

**INCOME TAX ON SERVERS'  
TIPS/GRATUITY ... THE DEBATE**

Removing income tax on servers' tip/gratu-  
ity income has been a topic of debate recently.  
Both Presidential candidates have touted  
potential policy changes. I did a little digging  
and have provided a brief breakdown of some  
of the Pros and Cons I found.

**PROS:**

**1. Increased Take-Home Pay for Servers:**

One of the most obvious benefits of removing  
income tax on servers' tips/gratuities is that  
it would directly increase their take-home  
pay. Many servers, bartenders, and other  
tipped employees rely heavily on gratuities to  
supplement their low hourly wages. Remov-  
ing the tax on this income would provide a  
financial boost.

**2. Boost to the Service Industry:**

With a tax exemption on tip/gratuity income,  
servers may feel more incentivized to stay  
in or join the industry, potentially reduc-  
ing high turnover rates. The industry, which  
often struggles with job retention, might see  
improvements in employee satisfaction and  
longevity. As a result, businesses may benefit  
from more experienced and motivated staff.

**3. Easing Administrative Burdens:**

For employers, tracking and reporting  
employees' tip/gratuity income can be a time-  
consuming and complex task. Exempting  
tip income from taxation could simplify this  
process, reducing administrative costs and  
the chances of errors or compliance issues for  
both employers and employees.

**4. Recognition of Unstable Income:**

Server tips fluctuate based on several fac-  
tors, including customer volume, seasonality,  
and economic conditions. By exempting tip  
income from taxation, the government would  
acknowledge the instability and unpredict-  
ability of this income source, providing relief  
to workers whose earnings are not guaran-  
teed.



**CONS:**

**1. Unequal Treatment of Income:**

Critics argue that removing taxes on tip/  
gratuity income creates an unequal tax policy.  
Other workers who also earn variable or sup-  
plemental income, such as commission-based  
salespeople, still have to pay taxes on their  
earnings. This exemption could be unfair.

**2. Potential for Underreporting & Fraud:**

While tips are already difficult to monitor  
accurately, removing the tax could exacerbate  
the issue of underreporting. Servers may be  
incentivized to hide their earnings, particu-  
larly cash tips since they would no longer be  
obligated to pay taxes on them. This could  
create broader issues with tax compliance and  
transparency within the industry.

**3. Inaccurate Data for  
Benefits and Obligations:**

If tips are no longer taxed, servers might  
underreport their actual earnings to avoid  
income-based calculations for benefits like  
healthcare or child support obligations. This  
could distort economic data and cause other  
unintended financial discrepancies.

**Conclusion**

The removal of income tax on tips/gratu-  
ities presents a clear financial benefit to  
hospitality workers. However, this policy  
could lead to potential underreporting and  
concerns about fairness in tax burdens.

The key challenge in this debate, I think,  
is balancing the need for tax equity with the  
desire to support hospitality workers. ■

**STEPHEN PATTEN PUBLISHER**

Maryland • Washington, DC

**Beverage Journal**

Published Monthly by  
**The Beverage Journal, Inc.**  
(USPS# PE 783300)

Over 80 Years of Continuous Publication

**BEVERAGE JOURNAL, INC.**

President / Publisher Stephen Patten  
steve@beveragejournalinc.com  
410.796.5455

Board of Directors Lee W. Murray  
Thomas W. Murray

Information Technology Director Peter Williams

**EDITORIAL**

Editor-in-Chief Kristen Bieler

Senior Editor Courtney Schiessl

Contributing Editors Alia Akkam, Arielle Albert,  
Keven Danow, Jim Clarke,  
Edward Durgin, Jeff Siegel

**ART & DESIGN**

Creative Director Larry Lee

Senior Designer Jeff Tsui

**TECHNOLOGY & WEB**

eCommerce Director Ian Griffith

Online Web Programming Vali Balescu

**PRINT & PRODUCTION**

Print Services Manager Lee Stringham

**ADVERTISING & MARKETING**

MD & DC Advertising Sales Stephen Patten

National Advertising Sales Jody Slone-Spitalnik

**POSTMASTER:**

Send address changes to  
**THE BEVERAGE JOURNAL, INC.**  
**PO Box 2062, Williamsport, PA 17703**

The Maryland Beverage Journal and the Washington, DC Beverage Journal are  
registered trademarks of Beverage Journal, Inc. All rights reserved.

**Periodicals postage paid at Baltimore, MD** and additional  
mailing offices. Subscription rates: MD edition; 1 year \$49.00 plus tax, 2 years  
\$79.00 plus tax, 3 years \$109.00 plus tax, FedEx Ground delivery \$85.00 plus  
tax per year per edition, single copies \$10.00 plus tax. DC edition; 1 year \$36.00  
plus tax, 2 years \$60.00 plus tax, 3 years \$83.00 plus tax, FedEx Ground delivery  
\$85.00 plus tax per year per edition, single copies \$5.00 plus tax.

The opinions expressed by guest columnists are their own and not necessarily  
those of Beverage Journal, Inc. Beverage Journal, Inc. is an equal opportunity  
corporation.

Copyright 2024 Beverage Journal, Inc. No part of this magazine may be  
reproduced without the written consent of the publisher. Not responsible for  
unsolicited material or advertising claims.