulations

Section 4475 of the Code imposes an excise tax equal to 1 percent of the amount of any taxable remittance transfer initiated by a domestic sender and received by a designated recipient located outside of the United States. Existing excise tax procedural regulations (ETPR) apply to the new remittance transfer tax by virtue of section 4475 being placed in chapter 36 of the Code. The ETPR provide administrative rules for remittance transfer providers regarding collection of the tax from senders, reporting requirements, and the payment of tax deposits to the Internal Revenue Service (IRS). The ETPR

are operative even in the absence of the proposed regulations. The proposed regulations clarify that the ETPR apply to the remittance transfer tax but do not make any substantive procedural amendments regarding the remittance transfer tax.

Section 4475(c) specifies that the tax applies only to a remittance transfer that the sender funds using cash, a money order, a cashier's check, or other similar physical instrument (as provided by the Secretary). Section 4475(d) further specifies that the tax does not apply to funds being transferred that are withdrawn from an account held in or by certain financial institutions or that are funded using a debit card or a credit card issued in the United States. Using the subsection (c) authority, the proposed regulations add traveler's checks to the list of physical instruments that would give rise to a tax liability.[2] Subject to an anti-avoidance rule in the proposed regulations, a sender's provision of other instruments, such as personal or business checks, credit and debit cards (regardless of country of issuance), and general-use prepaid cards, would not trigger the remittance transfer tax. Although checks are not included on the list of taxable funding instruments, the proposed regulations clarify that if a remittance transfer provider or its agent cashes a check payable to the sender and some, or all, of the cash is used to fund a remittance transfer, then the remittance transfer is treated as being funded with cash. In this case, it does not matter whether the sender is charged a separate check-cashing fee.

The proposed regulations specify that the remittance transfer tax attaches at the time when a remittance transfer is made, which occurs at the earlier of the time the remittance transfer is initiated by the remittance transfer provider or the time the sender pays the remittance transfer provider or its agent. If the transfer is canceled or expires, and the amount of the transfer is returned to the sender, the sender may be eligible to file a claim for refund with the IRS.[3]

Section 4475(e) provides definitions of "remittance transfer," "remittance transfer provider," "sender," "credit card," and "debit card" by cross-referencing to the Electronic Fund Transfer Act (EFTA).[4] The EFTA definitions have been further refined in regulations issued by the Consumer Financial Protection Bureau (CFPB), which are identified as "Regulation E."[5] The proposed regulations generally adopt the Regulation E definitions, which are familiar to remittance transfer providers, but modify those rules when necessary, in view of the different purpose of implementing the remittance transfer tax.

The proposed regulations adopt the definition of "remittance transfer" from Regulation E. This definition refers to an "electronic transfer of funds requested by a sender to a designated recipient that is sent by a remittance transfer provider." It does not specify the taxable amount of a remittance transfer. Therefore, the proposed regulations provide that the remittance transfer tax would be imposed on the total amount that will be transferred to the designated recipient, including any amount provided by the sender, the remittance transfer provider, or any other person (including promotional bonuses or discounts). This tax base excludes fees paid to the remittance transfer provider, any State taxes imposed on the transfer, charges for other goods or services that are not transferred, and the remittance transfer tax itself. The statutory and Regulation E definitions of remittance transfers exclude "small-value transactions."[6] These transfers are currently determined under Regulation E as those valued at $15 or less. The proposed regulations adopt an additional exclusion specified under Regulation E for any transfer whose primary purpose is the purchase or sale through a regulated broker-dealer or futures commission merchant of certain regulated securities or commodities. Adoption of these exclusions by the proposed regulations is intended to align the scope of a remittance transfer under the remittance transfer tax with that of a remittance transfer under EFTA.

The proposed regulations refer to and generally adopt the Regulation E definitions of "sender," "designated recipient," and "remittance transfer provider." Consistent with Regulation E, an entity acting as an agent on behalf of remittance transfer providers would not itself be considered a remittance transfer provider.[7] However, the proposed regulations do not adopt a Regulation E safe harbor under which a person is deemed not to be providing remittance transfers for a consumer in the normal course of its business if the person provided 500 or fewer remittance transfers in the previous and current calendar years.[8]

C. Baseline

The Treasury Department and the IRS have assessed the benefits and costs of the proposed regulations relative to a no-action baseline reflecting anticipated Federal tax-related behavior in the absence of these proposed regulations.

D. Affected Entities and Taxpayers

By providing additional specificity to needed definitions and to required rules governing the scope, timing and amount of tax, the proposed regulations affect senders of remittances, remittance transfer providers, and agents of remittance transfer providers.

Banks, credit unions, and money services businesses (MSBs) make up the universe of remittance transfer providers. Since remittance transfers facilitated by financial institutions are primarily funded by non-cash instruments, the

[2] The proposed regulations clarify that the settlement of a money order, cashier's check, or traveler's check does not constitute a withdrawal from an account at a financial institution for purposes of section 4475(d)(1). Thus, the source of any funds used to purchase such instruments is immaterial.

[3] Section 6402 of the Code provides authority for the Secretary to credit the amount of any tax overpayment in respect of an Internal Revenue tax and, subject to certain rules, may refund any balance due, including any allowed interest, to the person who made an overpayment.

[4] The EFTA is codified as 15 U.S.C. 1693-1693r.

[5] Regulation E (Electronic Fund Transfers) is found at 12 CFR Part 1005.

[6] *See* 15 U.S.C. 1693o-1(g)(2)(B) and 12 CFR 1005.30(e)(2)(i).

[7] *See* the official interpretation of the section 1005.2 definition of remittance transfer provider at 12 CFR supplement I 30(f)(1).

[8] *See* 12 CFR 1005.30(f)(2)(i).

Treasury Department and the IRS expect that banks and credit unions will not be materially affected by the remittance tax and proposed regulations. According to annual data from NMLS Money Services Businesses Report, there are approximately 600 MSBs that are licensed as money transmitters.[9] Among them, more than 200 MSBs, through approximately 500,000 authorized agents, provide remittance transfers at retail locations and likely accept cash and cash-like payment instruments. The remaining 400 MSBs do not work with agents and likely provide remittance transfers solely through online platforms and accept non-physical payment instruments. In addition, the Treasury Department and the IRS estimate that approximately 3.6 million households per year have sent remittance transfers through nonbank money transfer services in recent years, among which 30 percent to 36 percent, or 1.1 million to 1.3 million households, likely used cash or cash-like instruments.[10]

E. Economic Effects of the Proposed Regulations

The Treasury Department and the IRS analyzed the economic effects of the proposed regulations in adopting Regulation E definitions with some modifications, clarifying that the tax base of the remittance tax excludes service fees imposed by remittance transfer providers and includes promotional values being transferred, adding traveler's checks as a cash-like instrument, and clarifying the treatment of remittance transfers paid for with funds from checks cashed by a remittance transfer provider or its agent.

