

Policy Observers Question Trump's Proposal to Nix Taxes on Tips

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By Alexander Rifaat

Tax policy watchers are unconvinced former President Trump's pledge to eliminate taxes on tips upon his reelection would benefit hospitality workers or alleviate the long-term fiscal challenges facing the United States.

Speaking at a June 9 campaign rally in Las Vegas, Trump vowed to pursue legislation to eliminate taxes on gratuities if he returns to the White House.

"Hotel workers and people getting tips, you're going to be very happy because when I get to office, we are going to not charge taxes on tips," Trump said.

In a post on Truth Social after the speech, Trump elaborated on his rationale for the pledge and claimed President Biden's tax policies would hurt workers in the hospitality industry.

"Crooked Joe Biden has taken the totally opposite approach, trying to TAX more and more of their Tips, even hiring 88,000 IRS Agents to collect," Trump wrote, apparently referring to the debunked claim that the IRS would use the additional funding provided by the [Inflation Reduction Act](#) to hire an army of armed agents.

Tax policy observers from across the political spectrum lambasted Trump's proposal as a political stunt intended to attract a key voting bloc.

"It's more politics than policy. Exempting one form of compensation from income taxes will lead to a distortion . . . you will just see a rise in tips," Kyle Pomerleau of the American Enterprise Institute told *Tax Notes*.

Pomerleau noted the IRS [received](#) roughly \$38 billion in tax receipts on tips in 2018, the last year of available data, which would price such an exemption from income and payroll taxes at about \$10 billion.

"Presumably, those figures would be significantly higher this year because the economy is growing and compensation has increased," Pomerleau added.

Tips started counting as taxable income after the passage of the [Tax Equity and Fiscal Responsibility Act of 1982](#).

Current IRS regulations stipulate individuals who receive more than \$20 a month in tips must report them as income.

Many tax policy observers agree that tips should be subject to income taxes.

“Exempting income from specific sources is almost always bad tax policy. It creates incentives to manipulate economic activity to lower taxes instead of incentivizing productive activities. A better policy would be to simply lower tax rates on all income,” Adam N. Michel of the Cato Institute told *Tax Notes*.

Jean Ross of the Center for American Progress agreed that exempting tips from income taxes would set a dangerous precedent, but she also said Trump’s proposal would harm those supposedly set to benefit from an elimination of taxes on gratuities.

“If your goal is to give workers greater certainty, then provide a higher minimum wage. This proposal will allow employers to assume their workers are earning a certain amount in wages and still leaves the precarity of depending on tips for your income in place,” Ross said.

Ross also highlighted the potential pitfalls if Trump, instead of simply exempting tips from income taxes, also applied that change to payroll taxes.

“If you’re totally excluding those earnings, it means employers are not paying their Social Security [taxes] for their workers, nor Medicare and the unemployment insurance system,” Ross said.

Trump’s presidential campaign didn’t respond to a request for comment by press time.

Fuel on the Fire?

The location of Trump’s announcement was no coincidence.

Nevada, which is home to thousands of service industry workers who run the resorts and casinos on the Las Vegas Strip, has long been viewed as a key swing state.

During his Las Vegas rally, Trump alluded to how significant he views the Silver State in his bid to return to 1600 Pennsylvania Ave.

“If we win Nevada, we win the whole thing,” Trump said.

According to an average of [polls released June 4](#) by RealClearPolitics, Trump leads Biden by more than 5 percentage points in Nevada.

Nevada’s largest union, the Culinary Union Local 226, dismissed Trump’s proposal and his prospects for winning the state in the presidential election in November.

“For decades, the culinary union has fought for tipped workers’ rights and against unfair taxation. Relief is definitely needed for tip earners, but Nevada workers are smart enough to know the difference between real solutions and wild campaign promises from a convicted felon,” Culinary Union Secretary-Treasurer Ted Pappageorge said in a [June 9 release](#).

Other industry groups struck a more conciliatory note.

"We appreciate that President Trump is looking at ways to support tipped restaurant employees and grow the restaurant industry. We will continue to engage elected officials on both sides of the political aisle on behalf of the nation's second largest employer," Sean Kennedy of the National Restaurant Association said in a written statement to *Tax Notes*.

Erica York of the Tax Foundation said Trump's plan to eliminate taxes on tips not only goes against sound tax policy by narrowing the tax base and creating distortions in taxable income levels for lower-wage workers, but also speaks to a wider issue in the presidential campaign.

"I would rather see candidates look at the big picture rather than trying to pit workers against each other with small, one-off tax proposals," York told *Tax Notes*.

York believes both Trump and Biden appear more focused on promoting new tax cuts or subsidies than on addressing the impending expiration of several tax provisions enacted in the [Tax Cuts and Jobs Act](#).

"It's the elephant in the room," York said.

While Biden has said he supports passage of the Tax Relief for American Families and Workers Act of 2024 ([H.R. 7024](#)) to address the TCJA expirations — the bill passed the House on a 357-70 vote on January 31 — the White House hasn't been actively lobbying for the legislation's passage in the Senate, where it has been [held up](#).

A Biden campaign spokesperson declined a request for comment.