The proposed regulations provide clarity and certainty to the implementation of the statute and promote a consistent application of the tax, while minimizing the associated compliance burdens for remittance transfer providers and agents. The Treasury Department and the IRS do not have readily available parameters and models to quantify the impact the proposed regulations may have on the type of funding instruments used to pay for remittance transfers or on the level of remittance transfers. The following sections describe in further detail the potential economic impacts of specific elements of the proposed regulations.

1. Economic Background of Remittance Transfers

Annual data from NMLS Money Services Businesses Report shows that the total money transmissions to domestic and foreign destinations via MSBs grew from $1.3 trillion in 2019 to $4 trillion in 2024. Money transmitted to foreign destinations (remittance transfers) accounted for 9 to 25 percent of the total money transmissions, equaling $236 billion in 2019, growing to almost $1 trillion in 2021 and 2022, but decreasing to $365 billion in 2024. Over 2019–2024, annual remittance transfers to foreign destinations through MSBs averaged $520 billion.[11] The average individual money transfer size ranged from $290 to $740 over the same time period.

Table 1: Money Transfers via MSBs

	Total money transfer, domestic and foreign (Millions of USD)	Total remittance transfer (foreign only) (Millions of USD)	Average transfer, domestic and foreign (USD)
2019	1,310,111	235,820	290
2020	1,821,770	273,265	303
2021	3,768,884	942,221	740
2022	3,715,101	965,926	566
2023	3,770,451	339,341	370
2024	4,058,716	365,284	365
Average	**3,074,172**	**520,310**	**439**

Remittance transfers are subject to transaction fees charged by the remittance transfer providers, which can vary by provider, the size of the transfer, payment modes, the corridor of transaction, speed of delivery, as well as other factors. For $200 and $500 remittance transfers sent from the United States in 2025, the World Bank estimates an average transaction fee of 5.56 percent and 3.81 percent, respectively.[12] For taxable remittance transfers within that range of amounts, a 1 percent

[9] The Nationwide Multistate Licensing System (NMLS) regulates and collects data on MSBs, some of which provide remittance transfer services, i.e., money transmitters. The NMLS annual MSB reports are available at https://mortgage.nationwidelicensingsystem.org/knowledge/Products/nmls/aboutNMLS/SitePages/NMLSReports.aspx.

[10] The 2020 Census enumerated 331.4 million people and 126.9 million households in the U.S. (see https://www2.census.gov/library/publications/decennial/2020/census-briefs/c2020br-10.pdf). The FDIC National Survey of Unbanked and Underbanked Households in 2021 and 2023 finds that 2.8 percent of all surveyed households sent or received international remittances through nonbank money transfer services (see 2021 FDIC National Survey of Unbanked and Underbanked Households, at https://www.fdic.gov/analysis/household-survey/2021report.pdf, and 2023 FDIC National Survey of Unbanked and Underbanked Households, at https://www.fdic.gov/household-survey/2023-fdic-national-survey-unbanked-and-underbanked-households-report). Based on these statistics, the Treasury Department and the IRS estimate that approximately 3.6 million households will send remittances through MSBs annually. Also see subsequent analysis in "Economic Background of Remittance Transfers" for how the Treasury Department and the IRS derived that 30 percent of remittance transfers are paid for by cash.

[11] Money transfers to foreign destinations were highly volatile during this time period. The 2021 and 2022 annual totals are about three times as large as those in other years, likely due to a variety of factors, such as strong economic recovery post-COVID in the United States, sluggish economic recovery overseas (higher demand for remittances at the destination), and fluctuations in immigration flows. Excluding 2021 and 2022, the annual remittance transfers to foreign destinations averaged $303 billion.

[12] This estimate is based on Remittance Prices Worldwide database analysis available in Remittance Prices Worldwide Quarterly, at https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q125_1_0.pdf.

tax rate amounts to an average 18 to 26 percent increase in the total remittance cost (exclusive of the amount remitted) that senders will face.

MSBs offer money transfers via two main channels: at retail locations and through digital platforms. Based on industry reporting and consumer surveys, the Treasury Department and the IRS estimate that the share of remittances transferred through digital platforms is likely 40 to 50 percent. Remittance transfers through digital platforms are funded by non-cash instruments such as debit cards and ACH transfers. Among remittance transfers conducted through retail locations (the remaining 50 to 60 percent), customers can fund the transfers using cash, credit and debit cards, and other payment methods accepted by the MSB.

There is limited public information on the share of various payment methods used by senders for remittance transfers. The Treasury Department and the IRS therefore estimate the share of cash transfers based on three factors that are relevant for choosing cash payment at retail remittance transfer providers—the identity of the senders, the share of the unbanked population among senders, and broadband and smart phone penetration rates. The Treasury Department and the IRS expect that the population using MSB retail locations to make remittance transfers consists of unbanked senders, plus banked senders who lack internet or smartphone access.

A U.S. Census Bureau working paper estimates that the vast majority of remittance transfers are sent by immigrants, i.e., foreign-born persons living in the United States.[13] In addition, 7 percent of immigrants live in an unbanked household, according to a recent study.[14] The Treasury Department and the IRS therefore estimate that about 7 percent of immigrants would send remittance transfers using cash because they have no access to alternative payment methods, such as debit cards, through accounts with financial institutions.

Senders without access to smartphones or internet, even if banked, do not have access to digital payment platforms, and these senders are assumed to make up the rest of the customers who use MSB retail locations. A 2023 Pew Research Center survey finds that 95 percent of adults living in the United States have access to the internet and 90 percent have a smartphone.[15] The Treasury Department and the IRS therefore estimate that approximately 4.65 percent of the total immigrant population live in banked households but do not have internet access or smartphones (5 percent without internet access or smartphones × 93 percent in banked households). This population may find money transfers through a bank uneconomical, but do not have access to less costly, digital remittance transfer platforms. Therefore, they would likely send remittances through an MSB retail location using non-physical payments, such as a debit card.

Among the two groups who are assumed to visit MSB retail locations—unbanked immigrants and banked ones without internet or smartphone access—only the first group would likely use cash or similar instruments to pay for remittance transfers. Based on the relative share of these two groups, the Treasury Department and the IRS estimate that 60 percent of retail money transfers are funded by cash and cash-like instruments.[16] Therefore, the Treasury Department and the IRS estimate that 30 to 36 percent of remittance transfers by MSBs are funded by cash.[17] Applying these shares to the average 2019–2024 annual remittance transfer volume of $520 billion results in annual cash remittance transfers totaling about $156 billion to $187 billion. These estimates are based on data from years before the remittance transfer tax went into effect.

2. Defining Terms by Cross-referencing and Modifying Regulation E Definitions

The proposed regulations generally adopt definitions employed in Regulation E that were initially promulgated for purposes of providing consumer protections while using electronic fund transfers. Because affected remittance transfer providers are already familiar with these terms from complying with EFTA, the proposed regulations minimize compliance burdens by not introducing new terms to affected providers.

Under the proposed regulations, an entity acting as an agent on behalf of remittance transfer providers would not itself be considered a remittance transfer provider. The decision to adopt this rule in the proposed regulations eases the potential compliance burden for the approximately 500,000 agents that work with MSBs. While these agents must adapt their current practices to collect the tax on remittance services, the MSBs must develop systems and internal controls in order to comply with the procedural rules of the ETPR as they relate to the tax on remittance transfers. Thus, under the proposed regulations, the compliance burden of the ETPR, such as familiarization with laws and regulations, recordkeeping, and reporting costs, falls primarily on MSBs rather than agents. Given their familiarity with EFTA and Regulation E, MSBs are better equipped to shoulder the ETPR compliance burden than their agents. MSBs can also leverage their size to absorb the fixed costs of complying with the ETPR on behalf of their network of agents. In the aggregate, this is less costly than an alternative where each agent would have to incur the full fixed costs of ETPR compliance.

The definition of "remittance transfer provider" in the proposed regulations departs from Regulation E by not adopting a safe harbor under which a person is deemed not to be providing remittance transfers for a consumer in the normal course of its business if the person provided 500 or fewer remittance transfers in the previous and current calendar years. If the proposed regulations were not issued, entities that currently qualify for the Reg-

[13] A 2010 Census study using the 2008 CPS Migration Supplement estimates that foreign-born households comprised 84 percent of the households that sent remittance transfers and accounted for 90 percent of the total amount of remittance transfers. The study is available at https://www.census.gov/content/dam/Census/library/working-papers/2010/demo/POP-twps0087.pdf.

[14] "A Profile of Low-Income Immigrants in the United States" (2022), at https://www.migrationpolicy.org/sites/default/files/publications/mpi_low-income-immigrants-factsheet_final.pdf.

[15] *See* full report at https://www.pewresearch.org/wp-content/uploads/sites/20/2024/01/PI_2024.01.31_Home-Broadband-Mobile-Use_FINAL.pdf.

[16] The estimated share of retail payments funded by cash is (0.07 / (0.07 + 0.0465)) = 60 percent.

[17] If retail transfers make up 50 to 60 percent of all transfers, and 60 percent of retail transfers are deemed to be funded by cash, then 30 percent (0.5 × 0.6) to 36 percent (0.6 × 0.6) of total remittance transfers are estimated to be funded with cash.

ulation E safe harbor would face uncertainty whether they would need to collect and remit the remittance transfer tax. The proposed regulations provide certainty to entities potentially affected by the Regulation E safe harbor, though the affected entities may face an increase in compliance cost relative to the case where the Regulation E safe harbor was adopted in the proposed regulations.

The Treasury Department and the IRS estimate that not adopting the safe harbor provided under Regulation E would affect a limited number of remittance transfer providers and a small share of remittance transfers. In 2020, the CFPB was not aware of any MSB remittance transmitter providers with less than 500 annual transfers. Therefore, the Treasury Department and the IRS expect that very few, if any, MSBs currently qualify for the safe harbor. According to the same CFPB analysis, banks and credit unions are more likely to qualify for the safe harbor, but remittance transfers facilitated by these financial institutions are unlikely to be funded with cash and hence would not be taxable with or without the safe harbor.[18]

The safe harbor was not adopted in the proposed regulations because it is inconsistent with the operation of an efficient and effective excise tax. The safe harbor is not based on a characteristic of the remittance transfer or of the sender but on the transaction volume of the entity. Consequently, under such a safe harbor rule, identical remittance transfer transactions could be either taxable or nontaxable, depending on the vendor used. Some vendors could possibly reorganize their legal structures to avoid being subject to the remittance tax, and such restructuring would be an inefficient use of resources. In addition, with the safe harbor, entities would need to accurately predict their annual remittance transfer volume to avoid the increased tax reporting and collection costs associated with being a "remittance transfer provider." Overall, the Treasury Department and the IRS expect the benefits of a consistent application of the remittance tax and lower economic distortions in the provision of remittance transfers from not adopting the safe harbor to outweigh the increased compliance costs for the relatively small number of affected low-volume entities.

3. Specifying the Tax Base of the Remittance Tax

The proposed regulations clarify that the amount subject to the remittance tax is the amount "transferred to the designated recipient." Specifically, the tax base excludes identified fees and taxes paid by the sender to the remittance transfer provider but not transferred to the designated recipient. However, the tax base includes any promotional bonuses transferred to the recipient, but which are not paid by the sender.

The Treasury Department and the IRS considered an alternative tax base that would include amounts paid by the sender but not transferred to the designated recipient but decided against this option. These amounts include transfer fees, State taxes, and other charges imposed or collected by the remittance transfer provider. They can vary by provider, location of the sender, destination of the recipient, payment method, speed of delivery, and the amount of transfer. Under this alternative tax base, the costs and profit of the remittance transfer provider that are associated with providing the remittance transfer service would be taxed in addition to the transfer amount. Remittances of the same amount would give rise to varying amounts of tax.

Including transfer fees and taxes in the base of the remittance transfer tax would increase the cost of a taxable remittance transfer to the sender. For example, if the fees to send a $100 transfer were $10, then including fees in the tax base would increase the tax due on this transaction from $1.00 to $1.10. The after-tax price of the transaction would increase from $11.00 to $11.10, an increase of 0.9 percent. This small increase in price would discourage taxable remittance transfers by a small amount, with the magnitude dependent on the elasticity of demand for remittance transfers.[1]

If provider fees and taxes were included in the remittance transfer tax base, then the tax can be analytically thought of as two separate taxes. The first, an excise tax on remittances and second, a targeted sales tax on the fees (inclusive of other taxes) charged by remittance transfer providers. While the primary distortion of the combined tax would be upon the after-tax price of remittances, the sales tax component of the larger tax base would introduce other distortions on remittance transfer providers. The sales tax component may affect providers and their senders differentially depending on factors such as cost structure, specialization, and location. The broader base may also encourage tax avoidance behavior by providers, such as bundling the price of services and charging a higher price for the untaxed service and a lower price for the taxed remittance transfer compared to when the services are purchased separately. These effects are not expected to be large, given that the tax rate is only one percent, but indicate that the economic distortions from the remittance tax would increase if the base included provider fees and other taxes. Thus, the decision to apply the remittance transfer tax to only the amount transferred would result in lower economic distortions relative to a more expansive base that included provider fees and taxes.

4. Enumeration of Similar Physical Instruments that Trigger the Remittance Tax

Section 4475(c) authorizes the Secretary to identify physical, cash-like instruments that would be treated as triggering the remittance tax. The proposed regulations add traveler's checks to the list of funding instruments that would give rise to taxable remittances. Traveler's checks are virtually indistinguishable from money orders and cashier's checks and are, therefore, a "similar physical instrument."

[18] *See* CFPB's analysis at https://www.federalregister.gov/documents/2020/06/05/2020-10278/remittance-transfers-under-the-electronic-fund-transfer-act-regulation-e#footnote-84-p34896.
[19] Recent literature suggests that the price elasticity of remittance transaction costs is around 0.09 (see Kpodar and Imam (2024), How do transaction costs influence remittances? *World Development*, vol. 177, May 2024, 106537, at https://doi.org/10.1016/j.worlddev.2024.106537).

Table 2: Taxable payment instruments	
Included by statute	*Included by proposed regulations*
- Cash - Money orders - Cashier's checks	- Traveler's checks

Table 3: Non-taxable payment instruments	
Excluded by the statute	*Not included by proposed regulations*

- Direct debit from an account held in or by a financial institution
- Debit cards and credit cards issued in the U.S.
	- All other instruments not included by statute or regulations, such as:
	  - Debit cards and credit cards issued outside the U.S.
	  - ACH transfers
	  - Personal or business checks used as payment
	  - General-use prepaid debit cards

By enumerating a finite list of instruments that are subject to the remittance tax, the proposed regulations provide clarification and ease compliance burdens for senders and remittance transfer providers. For senders, knowing which payment instruments give rise to taxable transfers eliminates the uncertainty around the fees and taxes they need to cover before they arrive at the retail location to send remittance transfers. For providers, having a finite, exhaustive list of taxable payment instruments provides needed certainty for payment system updates and compliance with ETPR as well as for agent notifications and trainings.

A traveler's check—the only instrument added by the proposed regulations under the authority granted in section 4475(c)—is not a widely accepted payment method at remittance transfer providers. Based on information publicly available to consumers, payment methods accepted at retail locations are primarily cash, and in some instances, debit and credit cards. The Treasury Department and the IRS therefore consider that adding this instrument to the list of taxable funding sources will have minimal effects on the behavior of senders or remittance transfer providers.

Other instruments were considered and not added to the list. The Treasury Department and the IRS determined that ACH transfers, general-use prepaid cards, and personal and business checks are not "similar physical instruments" that trigger the tax.

Debit and credit cards that are issued in the United States are treated under the law as not triggering the remittance transfer tax when used to fund a remittance transfer. The proposed regulations do not include any credit or debit cards in the list of tax-triggering instruments, even when issued in a foreign country.

In general, if an instrument were added to the taxable list, senders would likely switch away from that type of payment instrument towards non-taxable instruments. The ability of a sender to switch instruments depends on the characteristics of the sender and the substitutability of the instruments. For example, banked households would generally find it easy to find a similar non-taxable funding instrument, as many of the instruments are tied to having an account at a financial institution. However, for non-banked households, substitution of payment methods is more difficult. For such alternative methods to be considered, they need to meet two conditions: 1) they must be accessible to senders, and 2) using them should be less costly relative to cash than the one percent remittance tax. However, the Treasury Department and the IRS consider that these conditions would rarely both be met for non-banked households.[20]

Among the non-enumerated instruments with reasonably wide acceptance at remittance transmitters (although typically only through digital platforms), general-use prepaid cards would likely be the most accessible instrument to senders with limited access to the banking system. General-use prepaid cards are able to support many financial transactions on digital platforms, and in some cases, can present a close alternative to bank accounts.[21] However, general-use prepaid cards come with numerous fees and charges, including activation fees, monthly fees, reloading fees, and many others the sum of which add up to significantly more than one percent of the usable card value in most cases.[22] Therefore, obtaining a general-use prepaid card solely for the purpose of funding a remittance transfer and avoiding the remittance transfer tax would not be economical for most senders and is unlikely to become economical in the future.

[20] In 2023, 66.2 percent of unbanked households only use cash. See FDIC National Survey of Unbanked and Underbanked Households in 2023, at https://www.fdic.gov/household-survey.

[21] Users of reloadable prepaid cards report using them to receive direct deposits, pay monthly bills, build up savings, send and receive money transfers, and more. See more detail at https://www.fdic.gov/household-survey.

[22] *See* CFPB, What types of fees do prepaid cards typically charge? at https://www.consumerfinance.gov/ask-cfpb/what-types-of-fees-do-prepaid-cards-typically-charge-en-2053/#:~:text=With%20most%20prepaid%20cards%2C%20you,card%20and%20how%20it%27s%20used.

There may be instruments not included on the list of taxable funding instruments that are not currently typically accepted by remittance transfer providers but may become more commonly accepted and used once remittance transfer providers and senders understand that these instruments would result in non-taxable remittance transfers. For example, remittance transfer providers may change their policies to more commonly accept store gift cards, gift certificates, or loyalty cards to pay for remittance transfers, and some senders may switch from cash to those methods of payment. There is, however, an anti-avoidance provision in the proposed regulations that would limit the ability to avoid the remittance tax through buying a nontaxable payment instrument with cash and immediately using it to fund a remittance transfer.

5. Treatment of Check Cashing

Under the proposed regulations, checks are not on the list of instruments that would trigger the remittance tax. However, the proposed regulations provide that when a personal or business check payable to the sender is cashed by a remittance transfer provider (or their agent) and funds from the cashed check are used to pay for a remittance transfer, the remittance transfer is treated as being paid for with cash and is therefore taxable. This treatment applies regardless of whether the sender ever has possession of the cash from the cashed check or whether the sender is charged an explicit check-cashing fee.

In clarifying this treatment, the proposed regulations provide clarity and certainty to both remittance transfer providers and senders who engage in check cashing transactions. This increased clarity should lower compliance burdens for remittance transfer providers since all remittance transfers involving cashed checks payable to the sender will be treated the same way no matter whether cash is handed back to the sender. In addition, this clarification eliminates potential avoidance behaviors using cashed checks. In the absence of the proposed regulations, senders who would have otherwise funded a remittance with cash may have switched to endorsing, say, a payroll check and garnered the funds for the remittance through check-cashing services. Senders and remittance providers might have then claimed that such a remittance transfer was not funded with cash, particularly in the case of transactions where cash from a cashed check was not physically handed to the sender.

The Treasury Department and the IRS do not have the data and models necessary to quantify the economic effects of the proposed regulations' treatment of remittance transfers that involve check-cashing services, but NMLS annual data is available on the volume of check-cashing by MSBs and can provide information on how the size of check cashing compares to money transfers. Table 4 presents the total annual volume of check-cashing by MSBs, which reached about $18 billion in 2024. Averaged across the years 2019-2024, check-cashing volume is about 0.5 percent of total domestic and foreign money transfers and about 3 percent of total foreign only (remittance) money transfers. The 3 percent represents an upper bound of the amount of remittance transfers that could have been funded by cashed checks, but the Treasury Department and the IRS consider 0.5 percent to be a more reasonable estimate of the share of remittances funded by cashed checks, as that assumes that cashed checks were used to fund both domestic and foreign transfers.

However, consumers cash checks at MSBs for a variety of reasons and not solely to furnish funds for money transfers. Therefore, the total share of remittances funded by cashed checks is likely even lower than 0.5 percent.

Table 4: Size of check-cashing and money transfers (dollar amounts are in millions of USD)

	Total check cashing	Total money transfer, domestic and foreign	Share of check cashing as a percentage of all money transfers	Total money transfer, foreign only	Share of check cashing as a percentage of foreign money transfers
2019	10,436	1,310,111	0.80%	235,820	4.43%
2020	17,875	1,821,770	0.98%	273,265	6.54%
2021	16,623	3,768,884	0.44%	942,221	1.76%
2022	14,059	3,715,101	0.38%	965,926	1.46%
2023	13,159	3,770,451	0.35%	339,341	3.88%
2024	17,925	4,058,716	0.44%	365,284	4.91%
Average	**15,013**	**3,074,172**	**0.49%**	**520,310**	2.89%

6. Summary

Based on the available models and data, the Treasury Department and the IRS estimate that the economic costs and benefits of the proposed regulations would be small. The Treasury Department and the IRS invite public comments and additional data on the economic effects that would result from these proposed regulations.

II. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520) (PRA) generally requires that a Federal agency obtain

the approval of OMB before collecting information from the public, whether that collection of information is mandatory, voluntary, or required to obtain or retain a benefit. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the OMB.

The collections of information in these proposed regulations relate to reporting and recordkeeping requirements that would allow section 4475 collectors to meet their tax reporting obligations. The collections of information would generally be used by the IRS for tax compliance purposes and by collectors to facilitate proper tax reporting and compliance. The likely respondents are corporations and partnerships. The burden associated with these information collections will be included in Form 720 and its instructions and approved with OMB control number 1545-0023 in accordance with PRA procedures under 5 CFR 1320.10.

Any burden associated with a claim for refund of the remittance transfer tax is included in the relevant form and its instructions approved with the associated OMB control number in accordance with PRA procedures under 5 CFR 1320.10.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and tax return information are confidential, as required by section 6103.

III. Regulatory Flexibility Act

In accordance with the Regulatory Flexibility Act (5 U.S.C. chapter 6) (RFA), the Secretary of the Treasury hereby certifies that these proposed regulations will not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that the remittance transfer tax is imposed on senders, who are defined in this notice of proposed rulemaking as natural persons, and collected by the approximately 600 remittance transfer providers in the United States,[23] few of which are likely to meet the relevant definition of a small entity under the RFA and regulations thereunder. Although some small entities, such as grocery stores, convenience stores, and pharmacies, are engaged as agents of these remittance transfer providers, the proposed regulations would clarify that an entity is not deemed to be acting as a remittance transfer provider when it performs activities as an agent on behalf of a remittance transfer provider. As a result, any remittance transfer tax–related burden borne by such a small entity would be properly attributable to the remittance transfer provider and not to the small entity as such. Even were that not the case, any remittance transfer tax–related burden borne by an agent of a remittance transfer provider (for example, additional training), regardless of whether a small entity for RFA purposes, would likely constitute a small change in the already existing burdens imposed by such entity's contractual relationship with the remittance transfer provider. These proposed regulations will not, therefore, create additional obligations for, or have a significant economic impact on, a substantial number of small entities, and analysis under the RFA is not required. Notwithstanding this certification, the Treasury Department and the IRS welcome comments on the impact of these proposed regulations on small entities.

IV. Submission to the Small Business Administration

Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking has been submitted to the Chief Counsel for the Office of Advocacy of the Small Business Administration for comment on its impact on small businesses.

V. Unfunded Mandates Reform Act

Section 202 of the Unfunded Mandates Reform Act of 1995 requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of $100 million in 1995 dollars, updated annually for inflation. These proposed rules do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector in excess of that threshold.

VI. Executive Order 13132: Federalism

Executive Order 13132 (Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. These proposed regulations do not have federalism implications and do not impose substantial direct compliance costs on State and local governments or preempt State law within the meaning of the Executive order.

Comments and Requests for Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any comments that are submitted timely to the Treasury Department and the IRS as prescribed in this preamble under the **ADDRESSES** heading. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. Any electronic and paper comments submitted will be made available at https://www.regulations.gov or upon request. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn.

A public hearing will be scheduled if requested in writing by any person that timely submits written comments. If a

[23] A review of North American Industry Classification System (NAICS) data collected by the IRS showed that such data was insufficiently granular to identify the remittance transfer providers within significantly broader categories, such as "Financial Transactions Processing, Reserve, and Clearinghouse Activities," (NAICS Code 522320) and thus a poor indicator of the size of such entities, regardless of how measured. For purposes of this RFA certification, the Treasury Department and the IRS are instead relying on publicly available data sources to estimate the total number of remittance transfer providers in the United States.

public hearing is scheduled, notice of the date, time, and place for the hearing will be published in the **Federal Register**.

Statement of Availability of IRS Documents

The IRS notice cited in this preamble is published in the *Internal Revenue Bulletin* and is available from the Superintendent of Documents, U.S. Government Publishing Office, Washington, DC 20402, or by visiting the IRS website at *https://www.irs.gov*.

Drafting Information

The principal author of these proposed regulations is Julia Barlow of the Office of the Associate Chief Counsel (Energy, Credits, and Excise Tax). However, other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects

26 CFR Part 40

Excise taxes, Reporting and recordkeeping requirements.

26 CFR Part 49

Excise taxes, Reporting and recordkeeping requirements, Telephone, Transportation.

Proposed Amendments to the Regulations

Accordingly, the Treasury Department and the IRS propose to amend 26 CFR parts 40 and 49 as follows:

Part 40—Excise Tax Procedural Regulations

Paragraph 1. The authority citation for part 40 continues to read, in part, as follows:

Authority: 26 U.S.C. 7805.

* * * * *

Par. 2. Section 40.0-1 is amended by revising paragraphs (a) and (e) to read as follows:

§ 40.0-1 Introduction.

(a) *In general*. The regulations in this part are designated the *Excise Tax Procedural Regulations*. The regulations in this part set forth administrative provisions relating to the excise taxes imposed by chapters 31 through 34, 36, 38, 39, 49, and 50A of the Internal Revenue Code (Code) (except for the chapter 32 tax imposed by section 4181 (firearms tax) and the chapter 36 taxes imposed by sections 4461 (harbor maintenance tax) and 4481 (heavy vehicle use tax)), and to floor stocks taxes imposed on articles subject to any of these taxes. Chapter 31 relates to retail excise taxes; chapter 32 to manufacturers' excise taxes; chapter 33 to taxes imposed on communications services and air transportation services; chapter 34 to taxes imposed on certain insurance policies; chapter 36 to taxes imposed on transportation by water and remittance transfers; chapter 38 to environmental taxes; chapter 39 to taxes imposed on registration-required obligations; chapter 49 to taxes imposed on indoor tanning services; and chapter 50A to taxes imposed on the sale of designated drugs. References in this part to taxes also include references to the fees imposed by sections 4375 and 4376 of the Code. *See* parts 43, 46 through 49, and 52 of this chapter for regulations related to the imposition of tax.

* * * * *

(e) *Applicability dates*—(1) *Paragraph (a)*. Paragraph (a) of this section applies to returns required to be filed under § 40.6011(a)-1 for calendar quarters beginning on or after [date of publication of final regulations in the **Federal Register**]. For rules that apply before [date of publication of final regulations in the **Federal Register**], *see* 26 CFR part 40, revised as of April 1, 2025.

* * * * *

PART 49—FACILITIES AND SERVICES EXCISE TAXES

Par. 3. The authority citation for part 49 is amended by adding an entry for § 49.4475-1 in numerical order to read, in part, as follows:

Authority: 26 U.S.C. 7805.

* * * * *

Section 49.4475-1 also issued under 26 U.S.C. 4475(b) and (c).

Par. 4. Section 49.0-1 is amended by revising the second sentence to read as follows:

§ 49.0-1 Introduction.

* * * The regulations relate to the taxes on communications and transportation by air imposed by chapter 33 of the Internal Revenue Code (Code), the tax on remittance transfers imposed by section 4475 of the Code, and the taxes on indoor tanning services imposed by section 5000B of the Code. * * *

Subpart G [Redesignated as Subpart H]

Par. 5. Subpart G is redesignated as subpart H.

Par. 6. Add a new subpart G to read as follows:

Subpart G—Remittance Transfers

§ 49.4475-1 Remittance transfers.

(a) *In general*. Section 4475(a) of the Internal Revenue Code (Code) imposes a 1 percent tax on taxable remittance transfers (remittance transfer tax). Paragraph (b) of this section provides definitions that apply for purposes of section 4475 and this section. Paragraph (c) of this section provides rules regarding when the remittance transfer tax attaches to taxable remittance transfers described in paragraph (d) of this section. Paragraph (e) of this section provides examples that illustrate the application of section 4475 and this section.

(b) *Definitions*. The following definitions apply for purposes of section 4475 and this section.

(1) *Cash*. The term *cash* means United States dollars or any foreign currency in physical form that is issued by a government or a central bank.

(2) *Consumer*. The term *consumer* means a natural person.

(3) *Designated recipient*. The term *designated recipient* means any person specified by the sender as the authorized recipient of a remittance transfer to be received at a location in a foreign country. A remittance transfer is received at a loca-

tion in a foreign country if funds are to be received at a location physically outside of any State.

(4) *Remittance transfer*—(i) *In general*. The term *remittance transfer* means the electronic transfer of funds requested by a sender to a designated recipient that is sent by a remittance transfer provider. The term applies regardless of whether the sender holds an account with the remittance transfer provider.

(ii) *Exclusions.* The term *remittance transfer* does not include—

(A) *Small value transactions*. Transfer amounts, as described in 12 CFR 1005.31(b)(1)(i) revised as of January 1, 2026, of $15.00 or less.

(B) *Securities and commodities transfers*. Any transfer that is excluded from the definition of electronic fund transfer under 12 CFR 1005.3(c)(4) revised as of January 1, 2026.

(5) *Remittance transfer provider*—(i) *In general*. The term *remittance transfer provider* means any person that provides remittance transfers for a consumer in the normal course of its business, regardless of whether the consumer holds an account with such person. A person is not a remittance transfer provider merely because it performs activities as an agent on behalf of a remittance transfer provider. For example, a grocery store would not be a remittance transfer provider merely because it acts as an agent of a remittance transfer provider to offer consumers remittance transfer services.

(ii) *Non-applicability of normal-course-of-business safe harbor*. For purposes of section 4475 and this section, the safe harbor provided in 12 CFR 1005.30(f)(2), which provides a threshold number of remittance transfers below which a person is deemed not to be providing remittance transfers for a consumer in the normal course of its business, does not apply.

(6) *Sender*. The term *sender* means a consumer in a State who primarily for personal, family, or household purposes requests a remittance transfer provider to send a remittance transfer to a designated recipient.

(7) *State.* The term *State* means any State or territory of the United States, or the District of Columbia.

(c) *Attachment of tax*—(1) *In general*. The remittance transfer tax attaches at the time a remittance transfer described in paragraph (d) of this section is made. A remittance transfer is made at the earlier of the time the remittance transfer is initiated by the remittance transfer provider or the time the sender pays the remittance transfer provider (or its agent). For example, if a sender pays for a remittance transfer on December 31, 2026, the remittance transfer provider initiates the transfer on the same day, and the funds are disbursed to the designated recipient on January 2, 2027, such remittance transfer occurred on December 31, 2026, and is reportable for the fourth calendar quarter of 2026 and not in the first calendar quarter of 2027. *See* part 40 of this chapter for rules relating to returns, payments, deposits, and other procedural rules applicable to this section.

(2) *Canceled or expired remittance transfers.* The remittance transfer tax attaches when the remittance transfer is made regardless of whether the remittance transfer is ever paid out to the designated recipient (for example, if the transfer was canceled or expired). In a case in which the transfer is canceled or expires and the amount of the remittance transfer is returned to the sender, the sender may be eligible to file a claim for refund of the remittance transfer tax with the Internal Revenue Service. *See* sections 6401 and 6402 of the Code.

(d) *Taxable remittance transfers*—(1) *In general*. The remittance transfer tax applies only to remittance transfers for which the sender provides cash, a money order, a cashier's check, or a traveler's check to the remittance transfer provider. Subject to the anti-avoidance rule in paragraph (d)(4) of this section, this is the exclusive list of instruments that, when provided to a remittance transfer provider, trigger the remittance transfer tax. Settlement of the issuer's payment obligation to the remittance transfer provider under a money order, cashier's check, or traveler's check does not constitute *withdrawal* for purposes of section 4475(d)(1) and, consequently, the source of any funds transferred is not relevant if such instruments have been provided to a remittance transfer provider.

(2) *Personal or business check cashed by remittance transfer provider*. If a remittance transfer provider (or its agent) cashes a personal or business check payable to the sender and some or all of the cash from the check cashing is used to fund a remittance transfer, such transaction is treated as a remittance transfer for which the sender provides cash to the remittance transfer provider, regardless of whether the sender ever has actual possession of any resulting cash.

(3) *Amount subject to taxation.* The remittance transfer tax is imposed on the total amount that will be transferred to the designated recipient, including any amount provided by the sender, the remittance transfer provider, or any other person (for example, promotional bonuses or discounts), regardless of how such amounts are characterized for purposes of the remittance transfer. Fees, taxes, and other amounts that will not be transferred to the designated recipient with respect to any remittance transfer, including the amount of the remittance transfer tax imposed, are excluded from the total amount on which the remittance transfer tax is imposed.

(4) *Transactions for tax-avoidance purposes*. If a sender and remittance transfer provider (or its agent) or third party engage in a transaction (or series of transactions) with a principal purpose of avoiding the remittance transfer tax, the Secretary may disregard or recharacterize the transaction (or series of transactions) in accordance with its substance. The determination of whether a sender and remittance transfer provider (or its agent) or third party have engaged in a transaction (or series of transactions) with a principal purpose of avoiding the tax is based on all facts and circumstances, including a remittance transfer provider's or third party's pattern of conduct, the timing of the transactions involved, the amount of the transactions involved, and the relationship between any parties involved. For example, if a sender provides $500.00 in cash to a remittance transfer provider (or its agent) in exchange for a general-use prepaid card loaded with $500.00 and then immediately initiates a remittance transfer in the amount of $500.00 paid for with the general-use prepaid card, the series of transactions (the purported purchase of a general-use prepaid card immediately followed by a remittance transfer) may be recharacterized as a remittance transfer in which the sender provided cash to the

remittance transfer provider. As a result, the remittance transfer tax attaches to the remittance transfer and, if not collected from the sender at the time of attachment, becomes a liability of the remittance transfer provider. The same result would arise if, under the same sequence of events, the consumer immediately provides the general-use prepaid card to a relative who initiates the remittance transfer with the remittance transfer provider.

(e) *Examples*—(1) *In general*. The following examples illustrate the application of section 4475 and this section. For purposes of these examples, Sender is a sender as defined in paragraph (b)(6) of this section, Designated Recipient is a designated recipient as defined in paragraph (b)(3) of this section, and Remittance Transfer Provider is a remittance transfer provider as defined in paragraph (b)(5) of this section. Retailer is a retailer that accepts payments for remittance transfers from consumers and remits such payments to Remittance Transfer Provider (as an agent of Remittance Transfer Provider).

(2) *Example 1: Fees, taxes, and bonuses*—(i) *Facts*. Sender engages Remittance Transfer Provider through Retailer in State A to transfer $1,000.00 to Designated Recipient. Sender pays cash to Retailer for the remittance transfer. Remittance Transfer Provider charges a service fee of $20.00 for the remittance transfer and, as part of a marketing promotion, transmits an additional $5.00 "bonus" to Designated Recipient. State A imposes a $12.00 tax on the transaction.

(ii) *Analysis*. Because Sender, Designated Recipient, and Remittance Transfer Provider are a sender, designated recipient, and remittance transfer provider, respectively, as those terms are defined in paragraph (b) of this section, and because Sender requested an electronic transfer of funds to Designated Recipient, the transfer qualifies as a remittance transfer under the definitions provided in paragraph (b) of this section. Moreover, because Sender has provided Retailer (as an agent of Remittance Transfer Provider) an instrument described in paragraph (d)(1) of this section (cash), the remittance transfer is, upon payment by Sender, subject to the remittance transfer tax. The total amount transferred to Designated Recipient is $1,005.00, which includes the amount provided by Sender to be sent to Designated Recipient ($1,000.00) and the "bonus" transmitted to Designated Recipient by Remittance Transfer Provider ($5.00) but excludes Remittance Transfer Provider's service fee ($20.00) and the State A tax ($12.00), neither of which are sent to Designated Recipient. The remittance transfer tax imposed is one percent of $1,005.00, or $10.05.

(3) *Example 2: Remittance transfer paid for with a personal check*—(i) *Facts*. The facts are the same as those provided in paragraph (e)(2)(i) of this section (Facts of *Example 1*), except that Sender provides Retailer (as an agent of Remittance Transfer Provider) with a personal check payable to Remittance Transfer Provider.

(ii) *Analysis*. For the reasons provided in paragraph (e)(2)(ii) of this section (Analysis of *Example 1*), the transfer qualifies as a remittance transfer under the definitions provided in paragraph (b) of this section. Sender has not, however, provided Retailer (as an agent of Remittance Transfer Provider) any instrument described in paragraph (d)(1) of this section. As a result, the remittance transfer will not, upon payment by Sender, be subject to taxation under section 4475(a). The result would be the same if Sender had instead provided, for example, a debit card, general-use prepaid card, credit card, or store gift card.

(4) *Example 3: Remittance transfer paid for using check-cashing service*—(i) *Facts*. The facts are the same as those provided in paragraph (e)(2)(i) of this section (Facts of *Example 1*), except that Remittance Transfer Provider offers customers a check cashing service for a fee of $4.00 and Sender provides Retailer (as an agent of Remittance Transfer Provider) a $1,000.00 paycheck payable to Sender and requests a transfer in the amount of $800.00. Retailer (as an agent of Remittance Transfer Provider) charges Sender the Remittance Transfer Provider's $20.00 service fee and the State A's $12.00 tax, but does not charge Sender the $4.00 check-cashing fee.

(ii) *Analysis*. For the reasons provided in paragraph (e)(2)(ii) of this section (Analysis of *Example 1*), the transfer qualifies as a remittance transfer under the definitions provided in paragraph (b) of this section. Under paragraph (d)(2) of this section, the transaction is treated as a remittance transfer for which the sender provided cash. This is true despite the fact that Retailer (as an agent of Remittance Transfer Provider) did not charge Sender the $4.00 check-cashing fee. As a result, the remittance transfer is, upon payment by Sender, subject to taxation under section 4475(a). The remittance transfer tax imposed is one percent of $805.00, or $8.05.

(f) *Applicability date*. This section applies to remittance transfers made in calendar quarters beginning on or after [date of publication of final regulations in the **Federal Register**].

Frank J. Bisignano,
Chief Executive Officer.

(Filed by the Office of the Federal Register April 10, 2026, 8:45 a.m., and published in the issue of the Federal Register for April 13, 2026, 91 FR 18797)

Definition of Terms

Revenue rulings and revenue procedures (hereinafter referred to as "rulings") that have an effect on previous rulings use the following defined terms to describe the effect:

Amplified describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with *modified*, below).

Clarified is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

Distinguished describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

Modified is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the new ruling holds that it applies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

Obsoleted describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

Revoked describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

Superseded describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

Supplemented is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

Suspended is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

Abbreviations

The following abbreviations in current use and formerly used will appear in material published in the Bulletin.

A—Individual.
Acq.—Acquiescence.
B—Individual.
BE—Beneficiary.
BK—Bank.
B.T.A.—Board of Tax Appeals.
C—Individual.
C.B.—Cumulative Bulletin.
CFR—Code of Federal Regulations.
CI—City.
COOP—Cooperative.
Ct.D.—Court Decision.
CY—County.
D—Decedent.
DC—Dummy Corporation.
DE—Donee.
Del. Order—Delegation Order.
DISC—Domestic International Sales Corporation.
DR—Donor.
E—Estate.
EE—Employee.
E.O.—Executive Order.
ER—Employer.
ERISA—Employee Retirement Income Security Act.
EX—Executor.
F—Fiduciary.
FC—Foreign Country.
FICA—Federal Insurance Contributions Act.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
F.R.—Federal Register.
FUTA—Federal Unemployment Tax Act.
FX—Foreign corporation.
G.C.M.—Chief Counsel's Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
I.R.B.—Internal Revenue Bulletin.
LE—Lessee.
LP—Limited Partner.
LR—Lessor.
M—Minor.
Nonacq.—Nonacquiescence.
O—Organization.
P—Parent Corporation.
PHC—Personal Holding Company.
PO—Possession of the U.S.
PR—Partner.
PRS—Partnership.
PTE—Prohibited Transaction Exemption.
Pub. L.—Public Law.
REIT—Real Estate Investment Trust.
Rev. Proc.—Revenue Procedure.
Rev. Rul.—Revenue Ruling.
S—Subsidiary.
S.P.R.—Statement of Procedural Rules.
Stat.—Statutes at Large.
T—Target Corporation.
T.C.—Tax Court.
T.D.—Treasury Decision.
TFE—Transferee.
TFR—Transferor.
T.I.R.—Technical Information Release.
TP—Taxpayer.
TR—Trust.
TT—Trustee.
U.S.C.—United States Code.
X—Corporation.
Y—Corporation.
Z—Corporation.

Numerical Finding List[1]

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Announcements:

Notices:

Proposed Regulations:

Revenue Procedures:

Revenue Rulings:

Treasury Decisions:

[1] A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2025–27 through 2025–52 is in Internal Revenue Bulletin 2024–52, dated December 22, 2024.

Finding List of Current Actions on Previously Published Items[1]

Bulletin 2026–18

[1] A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2025–27 through 2025–52 is in Internal Revenue Bulletin 2024–52, dated December 22, 2024.

Internal Revenue Service
Washington, DC 20224

INTERNAL REVENUE BULLETIN

The Introduction at the beginning of this issue describes the purpose and content of this publication. The weekly Internal Revenue Bulletins are available at *www.irs.gov/irb/.*

We Welcome Comments About the Internal Revenue Bulletin

If you have comments concerning the format or production of the Internal Revenue Bulletin or suggestions for improving it, we would be pleased to hear from you. You can email us your suggestions or comments through the IRS Internet Home Page *www.irs.gov*) or write to the Internal Revenue Service, Publishing Division, IRB Publishing Program Desk, 1111 Constitution Ave. NW, IR-6230 Washington, DC 20224.